

## INTERVIEW XLIV

DATE: March 29, 1989

INTERVIEWEE: JOSEPH A. CALIFANO, JR., with comments by Marcel  
Bryar

INTERVIEWER: Mike Gillette

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

Tape 1 of 1, Side 1

C: On July 18 [1966] at the meeting of the Labor-Management Advisory Committee the President started asking everybody--which was a committee made up of major union heads like George Meany and Walter Reuther and major businessmen like Tom Watson and [I.W.] Abel. Johnson started asking about whether or not a tax increase would be appropriate and the response he got by and large was that no tax increase yet, that--  
(Interruption)

And Johnson said what would be the reaction of the public opinion if he moved for a tax increase at this point in time? And there was a--he said he didn't think it was desirable yet because of, one, unemployment was not way down. [He] wanted to get production rolling; he wanted a booming economy for soldiers who would be returning. He thought that a tax increase ought to wait until we knew whether it was going to be an expansion of the war in Vietnam, what Congress was going to do on the budget, whether people would be ignoring the guidelines. He talked about the fact that there's ten billion dollars more

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on health and education than two years ago, the government was spending, when he became president and these guys on the Hill were still not satisfied, so the Senate subcommittee had added another two billion dollars. [He] talked about the civilian pay bill, which was within the guidelines so he'd probably have to sign it, but he didn't like it. And he talked to the businessmen and said to them that the NAM [National Association of Manufacturers] and the Chamber [of Commerce] were not doing their work in holding in going after Congress for increasing spending by five billion dollars. He was sending [Henry "Joe"] Fowler to see every member of the Appropriations Committee to ask them to hold down spending. He said [Robert] McNamara would need a supplemental of somewhere between five and fifteen billion. Then he said if he asked for a tax bill and didn't get it, people would read it as no support for the war, and no leadership. [J. Ward] Keener, who was then the head of the [B.F.] Goodrich [Company]--and [William Beverly] Bev Murphy [who] was the head of Campbell's Soup said they were for a tax increase. Stuart Saunders said he was against it, that it might be retrogressive. Johnson talked about business people watching their profits, not making too much money in labor, holding their requests for wages down. The business--Murphy said the people generally didn't understand how much Congress was adding to the budget. They had no feel for it. Johnson said it was tough to veto the HEW [Department of Health, Education, and Welfare] bill, but he wasn't going to let the Congress destroy the economy, that he was doing everything he could to hold back government expenditures; they had to hold back profits and wages to productivity, that he would be moving hard on bread and molybdenum. Murphy said if labor would hold wages, business would hold profits. Ruether said that it was important to hold inflation. He said if business would lower their

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prices then labor would be moderate in their wage increases and that the UAW [United Auto Workers] advocated some kind of formalized procedure for handling wage and price increases. Johnson said he hoped every businessman would reduce prices, and that labor should keep their wage increases within productivity. He said the best thing to do would be to freeze profits and limit wages to the productivity increase. Saunders said that the electric power people in the railroads had reduced their prices.

That's it. That's the--I think one of the things when I go over those notes that I do remember is just terrific consciousness of not wanting to ask for a tax increase and not get it. Not wanting to ask for anything up there that he didn't get for fear that it would really create a problem in terms of leadership.

G: Did he have any head counts or--?

C: I think this was in the early phases. He obviously wanted to test the water a little bit with these guys and talk to them because I noticed that there is a memo from me to him at noon which says, "Now is a good time to go see the Labor-Management Advisory Committee."

G: I had a memo that suggested that the votes just weren't there for a tax increase.

C: The votes were not there for a tax increase. Ever. Until we went with the surcharge and then it took everything we had to get it. We got August 1? Marcel, have we got August 1?

B: Here you go.

C: Thanks. This is the eighth, I guess. God I'd love to get these belts of my conversations with him. We've got to figure out a way to shake those loose from her [Mildred Stegall]. Just to listen to them. Oh God, here's a meeting with Senator [Everett] Dirksen about

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[John S.] Patterson, this guy on the Subversive Activities Control Board. We talked about that didn't we?

