

INTERVIEW III

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INTERVIEWEE: JOSEPH W. BARR

INTERVIEWER: Michael L. Gillette

PLACE: The Mayflower Hotel, Washington, D.C.

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G: Well, let's start generally with the congressional relations operation and--

B: Would you be interested in just a little general background on how I got started in it?

G: Well, I know about your congressional career.

B: You do?

G: You've covered that in your first interview.

B: Did I? All right, okay. I did tell you that I had gone back to work in Indianapolis, and Kennedy--by that time Larry [O'Brien] had decided that he wanted me back in the Treasury and they extended this invitation for me to come back. All right, so I came back and went to work, and [as] I maybe have indicated or maybe not, it was kind of tough at the start, because my job was congressional affairs and it meant spending a lot of time with the Congress. I had to go up and see people who said, "Well, this is just a defeated congressman. Why do we want to talk to him?" So I had to live that down for a while, but after that it became very apparent to me that the Treasury was sort of the focus of activity of the House of Representatives, especially, and almost the Congress.

The Congress thought that diplomacy and defense belonged to the President, but they thought that the money belonged to them. It was the typical British parliamentary

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approach to the question of government: they wanted to control the purse. As a result they thought the Treasury Department was their department, and up until I think almost 1820 or 1830 there was a law--I think the law is still on the books but it hasn't been used--that the secretary of the treasury can go on the floor of the House of Representatives to pursue his business. Well, I don't believe that's been done, as I say, since 1820 or 1830, but the Treasury has a very, very intimate relationship with the Congress because of this viewpoint that they are the executive arm of the government that reports directly to the Congress. The Congress is not about to give an executive a "long" authority in money. They're going to keep him on a short string. They're going to be as specific as they can, and they're going to get their authority and their power by controlling the money. As a result, the Treasury is intimately and constantly involved with the Congress. It was fascinating from that side of the coin.

G: Were you the first man in the Kennedy Administration to head this operation?

B: Yes, that's correct. A fellow named Charlie Walker had headed this administration under the Eisenhower Administration. He's still around in town. Charlie followed me when I left office in the Johnson Administration. He came back in with the Nixon Administration as under secretary. And he stayed on and now he is an outstanding lobbyist here in the city. I think he is moving into the faculty of the University of Texas. Did you know that? He is lecturing one or two days a week at the University of Texas.

G: Charlie Walker?

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B: He spells it C-H-A-R-L-S, Charls Walker. Boy, he's got a fascinating fund of stories.

Most of the time I was in the Treasury, Charlie was head of the American Bankers Association. He was their chief lobbyist. I mean he ran the association.

G: Did you have any duties at Treasury that were not Hill-related?

B: No, no, this was my responsibility. However, I did have a background in business and in economic theory, and I was constantly poking around all over the Treasury. The debt-management problems of the Treasury really fascinated me. They always have and they still do. And the international operations, Bob Roosa's operations, were extremely interesting. And of course, we were always involved in legislation on taxation so I had to be constantly involved in that. So in spite of the fact that my responsibilities were legislative, I was intimately involved all over the Treasury. And it was such an intimate relationship that I saw the Secretary, Doug Dillon, every night before he went home. He went home about seven-thirty and I usually went in to see old Doug about seven, and we reviewed the day's work, seven to seven-thirty. He was--

G: How much of your day on the average would you spend on the Hill?

B: I would say five or six hours a day. I spent a lot of--

G: Every day?

B: Nearly every day. Three to five hours a day, every day. Yes.

G: Did you normally initiate your visits with members of Congress?

B: Yes.

G: If they wanted to talk to someone at Treasury about something, would they call you and say come down?

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B: That's true, but they didn't really have that many things to take up with Treasury. The most important thing, of course, that they would want to take up with Treasury would be tax matters that involved their constituents, and we just had a flat rule: we just wouldn't talk to them about it. We gave them the number of the proper person to talk to in Internal Revenue and that was it. Or they would have a banking problem and we would give them the appropriate number of the man in the Comptroller of the Currency's office to talk to. So it became very apparent quickly, and it always had been, that our office was not designed for Treasury work. Unless it was something like a tax study or something that didn't involve influence, we just wouldn't get into it. So I went up the Hill mostly at my own initiative. I was the one up there trying to sell something--to sell something or stop something, one or the other.

G: Did your operation vary any from the Eisenhower Administration's?

B: No, there really is only one way, I think, to operate up there on the Hill and that's to know the people, go talk to them, explaining. I don't know any short circuit. I just don't see how you can do it. And a lot of times they didn't even want to see me. They wanted to see an under secretary, they wanted to see the guy in charge of tax policy, or they wanted to see the secretary themselves. So I don't think there's any short circuit that you can make on the thing. You just have to spend your time yourself.

One thing I think has changed. I did not have to see many staff people, and I didn't. I didn't see many staff people. I understand today that if you're working that Hill, it's a staff person that you're working with constantly, all the time, because the members now--every congressman has got a subcommittee. He's chairman of some subcommittee

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or another and he's got all kinds of responsibility. They're hard to see. That was not true when I was there in the fifties. You saw the members and you saw the senators.

Themselves.

G: Do you think having been in Congress yourself helped you in this job?

