

INTERVIEWEE: HENRY H. FOWLER (TAPE #1)

INTERVIEWER: DAVID G. MC COMB

DATE: January 10, 1969

M: This is an interview with Mr. Henry Fowler, former Secretary of the Treasury. The interview is in the Main Treasury Building, in Washington, D. C. The date is January 10, 1969. The time is 10:20 in the morning, and my name is David McComb.

First of all, Mr. Fowler, I'd like to know something about your background. Where were you born? Where did you get your education?

F: I was born at Roanoke, Virginia, in September, 1908; was educated at the public schools of Roanoke, graduating from Jefferson High School in 1925; attended Roanoke College, which is in Salem, Virginia, a nearby locality; graduated with a A.B. degree in 1929 from Roanoke College; took my law education at the Yale University Law School in New Haven, Connecticut, from 1929 through 1932, graduating with a Bachelor of Laws Degree; returning on a so-called Sterling Fellowship for a year of graduate work in law which led to a doctorate degree, Doctor of Juridical Science. That summarizes the formal education.

M: When you finished this doctorate degree you then went to work for the government?

F: No, my first job after law school--I had one summer job in New York in a large corporate firm for several months, but my first job after law school was with a private firm in Washington, then known as Covington, Burling, Rublee, Acheson and Shorb--presently known as Covington and Burling. I worked in that firm as a young law clerk from July 1933 until July 1934,

and entered government service as a young man in 1934 and intending to stay six months to a year but found one challenging assignment after another and completed that particular tour of service at the end of World War II in December, 1945.

M: Is this when you were counsel for Tennessee Valley Authority?

F: After a short interregnum working on the legal staff of the Reconstruction Finance Corporation for several months, I took my first longer-term assignment as a member of the legal staff of the Tennessee Valley Authority in September, 1934. With one detail as being lent to the Securities and Exchange Commission for a period of months in 1935 to work on the Public test case involving constitutionality of the Public Utility Holding Company Act, I worked on the legal staff of the Tennessee Valley Authority from September 1934 until September 1939. My work there primarily was devoted to the preparation and participation in the conduct in the trial court and in the appellate court and the Supreme Court of the two major cases involving the constitutionality of the Tennessee Valley Authority--so called Ashwander et al, versus TVA and Tennessee Electric Power, et al versus TVA. In addition to those major assignments I had other collateral work as a member of the legal staff of TVA, and eventually assistant general counsel. I participated actively in the work for the TVA involved in the congressional investigation of TVA by a special joint investigating committee. I did other litigation work in some of the condemnation proceedings and various miscellaneous work in the Authority having to do with regional economic planning.

M: Then after you finished your work with TVA, what did you do?

F: I was asked by some of the staff at the White House if I would--. One

additional piece of work, I was engaged mostly in 1939 in negotiating for TVA a contract for the purchase of the properties of Memphis Power and Light Company. Then I was called by a member of the staff at the White House and asked if I would be interested in being interviewed by Senator Robert LaFollette in connection with his need to have a general counsel, or chief counsel, for the staff of the committee of which he was chairman, the sub-committee of the Senate Committee on Education and Labor investigating violations of rights of free speech and assembly and the right for labor to organize and bargain collectively. I did come up and interview Senator LaFollette and agreed to act as chief counsel to that committee to close out its final investigation which was then underway and to prepare some final reports for the committee. That was my next assignment which took, oh, about a year, year and a half.

M: In this legal work, incidentally, did you meet up with Wendell Wilkie?

F: Wendell Wilkie was the chief executive officer of the Commonwealth and Southern Utility Group. Since TVA was operating in the area of the subsidiary companies of Commonwealth and Southern, Mr. Wilkie and his company were in an adversary legal position and somewhat adversary public relations position. I did not know Mr. Wilkie personally, although I was with him in the courtroom at various times--in the course of a trial of the Tennessee Electric Power Company, et al versus TVA, in which the Commonwealth and Southern companies were also plaintiffs, and in which he appeared as a witness. He was very much an emergent and important public figure in various legal and public controversies that surrounded the beginnings of the Tennessee Vally Authority.

M: Was he an able lawyer, incidentally?

F: I did not know him as a lawyer. Of course, he was active then as the chief executive. He was a man of obviously great ability and charm and effectiveness as a protagonist for a particular point of view which he represented. I didn't know him personally but he was very much, I think, a worthy and an attractive participant in the controversies of the time.

M: Then in 1941, did you not go to work for the Federal Power Commission?

F: I did. I then became Special Counsel to the Federal Power Commission in 1941 while concluding the report-drafting for Senator LaFollette and his committee.

My function at the Federal Power Commission was a special one. President Roosevelt had asked the chairman of the Power Commission, Leland Olds, and Assistant Secretary of State Adolph Berle and the Chief of Corps of Engineers to act as a committee of three to work out plans for the development of the St. Lawrence Seaway Project which had been under long and extended consideration for many decades. As special counsel of the Power Commission, I was concerned with the negotiations with the State of New York and the negotiations of an agreement with Canada, and the preparation of implementing legislation, which was well underway during 1941.

