C. Douglas Dillon Oral History Interview – JFK#7, 09/22/1964
Administrative Information

Creator: C. Douglas Dillon
Interviewer: Harvey Brazer
Date of Interview: September 22, 1964
Place of Interview: Washington, D.C.
Length: 15 pages

Biographical Note
Dillon, Secretary of the Treasury (1961-1965) discusses tax rate reduction, The American Federation of Labor and the Congress of Industrial Organizations (AFL-CIO), among other issues.

Access
Open

Usage Restrictions
According to the deed of gift signed, February 26, 1965, copyright of these materials has been assigned to the United States Government. Users of these materials are advised to determine the copyright status of any document from which they wish to publish.

Transcript of Oral History Interview
These electronic documents were created from transcripts available in the research room of the John F. Kennedy Library. The transcripts were scanned using optical character recognition and the resulting text files were proofread against the original transcripts. Some formatting changes were made. Page numbers are noted where they would have occurred at the bottoms of the pages of the original transcripts. If researchers have any concerns about accuracy, they are encouraged to visit the Library and consult the transcripts and the interview recordings.

Suggested Citation

C. Douglas Dillon, recorded interview by Harvey Brazer**,** September 22, 1964, (page number), John F. Kennedy Library Oral History Program.

JFK OH

GIFT OF PERSONAL INTERVIEWS

BY DOUGLAS DILLON

TO THE

JOHN FITZGERALD KENNEDY MEMORIAL LIBRARY

In accordance with the provisions of the Federal Property and Administrative Services Act of 1949 as amended (63 Stat. 377 as amended) and regulations issued thereunder, I, Douglas Dillon, hereby give, donate, and convey to the United States of America for eventual deposit in the proposed John Fitzgerald Kennedy Memorial Library (hereinafter referred to as the Library) for administration therein by the authorities thereof:

a) Transcripts of ten (10) personal interviews approved by me and prepared for deposit in the Library;

b) Ten (10) tapes, containing the interviews, from which the transcripts were prepared;

c) An unclassified subject index to the transcripts (attached herewith and labeled "Index I"); and

d) A subject index to certain classified materials in the transcripts, classified "SECRET" (attached herewith and labeled "Index II").

The gift of the foregoing listed materials is made subject to the following terms and conditions:

1. Title to the materials transferred hereunder shall pass to the United States of America as of the

date of the acceptance of this instrument and its terms and conditions by the Archivist of the United States.

2. It is my wish to make the materials donated to the United States of America by the terms of this instrument available for research in the Library. At the same time, it is my wish to guard against the possibility of their contents being used to embarrass, damage, injure, or harass anyone. Therefore, in pursuance of this objective, and in accordance with the provisions of Section 507 (f)(3) of the Federal Property and Administrative Services Act of 1949, as amended, neither these materials nor any duplicates, transcriptions, or notes made from these materials by any process whatever shall for a period of twenty-five (25) years or until five (5) years after my death, whichever occurs later, be made available for examination by anyone except me or persons who have received my express authorization in writing to examine them. This restriction shall not apply to employees of the Library engaged in performing normal archival work processes; PROVIDED THAT notwithstanding any other provision of this instrument, defense information contained in the materials donated to the United States of America by the terms of this instrument that has been security-classified pursuant to law or Executive Order shall be made available at any time only in accordance with procedures established by law or Executive Order governing availability of security-classified defense information.

3. A revision of the above stipulation governing access to the aforesaid materials may be entered into between me or, after my death, my legal representative and the Archivist of the United States or his designee if it appears desirable to revise the terms and conditions of this instrument.

4. After my death my legal representative shall have the same authority with respect to authorizing access to the aforesaid materials as I have reserved to myself herein.

5. The materials donated to the United States of America pursuant to the foregoing shall be kept intact permanently in the Library.

