MEMO of the Month

MEMO ROUTING SLIP — *Never Use for Approvals, Disapprovals, Concurrences, or Similar Actions*

		ACTION
1 TO Tina Stonorov, Exec Sec Alaska Conservation Society	INITIALS DATE	CIRCULATE COORDINATION
2		FILE INFORMATION
3		NOTE AND RETURN PER CON-VERSATION
4		SEE ME SIGNATURE

REMARKS

Due to an administrative error, the original of the attached letter was forwarded to you. A new original has been accomplished and forwarded to AAC/JA (Alaskan Air Command, Judge Advocate office). Please place this carbon copy in your files and destroy the original.

FROM	DATE
John W. Campbell JOHN W. CAMPBELL Deputy Base Civil Engineer	15 Feb 73 PHONE 377-5213

DD FORM 1 OCT 60 95 Replaces DD Form 94, 1 Feb 50, and DD Form 95, 1 Feb 50, which will be used until exhausted. ☆ GPO : 1968 O - 295-058

A radical proposal: free enterprise

by Michael Rappeport and Christine Van Lenter

Apart from Jean-Jacques Servain-Schreiber and a few partisans at the head of business conglomerates, the giant corporation has won few friends. Workers on the assembly line detest the speed-ups and monotony which corporate efficiency experts dictate; consumers cite factory-produced food as an example of what's wrong with life; small entrepreneurs disappear with alarming rapidity; and the ancient political warnings about the influence of private interests have been bolstered by evidence from Chile and the Nixon Administration. Even economists admit that corporate growth has passed the stage at which it made purely economic sense: there is, for example, no economically sound reason for ITT to be running car rental agencies or baking bread.

The traditional weapons for fighting corporate growth have proved exceedingly weak and ineffective. And the Justice Department's cumbersome and time-consuming procedures guarantee that even if an administration pursued trust-busting policies with a will, it would have a hard time making headway. The few times that the government has ordered divestiture, the timetables have been so drawn out that their impact is not felt for years.

A better idea might be to build into the tax system a disincentive to growth-for-its-own-sake. This might not stop all mergers and acquisitions, for the urge to grandeur is inherent in business as elsewhere and will prevail despite tax obstacles. But at least it would remove the present tax incentive in favor of conglomeration.

Under current tax laws, the corporate tax is only crudely progressive. The first $25,000 of profits is taxed at a rate of 22 per cent, and everything above that is taxed at 48 per cent. A corporation netting $1 billion is taxed at the same rate as one making $100,000. And while 48 per cent of $1 billion is much more than 48 per cent of $100,000, the amount that is left over is so much greater for the big company that its effect on the marketplace (not to mention on the world of politics) is of an entirely different magnitude.

As an alternative, we might consider a system which taxes corporate profit at progressive rates like those in effect for personal income. Table I shows a proposed set of rates.

What would this accomplish? For one thing, businesses that had expanded or merged merely to show a larger overall profit would find much of that incentive taken away. Many of them might find it more profitable to break up into smaller, independent, operating companies. On the other hand, if there were truly compelling economic reasons for an expansion, the company would go ahead with its plans since it would gain more than it would lose in taxes.

The effects of a new tax system, while hard to predict with certainty or precision, might be extremely beneficial in a few important areas. Its impact on the capital market, for example, might create opportunities for more innovative, small-scale operations.

Since corporate growth would carry the drawback of higher tax

Michael Rappeport is a contributing editor of The Washington Monthly. *Christine Van Lenten is a candidate for the New Jersey Assembly.*