All of this work was approaching the take-off point in 1941, but in the late summer of 1941 President Roosevelt canceled the carry-through of the legislation in Congress because of his feeling that the war clouds then hanging over the country would probably disrupt this project if it were undertaken at that time and that it should be deferred because of the existing and potential demands on our resources for the more immediate task of defense preparedness.

M: Well, you must have been happy then later to see the completion of that project?

F: Yes. The foundation work, a good deal of the foundation work--the legal structure of the agreement with Canada and with the State of New York and the legislation in Congress--was I think well-laid. I've never compared the final result with the plans in the 1941 stage, but I'd be surprised if there isn't very close relationship.

But with the emergence of the war emergency and the need to organize our preparedness, I thoroughly concurred in President Roosevelt's decision. Then I accepted an appointment as an Assistant General Counsel of the Office of Production Management, which was the predecessor agency of the War Production Board. This invitation came from Mr. John Lord O'Brian, the General Counsel, who I had been associated with when he was Special Counsel for the Tennessee Valley Authority in its constitutional litigation. Mr. O'Brian was, and still is, generally esteemed as one of the outstanding constitutional lawyers and dedicated public officials, having served under five presidents in his life. I considered it a great privilege and opportunity to put whatever my legal skills were at that time to work in organizing the preparedness program for which the Office of Production Management was responsible, under the direction and supervision of Mr. John Lord O'Brian.

M: You worked for that board most in the war years then?

F: I became Assistant General Counsel of the Office of Production Management in September of '41 and, then, when the organization was modified and became, under a new executive order the War Production Board, I became an Assistant General Counsel for the War Production Board. [I] continued

in that capacity until early 1944 when I felt that the most of the work of preparing the various legal instruments, the priorities orders, the allocation orders, the tools, you might say, to convert our peacetime civilian economy into a maximum allocation of resources to the war effort--that work was approaching completion. The United States industrial economy was fully geared for all-out war production, as you will recall.

I was anxious to get into active military service and not be in a desk-bound job in Washington, and also in what was going on overseas. I accepted an appointment as Economic Adviser to the U. S. Mission for Economic Affairs in London and applied from that point for commission in the United States Navy, thinking I might with a 2-20 vision, very bad eye sight, become a Navy man overseas, and not have the problem of being desk-bound in the Pentagon. However, after several tries at this I was told indirectly by the Chief of Naval Operations that I would serve my country better in my capacity with the Mission--U.S. Mission for Economic Affairs in London--and I continued in the role from February 1944, through the D-Day events, until September of 1944. The U.S. Mission for Economic Affairs was, in effect, the London office of the War Production Board and Foreign Economic Administration, the Petroleum Administration for the War, the War Food Administration, and the alternate location of what was called the Combined Boards--the Combined Production Board--the Combined Raw Materials Board which were the agencies charged with the responsibility of coordinating the production and supply efforts of the United States, Great Britain and Canada. While the main offices of these boards were in Washington, it was very important to have close coordination with the British government agencies and I was engaged in that work for the seven

or eight months that I was in London.

M: Who were your British counterparts? Who did you work with in the British government?

F: There was in the British government a War Cabinet which was composed of the nine heads of the nine principal ministries, including a Minister of Supply and the Board of Trade and the Minister of Aviation. Each of the Ministers had a special assistant, a man in whom the Minister had complete trust and confidence, who worked with the other similar representatives of the other ministries in the War Cabinet. This was called the War Cabinet Secretariat. As a member of the Mission, U.S. Mission for Economic Affairs, we worked most closely with the members of this secretariat and, of course, the parliamentary Undersecretaries and occasionally, the Ministers. The Lend-Lease and Reverse Lend-Lease was, of course, an important part of this element.

There was also a good deal of necessary planning as to D-Day and, assuming a successful invasion of the continent, the restoration of a civilian economy in the wake of battle that could support our forces as they moved forward across the Continent.

So this was, perhaps, as challenging and interesting and important work close to the front as a civilian could be involved in. And it became a little bit closer to the front with the last series of hundred bomber raids on London, which greeted me on my arrival in February, and, subsequently, with the V-1's and the V-2's. I happened to have been in London when the first V-1's were fired, and I think I left London the day the last one was fired. So, in addition to hearing about the war, we were watching a fairly interesting part of it go on.

M: Were you impressed with the courage of the British people?

F: Yes, one of the deepest impressions. As a matter of fact, I became a member of London 101 of the King's Royal Rifles by a special dispensation and was detailed to man the rocket guns in Hyde Park. I took along with several others there in the U.S. Mission, a course of training with the Home Guards--and qualified as a home guard component of the King's Royal Rifles. My assignment was to man the rocket guns one or two nights a week in Hyde Park.