G: Yes. This was Dirksen's man on the--

C: I just noticed before the bipartisan [congressional leadership] meeting he's got, [reading from President's Daily Diary] "Off-the-record Senator Everett Dirksen rang Ambassador Patterson, now on the Federal Maritime Commission, taking a new assignment on Subversive Activities Control Board--members of this board require a Senate confirmation."

(Long pause) This is now the meeting of August 8 with the bipartisan leadership, [on] what to do about taxes. (Long pause) (papers shuffling) Oh! This is what I wanted. Isn't this incredible. I knew [Gerald] Ford said this and I've now got the evidence.

G: Was that with regard to the--

C: Twenty votes.

G: Twenty votes?

C: He said, "You'd have trouble getting twenty votes," Ford. It's funny, I thought it was in December, of the following year. It's really--okay.

G: I thought they must have been talking about the Senate it sounded like, such a small number of votes.

C: No, it's the House.

G: House.

C: This was a meeting with the joint leadership that was held on August 8 from 5:56 to 7:00 p.m. which Johnson said they [he?] wanted to meet with them all to talk about wages and prices and the economic situation. His concern about our worldwide competitive

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situation, Ford said that he thought that should be improving. Fowler and [John] Connor gave a general briefing on the economy. Johnson then said that we were doing everything we could to hold the line. We sold aluminum. We went to the steel people. He said we would not use the antitrust or tax laws against them but we would be aggressive in trying to get them to hold their prices and wages. And Fowler said that with Vietnam, unlike World War II and Korea, we'd really been able to hold prices. We only had a 2.3 per cent increase in the past twelve months. Johnson talked some more about voluntary restraint, again driving home that wage increases should be in accord with productivity and prices should be held. He said it was important to balance the budget or have a small surplus where there wasn't very much slack in the economy, and he viewed the guidelines like a traffic speed limit. [George] Smathers asked about the investment tax credit; Fowler said he was for continuing it because we needed to create more productive capacity. Smathers thought the minimum wage law violated the guidelines. I guess, I think we were asking for an increase in minimum wage at that point in time. [Gardner] Ackley said no. Johnson asked them whether there was any chance of moving the effective date of the federal wage increase for civilian employees from January to July, which would bring it more in line with the guidelines. I just don't know what happened there. We ought to just check that. He talked about his meeting with the Labor-Management Advisory Committee. He said he'd like to continue without any controls if there's any way he can do that. We have a country to look after, he said. Smathers said, "When someone mentions controls, doesn't that pick prices up?" and LBJ says, "It shouldn't have any effect at all if nobody mentions it outside this room." And then Johnson talked a little bit about the pros and cons of suspending the investment tax credit, the importance of

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holding down government expenditures, that Kennedy was saying we had to spend two billion dollars a year on the cities program. [Abraham] Ribicoff wanted to spend a hundred billion dollars on the cities program. This was kind of irresponsible talk that encouraged congressional actions way beyond this budget. [He] mentioned the defense problem and not knowing where Vietnam was going. And Les Arends said, "Putting it bluntly Congress is the problem." Ford said we ought to differentiate between authorizations, appropriations, and automatic increases. We were just beginning at this point to talk about what became known as controllable programs, which were the annual appropriations, what we called uncontrollable programs, which are now called entitlements, and defense as the three components of the budget. Noting, I think that in those days about twenty-three billion, twenty, something in that area was controllable. The rest of it wasn't.

G: [Of] course that was a fairly large--

C: Johnson said that he would hold back on expenditures because he couldn't spend money as fast as the Congress was giving it to him. And then he at the same time made a pitch for his poverty bill which we were having trouble with, that that was one area where he wanted to get--he said in education they were adding too much, and Ford said, "Your problem's with the 1967 appropriations bills. This is where we can do something." There were about five still on the Hill. Johnson said, "I'm asking you to stay within my budget." Then Johnson said, maybe what we have to do is, quote, "Let's have a tax bill now," unquote, and Ford said, quote, "You'd have trouble getting twenty votes," unquote. Then Johnson said we only had 23 billion dollars to play with and that basically ended the meeting but that Ford statement was very important. I have a recollection that Carl Albert

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said after that, even though it's not in my notes, "You wouldn't even get that many votes," and Albert was then the majority whip, and a pretty good counter in those days.