B: I'm not sure whether it helped or not. It made me more sympathetic to them. You know, you could understand the pressures these fellows were under and you had a sympathetic feeling for them. I don't know, maybe you shouldn't have had; it might have been a deterrent. Maybe you should have pushed them harder and not been as sympathetic with them. But you did get that feeling.

One of the things I got early on was to feel that--I guess theoretically I have always admired a parliamentary sort of system of government; I think it has certain advantages, you know. And it seemed to me that old Larry's operation, and I, to an extent, working in the operation, we were kind of bridging that parliamentary gap, the dichotomy between the executive on the one hand and the legislative body on the other, which seems to me was a useful thing. I think that you just can't have that split. Constitutionally I think they envisioned it but the government won't work that way. I wrote a little speech on that one time. I don't know if it's still around. I'm going to bring it back.

G: Well, certainly the administrations that have been most active in lobbying their programs have been the most successful ones in getting those programs enacted.

B: That's true.

G: At least as far as that goes.

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- B: There haven't been that many administrations, though, with huge programs, you know. Mr. Reagan had a huge program, but he enacted it the first year and he hasn't done much since. He had a huge tax cut the first year and an expenditure jump and he's just held onto that. I don't think Jerry Ford or Carter--they didn't have much. Nixon didn't have anything. It was the Johnson Administration which had [huge programs], and the Kennedy Administration. Kennedy, you know, in economics, with his tax reform and stuff, had a big program. Not many people have had one since.
- G: Let me ask you to describe the White House operation and how you worked with O'Brien.
- B: (Laughter) O'Brien was harder to get to than the President. I think that when Johnson was president you could get to Johnson a lot easier than O'Brien. O'Brien was constantly working. He had about nine phones at his ears all the time, talking to someone all the time. I usually worked with O'Brien by leaving messages for him. He had a very able fellow named Claude Desautels. I don't know if you ever knew him or not. Then he had a very able secretary whose name I cannot remember.
- G: Phyllis Maddock.
- B: That's it. And most of my work with Larry, I would say it was run through them. I didn't talk to him a lot, just couldn't get to him.
- G: Did you have weekly meetings?
- B: No, we reported to Larry weekly. We gave him a weekly report and those were the reports I was referring to. They're rather interesting; it does spell out a real history of

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what was going on week by week. And then we had meetings I think about once a month.

G: Was there a clear distinction in terms of what Treasury would be involved in on the Hill and what, let's say, the Commerce Department would or another agency, Small Business Administration?

B: Yes, it was pretty apparent. Every now and then we'd get crosswise with the Department of Agriculture. But we never had any jurisdictional fights, it seems to me, with Commerce or Small Business or any of the others. In banking legislation we were always mixed up between the Federal Reserve System and the Comptroller of the Currency and the FDIC, and the Federal Home Loan Bank Board. The jurisdictional impetus there was difficult sometimes to sort out. But aside from that we didn't have too much problem.

G: Did O'Brien's office at all arbitrate any of these disputes that did come up or was that done at a different level?

B: I don't ever remember it. I can remember one famous arbitration issue. This was after Johnson [Dillon?] left, when I was under secretary of the treasury. As I mentioned to you, we were on the gold standard--I want to tell this before I forget the darn thing--and we fought the balance of payments up one side and down the other. Well, our strongest card in the balance of payments picture was our agricultural exports, and we had to fight the Department of Agriculture constantly to keep those support prices down. Every time you'd turn around, they'd want to get them up for political reasons. We wanted to keep them down so that we could sell those soybeans--soybeans, especially, into [?] the world,

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that was our golden crop. One day I got word that Orville Freeman was going to raise that soybean support price. [Henry] Fowler was out of the country so I called the President and they said, "Come on over and see him, he's up in his room." So I went up and Johnson was just getting up from his nap. He was still in that long nightgown that he wore and everything. (Laughter) I gave him this impassioned story about Orville and what he was doing to me, and he said, "Now, Joe, just slow down a minute. Let me call Freeman and get this straight." And he picks up the phone and calls old Orville. He said, "Orville, I've got Joe Barr over here and he tells me you're farting under the bed sheets."

(Laughter)

I told Mrs. Johnson that the other night. We were out on the Ranch and I thought she was going to have hysterics. She thought it was the funniest thing she'd ever heard. I'd never heard the expression before.

G: So how was it resolved?

B: As I remember, we stopped Orville temporarily. I'm sure he got around us sooner or later. It's a tough bunch to control, those farmers. They used to be. They're not as hard now.

Well, be that as it may, I don't think we really had many instances where Larry had to get in and separate warring bodies. I think those battles come more between--a lot of them never get to the Congress. They're administrative battles between the intelligence agencies and the State Department and the Defense Department, and that's

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where a lot of those battles come. Maybe State and Defense and Budget get into them up on the Hill, but we didn't seem to be involved.

G: I assume that it was also not difficult to form a united or unified administration position on something even if it was [inaudible].

B: No, starting with Kennedy and through the Johnson Administration, the way we formed our economic positions was through a device called the Troika. It was the secretary of the treasury, the chairman of the Bureau of the Budget, and the chairman of the Council of Economic Advisers. It was later expanded to include the chairman of the Federal Reserve Board, the Quadriad. So the four of them would form policy and we moved on a fairly united front. We didn't fight too much.

