

INTERVIEW XL

DATE: December 21, 1988

INTERVIEWEE: JOSEPH A. CALIFANO, JR.

INTERVIEWER: Michael L. Gillette

PLACE: Mr. Califano's office, Washington, D.C.

Tape 1 of 1, Side 1

C: The more I reflect on what happened in 1965, the more it seems to me that the combination of the build-up in Vietnam announced in July and the President's decision, not announced but certainly transmitted to me, to go full bore on the Great Society programs, to keep producing their programs, to keep getting money into the programs we had, turned the economic issues and the handling of them into an incredibly delicate exercise. One of the things that comes up as I start to look at these papers--the decision to say and sell the concept that we had a balanced budget except for Vietnam was a way, and a very important way, of providing a safe harbor for those Great Society programs, so that the extent we had to play with taxes--it was all related to Vietnam. It was not related to the Great Society, and he tried very hard to do that. That may also account, as you reflect back on it, for the desire to, if you will, get our foot in the door in a lot of these programs like Model Cities, get the program authorized, get the legislation on the books, not go for the big dollars, just go for some modest planning dollars even though out there you know there are billions of dollars--

Califano -- XL -- 2

G: You mentioned that he communicated this desire to extend the Great Society programs to you with--

C: Well, let me tell you what I'm beginning to think. I'm beginning--I had thought that he had talked to me about what he wanted to do with the Great Society the first weekend I went to the Ranch, but I increasingly think I'm wrong about that now. And I think, as I look at this and things start to hit me, I think that I arrived at the White House the week of the Vietnam build-up, which was July whatever, [1965] okay. I went to the Ranch that weekend after we announced the build-up, and I think it was that weekend that he talked to me about fair housing and transportation and Model Cit[ies]--well, it wasn't Model Cities then. It was just--we got a, how do we rebuild the cities or, plowing ahead with all this stuff, getting Medicare on the line right away, [it had] just been passed. And I don't know at what point I began to realize, although I'm sure he did from that moment on, that that meant we had to pay incredible attention to the economy, both to figure out what was the right thing to do, but also do it in a way that didn't jeopardize the continuation of the Great Society programs.

When you start to look at these papers, and now I look--you look at these papers, for sure going up there in 1966 with a State of the Union Message that I can tell you, I remember that night, [it] just blew their minds. A dozen or so brand-new programs. Nobody expected anything like that. No rest for the weary, if you will. His instinct was not to go for taxes, to find a way not to, to say, "All right. How can we pick up a few billion here and a few billion there?"--one.

Two, you look at [Henry "Joe"] Fowler's meeting with [Wilbur] Mills and Russell Long's obvious cat-and-mouse game, those two guys, neither of whom were for the Great

Califano -- XL -- 3

Society programs, both saw a real trouble in getting a tax increase, even based on the war, at that stage. We didn't want to unfold, and [Robert] McNamara didn't want to unfold, the cost of the war in some multi-year sense, partly because he said nobody knew how long it would last, and we are constantly striving for peace, but partly because to lay numbers out of lead time with the kinds of numbers that were involved would have been very big numbers, and that surely would have created a chorus of cries for, "Just stop everything domestically." So we run into--we start to see the price pressures, and we react one--I mean strongly and symbolically and effectively on aluminum and copper in the fall of 1965. That precipitates the President telling me to get ready to deal with wages and prices with every tool we have across the board and get this little group together.

[William McChesney] Martin then kicks the discount rate in early December. The President was monumentally sensitive to higher interest rates. I mean, whether it was the farmers' housing, small business, whatever he thought was affected. He really as an article of faith didn't like high interest rates, so we have to do something, and December is the month, December and early January, in which we have to figure out what to do, and this whole exercise--and I guess when I look at the memos here--I hope I can really figure out how to do this in my book; you have to look at--if you think of this going on, and you look at that 1966 State of the Union, it's an unbelievable orchestration.

(Interruption)

They've just passed Medicare and Medicaid, and he says we're doing both.