6. During the longer of

a) a period of twenty-five (25) years from the date of acceptance of this instrument by the Archivist of the United States, and

b. my lifetime plus a period of five (5) years thereafter,

I retain to myself all literary property rights in the materials donated to the United States of America by the terms of this instrument. After the expiration of the longer of said periods of years, the aforesaid literary property rights shall pass to the United States of America.

Signed Douglas Dillon
Douglas Dillon

Date: February 23, 1965

Accepted: Wayne C. Grover
Archivist of the United States

Date: Feb. 26, 1965

January 5, 2004

Allan B. Goodrich
Chief Archivist
John F. Kennedy Library
Columbia Point
Boston, MA 02125

Dear Mr. Goodrich:

This is in reply to your recent letter regarding the interviews my husband, Douglas Dillon, did for the John F. Kennedy Library Oral History Project in 1965.

I have looked over the documents you enclosed with your letter, and I agree that there are no longer any reasons to restrict access to the transcripts. As authorized by his deed, I hereby annul the clause that closes Mr. Dillon's interviews for a period of five years following his death that was originally stipulated in the deed.

This letter authorizes the Kennedy Library to open his Oral History interview tapes and transcripts for general research use without restriction.

Sincerely,

Susan S. Dillon

Susan S. Dillon

C. Douglas Dillon – JFK #7

Table of Contents

Seventh Oral History Interview

with

C. DOUGLAS DILLON

September 22, 1964
Washington, D.C.

By Harvey Brazer

For the John F. Kennedy Library

BRAZER: Mr. Secretary, in 1962 the Treasury had failed to get enactment of the repeal of the dividend credit exclusion. This recommendation that the dividend credit and exclusion be repealed was repeated in the President's [John F. Kennedy] tax message. How did you fare with this proposal the second time around?

DILLON: Well, we were in much better shape because the Ways and Means Committee in 1961-1962 had clearly indicated that this matter could and should be considered when high individual rates were being reduced. Nevertheless, it was not easy because this became a strong political issue in the Ways and Means Committee. The Republican members voted unanimously to retain the dividend credit, and, therefore, it became a very close matter. There were one or two members of the majority who also were interested in continuing the dividend credit and exclusion. Finally, after a great deal of effort and after having lost the vote once in the Committee, we succeeded by a 13 to 12 vote in getting the dividend credit repealed. That was the key vote since the House and the Senate were both pretty certain to follow the Ways and Means lead. The dividend credit was the major inequity. The dividend exclusion was a relatively minor matter that largely benefitted lower and middle income taxpayers. We felt that it uselessly complicated the law but it was not a question of inequity and it did not involve much revenue. Actually, a compromise was adopted whereby the dividend credit was repealed and the dividend exclusion was increased from $50 to $100.

BRAZER: To come to the revised tax rates. For individuals you had noted earlier that there appeared to be fairly general agreement among business, labor, other groups, on the desirability of reducing rates across the board to a level of around 15 to 65. The President recommended a reduction of 14 to 65 and the Revenue Act wound up with a scale working to 70. How do you explain the manner in which the rates were set, both in terms of this range and what objective were you seeking in the middle as well as in the higher brackets?

DILLON: Well, we felt that a 15 to 65 rate was about right. For the top level we wanted to reduce rates to something on the order of 65% because anything above that would tend to reduce incentives to invest, incentives to take chances, to start new businesses, as well as incentives to use one's full effort in working. So we felt that was important. Obviously, if there was such a reduction, there should be a reduction across the board of a somewhat similar amount.

We also thought that the inflation that had taken place in the country since the war, since rates had last been changed, gave a certain element of equity to a larger reduction in the very lowest brackets than in the rest of the brackets. So, therefore, in addition to the minimum standard deduction we did suggest that the first bracket be split and that for the first $1,000 of income the rate be 14%, which was a full 30% reduction.