(Interruption)

There's no question about that. I noticed that in your [outline]. That Rules [Committee] fight was the first one where he decided he was going to take them on. He [Kennedy] did take on Judge [Howard] Smith and he got Rayburn sort of behind him. Rayburn gave him a hand on the thing and got it back. That relationship between Rayburn and Judge Smith, though, was a--I've never really figured that one out. (Laughter)

G: Tell me what you know about it.

B: Well, they were very close friends and I often felt that the Judge was protecting Sam's flank. Things that Sam didn't really want out there on the floor of the Congress, the Judge would get obdurate about, you know, or he'd go out to his farm at Dulles and watch his Holstein cows, or do something, and just disappear and then no action would occur on

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the Rules Committee. It seemed to be when Rayburn and the House leaders wanted action they could always get it. I'm not sure; does Larry agree with that?

G: I don't know.

B: I'm not sure he does. I think he thinks that old Smith was a bit of a villain in this whole scene. I knew the old Judge fairly well and got along with him and liked him. I thought that he had to get rolled, but I think the importance of that fight was Larry announced and Kennedy announced to that Congress that they're going to take them on. They just weren't going to sit there and get rolled in the old traditional manner, that they were going to take them on and they were a force to be reckoned with. And they had to do something like that to even get the attention of these fellows.

G: Did you yourself have a good working relationship with Rayburn and with Smith?

B: Yes, very close. With Rayburn--Johnson helped elect me; he came up and campaigned for me. I think you've heard that story. And then he said to call him the night of the election. [That night] he said, "Now Joe, you're elected. You take your fountain pen out and write a letter to the Speaker and say, 'Dear Mr. Speaker, The greatest thrill of this election is going to be the opportunity to serve under you.'" Then he made certain that I met the Speaker. When I got there he called him and set up an appointment. I went in to see the Speaker. The Speaker said, "You know, I've been looking for somebody like you. We've never had an economist around this place, and I need somebody to help me on a kind of a confidential basis." I must have done fifteen, twenty different jobs for Sam, kind of his economic "gofer." You know, going down to see Bill Martin or going over to see Gene Black or down to see Bob Anderson, the Secretary of the Treasury. I'd go

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down, and he wanted an answer from them, he didn't want to call them. He'd send me down to talk with them and come back. So I had a very close relationship with the old man, a marvelous relationship.

G: How sophisticated was he in understanding economic issues?

B: You know, you don't have to be all that sophisticated. You have to know if something inflationary is--this argument about holding bond interest rates down to 4 per cent or all these things, does it make any sense or it doesn't. And you come back and you give him an honest straightforward answer, and the old man didn't seem to have any trouble fighting them. Wright Patman, I remember, one time got all excited when I came back, and it was the issue of whether or not--you see, at that time there was a limit on the amount of interest the Treasury could pay on its obligations, and the limit was 4 1/4 per cent. You couldn't pay any more than that for the long-term bonds. Which meant that the Treasury had to sell everything into the short end of the market and couldn't do as most financial people want to do, keep a spread of their maturities, short, medium, and long. They couldn't sell into the long end of the market; they had to go short. And Bob Anderson, who was down in the Treasury, kept screaming that he wanted that authority to lift it, and the Fed argued they wanted the authority to lift it. Eisenhower said he wanted it lifted, and finally Rayburn sent me around to talk to a few people.

I talked to Brookings and all these other guys, and I came back and I said, "You know, it doesn't make any sense. After all, we've got to borrow this money. We're the ones voting it. We haven't got it, we're not raising it in taxes. We've got to borrow this money. We should have the opportunity to borrow as cheaply as we can. This 4 1/4 per

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cent limitation is putting the blocks to us. I think we ought to get rid of it." Patman got up and said, "Oh, you couldn't do that--a big political issue." Rayburn said, "Now wait a minute. Wright, I've been around here a long time. I've never been really sure how you contrive to adjust to a political issue. We can sit here as reasonable men and decide what's best for the country and then let the politics fit to it, and then fit that to the politics. That's the right way to go." So he just shut it down, and they eventually did. They knocked it out.

G: Did you spend more time with the House than with the Senate?

B: In the first years we did. It just depended on what the posture was. On tax legislation, especially, we had to get through the House first. That was always a long, uphill battle. But then after you got through the House, I think it took more individual time in the Senate. Because the Senate had no discipline, absolutely none. In the House when we were there, if you could get it by Wilbur Mills and Johnny Byrnes and a few of the leaders of Ways and Means, you had a bill, because then they would go to the Rules Committee and they'd get a closed rule and the members could only maybe have one amendment. They could either have that one amendment or vote it up or down. And that was it. Judge Smith put that in. He told me one time that back in the thirties he saw them get into a big argument on a tax bill. He said they got all mixed up and tangled up, and he just came to the conclusion that you ought to let one committee do the work on the thing and then they vote yes or no. He put that in, that closed rule. So they had the closed rule in the House, and [if] you got it through two or three of those grand dukes, as I called them, you had a bill.