This stuff is all--

(Interruption)

On the eighteenth, after the President talked to Russell Long, he called me and told me that Long favored suspending the investment tax credit, he wanted Regulation W controls similar to those used during the Korean War put on for credit control. He said the Fed [Federal Reserve Board] was too independent and we should make them reduce interest rates. Johnson looked at the Senate [Finance] Committee. He thought he had Long, [John] Williams, Smathers, [Clinton] Anderson, [Paul] Douglas and [Albert] Gore on our side. Didn't know about [Herman] Talmadge, Ribicoff, [Eugene] McCarthy, [J. William] Fulbright, or [Vance] Hartke. We also must have looked at the--I just don't remember--the foreign investment tax credit.

G: August 22?

C: Yes. That was the eighteenth. We're now on August 22, where we had a luncheon meeting with the President with McNamara, Fowler, Gardner Ackley, Kermit Gordon, and Arthur Goldberg. [Reading from his notes] Ackley said to the President that he had no view on expenditures, he didn't know what they were going to be, but he thought that we should suspend the investment tax credit, and he would now go for a general tax increase if it were politically feasible. Fowler said he wanted to cut government expenditures, opposed suspending the investment tax credit. He assumed we could get it passed, Fowler did, but he thought we shouldn't try; we should wait another eighteen months on that. His arguments against it were that the problems were price increases; the

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investment tax credit wouldn't help with that, nor would it help with interest rates in his view, or would it help with people violating the wage-price guideposts. He said our trade surplus cut both ways, and we should move to cut in the non-defense area.

Kermit Gordon said we should cut expenditures and we should get an opinion from the Attorney General on our authority to impound funds. President should speak out on excessive spending by Congress. He thought the investment tax credit was doing more harm than good to the balance of payments and he, Kermit Gordon, would suspend it. He thought businessmen would fight like hell. I guess Johnson said that he thought businessmen would fight like hell to hold on to the investment tax credit. He talked about increases in prices on durable and raw material, and then Kermit Gordon said he would also increase corporate and personal income taxes.

Goldberg said that inflation was not too serious and he would proceed cautiously. He agreed with Fowler on the investment tax credit. He wouldn't suspend it. He would raise corporate taxes. He didn't think there could be any cuts in non-defense expenditures. He would fight to hold them down, but he wouldn't veto any bills.

McNamara said there was too much money being spent on capital goods and there was too much consumer spending, that he thought inflation wouldn't stop. I think he meant inflation, the CPI [consumer price index] wouldn't stop at 3.5 per cent, that there was a cost push as well as a demand pull, that public expenditures must be raised in the 1968 budget. He would temporarily suspend the investment tax credit. He would impose consumer controls under Regulation W, and he thinks the President should assume a public posture of holding down government expenditures. He would veto at least one



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appropriations bill, he told the President. He would also impound funds that we really didn't have to spend.

Fowler said that rather than suspend the investment tax credit, he would rather have a corporate tax increase, and the President told him to go see Carl Albert, Mike Mansfield, and Russell Long [to] get their views on it. And that ended the meeting. You have to realize that Johnson is sending Fowler to see Russell Long and Albert at a time when he knows that they're both opposed to what Fowler wants.

Then on August 22--was that the night we went to see [Richard] Neustadt? Yes. Okay. These were my notes of that meeting. I didn't realize I had notes of that meeting. On the night of August 22--is this helpful?

G: Yes.