During the first day of the V-1--well, the morning after the first night attack, when they were coming periodically over London and we were on the site assembling rockets and on the guns, several occasions almost up to the point of firing--many of the rocket guns had been fired all night and all day. They were pretty hot. We finally decided because of the low-flying V-1's, and we were doing more damage to London than we were to the V-1's, so the firing was discontinued. But I remember very well looking out under one of the guns and into Hyde Park with maybe every fifteen minutes or half-hour or an hour, one of these V-1's come over and it would cut off and land somewhere in London--looking out under the guns and seeing the British civilians strolling in the park with children bouncing balls and nobody knowing what this secret weapon was, or whether they would start coming a hundred an hour rather than one or two an hour, or a thousand an hour. With all of this, seeing the imperturbability of the British people, I thought to myself, "Well, if high marks for courage are handed out this nation, this people, will never be defeated.

M: Did you ever have occasion to meet Winston Churchill?



F: No, not in any meaningful personal way, only in large public gatherings.

M: How about people, say, Dwight Eisenhower or major personnel?

F: Same thing. Naturally I worked very closely with the chiefs of our Mission who were Mr. Philip Reed; Deputy Chief was Mr. Amory Houghton and with some of the Ministers of the Churchill Cabinet like Oliver Lytletton, the Minister for War Production and Ernest Bevin, who was Minister for Labor, and various others who's names don't come to me now. We, of course, were assigned to work with the Mission men directly--very responsible men on General Eisenhower's staff, concerned with the Lend-Lease operations and the Reverse Lend-Lease operations, because through the British government, U.S. forces in England were supplied with a wide variety of materials and equipment which is called Reverse Lend-Lease. We all had plenty to do besides getting involved in the actual military operations, that is the movement of men and materials, which we were not equipped to handle. Therefore we would have been wasting people's time to see them and talk with them.

M: Did you celebrate the D-Day invasion?

F: Well you didn't celebrate. No, it was not a day of celebration. It was a day of continuing activity and great concern and apprehension for the success of the landing, and prayer, if you will, as to the outcome. While there was a strong emotional feeling it was not an occasion for either exhilaration or celebration.

M: Then in September, 1944, you returned to the United States?

F: Yes, as a Special Assistant to one of the Vice-Chairmen of the War Production Board on International Economic Affairs, Mr. William Batt, who was in charge of the Combined Boards from the U.S. point of view. Then

Mr. Crowley, who was head of the Foreign Economic Administration, requested Mr. Krug who was then the head of the War Production Board, to assign me to the Foreign Economic Administration for some work there in planning the economic and industrial disarmament and restoration of the German economy in the wake of battle.

There was considerable dispute at that time afoot in which Secretary Morgenthau of the Treasury Department wanted a fairly drastic de-industrialization of the Germany economy. This was opposed by Secretary of War Stimson and Secretary of State Stettinius, who wanted less drastic effort. President Roosevelt charged Mr. Crowley with the responsibility of working out specific and concrete plans for the restoration of the German economy on what I would call a peaceful bent. I was made responsible for preparation of those plans.

M: There was some idea at the time, was there not, to de-emphasize the German industrialization? Make it into a pastoral country?

F: The Morgenthau proposal was the pastoralization of the German economy and that was not practical and not desirable. Of course, it was later determined that the German economy should be restored on a viable and stable basis but with a bias with toward what I would call a consumer economy of the sort that we had in the United States, rather than being redesigned with a primary emphasis on war preparation and heavy industry.

Of course there, was an active dismemberment, and had to be, of the plants devoted to making instruments of war and military aircraft and military ships, etc., etc. Most of the reports of the various groups that were organized to study the future of the German economy came through with, I thought, fairly well-balanced proposals which have been largely reflected

in the amazing resurgence of the German economy in the post-war period, making one of the great success stories of our times.

M: Did you, in this work, have anything to do with the Krupp industrial empire?

F: Oh, nothing that I recall. You're asking a question of detail. I'd have to go back and study the detailed reports and they're off in the archives somewhere. Of course, the Krupp companies were an important element in the iron and steel industry and the nature and extent and limits of the iron and steel industry were a subject of study and proposals.

M: Shortly after this did you not enter private law practice?

F: Completing these studies in the spring of 1945 I took them over at the invitation of General Clay and others--General Draper and others,--who were charged with the U.S. responsibilities in Germany under the general direction of General Eisenhower. We did similar work in connection with Japan--studies in connection with Japan.

With the surrender of the German forces and the assumption of the responsibilities of occupation by the Four Powers this planning work naturally passed over to the occupation forces. The responsibilities for it passed over to the people who were in operating charge on the ground in West Germany. We delivered all our reports and materials and made them available with a mission to Germany in August of 1945. I was the chief of that mission and took along some of my small staff of about ten or twelve, some of our key people, and acquainted General Clay and General Draper and a number of others who were in responsible charge for the operations in the U.S. zone, and for working with the other occupying powers on consolidated plans. The work was then primarily carried on, as I say, on the ground.

