

INTERVIEW XLII

DATE: February 14, 1989

INTERVIEWEE: JOSEPH A. CALIFANO, JR.

INTERVIEWER: Michael L. Gillette

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

Tape 1 of 1, Side 1

C: --that through the end of August [Henry "Joe"] Fowler was still opposed to suspending the investment tax credit. It also reflects that the economic advisers to the President on the basis of pure economics were of a mind that the President should raise corporate taxes with an emphasis on trimming corporate profits.

(Interruption)

--with a tax on corporate profits which in the August 29 item was expressed as a surtax at 10 per cent, the object being to place a heavy enough tax on corporations so that they'll resist wage increases. There also in [the meeting of academics at] Cambridge, I should note, was a strong sense that we should maintain the wage-price guideposts, maybe increase them a little bit, but maintain them. And lastly, the wonderful academics' view that there ought to be a formal organization. It ought to be in the budget bureau and then it ought to fan out into the departments that deal with each department's responsibilities in wage-and-price policy.

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G: The Cambridge group also seemed to favor a personal tax increase as well as a corporate tax increase.

C: I think--

(Interruption)

G: --although realizing the political problems with getting a tax increase.

C: I guess that's right. But my recollection--now I have to just check these papers. The Cambridge group did [support both], that's right, but both the corporate tax increase focused on profits in order to restrain, to give some spine to the corporations in dealing with wage demands [and] the personal tax increase in order to damp down demand and take some money out of people's pockets.

G: Describe the evening at--

C: Well, I can't--I go back to that. I do remember it. It was at [Richard] Neustadt's house. We ate a buffet dinner and we sat around in a circle. I remember that, balancing plates and talking about this stuff. Otto Eckstein was the scribe; I remember that. You have to remember he had been on the Council of Economic Advisers and had returned to Harvard.

G: You see the list of people who were there. Did one person tend to take the lead or was it fairly . . . ?

C: I think Eckstein took the lead in terms of laying out economic policy. Neustadt was basically a master of ceremonies. [John] Dunlop's experience was with labor. Derek Bok was there not as an economist, but--we also had from our experiences in steel and with the railroads and elsewhere, we had trouble dealing with emergency strikes, strikes that might sort of affect the economy seriously but not quite rise to the level of national

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defense. And we were constantly--although constantly is wrong--sporadically but perpetually trying to figure out something to do about that, and Bok was working on that. [Robert] Solow is then a young professor, just a hot-shot MIT [Massachusetts Institute of Technology] guy that Eckstein brought along and so was Lester Thurow. He's listed--he was the rapporteur of the group whether he was the night we were there. I think Eckstein was the guy that kept track that night.

G: This is a group--

C: I also wanted the memo from Eckstein because Johnson knew Eckstein. John Meyer was as indicated here, an expert in transportation policy. David Ginsburg had been in the OPA [Office of Price Administration], which I guess is when Johnson first came across him as one of the bright young lawyers working there, I guess, with [John Kenneth] Galbraith and others. And . . .

G: This group had been meeting for a considerable period of time beforehand.

C: My recollection is that the group was self-generated, that we didn't establish this group. But, I mean, it was a classic Harvard solve-the-world's-problems [group]. But, we wanted to know what they were doing and that Ginsburg kept me up to date on what they were doing. What made the visit attractive to LBJ for us to do--really two things. One, as you can see from the Anderson [?] memo, every time I get into a problem like this he wanted everybody's view. He wanted to surround it and know every angle and what have you, number one. Number two, it obviously helped bring that kind of intellectual economic community along once you went and have them supporting you in the press and in their parties and what have you. And, three, when he knew they were for an investment tax credit suspension--which he certainly thought was the one thing he might

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be able to get--he wanted Fowler, as you can see by he wrote Fowler's name in. He wanted Fowler there and to have Fowler subjected to that was important to him.

G: With regard to the first one, involving all these people, would all the different angles actually filter up to LBJ himself, or was it more a question of his desire to involve everyone, to give everyone a stake in the policy? Would he actually assimilate all the different nuances of this?

C: Well, let me, let me--he would--we're going to check on--what was the day we came back? The dinner was the twenty-third [of August, 1966]?

G: Twenty-second.

C: Twenty-third--okay. By, through whatever means he had me--well we had the [congressional] leadership breakfast which I guess was probably the first time I saw him that morning.

(Interruption)

All right. What I'm--you've got it on? What I'm smiling at is in the Presidential diaries keeping, [reading from the Daily Diary] "Besides the food was good. Those beautiful eggs in those little containers,"--they were incredibly good--"scrambled eggs with bacon, sausage, butter rolls."

In any case, he obviously saw me at the leadership breakfast that morning and grabbed me, took me back with him to the bedroom where Mrs. Johnson was not yet dressed. I don't know who kept these notes. In any case, from 10:25 until 10:50 we certainly talked about what happened the night before.

