



NINE HUNDRED STATE ROAD  
PRINCETON, NEW JERSEY 08540  
609 924-8778

April 20, 1977

Mr. Stuart E. Eizenstat  
Assistant to the President for  
Domestic Affairs and Policy  
The White House  
Washington, DC 20500

Subject: Indexing of All Depreciation Costs

Dear Mr. Eizenstat,

ECON, Inc. has carried out a detailed study of over one thousand six hundred corporations to determine the distortions and effects of inflation on depreciation costs, year by year, for the past decade. The distortion between historical costs and indexed depreciation costs (money neutral costs) are itemized for each corporation. Also shown are corporate income tax impacts, investment tax credit allowances (for purposes of comparison) and total liquidity impact.

Based on this detailed analysis--documenting the ensuing disincentive to any long-term capital investments in an inflationary economy under current cost accounting procedures--I believe that an across-the-board indexing of depreciation costs, under easily audited procedures, is one necessary step to cut through the spectre of inflation with stagnation. Simple, easily auditable procedures were applied by ECON in performing the indexing of depreciation costs.

As long as depreciation costs are not indexed, widespread market distortions occur with a strong disincentive to industry to make long-term investments that are necessary for long-term, sustained growth. This is a deep and far reaching issue. Given the detailed, corporation by corporation, accounting of such an adjustment that we have performed, the merits of new policies can be assessed in detail for tax and investment impacts.

Unless such, or equivalent adjustments are made, the public sector will be required to increasingly take over national investment needs in any and all areas of long-term capital formation. The investment index (machinery, equipment, buildings) has persistently been lagging throughout the past several years of semi-stimulative policies--I believe precisely due to the distorting effect of inflation.

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The budgetary and fiscal implications of such a move are deep and far reaching, but they should be considered now at a time of the formulation of new, long-term economic policies geared to re-establish a viable, free enterprise economy, with full employment for the U.S.

Sincerely yours,

*Klaus P. Heiss*  
Klaus P. Heiss

KPH:lmh