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The Kennedy–Johnson Tax Cut of 1964, the Defeat of Keynes, and Comprehensive Tax Reform in the United States

Abstract: In 1964, President Lyndon B. Johnson, the successor of John F. Kennedy, signed into law the largest tax cut in U.S. history until 1981, the so-called Kennedy–Johnson tax cut. Many scholars have evaluated it as representative Keynesian tax policy; this article focuses on the effort of the Treasury Department, tax experts such as Stanley S. Surrey and Wilbur D. Mills, the chairman of House Committee on Ways and Means, to reform the federal income tax system comprehensively—making it simpler, fairer, and more equitable—and their defeat by the 1964 tax cut. Through the policymaking and legislative process, the Kennedy administration's Council Economic Advisers defeated the Treasury and Surrey by domesticating Keynes's ideas on tax policy. Until the 1964 passage of the tax cut, Mills, with his inconsistent action, abandoned the accomplishment of their ideal tax reform.

Keywords: U.S. Tax Reform, Kennedy–Johnson Tax Cut, Domesticated Keynesianism, Tax Expenditures, Tax Revolts

On February 26, 1964, the successor of John F. Kennedy, President Lyndon B. Johnson, signed into law what would be the largest income tax cut in U.S. tax history until 1981 ($11.5 billion). The Kennedy administration proposed two tax cuts, one in 1961 and the other in 1963. The latter, the so-called

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Kennedy–Johnson tax cut, provided huge cuts for individual and corporate income tax rates and a few structural reforms. In radio and television remarks, Johnson addressed the effects of the tax cut: in the short term, it would increase the income of citizens and businesses, stimulate their consumption and investment, and create new jobs; and in the long term, it would raise the level of the entire American economy.[1] In addition, he emphasized that the tax cut would result in a robust economy and preserve freedom so that no other country could be stronger than the United States. Then he stated that the federal government "will not have to do for the economy what the economy should do for itself."[2]

Many existing studies have argued that the tax cut of 1964 elevated the importance of the federal budget and effective fiscal policy as the key to achieving economic prosperity. By the late 1950s, leading economists, particularly presidential economic advisers before the Kennedy administration, increasingly viewed the balanced budget dogma as the main obstacle to rational economic policymaking. They believed that deliberately pursuing a precise level of aggregate taxing and spending would provide the most appropriate economic state. In this context, while restraining the increase in federal social expenditure, the Kennedy administration carried out two large tax cuts, one in 1962, and the other in 1964. After the latter tax cut was accomplished, the United States entered its most prosperous period after World War II. In the late 1960s, the deliberate creation of budget deficits through fiscal policy was no longer considered an evil for policymakers. As Herbert Stein once concluded, through "domesticated Keynesianism," budget deficits became accepted national policy, and the "full-employment budget" concept—tax and expenditure policies should produce a balanced budget if the economy was operating at full employment—was established by 1964, when the Kennedy–Johnson tax cut was passed.[3] Walter W. Heller, who served the Kennedy administration as the chairman of the Council of Economic Advisers (CEA) from 1961 to 1965, called the tax cut a part of "the completion of the Keynesian revolution."[4] Eugene Steuerle coined the term "the era of easy finance" to describe the period from the 1950s to the 1970s.[5]

The story of domesticated Keynesianism was still far from completion when the tax cut of 1964 was enacted. By 1968, there was a breakdown in the consensus within the federal government that appeared to have been established by the 1964 tax cut for the concept of the "full-employment budget." During the presidency of Richard Nixon, any idea of balanced budgets was no longer a force within the government, while in most instances almost all had become opposed to raising taxes. Instead, from the end of the 1960s,

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most policymakers were unwilling to subordinate their desires for specific tax and expenditure programs to any aggregate goal, including a balanced budget.[6] After the wave of tax revolts in the 1970s, political entrepreneurs—mostly in the Republican Party—seized on tax cuts as a populist issue they could use to define themselves and their party in the political market place. They led the charge for what would lay the basis for the largest income tax cut in U.S. tax history: the Economic Recovery Tax Act of 1981.[7] The administration of Ronald Reagan proposed and implemented this act on the basis of the same argument that "Keynesian" economists had used in devising the 1964 tax cut: lowering tax rates for businesses and individuals would stimulate the economy, increase tax revenues, and create jobs without inflation.[8] The memory of this campaign and tax cut encouraged George W. Bush to undertake tax cuts five times in the 2000s.[9] Bush made a large tax cut a top priority of his domestic program, using much of the budgetary surplus that had emerged from the 1990s to fund it. The first of his administration's five tax cuts was implemented by invoking the model of the Kennedy–Johnson tax cut and the expansion of defense spending at the cost of direct social spending.[10] The Reagan and Bush administration favored tax-cutting measures both economically and politically by invoking the result of the Kennedy–Johnson tax cut.