[Reading State of the Union Message] "We will not permit those who fire upon us in Vietnam to win a victory over the desires and the intentions of all the American people. This nation is mighty enough, its society is healthy enough, its people are strong enough

Califano -- XL -- 4

to pursue our goals in the rest of the world while still building a Great Society here at home." Okay? "And that's what I've come to ask you tonight. I recommend you provide the resources to carry forward with full vigor the great health and education programs you've enacted," with full funding [of] Medicare, Medicaid, Elementary and Secondary Education, all these programs. Okay? The War on Poverty, full funding, that's the second item in this list. Then he goes to foreign aid, and we start all these international health programs that we're beginning, and international education. "Expand trade . . . program to [re]build on a scale never before attempted, entire central and slum areas in several of our cities in America."--Model Cities. "I recommend that you attack the wasteful and degrading poisoning of our rivers, and [as] the cornerstone of [this effort,] clean completely entire large river basins"--the Clean Rivers Act, which was a monumental [act]. "[I] recommend [that you meet] the growing menace of crime . . . rebuilding [building up] of law enforcement, [and by] revitalizing the"--this big law enforcement program. " . . . non-discrimination in [Federal and state] jury selections," obstruction, but still. "Outlawing discrimination in the sale of rental housing [sale and rental of housing]", [create] a cabinet Department of Education [Transportation]. We're going to restructure the Civil Service. House members, "through a Constitutional amendment, extending Congress terms [to] four years, concurrent with [that of] the president." Okay? I mean just--so--blown away.

Then he says, "Because of Vietnam we can't do all that . . . we'd like to do; we'll [ruthlessly] attack waste and inefficiency"--inefficiency. "The total budget [deficit] will be one of the lowest in many years." "The deficit will only be 1.8 billion Total spending . . . 112.8 billion. Revenues next year [will be] 111 billion." And then--then

Califano -- XL -- 5

focused on the military expenditures, he says, " . . . temporarily restore the automobile and [certain] telephone excise tax [reductions] . . . Without raising taxes, [or even] increasing [the total] taxes bill paid," put the withholding system on a graduated basis and, "speed up the collection of corporate [taxes]--" I mean, it just was--it was stunning.

In any case, I guess we had all the signals coming, but it was the kind of--it was as the budget numbers started to gel in mid-December. I guess it was. I guess this memo, the more I look at it and the tone of it, it must, you know, this is--

G: This is your memo to him, December 17, 1965?

C: Yes. What I say--The President asked [Gardner] Ackley to give it to him cold and hard on what the implications are of a budget of 110 to 115 billion. Okay?

G: Yes.

C: Then he says, "There has to be a significant tax increase at 115 [billion]. At 110, the problem is a little more difficult." Okay? So Johnson brings it in at 100 and--whatever it was in there--thirteen point something.

G: He wanted you to talk with Ackley, [Charles] Schultze, and Fowler and have them prepare some specific tax proposals?

C: Yes. But I think--I thought that we had a meeting with the [congressional] leadership, but maybe we didn't in 1965, the bipartisan leadership--maybe it didn't happen until 1966--in which--no, I guess it was 1966--in which we asked to write a tax increase, and we couldn't. They said there were no votes for it.

G: Right.

C: Was that 1966?

G: I think it was.

Califano -- XL -- 6

- C: In any case, I think in addition to--I mean, this obviously was a cold bath to me from the way I wrote this memo. I think also we didn't want to let anybody know we were even considering a tax increase partly because of concern about inflation and partly because the politics of dealing with it, the more warning--the longer it hung out there, the harder it was to pass.
- G: In other words, if there were public awareness that the proposals were even being planned that it would organize opposition to it, or--?
- C: Yes. And I think you have to remember again, we were very conscious, and he was, of continuing forward with those Great Society programs.
- G: Yes.
- C: And from our vantage point, we were dealing with a very wealthy society, America, that can certainly afford both. Okay? An issue is how do you get both out of them? And frontally, you say, "We want some more taxes from you." It's very difficult. For sure, up until this point and probably another year or two into it, put another way, the Great Society didn't cost anything, because economic growth was so rapid, you didn't have to pay any more taxes for it. I didn't have to pay any more taxes for it.
- G: Was there any significant difference among these economic advisers, Ackley, Schultze and Fowler, at this stage?
- C: I think Ackley, Schultze, and Fowler all wanted a tax increase, but what surprised me about these papers--maybe that does come through. It is more clear in my mind than it was in the papers. You know, Schultze says that we go for a five-billion dollar tax increase, "which I would strongly recommend on economic grounds," okay? This is December 17. I think Fowler is sent to see Mills, not just because the President wants to