When it became obvious that we were not going to get the $2 billion odd in extra revenue from the 5% floor on deductions, the proposed rate scale had to be changed. We had said, right from the first, that if that was the case it would be necessary to revise the rate scale so as to get some of this revenue back because we did not feel that the overall revenue loss of the bill could go much above the $10-1/2 billion or so that had been recommended by the President originally. So we did make a reevaluation of our proposed 15 to 65 rate scale and changed it to 14 to 70 with changes occurring everywhere except in the lowest $500. At the bottom of the scale, instead of a $1,000 at 14%, and the next thousand at 16, we upped that considerably by changing the lowest bracket into four separate brackets, with $500 at 14 $500 at 15, $500 at 16, and $500 at 17%. So the average there was 15-1/2% for the first $2,000 as against 15% in our original proposal, so there was some increase there, and there was an increase of a percentage point or so all the way up the scale, gradually expanding until at the top level it moved to 70 instead of 65. We felt that 70 was a little higher than desirable but, nevertheless, was still in the range of where the extra inclination to look for loopholes instead of to work would be greatly reduced.

So we felt that 70% was satisfactory as a top rate. However, we felt quite strongly that, if we were to achieve the purposes we were trying to achieve in stimulating the economy, any rate above 70% would have been too high. So we came out with a rate schedule which we thought was equitable and which offset most of the revenue lost through the failures of the five percent floor.

BRAZER: This rate schedule, with rates running 14 to 70% was reached in the course of your sessions with the Ways and Means Committee and was passed by the Committee in the House. Was the rate schedule a major issue when you went before the Senate Finance Committee?

DILLON: No, there was no discussion of it in the Senate Finance Committee. It was accepted as given because there had been so much time to consider it in the House. It had been accepted practically unanimously by the House Committee. There were probably a few who questioned it. But there was no real movement in the Senate Finance Committee to change it. It was pretty generally accepted by all the witnesses there. In fact, right from the beginning we had no trouble with the rate schedule. This was not a subject of partisan difference, even in the Ways and Means Committee. It was adopted, I think, by a vote of 23 to 2 or some such vote as that—a very big majority. Actually, it was about the last item adopted by the Ways and Means Committee. They waited until they had made all the other decisions so that they knew exactly how much revenue we would be getting back and what the overall effect of the bill would be in every other aspect before they decided on a rate schedule. At that time they spent two or three days looking over various schedules, various possibilities, but finally came back to the view that the schedule we had presented was the best and that one was accepted.

BRAZER: Having succeeded in getting the maximum of what you considered to be, with one or two exceptions from what you indicated earlier, the capital gains exception, a satisfactory bill in the House, what were the major obstacles to the acceptance of that House bill in the Senate Finance Committee?

DILLON: We really didn’t have any very serious difficulties in the Senate Finance Committee. We knew there would be a question again on the dividend credit but it turned out we had adequate votes for that. There was a question on the bill as a whole, but this was not a serious question. Actually, there was only minor argumentation in the Finance Committee on the substance of the bill. There was no substantial substantive changes in the House bill.

BRAZER: One of the, I think unique features of the program as presented by the President and as enacted by the Congress, was the fact that this Revenue Act called for tax cuts in two stages—part of the cut to come immediately upon enactment in 1964, and be effective in 1964, the remaining portion of the cut in rates for individuals and corporations would come in 1965. What inspired the proposal for two stages rather than a three-stage cut?

DILLON: Our original idea which we stayed with was that this tax bill was introduced as a long-range measure to relieve the economy of the shackles of an overly-restrictive tax system that had been developed during wartime to stop inflation. It had continued during the postwar inflationary period, but was no longer appropriate for the economy of the day. Therefore, it was necessary to make important changes, but also necessary not to make them in a way which would have inflationary impact. We felt that this could best be done by graduating the impact of the tax cut. We originally had planned a rather modest first stage, and then two following stages. As a result of delays, the first and second stages were in effect welded into one, and we then had only two stages. We felt that having the economic stimulus coming in two bites would minimize the danger of an inflationary surge. I think this proved to be a wise course.