One policy trend reinforced this change and helped fuel the shift: the expanding role of tax expenditures in the federal budget referred to as the "Hidden Welfare State."[11] The administrations of Nixon, Gerald Ford, and Bill Clinton used tax expenditures to provide social benefits indirectly to the country.[12] The Bush tax cuts in the 2000s mainly benefited corporate entities and the wealthy, curtailed the capability of the federal government to finance its direct expenditure, and weakened the equity and progressiveness of the federal income tax system.[13] Steuerle pointed out that the expanding use of tax expenditures has narrowed the tax base since World War II.[14] The Congressional Budget Office demonstrated that it has favored higher-income classes unfairly relative to lower-income classes.[15] Suzanne Mettler renamed the "Hidden Welfare State" the "Submerged State," pointing out that the state has consumed considerable amounts of the tax revenues available for government programs and has hidden how it provides benefits from people's sight.[16] The result of the tax cut of 1964 justified subsequent tax policies in the United States that have produced not only a huge fiscal deficit in the federal budget but also an inequitable income tax system through frequent use of tax-cut measures.[17]

This was definitely not the legacy that John Maynard Keynes and his American contemporaries, Alvin H. Hansen and Abba P. Lerner, actually intended. It is generally said that Keynes's fiscal thoughts were spread

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through a letter he sent to Franklin Roosevelt in late 1933 as well as by *The General Theory of Employment, Interest, and Money*.[18] In both writings, he advocated a completely different tax policy from the 1964 tax cut, although the latter has been regarded generally as representing "Keynesian policy."[19] To stimulate national purchasing power as a short-range measure to recover from the Great Depression, Keynes emphasized, in his letter to Roosevelt, the importance of transfers through taxation and existing income to finance government expenditure.[20] In *General Theory*, he argued that a low propensity to consume under highly developed capitalism would widen the gap between aggregate income and aggregate consumption, and this, in turn, would reduce the incentive for investment while increasing savings. As a deliberate instrument to close this gap, he suggested for the possibility of income tax reform aimed at redistributing income equally through the combination of capital levies such as capital gains taxation and estate and gift taxation to raise funds for government programs, and the reduction of taxes on income and consumption.[21]

In *How to Pay for the War*, Keynes advocated a number of other interrelated goals: boosting vertical and horizontal equity, progressivity, countercyclical tax flexibility, and the financing ability of government through the income tax system.[22] He sought to prevent inflation and the exhaustion of resources, to raise funds for government expenditure to prevent deflation and unemployment in the first recession that might come after World War II, and to prevent the aggravation of unequal income and consumption among the working class, capitalists, and the wealthy.[23] To accomplish these goals, Keynes advocated boosting progressivity sharply by an increase in the exempt minimum and a tax increase mainly on middle- and high-income classes. In addition, to deal with the government's difficulty in running the recovery program and retiring the debts accumulated during wartime, he argued for a general capital levy after the war and a tax structure that would enable the financing of expanding fiscal demands without increasing debt.[24]

Following Keynes's thoughts on taxation, Hansen and Lerner suggested the construction of a progressive federal income tax system.[25] The tax structure of the United States in the 1930s, based heavily on customs, excises, and property taxes, was heavily regressive and burdensome on low-income classes. Under such a tax structure, the increase in debt issues had expanded the income stream paid in the form of interest to wealthy holders of bonds, thereby worsening economic inequity among income classes. Under these conditions, the responsibility of the federal government to alleviate the fiscal difficulty of state and local governments through federal emergency expenditure had become significant. However, there was a possibility that inflationary

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pressure would worsen by carrying out deficit financing not through voluntary savings but through bank credit expansion. Then, Hansen recommended a federal tax system based on progressive taxation of individual incomes. He argued that such a tax system would redistribute assets and income fairly, create private savings to pay for deficit spending, and balance the budget when national income approached full employment.[26] Keynes, Hansen, and Lerner considered that "total demand can be increased by a redistribution of income from the rich to the poor" through a progressive income tax system.[27]

Comparing the ideas of Keynes and his American contemporaries with the Kennedy–Johnson tax cut of 1964, it is quite obvious that the administrations of Kennedy and Johnson accomplished a "Keynesian policy" that was markedly different from the one that Keynes, Hansen, and Lerner actually suggested. Then, how and why did the administrations adopt the tax cut? How and why has the Kennedy–Johnson tax cut been evaluated as representative of "Keynesian tax policy?" This article attempts to examine these questions.

