

[3/7/79-Not Submitted] [CF, O/A 548]

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WASHINGTON

DATE: 07 MAR 79

FOR ACTION: SECRETARY BLUMENTHAL *attached*

JERRY RAFSHOON

CHARLES SCHULTZE *attached*

ALFRED KAHN *attached*

INFO ONLY: THE VICE PRESIDENT

ANNE WEXLER

STU EIZENSTAT

JIM MCINTYRE *Ne*

LANDON BUTLER *Ne*

JODY POWELL

concerns w/ Kahn
meeting w/ Wood
concern w/ EPG
Hold per outcome of EPG discussions currently ongoing
Hold for EPG
stand down
see memo previously
concern w/ Kahn
gwh

SUBJECT: MARSHALL MEMO RE TAXING CORPORATIONS TO GAIN COMPLIANCE WITH THE PRICE STANDARD

+++++
+ RESPONSE DUE TO RICK HUTCHESON. STAFF SECRETARY (456-7052) +
+ BY: 1200 PM FRIDAY 09 MAR 79 +
+++++

ACTION REQUESTED:
STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.
PLEASE NOTE OTHER COMMENTS BELOW:

4-5-79
WITHDRAWN PER PAUL JENSEN

0906

FOR ACTION
FYI

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION

<input checked="" type="checkbox"/>	VICE PRESIDENT
<input type="checkbox"/>	JORDAN
<input checked="" type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	MOORE
<input checked="" type="checkbox"/>	POWELL
<input checked="" type="checkbox"/>	RAFSHOON
<input type="checkbox"/>	WATSON
<input checked="" type="checkbox"/>	WEXLER
<input type="checkbox"/>	BRZEZINSKI
<input checked="" type="checkbox"/>	MCINTYRE
<input checked="" type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	ADAMS
<input type="checkbox"/>	ANDRUS
<input type="checkbox"/>	BELL
<input type="checkbox"/>	BERGLAND
<input checked="" type="checkbox"/>	BLUMENTHAL
<input type="checkbox"/>	BROWN
<input type="checkbox"/>	CALIFANO
<input type="checkbox"/>	HARRIS
<input type="checkbox"/>	KREPS
<input type="checkbox"/>	MARSHALL
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	VANCE

<input type="checkbox"/>	ARONSON
<input checked="" type="checkbox"/>	BUTLER
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	CRUIKSHANK
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HERNANDEZ
<input type="checkbox"/>	HUTCHESON
<input checked="" type="checkbox"/>	KAHN
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MARTIN
<input type="checkbox"/>	MILLER
<input type="checkbox"/>	MOE
<input type="checkbox"/>	PETERSON
<input type="checkbox"/>	PETTIGREW
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	SANDERS
<input type="checkbox"/>	WARREN
<input type="checkbox"/>	WEDDINGTON
<input type="checkbox"/>	WISE
<input type="checkbox"/>	VOORDE

<input type="checkbox"/>	ADMIN. CONFIDEN.
<input type="checkbox"/>	CONFIDENTIAL
<input type="checkbox"/>	SECRET
<input type="checkbox"/>	EYES ONLY

ID 790906

THE WHITE HOUSE

WASHINGTON

DATE: 07 MAR 79

FOR ACTION: SECRETARY BLUMENTHAL

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INFO ONLY: THE VICE PRESIDENT

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SUBJECT: MARSHALL MEMO RE TAXING CORPORATIONS TO GAIN COMPLIANCE
WITH THE PRICE STANDARD

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: 1200 PM FRIDAY 09 MAR 79 +

+++++

ACTION REQUESTED:

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

Rich -

No comment -

Qd

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

MAR 6 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: SECRETARY OF LABOR

SUBJECT: Taxing Corporations to
Gain Compliance with
the Price Standard

Recent profit and price statistics indicate we may not be getting much cooperation from business with the voluntary price standard.

- o Corporations are reporting fourth quarter profits that are about 25 percent higher than last year's.
- o The Producer Price Index for January showed increases above the standard for a wide variety of products.

While it may turn out that these statistics will eventually prove to have been consistent with the price standard, at this point we have little to offer workers to indicate that business is complying with the program.