BRAZER: Some people argued, and I suppose still do, that the tax bill provided more tax reduction for the upper income groups than was justified and not enough for the lower income groups. And other people argued, and continued to argue, just as strongly on the opposite side. What is your feeling on this?

DILLON: I think it was a fair bill. It depends on the way one wants to look at figures. Statistics can be used on any complicated subject, such as taxation, to prove almost anything one wants. Obviously, taxpayers who have higher incomes and pay higher taxes will get greater dollar reductions in any tax cutting bill than people who pay very little taxes. So that was one reason for statements that big tax cuts were being given to richer people. In addition, take the extreme case of 91 percent being paid in tax which was the law. This left only 9 percent after tax. If you reduce the tax rate to 70 percent, then there is 30 percent left after tax. The amount left after tax is three times larger. So, if you look at what's left after tax, you can say that's a bonanza for the rich person, compared to the poorer person, whose after tax income obviously couldn't increase that much because, with a tax rate of only 20 percent, he was keeping 80 percent of his income in the first place. So that's the reason for the criticism that the bill favored the rich.

The criticism the other way around was based on the fact that there was a 30 percent reduction for people in the very lowest $500 bracket, whereas the reduction across the board in the middle brackets, was something like 15 to 16 percent and the total average tax cut for everybody was just under 20 percent. So on that straight percentage figure some said this was giving too great a benefit to the lower income taxpayers, an unfair benefit that increased the progressivity of the tax system. I didn't think this was a fair argument either. I think the basic bill was fair. It did benefit those at the bottom level a little more than the rest. And it also benefitted those at the very top levels a little more than the rest in the rate of reduction. However, since they were the same people who generally had been getting the greatest benefit from such things as the dividend credit which was repealed, their overall tax reduction was not large. It worked out, when you look at the bill as a whole, that the greatest benefits went to those who were in the lower middle brackets, and at the very bottom where I feel that because of inflating they deserved them. But very adequate overall reductions, including larger rate reductions, went to those at the higher levels. This was important from the incentive point of view as it kept the marginal rate of tax as low as possible.

BRAZER: Considering everything, then, I gather it is your feeling that both groups might have been correct in their arithmetic but the arithmetic wasn't very relevant.

DILLON: Yes, I think that's correct.

BRAZER: This is a matter of value judgment and the argument could continue forever.

DILLON: There was no real heat behind these types of argument as was shown by the unanimity with which the rate schedule was generally accepted by all interested parties. Many of them would have preferred something a little different that would have pleased their own particular interests a little more, but they didn't have any great objection to the schedule as submitted. The general approval of the rate schedules was shown by the substantial unanimity of support in the Congress, in both the House and the Senate on this aspect of the bill.

[-133-]

BRAZER: Earlier, we talked particularly in connection with the debate on the 1962 Revenue Act with special reference to the investment credit and also in connection with the depreciation reform. We talked about the position of the business community and the views of the business community on the President's and the Treasury's overall tax program, overall approach to tax reform. We have not, however, discussed the attitude of the major labor groups, particularly as seen through the eyes of the executives in the AFL-CIO [American Federation of Labor and Congress of Industrial Organizations]. Some people expressed surprise that you were able to gain the support of labor, particularly with respect to the 1962 Act. How do you explain that?

DILLON: Labor leaders did not like the investment credit. They thought it was a reduction of taxes for business and would have preferred instead a reduction in personal income tax at the bottom levels. Obviously, it was a reduction in business taxation, but we thought it was important to the economy and would leader to greater economic activity, more jobs and more prosperity. So we were strongly for it. The labor movement, in looking at this bill, were strongly in favor of all the other things that we had in the bill, such as withholding on interest and dividends, fewer deductions for entertainment expenses, and the suggestion that the tax treatment of investment abroad be brought more into line with that at home. They favored all the other items in the bill but did not like the investment credit.