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In the Senate everybody was his own boss and, my lord, it was the awfulest thing. You know, you got to the floor of the Senate and every law firm in town would rush through their files and drag out every specious argument that they had ever heard of. [They would] rush up and get some senator to introduce the legislation and you just fought off one cruddy amendment after another. They called them Christmas tree bills. That's where they got the idea. You just dreaded to take a tax bill on the floor of the Senate. Gee! Then you'd get into conference and knock everything out. So no, I spent equally as much if not more time in the Senate than I did in the House.

G: How much of a force was Harry Byrd, [Sr.], by this time?

B: He was an old man by that time and like old men, at least the way old men used to be, he had his good days and his bad days. Usually to protect himself he had Senator Bob Kerr alongside him when I was up making the arguments or the presentations or trying to get a commitment out of him. And he and Kerr would sort of work it out between themselves. Oh, yes, he was a tremendous force. Great old guy, really was, and his word was absolutely good. He was a great fellow, he and [Robert] Kerr. I liked them.

G: How about Kerr?

B: Brilliant man, really brilliant man. He had an intuitive grasp of the economics of taxation and how you get tax bills passed. A great politician, great communicator, brilliant man. He had a great brain, no question about it.

G: He has been described as a very formidable personality, a large man.

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B: That's right. He was. He was a large man, a very wealthy man. He had been governor of Oklahoma, but you know his real strength was his enormous mental capacity. God, he was a real brain.

Off on another side, I'll tell you a story about Kerr. In another one of his capacities, in the Commerce Committee, he was running--this is a place I jumped the fences, too--legislation to form the Communications Satellite Corporation. That was a federal corporation. He was trying to get it through the Senate. One of the problems--he called me up one day and said, "Joe, now you've been a banker. I can't find anybody in this government who can do a cash-flow analysis of this proposed legislation: how much money it's going to take to get started, how the money is going to flow in, are we going to need additional funds after we get it going, and then how much money is it going to take before we get this thing into a profitable mode and then what is it going to kick in? I can't find anybody to do the assignment [?]." I said, "Well, my lord, there must be tons of people." Well, he said he didn't trust them. He said, "What do you have to do?" and I said, "I'm doing all the Treasury legislation." He said, "Well, you probably sleep too much anyway. Get up at four o'clock and do this work for me." And I was so interested with the proposal that I did; I took it on.

The scientific analysis in those days indicated that it was going to be someplace about 1975 before we could ever hit that keyhole in the sky, you know, the synchronous orbit. Until that time, what we were going to have to do was build an enormous system of antennae around the country and eventually around the world that would pick up a satellite as it came over the horizon, track it until it went over the horizon and then

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another one would pick it up and on and on and on. Well, I figured just to get it started in the United States it was going to take around four hundred million dollars. So that was what we went for. The legislation, I think, authorized them up to a half billion and when COMSAT [communications satellite] was formed they went out and raised four hundred million dollars. Well, right after they had raised the money, they hit that synchronous orbit and they only spent about fifty million dollars. So for the first ten years of their existence they had a huge portfolio of unused funds, about three hundred and fifty million dollars that they had to play around with. It just shows that--I was right on the original assumption but the scientific breakthrough was the [inaudible].

G: Your economics was sound, it was your--

B: My economics was sound. Science beat me out. Kerr used to kid me about that. He thought that was a riot.

G: Kerr must have been sensitive to legislation dealing with the oil industry since he himself was a producer.

B: Those fellows made no bones about it. They didn't attempt to be nonpartisan or bipartisan or anything else. They were after their own state and their own industries. Period. No ifs, ands, or buts about it. He said, "They call old Harry Byrd the protector of the budget. If I could ever get as much federal money spent in Oklahoma as Harry gets spent in Virginia then I'll be the protector of the budget." (Laughter) He was quite a guy.

G: That's great.

Anything on the creation of AID [U.S. Agency for International Development]?
Was that something that you were involved in?

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B: No. I don't really understand that. That wasn't our responsibility.

G: How about the Area Redevelopment Bill?

B: No, that was over in Commerce.

G: Maybe you can help me sort out on that bill and some of the others the whole backdoor spending issue and the question--

B: Yes. Well, I can tell you that. The Area Redevelopment Bill came strictly out of West Virginia. When Jack Kennedy won West Virginia, he promised them that he would come down there and do something. That state was just flat on its back and he promised them he was going to come down there and do something to help them get started again. So that's where it came from.

Now, backdoor spending was an issue that developed under the Eisenhower Administration in which--let's see, how in the hell did it work? You didn't have to get appropriations. It short-circuited [bypassed?] the Appropriations Committee some way, and it was Clarence Cannon who was chairman of the Appropriations Committee who coined the word "backdoor spending" as a way to get around his subcommittee. Under the AID proposal--you know I remember that--they were going to loan the money and then the money would roll back into a fund and then they would just keep loaning it out without coming back for additional expenditures.

G: What were other examples of backdoor spending?

B: Well, the two that you've named, Area Redevelopment and [AID]. How did Area Redevelopment come under the backdoor spending qualification?

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G: Well, apparently there were some Treasury loans to be involved that would rotate as you say. They would have the discretion--

B: I see. As they repaid these loans it would go into a revolving fund and just keep going without a continuing appropriation.

G: How about unemployment legislation, would that be through the Labor Department? Treasury wouldn't get involved in unemployment benefits?