I was able to plan to leave the government finally at the end of 1945, which I did.

I should say that we had hoped and our plans had been drafted on the assumption that it would be a quadripartite administration of commonly concerted policies. With the unfortunate outcome of the decision by the USSR to play a lone hand in the Eastern Zone, most of the work of concerting a program in the economic area was confined to the three western zones and cooperation between the U.S., the United Kingdom, and France. So the division of Germany, from a political standpoint, into what is known as Federal Republic today and the Soviet Zone government, Eastern Germany now--I think if you look at the economic development, the contrast between the economic development of these two areas you get something of a sharp picture of at least the general directions and thrusts the U.S. policies were and the thrust of Soviet policy.

Of course, these things evolve and change as the years go on and they have to be modified. These plans looked to the early initial years for German economy and were designed to assure that a prosperous and sound, but peacefully structured, German economy would emerge. With the unfortunate division of the country of course it was necessary later, quite properly, and in which I thoroughly concurred, to modify any policy in that regard to permit the German economy--the West German economy--to develop along lines that would include elements of strength that would give it the opportunity to assume its proper role as a member of NATO.

M: On this point, did you have any indication that the Russians would not cooperate with these plans?

F: Well, a very clear indication at the Potsdam meeting in August 1945. They were going pretty much their own way. Up to that time there had been some hope and some expectation

that quadripartite policies could be evolved. This was reflected as some of the declarations at Yalta. But in my judgment the USSR completely reversed the spirit and thrust of the Yalta agreement at Potsdam in August, 1945.

M: The history textbooks indicate that the realization that America was in a Cold War came but slowly in the few years following the end of World War II. What I would like to know is, at the time when you begin to have trouble with Russia was there any foreseeing of a possible Cold War with the Russians?

F: Oh yes. The term Cold War--I don't want to get into terms here--but I think the meeting at Potsdam indicated to most of us that were concerned that a whole new phase of relationships was involved. I can't speak with any authority on this because I wasn't there on the ground for more than about three weeks to a month, as I recall. But my recollections are that there was a general acceptance of the notion that we were going to run the Western zones and they were going to run the Eastern Zone and we had to make the best accommodation we could, and that was the beginning of the iron curtain. That was the beginning of, as Mr. Churchill later described it, of the Iron Curtain.

M: Now your work with Japan was much the same sort of--

F: My own personal work was much more limited. It was carrying on similar studies of the texture of Japanese economy and its structure and whatnot. There, under the U.S. occupation forces in Japan, some of the members of my staff made available all these studies to General MacArthur's staff and others. I would say the primary work of restoration of Japanese economy was that of field forces. They were responsible. We gave them as much

basic economic information and backdrop as we could but didn't delve as deeply as with the German case.

We were really, in the German situation, trying to resolve a very sharp policy conflict within the structure of the United States government, and did so, whereas in Japan there wasn't that same initial conflict to be resolved. Opinions as to the general nature of the occupation and the economic policy to be followed in Japan were, I think, brilliantly conceived and executed. This successful emergence of Japan today is an economic, as well as in a political sense, is a great tribute to General Mac Arthur and members of his staff and the civilian backup in the State and War Department here in Washington.

M: Then early in 1946 you went into law practice.

F: All of the work of the Foreign Economic Administration that had any continuity was transferred to the Department of State, towards the end of the year, as I recall it. Although I had some desire to continue in the public service, by that time my family responsibilities were such that I felt I had to resume private law practice. Two years, or a year of public service had begun in 1935 when I was single and had no family responsibilities. The situation had changed during the course of the ten years, and I felt I owed it to my family to go into private law practice.

M: What was the name of the firm?

F: Fowler and Symington initially. It later became Fowler, Leva, Hawes and Symington, which is a Washington firm here.

M: You worked in that capacity until what--

F: I was the senior partner of this firm--it was engaged in corporate and administrative law practice--until the fall of 1951.

M: Then you went back into government service again, is that right?

F: I was asked to come back during the Korean mobilization effort as the Deputy Administrator of the National Production Authority, which was the kind of the Korean War equivalent of the War Production Board.

One of my colleagues in the War Production Board, Mr. Manly Fleischmann was the Administrator of the National Production Authority which was in the Department of Commerce and also head of the Defense Production Administration. He asked me to come back as his Deputy and to, in a sense, relieve him because he had some retirement plans. He had left his law practice--I think since July of 1950--and I took this assignment on in September 1951, and became Administrator of the National Production Authority on January 1, 1952; and then succeeded him also, wearing two hats, as the Presidential-appointed Administrator of the Defense Production Administration on June 1, 1952; and then with the retirement of Charles Wilson, of the General Electric Company, as the Director of Defense Mobilization, President Truman asked me to assume that post and I became Director of Defense Mobilization in the late summer of 1952, or early fall of 1952, and served then as the Director of the Defense Mobilization with overall responsibility for the mobilization work until January 20, 1953, when President Truman resigned and I resigned along with him.