Califano -- XL -- 7

know what Mills thinks, and if you have a deal with Mills, you have a tax bill, but because the President wants Fowler to get an understanding of the fact that Mills has got no stomach for a tax bill, and, that was one way he would try and educate all of us, and then Fowler would bring that understanding back to Schultze and Ackley. By the time Fowler went to see Mills--and you get a sense of what we were faced with--[Mills said] civilian expenditures shouldn't exceed those of fiscal [year] 1966. Okay?

G: Yes.

C: And what Mills is really saying is, "No more Great Society! Turn it off," right? Mills very much for the non-Vietnam budget idea. Mills [was] very much for saying, "Don't lay out Vietnam in full," which was very much what we wanted to do for different reasons, incidentally. Mills focused on getting his little tax gambits passed. We're focused on that, yes; we were also focused on keeping the Great Society going.

It is interesting that Mills says, "The President can and should say his administration did not make the Vietnam commitment. We would have a balanced budget but for Vietnam." I'm very conscious of the Republican--Mills' opposition to the Senate Christmas tree, and that's been that way--it's that way today. And on the tax increase, Mills is opposed to it. If the budget doesn't--but he clearly showed that he had no appetite for a tax increase bill in 1966, and he said Congress couldn't pass it. Mills was willing to go along with graduated withholding. He was willing to go along with the corporate tax fee speed-up, and he thought the President could get the automobile and telephone excise taxes [restored], and that was it.

We did force him to take up the unemployment comp bill, didn't we, later in 1966? Yes. That's another example of just plowing along. We ought to do a thing on

Califano -- XL -- 8

that. Sometime between December 17 and December 22, when Fowler went to see Mills, we had--nothing was ever settled at this stage, but to the extent something gets settled, we had settled in our own minds about not going for a tax increase and going with these adjustments--

G: Yes.

C: --to produce whatever it produced, five billion to seven billion dollars [increased tax revenue]--

G: Was--

C: And there must have been meetings or conversations or something. And Fowler did not say that to Mills without an okay.

The twenty-first was just a day of budget hearings. A parade of people in there has to be that. [Orville] Freeman, Gardner, what-have-you, but--and then this meeting. Clearly the twenty-first was the day. Fowler--this is before he sees [Mills]--let me check just one thing--okay, he sees Mills on the twenty-second, but in any case, by the time we get to the twenty-first there had to have been--I mean, the President had to have talked to me. I can't tell when because I was in there so much, but by the time we get to our meeting on the twenty-first, Schultze is saying, "We're going to have a budget of 110 to 112 billion." With a budget of 110 to 112 billion, no tax increase, graduate withholding, accelerate corporate tax. With a budget of 112 to 115 billion, a tax hike of five billion, withholding, and a corporate speed-up. Fowler then reacts and says that a tax increase now would be very undesirable.

G: In terms of the economy or in terms of the politics of it?

Califano -- XL -- 9

C: I just can't--I mean, I don't know. I just don't know. I can't remember. Ackley says he's uncertain about what to do, but he was leaning towards a tax increase. Fowler in part is worried--oh, Fowler says that he's worried about Martin's interest rate action creating a drag in January and February. Then the President says, "No tax increase in 1966." He's worried about depressing and moderating the economy too much. He's 90 per cent sure of no tax, that there shouldn't be a tax increase. He'd put off the excise tax reduction right away. He would have graduated withholding of individual income taxes and accelerated collection of corporate taxes, and that gave us a few billion dollars.