So we had a continuing debate, and it was a question right along whether their dislike for the investment credit would lead them to oppose the entire bill or whether they would swallow that, in view of the other provisions of the bill which they felt they liked. The key test on this, of course, was when the bill came up in the House. At that time the House bill had, of course, a very strong provision in it on the taxation of foreign investment. This made it reasonably certain that something in this area would be in the bill when it finally passed. That pleased the labor people, but they still were troubled. So they asked me to come and visit with them shortly before the bill was to come up in the House.

I met with the entire executive council of the AFL-CIO. We went over the whole bill and discussed the position we would take on the various matters in the bill when it got to the Senate, and then we discussed the investment credit. I gave our reasons for it.

They understood them but they still were not convinced. They agreed with the work we were doing to reform depreciation. They said they could understand that, and they would support depreciation reform. But they thought the investment credit was just a tax reduction for business, and, therefore, they didn't see how they could support it. Then they said this was particularly true because at that time, April of '62, business was not doing too well. The stock market was going down, and, while there was not a decline in business, the forward movement had slowed very considerably and there had been more or less of a plateau during the winter. Unemployment was still unsatisfactory, so they felt something should be done that would give a stimulus to employment.

They said the administration had consistently opposed a tax cut in the lower brackets that would be stimulative to the economy, which they would have preferred. The administration had also not accepted the accelerated public works programs which labor had been pushing. I told the labor leaders that in view of the situation that did exist, I knew there were some within the administration that thought that a moderate sized accelerated public works program was needed. I said that I could see a reason for such a program as long as it was kept within reasonable size. I told them that I was perfectly prepared to inform the President that the Treasury would not oppose enactment of such a measure.

This led to a much better feeling and in the light of my commitment on the accelerated public works program, the labor leaders said that they would not oppose the tax bill even though they disliked the investment credit. They then and there agreed to support the bill as a whole on the House floor.

We made no straight bargain or arrangement. But there was tacit understanding, which was followed by an administration proposal for a billion dollar accelerated public works program which was then passed. This did a great deal to convince the AFL-CIO that the administration was thinking not only of stimulating business, but was also thinking directly of attacking unemployment by every possible means. They then gave us the benefit of the doubt even though they never liked the investment credit very much. They did not oppose it, and they did not oppose it when it went to the Senate either.

BRAZER: You explained how it was that the support of the AFL-CIO ’62 tax bill was achieved, the reasons for their support in the House. What is your evaluation of the importance of this support in light of the rather close vote in the House on the bill on final passage? I’ll repeat the question, perhaps putting it a little more specifically. As you recall, the vote on passage of the Revenue Act of ’62 was very close in the House. Do you believe the support of the AFL-CIO played an important, crucial or only a minor role in achieving that victory?

DILLON: I think that without the support of the AFL-CIO the bill could not have been passed. Their support was essential because the Republicans had made the bill a party issue. All the Republicans voted against it on the rather surprising grounds for Republicans, that the investment credit was a give-away to business and, therefore, unfair taxation. They got a certain amount of support from some of the southern Democrats who were simply opposed to anything new. Also, there was a provision in the House bill, which was stricken in the Senate, for withholding on interest and dividends. A strong campaign was already underway against that provision and a number of votes were influenced by this. So we had to have pretty near unanimous support from the northern, more liberally included Democrats, many of whom were subject to this same pressure on the withholding provision. Therefore, if the AFL-CIO had been against the bill instead of asking for its passage I am pretty sure that it never would have passed the House.

BRAZER: Did the AFL-CIO continue to support the bill in the Senate after the Senate Finance Committee took out withholding and after it was clear that the dividend credit was dead that year?