I should say that this work had a dual purpose. It was concerned not only with the mobilization with the economy for the conduct of the Korean War, but for the restoration of a much greater degree of Geneva industrial and military preparedness because of our concern about the aggressive intentions of some of the communist countries, including the

USSR. This was an adjunct of the formation of NATO. The state of preparation of the United States' forces had been, of course, declined very sharply after World War II. You can get some conception of what was going on at the same time as the Korean War was being conducted by noting that defense expenditures increased from about twelve billion a year to about fifty billion a year. So it was a full scale restoration of our state of preparedness for a major conflict, as well as the conduct of the fairly sizeable operations in Korea.

M: Were you impressed with President Truman?

F: Yes, I have the deepest admiration and affection for him. I didn't know him terribly well at the beginning, but we got much better acquainted as time went on. He was a great boss, a wonderful man to work for, and I look back upon my being a member of President Truman's cabinet during that period and serving as the Director of Defense Mobilization and Administrator of Defense Production as a very challenging and difficult, but rewarding, experience.

M: This was during the time of the Joseph McCarthy, too, was it not?

F: Well, he was around.

M: Did these accusations of communism in government ever affect you?

F: No.

M: Well, then, you went out with Truman and you went back to private law practice?

F: That's right.

M: To the same law firm, of course.

F: That's right.

M: And worked there until what, 1961?



F: Until January 1961.

M: And then you begin your work as Undersecretary of Treasury?

F: Yes. Douglass Dillon, who had been appointed Secretary of the Treasury, who was a Republican, and President Kennedy--John F. Kennedy--asked me if I would come in and serve as general deputy to Secretary Dillon as Undersecretary--the Undersecretary. I agreed to do that with the understanding that I would leave at the end of two years. I felt that I couldn't stay away in terms of family responsibilities for longer than two years. But time and circumstances always change those terminal decisions.

M: Well, let me ask you at this point, so we can get it into the record, you did some recording for the Kennedy Library.

F: Yes.

M: And I'd like to know what the dimensions of this is?

F: Well a fairly substantial bit of recording. I resigned as Undersecretary in April, 1964, after the passage and completion of the Tax Reduction Bill, the Revenue Act of 1964, [with] which I had been very heavily involved from it's early inception all the way through the period of its long and tortuous course of legislative enactment. I'd also been charged by President Kennedy as the chairman of a special task force on promoting foreign investment in U. S. corporate securities and encouraging the foreign financing of U. S. corporate activities abroad as two important aspects--potential aspects--of dealing with our U. S. balance of payments problem. In order to complete the work with that task force--It had been inaugurated in September 1963--and in order to complete it's work as chairman, in association with Ambassador Robert McKinney, who was the executive director for the group, I stayed on as a consultant to the Treasury Department for

an additional month to six weeks. During that period of time, along with the work on the task force, I tried to do a fairly thorough job of this same nature that we're doing here, in connection with my work as Under-secretary. I didn't complete that. One always tends to complete, but that is incomplete. There are parts of the Kennedy years, which I still would like to--if I ever had an opportunity--to put down on tape my records of that era.

M: Did you record in that the events relating to the transition between Kennedy and Lyndon Johnson?

F: I think some aspects were touched on. I don't recall, and I haven't refreshed my recollection on the thoroughness with which that was done. I rather suspect that it was not thoroughly done for this purpose. As I recall it from a chronological standpoint, the ground I had covered most thoroughly in these tapes had to do with the years 1961--well the campaign period, and 1961-62, and I believe just the early part of 1963.

M: Then you didn't get into the completion of the story of the Tax Reduction Bill?

F: No.

M: I may well want to touch on that.

F: Yes, I think that is an important phase.

M: Perhaps it might be best to take up, then, the episodes of transition from Kennedy to Lyndon Johnson and then I can ask you general questions about Lyndon Johnson and your evaluation of him. Then we can go back and pick up some of these bills.

F: Yes, I think it would be important to go into fairly thoroughly the manner and method and circumstances under which President Johnson took the

responsibility for pressing through the tax reduction bill, which had been bogged down and was still in an indecisive state, as far as the Senate was concerned at the time of the unfortunate assassination of President Kennedy.