C: We went up to see Neustadt's apartment or house with Fowler, [Otto] Eckstein, Derek Bok, McNamara, [David] Ginsburg, Ackley, [John] Dunlop, [Carl] Kaysen and [John] Meyer. I have the name Johnson here, too. It's not LBJ. And we talked first about suspension of the investment tax credit. These economists talked about making a list of industries in which profits were high to ask for price reductions, stressed the price side of the guidepost, that that would lead to more responsibility for labor. That we ought to move on the medical sector of the economy where costs were rising very high and on the construction side. On the construction side we could hold back government spending. Some of them suggested that we should look at wage-price legislation, but there was a general view that we should avoid wage-and-price controls as they had in World War II. Most everybody except Fowler agreed that there should be immediate action on the investment tax credit. Eckstein said we must do this, asked [Wilbur] Mills to have

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hearings, that we don't need it. The investment tax credit repeal is better than having an excess profits tax. That was about it.

G: What number is that?

C: Twenty five. On August 23. . . . (Long pause) Boy, when he got revved up--11:10 the President. 11:25 the President. 12:00 midnight the President. He just--

G: All calls to you?

C: Yes. Just bang, bang, bang. The President had me talk to Sheldon Cohen--I don't remember whether it was the twenty-third of August, I can't tell--about what we get out of lifting the investment tax credit and what rate the corporations were paying, and Sheldon told me that corporations were paying in effect a rate of only 36 per cent because of the investment tax credit. That in 1966 thirty-five billion dollars of capital investments claiming the credit were now subject to audit. They were auditing 2.5 billion of it. What I can't remember--and if you interview Sheldon maybe you should talk to him--is whether or not I asked him, or Johnson wanted me to ask him, to step up the audits on capital expenditures, so that we would put a little fear into these companies for what they were claiming for the investment tax credit. But it looks like that from these notes. I don't know why else I would have gotten into this discussion with him.

G: Was this a way to diminish their enthusiasm for supporting the--?

C: No. It was a way to hold back capital expenditures. To say, all right, we're going to audit the hell out of them and then have them think, "God, everything's going to be audited and we'd better be careful about how much we spend," and what have you. Obviously [I] had a fairly extended discussion with Sheldon about how much money we'd get for various tax increases, so he must have had me exploring this, raising the corporate rate to 52 per

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cent, through a surtax. A 1 per cent change in the corporate rate brings 750 million dollars; on individuals a 1 per cent in every bracket brings 2.5 billion. I just don't know what--there's notes that relate to all the various alternatives we discussed: tax rates, personal taxes, accelerated depreciation, increasing withholding. God, it's really remarkable. At the same time he's obviously--we're obviously also in the middle of a fight over the Department of Transportation trying to get Chet Holifield.

G: The Department of Transportation trying to do--

C: Well, we were fight[ing] over keeping the Maritime Administration in the Department of Transportation. He's obviously here. This has got to be a conversation with the President in which he's giving me a statement he wants to make somewhere. Says, "In my meeting last evening I expressed the interest of the AFL-CIO [American Federation of Labor and Congress of Industrial Organizations] Executive Board in a strong and effective merchant marine. We have now come to the conclusion that the best way to achieve such a merchant marine is to make it a part of the Department of Transportation. Therefore [I] urge strongly that you support the Department of Transportation bill being handled by Chairman Holifield which is before you now."

Here's a pad for August 29 as we're getting closer. (Long pause) Now this is in my office on August 29. This is not with the President. If this is August 29, this is [Abe] Fortas--looks like Fortas--saying that any cutback in domestic programs is wrong on the merits and on the politics. Will there be a voluntary committee on credit restraint, may work, but he's not sure it would work. Try and have the Fed take action to make money more available. Then on August 30, I must have talked to Wilbur Mills or the President; let me just see here. God, there's the President talking to Fortas on the morning of August

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30, I'm sure to find out what happened. Checking on me to see if I'm reporting accurately on what happened in the meeting the day before in my office.

Tape 1 of 1, Side 2

C: On August 30 Henry Wilson tells the President we lost the Maritime Administration; the House moved it out of the bill.