DILLON: Yes, they did. Of course, the Long Amendment which weakened the investment credit made this provision less unpalatable to labor leaders. The Senate bill, while not everything that was desired in the foreign area, did contain strong provisions against tax havens which were very much desired by labor. It also maintained the strong provisions on expense account deductions. Labor influence in the Senate is probably not as strong, one way or another, as in the House. They were more or less neutral in the Senate and did not take a very strong part. But by that time the investment credit had received a great deal of business support, so in the Senate we did not have a close vote. As I remember the tax bill passed the

Senate by better than a two to one vote, with a majority of the Republicans voting aye. The situation in the Senate was entirely different from what we had had in the House.

BRAZER: What was the nature of your contacts and relationships with the AFL-CIO, if any, in the course of developing the 1963 tax program?

DILLON: At some point, I don't remember the exact time, but I think it was in January of '63, just before the bill went up, I went and talked with the leaders of the AFL-CIO as we did with business leaders and appraised them of the general content of the bill. I found that, while they would have preferred a greater cut at the lower end, and while they would probably have preferred an increase in the personal exemption, they thought the bill as a whole was pretty good. They were particularly interested in the minimum standard deduction, which was a totally new tax concept that they had advocated. They thought this was an important matter of equity. Since we did, too, they liked this. Actually, when they testified in the House and the Senate they asked that it be increased somewhat from the level that we had suggested, but they did not press this with any great vigor and they in general favored the bill.

BRAZER: To return to another topic, there is the issue of whether or not there ought to be a tax cut without a commensurate cut in expenditures. As you recall, there were those who said cutting taxes was fine but that it was acceptable only if expenditures were cut by a like amount. The President, in his Tax Message, said, "It would be a great mistake to require that any tax reduction today be offset by a corresponding cut in expenditures." Was this issue a continuing one and did it jeopardize enactment of the Revenue Act at any time?

DILLON: No, while there was some talk about that and it seemed to be an issue, when it came down to the actual fact of studying the budget, I don't think that anyone, even those who were the most conservative, were serious in feeling that there could be an equivalent cut in expenditures, or indeed any cut in expenditures at all. There was a strong feeling, though, that there was a relationship between substantial tax reduction and expenditure policy. That was also the administration policy right from the beginning.

The President said in his Tax Message that expenditures would have to be rigorously controlled while the tax cut was going into effect. He also said that a substantial part of the additional revenues that would be generated as the economy moved ahead would have to be devoted to reducing and eventually eliminating the budget deficit. I think the only difference was a difference in detail which, however, was very important as the bill went to passage in the House. This was not discussed much until just prior to final passage.

There was a Republican motion, as you will recall, to tie the going into effect of the tax cuts to specific limits of expenditures, which were placed at levels that seemed very difficult to achieve. We have come fairly close to achieving some of them since, with the rigorous expenditure control we have had, but I do not think that we could actually have achieved them with sound bookkeeping if they had been in the law. This seemed to me really a political move and was made so as to maintain for the Republican Party in the House the picture of being in favor of greater expenditure control than the already very considerable control that was being exercised by the President.

This issue was not an issue at all in the Senate, although the fact that there was a tax cut at a time of deficit did lead a few Senators, including the Chairman of the Senate Finance Committee, to oppose the bill. But I would say that all together there were maybe a dozen or twenty at the most who felt that way, so it was not significant in terms of the whole Senate.

BRAZER: Can you say anything about the circumstances or the forces that inspired the President to write the letter that he did in August of 1963 in which he again restated his determination to control expenditures? What inspired that letter?

DILLON: I think that came from a feeling that had developed that there should be very strict expenditure control. It was designed to offset the attack that Chairman Mills [Wilbur Mills] felt would be launched on the bill when it finally came to a vote, and which was launched at that time by the Republicans setting the spending limits, which I have mentioned before and which were exceedingly restrictive. So the President then reiterated rather dramatically

in the form of this letter to Mr. Mills the philosophy that he had originally outlined in his message in January, or early February, whenever the official message went up. He reiterated it in very clear terms. Mr. Mills took the philosophy of that letter and put it into the preamble of the bill. With this he made the argument to those Democrats from the South who believed strongly in the fiscal responsibility that they were getting it, and that this bill was fiscally responsible, as I believe it certainly was.