To recreate history for a moment, way and above the over-riding economic issue of that particular period was whether or not the U. S. economy would really definitively emerge out of its state of relative stagnation in the late '50's. Recovery that had characterized the first, '61 and then the economy had sputtered along in '62. It was beginning to gather strength in anticipation of the tax reduction and as a result some of the previous tax measures--investment tax credit, and the liberalization of depreciation that had taken place in '62--but it was still not hitting on all cylinders. So the question of pressing through both the tax reduction and the tax reform features of the Revenue Act of 1964 were I'd say, the number one economic issue of that time. Therefore, it was not unnatural for the Vice President, now assuming the office of the President, to turn very quickly to that particular problem. Indeed, I can't exactly place this date--but it was the evening of the funeral or the next day, the following evening--one of those two days--which I could pin down from my records if I had them here--

M: This will be in the written records.

F: That's right. On the basis of a memorandum that I had prepared and sent through Secretary Dillon to President Johnson, we had a conference--he was not then in the Presidential quarters; he was still over in the Executive Office Building--along with Secretary Dillon and Chairman Heller, of the

Council of Economic Advisers, Kermit Gordon, the Director of the Budget.

So one could say that within a few days of his assuming the responsibilities of office, and immediately after the funeral services for President Kennedy, President Johnson turned full blast on the problem of how to carry through and bring the tax bill out of the static state it then appeared to be in before the Senate and press it through for final enactment. Our work together in that critical period of December--late November, and December--laid the groundwork for his budget message and his economic message and his state of the union message, which opened the way towards a resolution of the difficulties, the over-hanging difficulties, and the enactment early in the year by the Senate of the bill, and the resolution of the differences between the Senate and the House bill in conference so that it came law as of, I think, around late February 1964.

M: Since this is a thread that connects you and Lyndon Johnson, and it brings in the economy of the times, maybe we ought to pursue this story. let me ask you, what was your role in the idea of a tax reduction? Where do you enter this story?

F: Well, as the Undersecretary and the general deputy to Secretary Dillon, I was heavily involved in the Treasury's role in fiscal policy, of which tax policy was one of the two most important ingredients. Expenditures, are the responsibility of the present Bureau of the Budget and the other departments and agencies, but it's the Treasury's role to develop the revenue raising and debt management policies which provide the funds which are spent by the federal establishment. Therefore, the Treasury is at the heart of fiscal policy.

I had come into the Treasury feeling that an activist tax policy, both to stimulate and invigorate the national economy, and an active tax reform to bring a greater degree of equity into the tax system were both fundamental purposes of the new Administration. Therefore, I followed very very closely and spent a major part of my time in the first several years working between, you might say, Secretary Dillon and the Assistant Secretary for Tax Policy and the Special Assistant for Legislative Liaison and in a sense kind of quarterbacking the development of the legislative program under the general direction--and always very active participation--of Secretary Dillon. So, with the Revenue Act of 1962 being pressed forward in '61 and '62, and the liberalization of depreciation by administrative action inside the Treasury Department and the Internal Revenue Service, I was most actively concerned with both of those.

Then came, in sequence to that, the question apart from these special areas of tax policy, what are you going to do about the level of rates and taxation generally, which raised the question of tax reduction. This had always been a part of the steps that we saw in the picture. In the summer of 1962 this came very sharply to the fore because it was apparent that the economy was not--it was sputtering and still apparently in need of stimulation. The Treasury believed and felt that what was needed was not just a temporary quickie tax reduction that might last only a year or two, but what was really needed was a structural change in the tax system that would involve a substantial reduction of both individual and corporate tax rates, plus some features of tax reform which would more equitably spread the load of the federal taxation. The preparation of the policies and the program which emerged in President Kennedy's tax

message early in 1963, which was the base for the Revenue Act of 1964, was, I would say, one of the principal objectives of my activity.

The passage of tax legislation is never easy and something as massive and as ramified as these tax proposals was freighted with great difficulty, because it included not only a lot of what one might call the New Economics, but also it included financial elements of tax reform. I asked Secretary Dillon if I couldn't be relieved of any of the duties of a General Deputy, so that I could concentrate my efforts and the efforts of the department on pursuing this legislation. So from early in 1963 until the passage of the Revenue Act of 1964, this was my number one assignment.

M: Now is this idea of a tax reduction unique or new for the Treasury when it came out this time?

F: No, I don't think it was unique or new, I think if you read President Kennedy's message. I must have made forty or fifty speeches during that period. Secretary Dillon made, not as many, but quite a few speeches stressing the point that the maintenance of the high rate levels which had been placed on the economy as wartime measures to restrain the growth of the civilian economy; the continued maintenance of rate structures that had been designed to restrict growth were continuing to restrict growth, at a time when it was no longer needed, and indeed, was highly undesirable. So the reduction of the level of rates--the permanent reduction of the level of rates--was viewed by us as being one of the important elements to give the incentives and the thrust to the civilian economy that would be needed to assure progress towards full employment, towards an adequate rate of growth, and towards all of the fine things

that have happened to the economy in the way of growth and in the way of expansion in these years.