B: No.

G: Okay.

Now, Social Security benefits and tax increase, this is something that came up in 1961 and that's something you would have been involved in.

B: That's true.

G: Here the legislation proposed to reduce the retirement age from sixty-five to sixty-two and to increase payroll taxes to meet the cost of added benefits. Do you recall that? And there was the whole question of a ceiling that you would have on--

B: We really weren't involved too much in that. That was an issue between Budget and HEW. We were peripherally involved in the budgetary issue. We wanted to make sure that the revenues were someplace in balance. The secretary of the treasury has to sign off once a year, you know, with the secretary of HEW and--who else?--the comptroller general and somebody, that the Social Security trust fund is solvent. So we have an interest in it.

G: Did you have much dealing with that on the Hill at all?

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B: Not too much, no. The real expert in this of course is Wilbur. Wilbur Cohen's the only one who really understands that Social Security system, I think.

G: How about things like sugar quotas?

B: No.

G: The Treasury didn't get involved in that?

B: No. I was just as glad, too. That came as close to corruption as I think--

G: Is that right?

B: Yes. If you ever really smelled it in the Congress it was when they were debating sugar quotas.

G: I've noticed that from the memoranda. Is this because of the nature of the sugar industry, do you think?

B: There was no reason. It was just if you're going to favor this country or that country or somebody else and there was no rhyme nor reason to why you should, it was just who had the best lobbyists. Wasn't it old Mendel Rivers who handled all that stuff? Old Mendel handled it when he was sober and then he'd go out and get on one of his monumental drunks and sleep it off out at Bethesda. Brilliant man, though. Those guys in those days did seem to have an awful lot of fun. They had more fun, I think, than these young guys do up here today.

G: Well, did members of Congress have interest in any of the sugar industries themselves?

B: I don't know. I never could really figure it out but there was an area where you really could feel the stench of money moving around, that something was happening. I never got into it too far. I guess I didn't want to.

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G: One thing that you notice from the files is that they were very adamant about advancing one company's quota over the other. Clearly the stakes were high.

(Laughter)

Let me ask you about the minimum wage bill. That would be one I assume the Treasury would be involved in, or would that strictly be Labor?

B: Only peripherally. That's just Labor, yes.

G: This was one were you lost by one vote on a--

B: Oh, really?

G: Yes. Carl Albert had introduced a substitute to the Republican version and you lost by a teller vote of one vote in 1961. You don't remember that?

B: No.

G: Well, why don't we talk about tax revision?

B: Okay.

G: This was your bailiwick.

B: Sure. The most vivid, I guess. The investment credit is a fascinating--there's a lot of history involved in that investment credit. It goes back to Kennedy's campaign promises to get the country moving again, you know.

G: I wish you'd make the contrast with the Eisenhower Administration that you made before we turned on the recorder, because that's really good history.

B: Yes. The contrast with the Eisenhower Administration was that the tax bill was in place. It was in essence almost a World War II tax bill. When we took over, we still had 90 per cent tax rates. In 1960 the top tax rate was 90 per cent. Hard to believe, but those were

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the old wartime tax rates, and the bill that was in place was largely the creation of some very conservative men, namely an old fellow named [Colin] Stam who was the chief clerk of the Joint Committee on Internal Revenue Taxation. He and Harry Byrd and Wilbur Mills and Johnny Byrnes had sort of put together a tax code of their own that Kennedy said needed to be changed if the country was going to get moving again. The thing that Kennedy was harping on was he did not think that the country was investing enough in capital equipment. He thought that American workers were not being given the tools they needed to compete, so the thing he wanted to do to get the country moving again, as he put it, was to spur the investment in capital equipment. Many economists think, too, that the real way to get a boom started is to get a boom going in the capital equipment area.

So Kennedy had two things: he wanted to move the country ahead, he wanted to restore our stock of capital equipment, and he wanted to do something to make businessmen want to invest in their capital equipment. The Republican side had traditionally been to increase the depreciation allowance. He asked Stan Surrey and a bunch of fellows--who else?--who was the Nobel Prize winner up there?

G: Samuelson?

B: Yes, Paul Samuelson. He asked Stan Surrey and Paul Samuelson to take a look at that. This was during the election. So they thought that increasing depreciation was much too expensive and they came up and decided on a rifle shot approach, which was the investment tax credit. So instead of increasing the depreciation charge on all equipment in place or [which] you were going to put in place, you're only going to get a tax break if

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you put in new equipment. And the way they contrived it, it was new equipment in excess of the amount of depreciation that you were taking. So it was a very, very narrowly focused tax break. It was focused so narrowly that the average business guy couldn't understand it. He said, "What the hell do you want to do this to me for? I want more depreciation. I don't understand this thing." We argued and argued and argued, you know, with these business guys, "We're giving you a marvelous tax break." And it was a tremendous tax break. We're fighting about it right now, you know. Here it is 1986, twenty-six years later we're fighting as to whether or not we should keep it on or get rid of it. That has been the history of the damn thing ever since it's been on.

G: Had it ever been done before?