Jesus, look at this; this is really wonderful. I get Fortas; I call Fortas at 8:40 at home. He must have left for the office or something. Then I talked to him at 9:35. The President calls him [at] 10:05. Well, I can't tell from this whether I actually talked to Mills or whether the President was telling me what Mills' view was, but it was to suspend the investment--this is now August 30--to suspend the investment tax credit. "If you use Regulation W to go all the way and impose credit controls, no change in accelerated depreciation now, no action on taxes before the election, that Russell Long would suspend the investment tax credit, leaving it in for firm orders that were already placed." Obviously the airlines had already gotten to Long. "Standby controls on wages and prices he would give the President. He'd tax corporate profits. He'd wait on Regulation W, but include credit controls on the President's standby control authority, and he'd let the railroads retain the investment tax credit. Albert said today"--I wonder if they were there? Let's look here. They're not listed as there.

(Interruption)

"Albert said a tax bill would be tough to pass, that they could move the investment tax credit and accelerated depreciation, that Regulation W could be put on standby and the President should take the initiative. [Clark?] Clifford said there's a three-stage program." I can't tell where the stages are. "Trying to get agreement in the administration. . . .

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President takes action to cut down on non-defense expenditures, either investment tax credit or corporate tax increase. He, Clifford, would prefer the corporate tax increase, move back the day of the corporate tax payment from December 15 to December 1. McNamara would eliminate the investment tax credit, authorize the President to impose Regulation W, restrain on expenditures." We actually--I don't know who raised it but we talked about a 10 per cent surtax on corporate profits effective July 1, eighteen-month suspension of the investment tax credit, accelerated depreciation. "Then Johnson said, 'I believe that we should pay our bills. I can't tell, as of this date, how much Congress is going to add on. Don't know how much they've already added on. I'll work with the JCS [Joint Chiefs of Staff] to hold'"--he'd now talking about the kind of statement he wants to make--"to hold down military expenditures. Congress has already appropriated five billion dollars above the budget. . . . Therefore I'm going to do this: proceed immediately to find ways to take three billion dollars out of domestic spending; ask Congress for enough money to allow for a modest surplus; hold back on a--not going to put out in the private market a lot of federal paper. Try and hold back"--I don't know where he got this number from--"2.3 billion dollars. We'll get the trust funds by it. Get the stock exchange to reduce margins." Fowler, call the biggest banks, get one or two to roll back a half per cent on interest, with Bill [William McChesney] Martin helping them. "Accelerate the payments for small corporations. Get Sheldon Cohen to tighten up on accelerated depreciation regulations so they can't take as much accelerated depreciation"--so much for not using the tax code. "Suspend the investment tax credit for eighteen months. Put into effect Regulation W." About somebody, Johnson said, he quote, "can't pass the Lord's Prayer with a pencil," unquote. I don't know he said it about; I wish I could figure that

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out. [In Interview XXVII, Califano says that the President said that about Senator Paul Douglas].

Then he started giving out assignments. Fowler to move on the prime rate on accelerated depreciation, Nick to draft up an executive order on Regulation W, Nick Katzenbach. Fowler to move on the investment tax credit. Schultze to put together a list from where we could get 3 billion dollars. Wirtz to move on a labor union. Connor to move on a business sector to hold profits. Then having given out all these orders, he gave his usual caveat to everybody to make sure that they understood no decisions had been made. He was talking about options and there would be no decision until the President makes it. There was a message in the works and there was no decision and that was obviously guidance for [Bill] Moyers for the press.

G: This was actually before Fowler indicated that he'd changed his position.

C: That's right. Yes, it was. He was really--I think this belongs here. And then this is September 2--better give me September, Marcel--I guess, meeting with [John Kenneth] Galbraith. Here's August back. We didn't meet with Galbraith until . . . Saturday.

G: Or maybe you called to Mills?