That tax reduction or the level of tax burden, is related to the vigor and scale and scope of expansion of an economy, I don't consider as a particularly new theory. However, I must hasten to say it had fallen into disuse in the preceeding thirty-odd years, because the history of tax policy in the preceeding thirty years had been one of increasing those rate levels. So the Revenue Act of 1964, which amounted to a twenty percent reduction in the rate of taxation on individuals and a substantial reduction on corporations was very--I think my figures are correct; I haven't checked them back for this interview--but this was the first and most significant major use of tax reduction as an instrument of economic policy that one could certainly remember since the '20's.

M: The Council of Economic Advisers agreed with you on this policy?

F: Yes, yes, we were all in solid agreement--

M: Bureau of the Budget, too?

F: Yes, the Bureau of the Budget, too. It was a fundamental policy of the Administration. There were differences as to timing and Treasury held out for this being a permanent change in the tax system rather than a quickie, temporary tax cut, to be taken--to be cut, then restored, cut and restored. We felt the economy needed basically a lower scale of rates on individual income and on corporate income. That still continues to be our view.

M: Was there any argument about the amount, the percentage of the cut, or whether it should be an across-the-board cut, or scaled?

F: Within the Administration?

M: Yes.

F: Oh, no. What emerged in the program was pretty much solid consensus

of point of view.

M: Well since the effort to gain such reform and tax cut--

F: Along with the actual reduction of taxes we were hoping also to be able to reduce the rate scale by tax reforms which took away some of the special advantages and closed some of the loopholes and, in effect, more equitably spread the burden of taxation. So what we had hoped to achieve was a reduction in rates, about three-quarters of which would be paid for by real out-right reductions, about one quarter, or one third, of which would be compensated for by a leveling out, you might say, of the incidence of taxation.

I think we were shooting for really a two and one effort. What later emerged was about a four or five to one mix.

M: Did you foresee that tax revenue would increase due to increased production, and so forth, despite a tax cut?

F: Oh yes, the basic argument was and the basic theory was that starting out with what was then a substantial deficit in the federal budget, that if you reduced taxes the economy would respond by growing at a much more rapid rate and the resulting incomes to individuals and corporations--the base on which the lower rates would be applied--would result in increasing revenues. With those increasing revenues--in the two years that the tax cut was--it was in stages if you remember, in two stages--. If expenditures could be held back from rapid increase during that period, we would actually be able to convert a very substantial deficit in the federal budget into a balance.

M: Now did you have trouble selling this idea to Congress?

F: Oh, my, yes. There was a very, very considerable degree of skepticism



about the theory. Now, naturally, many members of Congress were in favor of tax reduction as a theory but not as a means of stimulating growth. They approved of lightening the burdens of tax burdens of their constituents. They bought that part of the package very readily. But the timing and the theory and the accompaniment was--I think it would be the mild understatement to say that it was very difficult to sell.

M: Was the problem that the Congress did not understand economics involved?

F: I wouldn't want to try to assess what all the problems were. Certainly this would be true of some of the members, but on the committees that have jurisdiction--the Ways and Means Committee, and the Senate Finance Committee-- you have very well informed and knowledgeable and sophisticated members of Congress. Let me say that these men are men of their own opinions and their own convictions. Everybody is a tax expert. You won't find a single American who doesn't think he is a leading expert. This was a pretty massive dose of legislative medicine, and it took a very, very great deal of selling.

M: Was your main point of sales attack, so to speak, the people you had to deal with--were these the committees, the Ways and Means Committee in the House and the Senate Finance Committee?

F: Yes. Although the members of these committees actually reflect to some extent--while they're the experts in the field, they reflect the opinions and attitudes of the bodies at large of their colleagues in the House and the Senate, so in a measure of this magnitude, while your first and most important hurdle is to persuade the leadership and the committees concerned, the sentiment of the rank and file members of the House and Senate is the primary target.

M: Is there anybody in particular in the Congress that you had trouble with over this?

F: No, I don't want to single out men in terms of having trouble. There were lots of men who had to be convinced on lots of different points, but I would rather tend to characterize this as the movement of a glacier of opinions which gradually takes form and moves and moves slowly.

There was one very crucial and decisive point. There were many, many stages which this went through, but just to take one as an illustration. There was a very strong feeling on the part of many members of the key committees--both Chairman Mills of the House Ways and Means Committee, and ranking Minority member John Byrnes, both extremely able and competent men; Senator Harry Byrd, who was chairman of the Senate Finance Committee, a very experienced man in the fiscal and financial affairs--they had the strong conviction which I happen to share that a necessary accompaniment of a tax reduction would be a period in which one would attempt to hold down the level of increase in federal expenditures. Because if you started out with a ten billion dollar deficit and you decrease taxes and as the tax cut worked, and as the economy became more vigorous and produced more revenues, you continued to expand the expenditures according to the revenues, you'd still end up with a very, very large deficit. So in order to achieve growth and at the same time bring the budget back, not into any exact balance every year, but into a healthy state of equilibrium, it would be desirable to accompany the tax reduction with a commitment from the President and the Administration and the Congress to use a substantial portion of the increased revenues each year to reduce the deficit. Now this concept became Section 1, or the

Purpose Clause, you might say, of the Act.