B: Oh, no, no. No, this was a completely novel concept. And the Chamber of Commerce and the National Association of Manufacturers, all those guys, they thought this was the worst idea they had ever heard of. The only people we could sell on it was the National Coal Association. For some reason those guys understood it, and then we finally got the National Institute of Machinery, the machinery producers. They got it through their heads that this would help them. So those two fellows, on those little weak reeds was all the support we had on the darn thing. As a matter of fact there was a cartoon in the *New Yorker*, I'll never forget that thing, a couple of guys going home on the commuter car, going back to Scarsdale from working in New York, and they're drinking their martinis and one turns to the other and says, "Now tell me again, why are we opposed to the investment tax credit?" It was that crazy a thing. Well, as I said, we got practically no place with it that fall.

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G: Was the opposition basically, as you described, the preference for more depreciation?

B: That's correct. That's right. They weren't sure how this thing was going to work and you could explain it to them. It's pretty theoretical, you know, the enormous impact that this was going to have. And when we finally got it passed, it did. It just exploded like a bomb. Boy! Everybody put their pencil to paper, you know. The average business kid was pretty smart when the numbers are involved and it's to his advantage. It took them about a week and a half to figure out what the hell was going on and they rushed out and started buying stuff like mad. And it did precisely what we wanted it to do. But at the time we just had a hell of a time.

But the biggest, the funniest one of the bunch was [when] Kennedy said he was going to get rid of that two-martini luncheon, you know, or the three-martini luncheon, whatever it was. That he wasn't going to let one fellow sitting on one side of the street go out and be able to entertain all his friends and take it off his taxes while the guy on the other side of the street had to pay for his own stuff. He said that was out. He was going to knock that in the head. Well, boy, you never heard such a furor as went through on that one. We had an awful time.

What was the third provision in this thing? Oh, of course, the terrible one was repealing the deduction on interest and dividends. Do you know we passed that in the House? In the House we passed getting rid of the entertainment allowance. We finally got the investment credit passed and we passed in the House the withholding of the interest and dividends at the source. When I got to the Senate, Harry Byrd said he wasn't going to give it to me. He said he just couldn't do it. But he gave me the reporting of

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interest and dividends. That was where the banks and everybody who pays interest and dividends has to send a report to Internal Revenue, which was about a third of the way but it was an enormous leg up.

But we got all that stuff passed. How in the hell we did it, I don't know. Of course, we lost the goddamn--we did that in 1962; we didn't do anything in 1961. But in 1962 we picked it up, got the support we needed for the investment tax credit, got the support we needed for the entertainment deduction, got the support we needed for the interest and dividends in the House, got halfway there in the Senate, got the bill passed. I started out, and I was going around the world with a bunch of guys up in the Congress. They had President Eisenhower's airplane; they were going to take a junket around the world. My wife and I went off with them for a month. While we were gone--Fowler was gone someplace, too--Internal Revenue released the regulations on the entertainment tax deduction and everybody got so mad by the time we got back they repealed it in January of the next year.

(Laughter)

Oh, boy, I've never forgotten that. So people have been trying it, they're doing it today. Here we are again. They want to get rid of that deduction for business expenses. It's so funny; the fights we started in those days, they're still raging. The fight on tax reform, some of these things get so entrenched. I think they may have them though this time. We got a lot of them through when we finally cut the top rate in 1964. We came in and cut the top rate from 90 to 50 [per cent] and the top corporate rate from--I can't remember; it was way up there in the pink--down to 46, where it is now. By trading that

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off we got an awful lot of reform through, and I think that maybe by getting down to 27 per cent they might throw out a lot of this junk. A lot of these guys up and down the street, though, some of these restaurants, Le Pavillon, right across the street, where it costs you seventy-five dollars a head, and Lion d'Or, which is ninety dollars a head, I don't know where they're going to get their customers.

G: You probably have some of the leading opposition just in a twelve-block area.

B: Oh, sure. Marvelous restaurants.

G: Let me ask you about the withholding provisions. Why were the banks so opposed to this? Did they feel like it would cut their deposits way down?

B: Damn, I didn't answer that question. I'm going to have to look that up. I think it had something to do with their float. I think it had something to do with their own profits and their float. They made a big racket about how it was going to cost them. At that time it would have cost them a lot of money. They were not that mechanized. But they had to do most of the work anyway because they had to report it. But it was something about-- what in the hell was it? I don't know, I'll ask somebody and the next time you come, if you can make yourself a note to kick off on that one, I'll tell you. But whatever it is, it's frantic.

(Interruption)

--especially when banks charge interest, they just credit it to your account. Now, if they had to withhold it, they'd have to remit it quarterly to the government. I think that's it. They just leave that in your account. Say you earned a thousand dollars' interest in a year's time, that would just be credited to your account and you might use it and you

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might not. But if it was withholding, every quarter you'd have to remit two hundred and fifty dollars of that to IRS. I think that's it. I'm quite sure it is. Whatever it is, it really gets their hackles up.

That brought 1961 to a close. We didn't get a hell of a lot done. We got a lot of stuff started.

G: Did you learn something in dealing with them? Of course, you had been a member of Congress so it's not like you hadn't been over there, but did the first year's experience in the congressional liaison role teach you anything that was helpful the following year?

