The original documents are located in Box 43, folder "1975/03/19 - Al Otten" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

Some items in this folder were not digitized because it contains copyrighted materials. Please contact the Gerald R. Ford Presidential Library for access to these materials.

4PM meeting Al Otten

Wednesday. March 19, 1975

J — Pls give me before I talk w/ Others, etc. Jim

March 6, 1975

MEMO

TO: Jim Cannon

FM: Dick Allison A

RE: OMB VIEW OF FIGURES SUBSTANTIATING WALL STREET JOURNAL EDITORIAL CLAIM

1. Re the Feb. 24 Journal claim "that there are now so many taxes on individual and corporate saving that to get an increase of 1% in return on investment takes a 20% increase in prices," you asked me to discover OMB's view of this statistic.

2. I have learned that, in OMB's informal view, this statistic reflects the bias of the economist who prepared it; that bias is that capital is probably taxed too heavily. The people whom I talked to said they would be more comfortable with this ratio:

> To get a 1% increased return on investment,
>
> Takes, at the most, a 10% increase in prices;

Enclosure - Basic memo and enclosure

Jerry Ripley / Bruce Davie
x 4656

Adj A D [illegible]

March 3, 1975

MEMO

TO: Jim Cannon

FM: Dick Allison

RE: FIGURES SUBSTANTIAING WALL STREET JOURNAL EDITORIAL CLAIM

1. In the Feb 24 Journal, enclosed, an editorial claimed that "there are now so many taxes on individual and corporate saving that to get an increase of 1% in return on investment takes a 20% increase in prices." You asked me to verify these figures. 18%.

2. The figures were based on "rough calculations" made by Art Laffer, former Chief Economist at O.M.B. and now believed to be a Professor at the University of Chicago Business School. The Wall Street Journal has asked another agency, private, to work out the figures more carefully; and the results should be known in two to three weeks.

3. FYI I have discovered an excellent research service for the White House: it is the OMB Library in the New EOB; phone 395 - 3654; my contact, Susan Geiger.

Encl - Clipping

what does OMB say about this statistic?

→ [illegible]

395-3000

Dick — can we find out if this is true?

REVIEW & OUTLOOK

President Ford and Congress

The rosy glow that attended President Ford's early relationship with the Democratic Congress has been fading in a bickering over policy in these nervous times. But there is really no reason why the politicians on both ends of Pennsylvania Avenue should be losing patience with each other, and any talk of bipartisan commitment to compromise and action is most welcome.

Yes, the economy is in sad shape. Yes, it probably will get worse. But neither the economists who closely advise the President nor the economists who have the ears of the Democratic leadership foresaw the rapid deterioration of the economy that has taken place since last autumn's economic summit. So far, the politicians have been doing better than the economists.

Mr. Ford, for example, is fortunate that Congress did not enact the program that derived from the summit, with its emphasis on tax increases. Surely the economy would have deteriorated even more rapidly if Congress had been more expeditious in pushing through the surtax.

The President is also lucky that Congress did not rubber-stamp the program he announced in his State-of-the-Union Message. Even Mr. Ford's own people now privately admit that the tax "rebate" idea was a blunder. In pushing much of the rebate money to 1975 incomes, Democratic Ways and Means Chairman Ullman has corrected a good portion of this mistake, and we still have hopes that the rest of this meaningless transfer payment to last year's workers will be moved to 1975 incomes on the floor of the Senate and House. The White House is even talking about extending the reductions into 1976; a little more compromise and perhaps they can be made permanent.

Similarly, the ensuing debate on the Ford energy proposals has been a plus. Mr. Ford can take personal credit for resisting a gasoline tax last fall when most of his advisers and economists of every stripe were inveighing him to propose one. Hardly anyone takes the idea seriously now. Congress, though, gets credit for insisting on taking a longer look at Mr. Ford's oil-tariff

The biggest slice of wisdom revealed during the past few months is that the U.S. economy has both a demand problem and a supply problem. Unless Congress acts in a way that gets at both, it's more than likely that intolerable unemployment and inflation will persist.

The economists have looked almost soley at the demand problem: How do you work off enough of the $300 billion in inventories so that business will be able to put people back to work? The supply problem has been ignored: Once inventories have been liquidated, largely through forced sales at a loss, what incentive is there for business to *want* to put people back to work? Unless business can see a return on investment instead of further capital losses, there is no incentive.

The mistake Congress seems headed toward making is to concentrate the tax cuts in the lower income brackets. This partly reflects the desire by liberals to use this crisis period to redistribute incomes. But it also flows from the idea that lower-income people have a "higher marginal propensity to spend."

It was this single-mindedness that helped keep the Great Depression going for a decade. First President Hoover, in 1932, then President Roosevelt, in 1936, pushed the marginal tax rate on corporate and personal incomes so high that they effectively crippled investment. Just as lower incomes have a higher propensity to spend, higher incomes have a higher propensity to save. And saving, after all, is what investment is all about. There are now so many taxes on individual and corporate saving that to get an increase of 1% in return on investment takes a 20% increase in prices.

The only nod Congress seems willing to give savings by way of tax reduction is an increase in the investment tax credit, which rewards business for buying new machines but provides no incentive to get unutilized resources back to work. As distasteful as the idea may seem to liberals, a cut in the corporate tax rate is the most effective way to put the unemployed back to work.

We are not saying that the tax cuts should be concentrated on sav-

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