C: I must have been talking to Galbraith. Let me just see. On the phone I was probably setting it up but I [inaudible] September 2. Yes. "Started the day with Galbraith." I'm sure the President told me to call Galbraith. Then is when we were going to ask him down, get his view. Galbraith said, "Suspend the investment tax credit as of the day we ask Congress. No tax increase before the election." We would announce that if we needed it he'd go back to the 1964 tax, would not propose a surtax when we asked for taxes. He said, "Asking to suspend the investment tax credit pointed out the investment

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credit works for large firms at the same time that the higher interest rate hurts small firms and home builders. Get the Fed to ease monetary policy when we suspend the investment tax credit." Then he'd urge LBJ not to rush anything through today. He thought we ought to talk to [Paul] Samuelson and [Walter] Heller and Paul Douglas, work this out with great care. "Galbraith said certain types of speeches are not for the masses, and this was one that was not for the masses. This will be mulled over by the financial press and economists; [it] must be written at their level"--the implication, I'm sure, being that only he could do that. [Inaudible] expresses concern about prices. There must have been another attempt at a copper price hike around this time. I see that sprinkled in these memos. And this is the President telling me to get Mills set up for three-thirty Sunday afternoon, which I did; I do remember that. God, this is classic Johnson: "Read any speech any president's ever made asking for a tax increase. Look at all the speeches."

(Laughter)

He wants the best: "Get Heller down here and tell him to keep Heller and Galbraith separate from each other." These are just notes of the conversations that are--Pattern 9-8 here, number 28, is just notes of the conversations that are recorded on the typed memos, that Connor had with the others. What were we negotiating in October 2 to October 5, do you know? Was it the airline strike? Oh, this is 1966. John Dunlop, David Cole, David Sidenberg. Because the President is saying to me, "Just as the soldiers in Vietnam must faithfully discharge fully his responsibilities on behalf of the nation, so must the parties to this dispute. There are many issues of relatively small importance. The union has offered to arbitrate all remaining issues on the dispute. The company has turned this down. Does

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[AFL-CIO president George] Meany know we will go Taft-Hartley at the end of this week," October 2, 1966? When did we ask for the surtax, in 1968?

G: January 1968.

B: You asked for it first in January in the State of the Union Message in January 1966, then you sent a message in August . . .

C: The surtax?

B: January 1967 you asked for it in the State of the Union address, and you sent the message up in August because there was a slowdown in the economy in the spring. Then you asked for it again in the State of the Union in 1968.

C: And we got it.

B: You got it in June 1968.

C: Okay.

G: There was a decline in housing, I guess, and that led you to pull back after the initial . . . Can you tell what that's about in October?

C: No. I don't want to get into this, but this is obviously beginning here. . . . This is obviously the beginning of--this is amazing. This is by what--this is obviously the beginning of a discussion of the surtax, including meetings with Fowler and Ribicoff.

G: LBJ met with the Democratic members of the Senate Finance Committee that day, or evening, 6:00 p.m.

C: This is a long . . . but this is the first--I mean I'm sure there are internal.

B: And you had gotten [inaudible].

C: On October?

B: Passed it, still going through Congress. Senate passed it on October 14.



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G: The House had just passed it.

B: Yes. September 30. Johnson signed it November 8.

C: Maybe this was GE [General Electric]. I don't know. Threatened GE strike. I'm setting up some kind of a--I can't tell what this is. Whether it's GE or the telephone company or--

End of Tape 1 and Interview XLIII

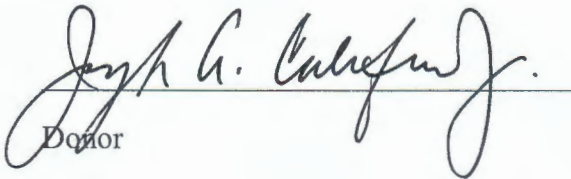
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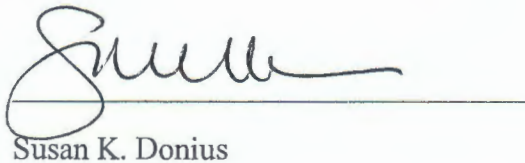
Joseph A. Califano

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

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