Mr. Mills argued persuasively that trying to set overall spending limits for the future was not the prerogative of the Ways and Means Committee and was not good tax policy because the size of a budget deficit could not be controlled solely by expenditure policy. It also depended on revenues which in turn depended on the state of the economy. As a result of this argument he obtained the support of a great many conservative Democrats from the South. This was clearly exemplified by the speech in support of the bill by Mr. Mahon [George H. Mahon], who is presently Chairman of the Appropriations Committee of the House, and naturally very concerned about expenditures. So that was the reason for the presidential letter. There was a very real concern in Congress on this matter, which was also coupled with the political desire of the Republicans to make a record. Even though the situation was very clear after the President's letter, the Republicans still voted unanimously for their motion to recommit—that is, voted to kill the bill, against any tax cut. However, once that motion was defeated and the bill was sure to pass, a good many Republicans in the House reversed themselves and voted for the bill in the vote on final passage.

BRAZER: If one looks at the outcome of efforts to control and restrict expenditures for fiscal '64, it would appear that the late President and the Administration took this pledge very seriously. Budget expenditures for fiscal '64, as estimated in January '63, were $98.8 billion. The outcome was actually $97.7 billion. The budget figure for fiscal '65 is now estimated by President Johnson at $97.3 billion. In your opinion, what has been the relationship between the tax cut and this sort of turn about in the trend in federal expenditures?

[-139-]

DILLON: There was a relationship because the tax cut made it necessary that there be no big increase in government expenditures. Otherwise there would have been unwelcome inflationary pressures. Equally important was the fact that the need to increase our defense expenditures, which had become obvious early in 1961, was fully satisfied in a couple of years. By fiscal ’63 defense expenditures were running pretty much at their top level and had leveled off. So in fiscal ’64 it was not necessary to have much, if any, further increase in defense expenditures. In fiscal ’65 they are expected to be below ’64. Similarly, the big increase in space expenditures was coming to an end. The last really big increase being in fiscal ’64. There is only a rather moderate increase planned in ’65 by which time space expenditures should have reached the required level. So in these two items where it had been necessary to have large increases, and which were the areas of the budget responsible for the major increases in expenditures during the administration, the needs had now been met. There was no longer any need for further increases.

Expenditure policy in the other areas of the budget had been reasonably tight from the beginning. In the four year period ’61-’65 the increase in budget expenditures for all other items in the budget was actually considerably less than the increase in these same items in the four years from ’57 to ’61, under the preceding administration. And, as everyone knows, that administration was trying very hard to hold down expenditures. So you can see how tight our expenditure policy must have been. So I would say that the necessity of continuing strict expenditure control because of the very substantial reduction in taxes, and the fact that the immediate needs for expenditure increases in defense and space had been met, made it possible to hold down overall expenditure totals in the way you have described.

BRAZER: Do you see the tax cut as a factor that is likely to slow down the poverty program, aid to education and other such non-defense programs?

DILLON: I don’t see any reason why it should. It is very clear that in aid to education the problem was not the tax cut but that Congress, for quite different reasons, has not been willing to vote any substantial aid to education. We have been able to start the poverty program and obtain all the funds that were useable in this first year.

[-140-]

BRAZER: Professional economists and other have debated the relative merits of expenditure increases versus tax cuts as a means of expanding economic activity. In view of what you just said, would you go further to say that given the mood of Congress it really isn’t an open choice other than as an academic question?

DILLON: I think it's probably easier, given the mood of Congress and the country, to obtain the necessary economic stimulus through tax reduction than through expenditure increases. Expenditure increases have come easily only in the areas such as defense, and in the beginning of the space program where the public was not questioning, and where other extraneous issues did not come in, such as confused the picture in the area of education. So do I think tax reduction is easier.