B: Pretty sobering experience. After that first year I thought we were all much wiser and much soberer men, because [when] we came in, Kennedy thought, well, we could do anything. Well, bullshit. The *New York Times* wrote some of the funniest editorials about that, how Kennedy would send guys up to talk to Bob Kerr and he'd grab them by the ear and they'd see [inaudible].

(Laughter)

Tape 1 of 1, Side 2

G: You were talking about the foreign tax provisions.

B: One of the more interesting sections of the 1962 legislation was the provision attempting to get at some of the tax shelters that American corporations used in evading paying taxes on their foreign income. One of the more intriguing examples was to use the canton of Zug, Z-U-G, in Switzerland. Zug had special rules that if you set up a sales corporation in Zug, all the profits from the sales coming out of Zug were nontaxable under Swiss law, and you got it remitted completely to the United States. So what a lot of American

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corporations would do, they would have manufacturing or other kind of operations in Europe, but it would all be sold from the canton of Zug. All the invoices, all the money would go flowing through the canton of Zug through a shell corporation there, and they ended up in effect paying no taxes.

Well, this is one thing we wanted to get at. These arcane parts of the tax bill are something that most of the public doesn't get very excited about. They never hear about it, you know. But believe me, the business community and the tax lawyers knew very well about it. I remember that Mr. Stanley Surrey, who was the assistant secretary for taxation, a brilliant tax academic and lawyer who wrote a lot of the tax law of the United States, Japan, Venezuela, several other countries--brilliant man. And he brought around him a lot of young, sort of scruffy-looking young tax academics, all lawyers, but he brought them mainly in from law schools around the country. And every time I had to go argue with some senator or congressman about this foreign part of the tax code, which was so complex that we had a terrible time explaining it--I had trouble understanding it myself--I took them along to help.

Well, we finally got it to the floor and we were having considerable success with it. I finally turned to one of these young men and I said, "Look, this has been such a bitter battle, I just get the feeling that there are enormous amounts of money opposing us. Do you think you could get me some kind of an estimate of what the legal fees would total of the corporations that have tried to beat us on this section of the bill?" And they ran a little estimate and they figured it was pretty close. They thought it was something like seventeen million dollars of legal fees that they paid to beat us on that one section of

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the bill. And all I had, as I said, were two or three kind of scruffy-looking young tax attorneys to beat them. But we won it.

G: Did you have trouble getting information on what these companies were doing abroad?

B: No. As I say, Stan Surrey, Assistant Secretary for Taxation, was a professor of law at Columbia, and then he came down to the Treasury in the tax section of the Treasury in the Truman years and stayed on into the Eisenhower years and then went back and was a professor of law and taxation at Harvard. And he and another gentleman named Carl Shoup at Columbia wrote most of the Japanese tax code under General [Douglas] MacArthur. Maybe that is one reason the Japanese have as much good luck as they do in the country, because their tax laws are practically identical. He wrote a good part of the Venezuelan tax code. Stanley had an enormous comprehension of tax codes of the world. So no, we understood all this stuff, how it worked. We didn't have any problem understanding it. Our problem was getting the Congress and the public to understand what was going on here.

G: But in terms of getting information of what corporations were doing abroad, how did you access that kind of information?

B: That showed up in their returns. It really did. It showed up in their returns. The fact that they were channeling all their profits--they would say, "Sure, we made fifty million in England, we made fifty million in France, we did so on. But we sold it all through the canton of Zug and as a result those profits are not taxable." Oh, it was there on the return; they didn't attempt to [conceal it]. We could dig it out. It was quite apparent.

G: Which is what, perhaps identified--?

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B: And everybody knew it. You would go to Zug and you would see these lawyers' offices in the shell corporation. One lawyer would have all the great names of American industry on his door there; he was representing them all, running these little shell corporations that they ran them through. But that was one of the interesting little sidelights of that bit of legislation. But we got considerable headway on that.

Were you on when I talked about the tax deduction on business meals and entertainment?

G: Yes.

B: We got it passed and then Internal Revenue wrote the regulations too stiff and they repealed it on us early in 1963.

G: Business travel was one element of that, that you got. Was that a particularly difficult--?

B: Yes. That wasn't the real attempt. The big thing we wanted was entertainment. These high-priced meals, the three-martini lunches, as Jack Kennedy said, and the nights at the theater, travel lodges. We were after yachts, lodges, the expensive business meals, that sort of thing. That's what we were after.

G: Do you think that this legislation hurt JFK with the business community?

B: I don't think so. I remember my family has been in business all their lives and my father always thought it was ridiculous to spend money to--he said if you want to get an order, you go to somebody's office. If you want to take him to dinner, why should the government be paying half of the bill? I think a lot of them feel the same way. I don't think that hurt him with them.

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Now, a lot of people did get excited on the foreign tax situation. That was significant.

I did mention to you that on the dividend and interest withholding, that was passed by the House after a bitter battle. But we did get it passed. I mentioned to you that Senator Harry Byrd, Sr., said he just couldn't take it. He said, "Joe, you're not going to get the votes. We're going to beat you. But I am going to give you something." He was going to give us reporting on dividends, and he did.

G: Tell how you got it past the House, though. What were the key elements of getting this legislation?