G: Do you feel that that meeting was persuasive in terms of bringing Fowler around?

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C: No, because after the meeting Fowler was still opposed to [suspending] the investment tax credit. As late as August 29. In what is Ackley's memo, I guess, of August 29 Fowler is still opposed to suspending the investment tax credit.

G: Did he have his fallback position by then?

C: I don't have it. What's the date of Fowler's memo on the September program? Do you have that?

G: Here.

C: I guess, what I don't--this memorandum must be the summary memo. You know what we need, and just make a note of it, the attachments to my memo of August 29, 9:30 p.m. to the President. But my hunch is this is it, okay?

We're coming right into Labor Day weekend. All right. On the twenty-ninth of August I sent him a memo which basically gave him the views of all of his key advisers which favored the hike in corporate tax rates, the 10 per cent surcharge concept, all except Fowler favoring suspension of the investment tax credit and of accelerated depreciation. And then a budgetary analysis by [Charles] Schultze, which I don't have here, which basically showed ways to hold down defense spending. There also were suggestions as to what the Fed [Federal Reserve Board] should do in terms of restraining bank lending to take the pressure off the capital markets. Restraining consumer lending and also in terms of increased control because I think by now we were controlling the issues of federal paper. I may be wrong. I don't know when that system went in place. But a cutback of direct federal lending. We did note that--

G: This was to keep interest rates up, is that right?

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C: Keep interest rates down. The pressures on the capital markets were driving interest rates up. All this restraint was to keep interest rates down. And then various measures to ease the pressure on wages. And as this memo indicates, everyone was opposed to asking for standby wage-and-price control authority. At some point, there's extended meetings on wage-and-price controls. I don't know where that comes up but it ought to be a topic we talk about because among other things [Abe] Fortas was deeply involved in whether the President had authority to do that. And that led to my suggesting we set up a meeting the next day which the President set up and add [Jack] Connor, [Willard] Wirtz and [Lawrence] O'Brien as players. At some point on the twenty-ninth, the President had me--well, he's at the Ranch. So did he come back that night?

G: No, but there was a conference call from you to him summarizing the views of the group on this economic program. The twenty-ninth.

C: When, at 8:11? There was a call earlier--he's obviously into this thing because I don't think anything else was going on that he'd be talking to me that much about. There are calls early in the morning?

G: There's one to you and O'Brien, from LBJ at the Ranch.

C: Well, I was going to say he must have called Larry or had me talk to Larry and tell Larry to take the temperature on the Hill again. The thing I just note about that *vis-à-vis* LBJ is how frequently during this process he's having people go talk to congressmen and senators.

(Interruption)

And O'Brien reports--I mean we met--we don't have a Presidential Diary for August 30.

Wait a minute, unless I've misplaced it. No, 27, 28, 29, 31.

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G: Was that at the Ranch?

C: No, no, no. Back in Washington. Okay?

G: I'll check it.

C: August 30, 1966. Let's get that Telexed up here so we can--or faxed or whatever it is.

You can fax it on to Suzy's machine right next door. You wouldn't have to wait. In any case, he's got O'Brien, I don't know what time this was done but obviously on the twenty-ninth O'Brien ran down [Wilbur] Mills and [Russell] Long and Carl Albert and reports that Mills was generally non-committal, as he puts it. Confused, just doesn't know what's best, sure only that a tax bill was not in the offing. Showing the greatest interest in the investment tax credit. Russell Long is strong for suspension of the investment tax credit and for standby controls on wages and prices. And Long, like Johnson, [was] very strong on getting interest rates down. And talking incidentally about bringing our troops back from France. Carl Albert: "tax bill extremely difficult if not impossible to pass and would mess up other programs we're seeking." But he said the only thing that would have a chance of flying was the investment tax credit suspension, and he wanted to know what people were recommending. Also, I must have been talking to [Nicholas] Katzenbach. Johnson must have wanted me to find out what his authority was in terms of wage-and-price controls, because I have a memo from John Robson laying out what the Justice Department thought was the President's current power with respect to wage-and-price controls. I think that's--I've got to go.

End of Tape 1 and Interview XLII

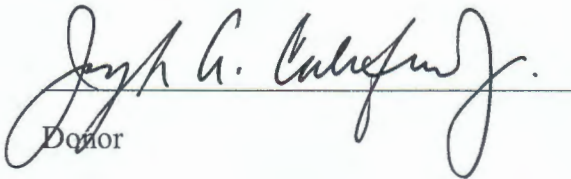
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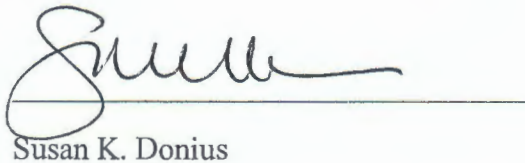
Joseph A. Califano

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

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