

THE WHITE HOUSE
WASHINGTON

October 20, 1981

MEMORANDUM FOR DONALD T. REGAN

FROM: ROGER B. PORTER

SUBJECT: Cabinet Council on Economic Affairs Discussion
of Revenue Enhancement Measures

This is a brief memorandum to report on the discussion at this morning's Cabinet Council meeting after you were called out.

There was general support for the two remaining elements of the package presented — the changes in the taxation of unemployment compensation and accelerated corporate income tax payments. On the former, Bill Brock thought that it was likely an exercise in futility, but the general consensus was that we should still make the effort.

What was most important though was the discussion that followed. Secretary Schweiker began by asking about other possible measures that might be included in the package, such as increasing the excise tax on alcohol and tobacco. Drew Lewis then observed that there was growing need for the highway trust fund and that we could easily, in his view, pick up additional revenue through a gasoline tax. His initial recommendation was for a 3¢ a gallon increase in 1982, another 3¢ increase in 1983, and a 4¢ increase in 1984. He observed that one gets about \$1 billion in revenue for each 1¢ of increased tax. Moreover, he said that he felt it was in fact a user fee. Schweiker then observed that with the escalating federal payments for medical care that the alcohol and tobacco taxes were also user fees and that the federal alcohol and tobacco taxes have not been increased since 1951.

Bill Brock then observed that he thought we should be talking about raising another \$40 billion in revenue and that for starters he thought we should consider a 25¢ a gallon increase in the gasoline tax and possibly a value added tax. The general thrust of his and other's remarks was that any increased taxes should either remedy abuses or reduce consumption, but that we should leave alone the supply-side tax incentives already enacted.

Brock further observed that he felt we might get support from some groups, like labor, who had not supported us on anything before.

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Center for
Transportation

There was also discussion about the softness of the economy with specific reference to the most recent housing statistics — the lowest level since 1938-39 — and the likely bankruptcies in the next four months of Chrysler Corporation, International Harvester, Pan American, and Braniff.

Lewis suggested that there was a need for a meeting of the Chrysler Loan Guarantee Board.

There was a clear preference expressed by virtually everyone there that they would like some additional work done on a larger revenue enhancement package in preparation for a discussion of the issue soon after you return from Cancun.