In addition to a possible general lack of compliance with the price standard, inflation from other sources is also growing. The fuel and meat price increases which have taken place recently--and which are expected to continue--are all too visible to workers. In addition, the January CPI showed large increases for a whole range of services and commodities. These increases give the impression there is nothing to our program except wage restraint. While I do not believe this is the case, I feel we must show it is not the case by some substantive public actions.

We need a tax on business that will penalize non-compliance with the guidelines. This would be very popular with organized labor who would probably offer stronger support for real wage insurance in exchange for your backing a tax of this kind. The tax could be like real wage insurance in the sense that complying firms would benefit by not having to pay it. Two alternative methods for applying this tax are:

1. The corporate tax rate has just been cut two percentage points and one possibility would be to assess all non-complying firms two additional points. This tax would yield \$3-4 billion if no firms complied with the price standard. A similar penalty for non-corporate business would also be assessed.
2. To make the penalty more directly parallel to real wage insurance, the entire excess profit attributable to a failure to comply with the program would be taxed. The AFL-CIO favors this approach. Using the profit margin standard, for example, any increase in profits above the base period margin would be taxed. This would be a substantial penalty. Roughly \$13-14 billion would be collected from the corporate sector alone for each percentage point of price increase in excess of the standard.

A proposal of this kind would do much to encourage cooperation with the wage standard. Workers now see prices rising much faster than wages with prospects for further fuel and meat price increases ahead. I favor whatever actions are necessary to hold the overall inflation rate below 7 percent--including gasoline rationing, consumer meat boycotts and a profits tax of this kind.

Marian -

Als sind Sept 1944

a ce Du Kabin

~~all~~
done ✓

Frank

Bay

MEMORANDUM OF CALL

TO:

YOU WERE CALLED BY—

YOU WERE VISITED BY—

OF (Organization).

PLEASE CALL → PHONE NO. CODE/EXT. _____ FTS

WILL CALL AGAIN

IS WAITING TO SEE YOU

RETURNED YOUR CALL

WISHES AN APPOINTMENT

MESSAGE

RECEIVED BY

DATE

TIME

DATE: 07 MAR 79

FOR ACTION: SECRETARY BLUMENTHAL

STU EIZENSTAT

JERRY RAFSHOON

JIM MCINTYRE~~RAFE~~

CHARLES SCHULTZE

LANDON BUTLER

ALFRED KAHN

INFO ONLY: THE VICE PRESIDENT

JODY POWELL

ANNE WEXLER

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+ BY: 1200 PM FRIDAY 09 MAR 79 +

+++++

ACTION REQUESTED:

STAFF RESPONSE: () I CONCUR. () NO COMMENT. HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

This matter is currently under discussion by Steering Group of EPG. The memo to the President should be held pending the outcome of these discussions.

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

MAR 6 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: SECRETARY OF LABOR *Ray*

SUBJECT: Taxing Corporations to
Gain Compliance with
the Price Standard

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A proposal of this kind would do much to encourage cooperation with the wage standard. Workers now see prices rising much faster than wages with prospects for further fuel and meat price increases ahead. I favor whatever actions are necessary to hold the overall inflation rate below 7 percent--including gasoline rationing, consumer meat boycotts and a profits tax of this kind.

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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

March 9, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze ^{CLS}

SUBJECT: Marshall memo re taxing corporations to
gain compliance with the price standard

I am sympathetic with Secretary Marshall's concern that compliance with the wage standard is endangered by the large and visible increases in prices during recent months. Obtaining compliance on the price standard is imperative to the success of the anti-inflation program. Both tax approaches suggested by Marshall, however, have defects that make them unacceptable in their present form.

Marshall's first alternative would raise the corporate tax rate two percentage points for firms that do not comply with the price deceleration standard. There are two principal problems with this approach:

- o The current price deceleration standard requires firms to calculate a sales-weighted average of the percent changes of a company's product prices. For multi-product companies this can be a complex operation. Where uncontrollable cost increases force a firm onto the profit standard, a similar calculation is still necessary. The prospect of a tax penalty would require the tax code to spell out with precision the very complicated computations and adjustments which would have to be made. The auditing burden would be very much larger than at present, whether carried out by the Internal Revenue Service or by COWPS. Additional complications would stem from the various exclusions from price calculations (e.g., recyclable scrap materials, exports, etc.).
- o In the case of voluntary standards 100% precision is not critical -- compliance with the basic thrust of the guidelines is the major objective. Firms can use sampling techniques or other methods to demonstrate compliance. It is the last increment in precision which really adds to complexity, and this is what

would have to be added if a penalty tax were levied.

