

DECEMBER 24, 1965
10:30 A.M. FRIDAY

MR. PRESIDENT:

He".
HERE IS ANOTHER MEMORANDUM FROM WALTER HELLER WHICH I SEND TO YOU. THE SUBJECT IS THE PROS AND CONS OF A TAX INCREASE IN 1966.

TEXT FOLLOWS

DECEMBER 22, 1965

MEMORANDUM FOR THE PRESIDENT

1. THE GNP AND BUDGET NUMBERS ONE CAN NOW GUESS AT FOR NEXT YEAR--ON THE BASIS OF PUBLISHED REPORTS AND THEIR IMPLICATIONS-- SEEM TO CALL FOR A TEMPORARY TAX BOOST TO FINANCE VIETNAM AND WARD OFF INFLATION.

2. STARTING WITH A STRONG 4TH QUARTER GNP OF AROUND \$690 BILLION, MY FORECASTING ASSOCIATE HERE AT MINNESOTA (GEORGE PERRY) SEES ABOUT \$725 BILLION OF DEMAND (GNP) BUILDING UP FOR 1966: (&)

- . THE COMMERCE-SEC FIGURES SUGGEST A WHOPPING INCREASE IN PLANT AND EQUIPMENT EXPENDITURES.
- . THE \$105-\$107 BILLION BUDGET NUMBERS FOR FY 1966-- ABOUT \$10 BILLION ABOVE FY 1965--IMPLY A FURTHER RISE TO PERHAPS \$113 BILLION IN FY 1967 (AND THE PUBLIC TALK OF A \$60 BILLION DEFENSE BUDGET FITS INTO THIS).
- . ADD IN THE EXPECTED BEHAVIOR OF CONSUMERS, INVENTORIES, EXPORTS, AND STATE-LOCAL GOVERNMENTS, AND OUR FINE RECORD OF PRICE STABILITY WILL BE THREATENED BY ECONOMIC OVERHEATING.

(&) LET ME EMPHASIZE THAT PERRY WORKED ENTIRELY FROM PUBLIC SOURCES--SURVEYS, STATISTICS, AND NEWS STORIES--SO THESE ARE INDEPENDENT, BUT REASONABLE, GUESSES OF HIS OWN. ON POLICY, I HAVE NOT CONSULTED GARDNER, BUT I JUST READ HIM MY RECOMMENDATIONS OVER THE PHONE, AND I'M SENDING HIM A COPY OF THIS MEMO.

3. SO 1966 IS THE TIME TO SWITCH, TEMPORARILY, FROM EXPANSION TO RESTRICTION IN FISCAL POLICY:

- . PART OF THE JOB CAN BE DONE BY GRADUATED WITHHOLDING AND THE LIKE.
- . BUT WE SHOULD BE READY TO FACE UP TO A TEMPORARY INCREASE IN RATES.

4. ALTHOUGH I DON'T KNOW WHAT SIZE TAX BOOST MIGHT BE NEEDED, I THINK SOME OF THE OTHER "SPECS," BOTH ECONOMIC AND POLITICAL, ARE CLEAR. ANY 1966 TAX INCREASE HAS TO BE:

- . TIGHTLY TIED TO VIETNAM (BOTH IN CONGRESS AND IN THE PUBLIC MIND)
 - BY NAME, E.G., "DEFENSE SURTAX," "FREEDOM SURTAX."
 - BY TIMING, E.G., LIMITING IT TO THE DURATION OF THE WAR.
 - BY PRESENTATION, E.G., PUTTING IT IN A SEPARATE VIETNAM BUDGET, MESSAGE, AND FINANCING PROGRAM.
- . QUICK
 - THE UPSURGE OF COSTS, DEMAND, AND INFLATIONARY DANGER IS EVEN BIGGER IN THE FIRST HALF OF 1966 THAN IN THE SECOND, THE WAY THINGS NOW LOOK.
 - A QUICK TAX BOOST EARLY IN THE SESSION WILL BE LESS OF A SLEDGEHAMMER FOR YOUR OPPONENTS TO POUND THE GREAT SOCIETY INTO THE GROUND WITH.

-- THE LONGER WE'VE BEEN ACCUSTOMED TO A TAX HIKE BY NOVEMBER, 1966, THE BETTER.

-- BY PRESENTATION, E.G., PUTTING IT IN A SEPARATE VIETNAM BUDGET, MESSAGE, AND FINANCING PROGRAM.

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. SIMPLE

-- WE DON'T WANT TO GET BOGGED DOWN IN MONTHS OF DEBATE OVER A COMPLEX EXCESS PROFITS TAX, OR FANCY RATE CHANGES, OR A MAZE OF EXCISES.

. TEMPORARY

-- IT MUST BE EASY TO DROP, SO IT CAN HELP US MAKE THE ECONOMIC TRANSITION WHEN VIETNAM ENDS.

. ACROSS-THE-BOARD

-- ALL SHOULD SHARE IN THE COST, SACRIFICE, AND SENSE OF PARTICIPATION IN VIETNAM.

-- CORPORATIONS SHOULD GIVE UP SOME OF THEIR VIETNAM-ASSOCIATED PROFITS, AND INDIVIDUALS SHOULD GIVE UP SOME OF THEIR INFLATIONARY POWER.

. PROGRESSIVE

-- THE RELATIVE BURDEN SHOULD BE HEAVIER ON THE UPPER THAN ON THE LOWER INCOME GROUPS.

5. TREASURY AND CEA EXPERTS MAY SEE OTHER "SPECS" AND ANGLES THAT I AM MISSING, BUT IF MY LIST IS VALID:

. IT CAN BEST BE MET BY A STRAIGHT SURTAX ON BOTH CORPORATE AND INDIVIDUAL INCOME TAXES.

. EACH PERCENT WOULD RAISE NEARLY \$800 MILLION, SO A 5 PER CENT SURTAX, FOR EXAMPLE, WOULD PRODUCE NEARLY 4 BILLION A YEAR.

6. THOUGH AN EXCESS PROFITS TAX HAS POLITICAL APPEAL, IT SHOULD BE A LAST RESORT:

. IT'S A CLUMSY AND INEFFICIENT DEVICE--THE KOREAN EXCESS PROFITS TAX WAS ALMOST A SHAMBLES BY THE TIME IT WAS REPEALED.

. MOST OF THE PROFITS TODAY ARE HIGH-PROSPERITY PROFITS, NOT WAR PROFITS--A VIETNAM "EXCESS" WOULD BE HARD TO FIND AND ISOLATE.

. PROCUREMENT PRACTICES UNDER MCNAMARA ARE TIGHTER THAN EVER--AND WE CAN ALWAYS PROVIDE FOR RENEGOTIATION IF WE NEED IT.

WALTER W. HELLER

P.S. AS TO THE JAN. 1 EXCISE TAX CUTS, I'D LET THEM GO:

. MOST OF THEM ARE LOUSY TAXES.

. THE CUTS WILL REDUCE THE CPI BY ABOUT 3/10 OF A PER CENT IF THEY'RE PASSED THROUGH TO CONSUMERS.

. THE CUTS WILL HELP REDUCE BUSINESS COSTS.

DTG: 24/1556Z DEC 65

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