B: The under secretary at that time was a fellow named Henry Fowler, and Fowler at one time was attorney for the Business Council. He had a broad range of friends all over the United States in business. He was able to mobilize a lot of these business people in support of this legislation, and it was just dogged hard work in mobilizing the business people and in seeing people and persuading members of Congress that this was the right thing to do.

G: Fowler did some of that himself?

B: Oh, yes. Fowler worked like a slave on this. So did Dillon; all of us did. The team was Dillon, Fowler, Surrey, myself, the four of us. We worked like slaves on it. All of us worked that Hill day and night.

G: What was Wilbur Mills' position on this?

B: Wilbur Mills is an extremely well-educated man with a very good brain, a good mind. He knows taxes. He is a very conservative gentleman from Arkansas and he didn't like

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some of those changes, but he recognized--Wilbur was far too intelligent not to recognize the merit of what we were proposing. I think the thing that he was most dubious about was the investment tax credit. As you mentioned, that was a real novelty, that was an innovation. Nobody ever tried it before. They had been arguing about the deduction for entertainment and meals for years and a lot of these other things, but that was one that concerned him. But it was [due to] the fact that we could get [John] Burns and [Wilbur] Mills on our side and supporting us on most of these issues that we got it through.

G: Did you have to do any horse trading to get it passed in the House?

B: There wasn't a lot of trading we could do. There were other things aside from what you have mentioned here. I can't remember what they all were. They were knocked out.

G: The Senate, as you mentioned earlier, dropped the withholding provision and substituted a reporting [provision].

B: I think we had originally requested a 10 per cent investment tax credit, which is where it stands now, and they cut it back to 7.

G: There were, it looks like, 174 amendments offered.

B: (Laughter) Isn't that amazing? That's what I told you. Every time you get a tax bill on the floor of the United States Senate, at least in those days, every law firm in town just rushes to their file, grabs every proposal they can think of, and finds a senator to introduce it.

G: Apparently Paul Douglas, [Albert] Gore, [William] Proxmire, Byrd, and [John] Williams were all trying to defeat the investment tax credit.

B: That's right.

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G: That's quite a variation in perspective, some liberals, some conservatives?

B: Douglas and Gore I think were opposing it because they thought it was an unnecessary concession to business. Byrd was opposing it because it was not depreciation.

I don't know which conference committee this occurred in. It may have been in this one, because I remember that Hale Boggs was still alive, and Hale got killed someplace.

G: Yes, but this was later. I think this was after the Johnson [years].

B: Yes, after that. But in one of those conference committees, I'll never forget, they left the Treasury--on all those while I was in office Mills and Russell Long wanted the Treasury right there in the conference committee. And we sat right in there on that as they deliberated on that conference committee. They didn't tell us everything they were doing. One time there was a big flurry of activities and none of us could figure out what was going on, and they had done something to get a football franchise into New Orleans. (Laughter)

How Hale did that, I don't know. Old Hale Boggs and Russell Long, they thought that was the funniest thing in the world. They did something to the tax code which in turn got them a franchise in New Orleans. (Laughter)

G: That's great.

B: Oh, those were great days. You look back on it, you wonder how in God's name--

G: In these conference committee meetings, did the House tend to dominate or the Senate?

B: Well, you had Wilbur Mills and John Byrnes there, and they were such powerful individuals that I would say the House tended to dominate on most of these things. They

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ran it and they always thought taxation was their ball game anyway. They kind of tolerated the Senate in it. They looked at the Senate as not being really serious about it, you know, horsing around with all these amendments and everything else. I would say very definitely that they tended to dominate it.

G: And yet you had more luck in the House than you did in the Senate in this time.

B: Yes. Sure did.

G: Anything else on your strategy in getting this bill through?

B: It didn't really boil down to strategy. It was just bone-hard work, just education. And you know, the Ways and Means Committee especially, as you indicated in your analysis here, had not really considered a substantive tax bill since 1954.

G: 954. 1

B: That was eight years ago [before]. And in two years we really gave them an education, day after day after day after day on taxation: the theory of taxes, what was right, what was wrong, what needed to be changed, and we worked at it day after [day]. I don't think there was any strategy. It was just bone hard work.

G: Tell me about the excise and travel--

B: We didn't really have the--excise and travel?

G: Yes, the excise and travel taxes for this.

B: Well, that one didn't come up here, did it?

G: Well, it was in 1962. I guess this was a separate provision.

B: We proposed a tax on foreign travel, but I think that was in 1967.

G: It would be on the seventeenth [page].

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B: Oh, those were the excise taxes on--what page is it on?

G: Seventeen. It eliminated transportation taxes on railroad travel and bus and water.

B: One reason we did that, I think there was a strong feeling on Surrey's part and [Walter] Heller's and the theoreticians' that they wanted to get the government out of the excise tax business and leave that to the states.

G: And this was a way to do that?

B: Yes, this was a way to do it.

B: On two or three different instances I went to him and said we needed help with somebody, and he tried. I can't remember. I can't give you a specific analysis. But I was always very close to Lyndon, and he would ask me for things, and I would go to see him. He was very supportive. Now, when we got into oil in 1964 that was a different matter; he was not quite as supportive, although we did get it done. We got a lot of it done in 1964.

G: That's a good stopping point.

B: That's a pretty good [stopping point].

End of Tape 1 of 1 and Interview III

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