The Secretary offers two alternative kinds of penalty tax. Either alternative poses problems:

1. Revoking the recent 2% corporate tax for firms violating the price guidelines. If a firm -- near the end of the year -- saw that it was in danger of violating the standards, it would, up to a point, have a strong incentive to incur additional costs -- advertising, R & D, extra bonuses, and the like -- in order to reduce its reported profits, meet the profit margin guideline, and avoid the tax penalty. The tax would be an incentive for wasteful and inflationary expenditures. (Although it would be less objectionable than alternative #2 -- see below.)
2. Alternatively, the Secretary would impose a confiscatory tax on any profits earned from price or profit increases in excess of the standards. This would be an open-door for inflationary cost increases. Rather than pay a 100% (or 90% or 80%) tax on "excess" profits to the government, the firm would increase its expenses sufficient to pull its profit margin down within the guidelines.

Finally, the proposal would require action by the Ways and Means and Senate Finance Committees. I shudder to think of what might emerge after these two committees finished with the bill.

I believe our best option is a substantial strengthening of COWPS' price monitoring effort. (Stu has suggested, and all of the EPG members agree, that we should consider loaning COWPS a large number of IRS personnel, on a temporary basis, to do a crash job on extensive price monitoring. We are now checking out the feasibility of this proposal.)



THE SECRETARY OF THE TREASURY
WASHINGTON 20220

March 12, 1978

MEMORANDUM FOR THE PRESIDENT

Secretary Marshall has suggested to you that we impose a tax on business to penalize noncompliance with the price guidelines. This would take the form of a 2 percentage point increase in the corporate tax rate for noncomplying firms or a 100 percent tax on the "excess profits" attributable to a failure to comply with the price standard.

At your direction, the EPG Steering Group, with the Vice President's help, is now examining on a confidential basis possible improvements in the anti-inflation program. I recommend that you defer consideration of Secretary Marshall's ideas until the Steering Group has reported to you.

The EPG has previously explored the idea of penalty taxes on companies not complying with the price standard. ~~The political and technical problems involved are enormous:~~

- ° A penalty tax is in substance no different from a fine, and would accordingly be seen as transforming the voluntary price standard into a mandatory price controls program. A penalty tax is in this respect very different from the reward involved in real wage insurance.
- ° While such a tax proposal was pending in Congress, businesses would have a strong incentive to engage in anticipatory price increases.
- ° The business community would bitterly oppose any such tax, and chances of enactment would be minimal. Proposing such a tax would please the organized labor community but would not enhance the legislative prospects for real wage insurance.
- ° An income tax penalty would miss unincorporated and tax-exempt businesses; this would be perceived as unfair and would certainly reduce the effectiveness of the penalty.

- ° Conscientious administration of the program would require a very large bureaucracy. The CWPS price and profit guidelines do not use tax accounting concepts, and IRS's expertise and data would be of little use in the effort. In particular, measuring the "excess profit" due to noncompliance with the CWPS standards would be a formidably complicated technical exercise.



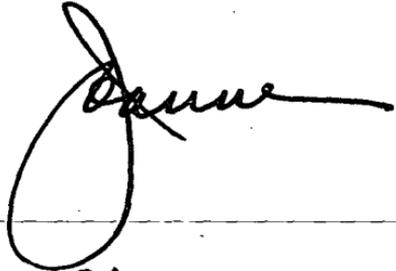
W. Michael Blumenthal

THE WHITE HOUSE
WASHINGTON

Stu -

Jinsburg recommends we
concur w/ Fred's memo
on Excess Profits Plan.

OK
DR



on Stu

THE WHITE HOUSE
WASHINGTON

March 14, 1979

re: Bert ✓
Bob ✓
Should we concu ~~or~~
w/ Fred or write
separate memo? ~~no~~

MEMORANDUM FOR THE PRESIDENT

FROM: ALFRED E. KAHN *fed*

SUBJECT: Marshall's Memo on an Excess Profits Plan

In his memorandum to you, Secretary Marshall identifies a serious problem: apparent violations of the voluntary price standard. He also identifies one important fact that appears to confirm this -- the current surge in profits. I feel, however, that his proposed solution of an excess-profits tax (1) would be the wrong response in principle, and (2) would raise overwhelming administrative problems.