This was accepted in principle. We argued it. I strongly believed in it, and argued in principle. So did President Kennedy, so did Secretary Dillon, but the Senate wanted to have a very, very clear demonstration of this policy at work in the budget that the President would submit in January 1964. In other words they wanted more than words, they wanted deeds. So when President Johnson, recognized this--and we brought it to his attention very quickly and very specifically in our very first meeting that I have referred to, and he I think was already quite conscious of it, because he had very close and well informed sources of information from the Senate--he brought in a budget for the next fiscal year which was actually a billion or two billion dollars less than the budget for the preceeding year.

It was that deed of coupling a policy of holding down the increase in federal expenditures for the period when the tax reduction was going into effect, and thereby reducing the deficit--then scheduled to be around eleven- and-a-half billion dollars; actually it turned for that fiscal year to be nine-and-one-half--to reduce that very substantially in the years ahead. I think bringing in that budget in January 1964 was the decisive stroke that persuaded the Senate Committee and the Senate to enact the Revenue Act and it worked out according to that fashion. The deficit was reduced very substantially in that fiscal year and also in the fiscal year of '65 and in the fiscal year of '66, which people don't realize. The deficit in the fiscal year '66, as I recall it, was about two billion four. Even though the Viet Nam war begun to escalate for three quarters of that fiscal year, beginning in August 1965, and

there were very substantially increased military expenditures in the fiscal year '66, nonetheless the deficit that year was only about two and a half billion dollars--2.4.

M: Was the budget figure of one hundred billion dollars for 1964, is that a factor in this too?

F: Very much. I think it was the fact that the budget had been projected for fiscal '65 to be well in excess of one hundred billion dollars was the reason why the Senate Committee was holding off action on the Tax Bill. When President Johnson brought in a budget figure, as I recall it, of ninety-eight billion plus--which actually proved to be, in the final result, ninety-seven billion for the fiscal year '65--this is what was a very persuasive factor.

M: Was Walter Heller in agreement with all of this?

F: Well, you will have to ask Mr. Heller. I don't ever reflect other people's opinions or points of view.

M: Did you have to sell the new President, President Johnson, on this idea? Did you have to educate him about the factors involved in this tax reduction bill when he became President?

F: To be quite frank with you, I did, and Secretary Dillon did make these representations very quickly and very directly and very strongly to him. But quite frankly I had a feeling that his sense and feel of the legislative situation was such that it didn't require great selling on our part. I think he shared--tended from the very beginning, maybe--and I don't know to what extent he was already had arrived at any--but I wouldn't want to claim credit for persuading President Johnson to this point of view. I would say that he seemed at the initial meeting to have sized

up the tactical and strategic issues involved in the legislative situation. Whether that was because we submitted a memorandum or whether because he just knew it by instinct, or whether he had other sources of information, you have to make your own judgment about.

M: Was it clear to you that he understood the economics involved?

F: Oh yes, yes. President Johnson is not only understanding but he is deeply interested in economic policy and economic theory. This is not something that you have to force on him to get his attention. He's avidly interested in economic policy and practice. You never feel like you're being cut short or that he's disinterested or, you know, "Don't bother me with this kind of thing." He is fundamentally concerned and understands the importance to all of our political and social activities at home and abroad, of a strong, viable stable economy as much as anybody I've ever encountered.

M: Does he understand the details of the Treasury work?

F: Yes. Because he was so interested in it and because--he not only recognized its importance but he likes it. He actively--and if he had more time he'd be spending more time on it, so that he was always full of questions and seeking deeper understanding and more detailed understanding of not only the economy policy area we've been discussing but the balance of payments, the international monetary system, debt management. Of course being a Texan, he'd always been very, very concerned about interest rates and monetary policy. Undoubtedly the Presidency is a point from which one learns a great deal. One is exposed to a very great deal of new information, but he brought to the office

the profound experience as a Majority Leader for a number of years concerned with economic issues. He also brought a personal experience. I think he's interested in business. He's interested in the way our economy works. He just is at home with businessmen--he's more at home with businessmen--seems to have a rapport and a compatibility more so I think than any major public figure I've ever had the pleasure of working with.

M: Do you think that's because of his own understanding of businessmen?

F: I don't know how to account for it. It's just there. He's interested in what they're doing. He's interested in the way in which our economy works. I think he understands it very profoundly and he seizes every opportunity to probe a little bit deeper.

M: Now, did you have much contact with him before he became President?

F: Yes. A considerable amount.

M: Since you've said that, and since the tape is getting short, and since you're going to have to go to another appointment in about five minutes, maybe we should break at this point and get into that the next time.

F: Fine.

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By Henry H. Fowler

to the

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