As far as the particular tax bill that we were talking about, the '64 tax bill, I would have thought that it was more important and better than expenditure increase in any event because it did two things. It not only provided stimulus to the economy, it also reduced the high marginal rates of tax which were dulling incentives. So it had a double barreled effect. After you get rates down to a reasonable level and the top rates of 65 or 70 percent are beginning to get there, then that aspect is no longer as important and one can look more at the straight fiscal effects. But I think even in looking at those, as a practical matter, tax reduction will have to be a continuing part of any program to keep our economy in proper fiscal balance. This has proved to be the case in other countries around the world, where it has worked very successfully. I think that pattern is likely to repeat itself here.

BRAZER: You see the '64 cut then as very likely being one of a series of additional cuts to come in future years.

DILLON: Yes, I think it has broken the pattern in our tax system which has been pretty much frozen after the '54 act. That act had made relatively minor chances, eliminating only the extra additions which had been put on at the time of the Korean War, and leaving rates still extremely high. Up until 1963 there had been no attempt by any administration to change this pattern, although there had been a growing feeling, certainly in business circles, that tax rates were too high. Prior to our success in passing the

'64 tax bill, I think many would have doubted the possibility of passing a bill that reduced rates so substantially. The passage of this bill, coupled with the fact that it has not produced inflation or any of the other hobgoblins that various people raised against it, seems to have led to a general acceptance of tax reduction as a proper fiscal tool. Indeed, planks in favor of tax reduction are contained in the platforms of both the major political parties this year. With that background I think it is pretty clear that tax reduction, continuing tax reduction in one form or another, will be a part of the scene over the coming years. I am very proud and pleased to have taken part in this breakthrough which achieved that change in the national consensus.

BRAZER: Would you say that if further tax cuts were forthcoming that the so-called loopholes become of lesser and lesser importance as rates go down?

DILLON: Yes, certainly that's true because the benefits conferred by these special preferences or loopholes become less important as tax rates themselves go down. An example is in the capital gains area where the difference used to be between 25 percent and 90 percent. Now it is between 25 percent and 70 percent. It is still a big difference but it is nowhere near as much as it was earlier. So, therefore, that advantage is relatively less great than it was. The same is true of tax exempt bonds—the interest rate advantage is not as great because of lower tax rates on the higher yielding taxable investments.

BRAZER: Now, as the Secretary of the Treasury who has probably battled more in any given period of time for tax reform than any predecessor, is your opinion finally that this approach to reducing the importance of loopholes, that is, reducing rates over a time, is likely to be far more critical than further efforts to achieve major reform aimed at the loopholes themselves?

DILLON: I have a feeling that, after our efforts in the '62 and '64 bills, we have probably done away with most of the major loopholes that are susceptible of elimination in the present political climate. I don't mean by that that one should give up the battle for a more equitable tax system or a more simplified tax system.

But the approach will have to be shifted somewhat. There is some interest in an approach that was briefly discussed, and which I think we will hear more of; a voluntary approach whereby one could forego voluntarily all loopholes, and as a counterpart obtain the benefit of a much lower rate schedule. That was suggested by Senator Long [Russell B. Long] but it was not pushed to a final vote in the Senate. I think he is still interested in this and there was also a lot of interest in this general idea in the Ways and Means Committee, even though there was no particular provision suggested. I do think that we'll hear more of this. It might be a way to make progress toward the generally desirable objective of a broader based system which would tax more income at considerably lower rates.

BRAZER: Mr. Secretary, that completes a series of questions that I had intended to ask.

DILLON: I think this covers the matter rather completely. Thank you.

BRAZER: Thank you very much, Mr. Secretary. This is the end of the interview on tax policy with Secretary Dillon.

[END OF INTERVIEW]

C. Douglas Dillon Oral History Transcript – JFK #7
Name List