1. Substantive problems. The basic point of Secretary Marshall's memo is correct: price increases have outrun the rise in costs in recent months. His proposed profit-tax solution, however, focuses on a secondary effect rather than the problem itself -- price violations.
 - ° First, much of the current profit surge reflects the very strong growth in real output in the fourth quarter. Profits are highly cyclical and it would be a mistake to attribute all of their recent gains to excessive price increases.
 - ° Second, the major price inflation problems have been in the areas of food, housing, and energy; price standard violations have made a further, but comparatively small, contribution.
 - ° Third, some of the areas of greatest non-compliance with the price standard, e.g., professional fees, are not generally subject to the corporate profits tax.
 - ° Finally, a proposal for an excess-profits tax may increase the problem of price increases in expectation of future controls. We need

to be careful that our response to the current problem does not worsen the situation. I fear that even public knowledge of the Marshall memo will strengthen expectations of controls.

2. Administrative problems. The Marshall memo suggests that the profits tax be triggered by noncompliance with the price standard. While this would have the effect of turning the price side into the equivalent of a mandatory program, it would be more difficult to administer than price controls.

- ° It would require a staff as large as would be required for mandatory controls, or larger.
- ° As part of the tax code, every firm in the economy would need to be checked for compliance -- a degree of coverage never attempted during past controls programs.
- ° As part of the tax code, the determination of compliance would have to be numerically precise, whereas, under controls, the authorities have the ability to exercise some judgment and flexibility.
- ° We would be forced to determine the source of the "excess profits," distinguishing between those caused by output growth, price increases, and cost reductions -- difficult distinctions under the best of circumstances.
- ° The measurement difficulties of a program like Real Wage Insurance pale next to those that would be encountered here, since it is fairly easy to camouflage price changes through variations in quality or other terms of sale. Remember, also, that the standards apply only to a company's average prices, which would introduce all the complexities of measuring changes in the "average" price of a changing group of products.
- ° Administration is made particularly difficult because it comes up on the audit of tax returns several years after the pricing decisions have taken place.

We could instead seek a simple excess-profits tax that is not linked to price performance, but:

- history suggests that such a tax can be easily avoided,
- it would greatly weaken incentives to reduce costs, a key consideration in the design of the price standard, and
- while an excess-profits tax would reduce after-tax profits, there is no reason to expect it to result in a lower rate of price inflation.

3. Secretary Marshall is certainly correct that recent price increases have endangered the prospects of obtaining labor's cooperation. While we are currently having problems in identifying companies that are in violation, it is not clear that the solution involves making the penalties greater. Instead, I believe we must respond quickly and visibly to the current problem of price violations within the context of the existing program. We are actively pursuing the following:

- Segmenting the second six-month interval into three-month increments to prevent a surge of price increases in April.
- Intensifying and expanding the current monitoring effort -- which deserves a chance to operate.

-- We have had a basis for evaluating compliance with the price standard only since the release of the January and February price data and the receipt of the February 15 corporate filings.

-- We have identified several firms as apparent violators and are actively pursuing several others; but we will not be able to identify them publicly until around April 15 because of the necessity of giving them due process.

-- We are currently exploring the possibility of temporarily using the resources of other agencies to help expand the monitoring effort to cover small firms more effectively.

- Exploring with OFPP the possibility of dropping the \$5 million threshold level on certification for Federal procurement to \$1 million.

ID 790906

THE WHITE HOUSE

WASHINGTON

xc: Bert ✓
Bob J. ✓

DATE: 07 MAR 79

FOR ACTION: SECRETARY BLUMENTHAL

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SUBJECT: MARSHALL MEMO RE TAXING CORPORATIONS TO GAIN COMPLIANCE
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STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

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U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

MAR 6 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: SECRETARY OF LABOR *Ray*

SUBJECT: Taxing Corporations to
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WASHINGTON

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MEMORANDUM FOR THE PRESIDENT

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fred

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