Then there's some reason--I mean, I don't know why my notes are like this--obviously we went into other meetings with Gardner and [Sargent] Shriver on He's saying, "We can't get a tax bill. We've got to get it in other ways." I just have notes here saying that we were going to have a twelve billion dollar supplemental [appropriation], which was going to be the Vietnam supplemental. Then we clearly went into a whole series of other meetings, but that's--off of that, Fowler goes off and sees Mills. I mean, that's the bottom line of that. And Mills, to the extent Fowler needed it, confirms the politics of no tax increase on the twenty-second of December and transmits that, I guess, to me and the President because Fowler's recorded as calling in early. And then on the twenty-third--

(Interruption)

I had a meeting on the twenty-third, which my secretary characterizes as "the non-meeting of the non-group." Did you see that?

G: No, I didn't notice that. In your Week-at-a-Glance [appointment book]. Why did she say that?

Califano -- XL -- 10

C: Must have been because it was supposed to be super-secret.

G: Oh. Oh, really?

C: And this is Fowler, McNamara, Ackley, [John] Connor, [Willard] Wirtz, and
Schultze--got to be talking about the economy, the tax issues, "What are we going to do?"
What's fascinating is that that afternoon at two-thirty, I meet on the Model Cities
program, about to pump a billion into In any case . . .

G: I don't see anything on that meeting.

C: You might just check. Fowler gives papers to the [LBJ Library]--

G: I'll check his files. December 23, is that what it is?

C: Yes. Twenty-third. (Long pause) To try, how I ever can get this flavor across, God only
knows.

We're then on the thirtieth and the thirty-first we're rolling back copper. Okay.
And then, at some point in January--certainly by early January we know where we're
going. Fowler sends over--as was typical of Joe Fowler--far more words than the
President can ever use, language for the State of the Union.

G: Yes.

C: Now. Okay. The State of the Union goes up on January 12 and discusses this, and on
January 13 Fowler sends the detailed proposal forward.

G: Yes.

C: And Mills announces hearings. The one thing missing from this is Russell Long. I can't
believe we did this without talking to Russell Long. I don't know whether Joe's papers
will show anything on that or not. And then we get into the whole legislative battle--

G: Yes.

Califano -- XL -- 11

C: --and I think we ought to do that the next time.

G: Okay.

End of Tape 1 of 1 and Interview XL

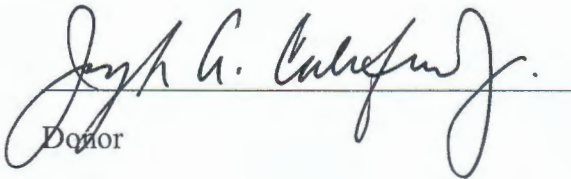
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
LYNDON B. JOHNSON PRESIDENTIAL LIBRARY

Addendum to the Legal Agreement Pertaining to the Oral History Interviews of

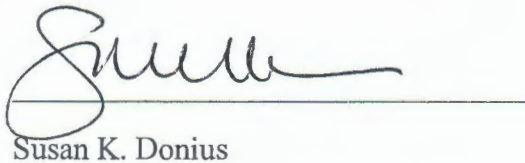
Joseph A. Califano

Interviewed by: Paige Mulhollan, Joe B. Frantz and Michael L. Gillette

I, Joseph A. Califano, hereby remove the restrictions on the use of the transcripts and recordings that states, "During my lifetime I retain all copyright in the material given to the United States by the terms of this instrument. Thereafter the copyright in both the transcripts and tape recordings shall pass to the United States Government. During my lifetime researchers may publish 'fair use' quotations from the transcripts and tape recordings without my express consent in each case." of the sixty-three personal interviews conducted with me by Paige Mulhollan, Joe B. Frantz, and Michael L. Gillette, currently at the Lyndon Baines Johnson Presidential Library. (see attachment for interview details)


Donor

5-28-19
Dated


Susan K. Donius

July 17, 2019
Dated

Director for Presidential Libraries