Although explanations for the Kennedy–Johnson tax cut have varied, all scholars have concluded that it marked a major departure in the use of tax policy as an economic stimulant incorporating Keynesian ideas.[28] I will argue that the tax cut of 1964 domesticated the idea of Keynes and his American contemporaries more than has been previously recognized. Following the same goals as Keynes and his American contemporaries emphasized, federal tax-reform programs after World War II focused on several defects of the federal income tax system: a narrow tax base, excessively high tax rates, inequity among income classes and types of income, and weak progressiveness. By 1961, in cooperation with the House Committee on Ways and Means (CWM), the Treasury Department's staff and tax experts crafted a "one-package" comprehensive tax-reform program—a combination of base-broadening measures and rate reduction—that could eliminate these defects. However, when the federal tax-reform bill was proposed in 1963 as a tax cut, it adopted a "two-stage approach" that divided the "one-package" tax-reform plan into two parts: rate cuts first and reform measures later. When the tax-reform bill was enacted, becoming the largest tax cut in the U.S. tax history until 1981, most of the base-broadening reform measures were abolished. It was accomplished with the same kind of conflation of "domesticated Keynesian" and supply-side economics, "trickle-down" ideas, and the same powerful influence of business lobbies and the Congress, as in the Bush tax cuts. The "Keynesian revolution" was carried out without implementing the central

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aspect of Keynes's idea: balancing the budget in the long term by raising revenues and establishing an equitable tax system.

Scholars analyzing the 1964 tax cut have focused on the role of the architects of the tax cut, who formed three distinct groups based on differing viewpoints: the economists associated with the CEA, experts inside and outside the Treasury, and the CWM, led by a southern Democrat from Arkansas, Representative Wilbur D. Mills. Previous studies have emphasized the role of the CEA economists in advocating for tax cuts to stimulate consumption demand in a "Keynesian" fashion. Meanwhile, these studies regarded the Treasury staff and Mills as stressing the importance of supply-side rational and fiscal conservatism.

This article shows that the ideas on taxation of Keynes, Hansen, and Lerner were more similar to those of the Treasury's staff, led by a tax expert, Stanley S. Surrey, and Mills, than to those of members of the CEA. Surrey and the Treasury staff followed a strong tradition of support within the Treasury since the 1930s for base-broadening reforms. In the late 1950s, the Treasury Department and the CWM led by Mills cooperated in identifying the defects of the federal tax system and designing reforms to rectify them. Inside the Kennedy administration, by November 1961, an agreement was reached among policymakers to propose the "one-package" comprehensive tax reform along the lines of the discussion in the late 1950s. However, in terms of domestic economic conditions since the 1950s, the CEA viewed the federal tax system, with its strong revenue-raising capacity, as creating "fiscal drag." CEA members argued that it should be eliminated by tax cuts or expenditure increases. Because conditions in the political economy were changing in 1962, the CEA appeared at the center of policymaking. It put forth a "two-package approach." The Treasury and Mills compromised on the CEA plan to accomplish several base-broadening measures. As a result, however, so-called Keynesians, including the CEA members, defeated the efforts of comprehensive tax-reform proponents after the 1950s by ignoring the actual idea of Keynes and his contemporaries. This result set the stage for the kind of tax cuts that resumed in the early 1980s and obscured the role of the federal income tax system that had been a means to finance the federal government.

Several previous studies have focused on Mills as a key person in the legislative process of the tax cut of 1964. They proposed that Mills opened the door to a deliberate creation of budget deficit through a tax cut for the first time in history when the federal budget faced deficits.[29] I will argue instead that his action with respect to the legislative process of the Kennedy–Johnson tax cut should be viewed as much more inconsistent than has been described

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up to now. In the 1950s, Mills worked both inside and outside the CWM as a learned tax specialist. He aggressively supported the comprehensive tax-reform program on the policymaking and legislative stage. However, faced with the difficulty in passing the tax-reform bill through the Congress in 1963, he changed his attitude toward the tax bill. Until the 1964 passage of the Kennedy–Johnson tax cut, he had acted politically and abandoned the pursuit of ideal tax reform.

FEDERAL INCOME TAX SYSTEM AND FEDERAL TAX REFORM, 1940S–1950S

Federal tax-reform programs crafted by the administration of Harry Truman and the Treasury after World War II were designed to ease the transition from wartime to peacetime conditions, while preserving the revenue stream at a level adequate to finance necessary government expenditures and to control inflationary pressures. On the one hand, the wartime federal income tax system adopted "mass-based taxation," extracting revenue from middle-class wages and salaries with lower personal exemptions and a steep and high rate structure. On the other, it contained a narrow tax base that favored recipients of unearned income and relatively higher-income classes.[30] The Truman administration attempted to adjust tax liabilities created by this tax regime by reducing tax rates and increasing tax preferences for lower-income brackets.[31] The Revenue Act of 1945 and 1948 provided limited tax reductions by lowering the rates of individual and corporate income tax and increasing personal exemptions. In addition, the Revenue Act of 1948 provided income splitting for married couples, generous standard deductions, and medical expense deductions. Successively, in the early 1950s, the Truman administration cooperated with the Treasury, recommending reduction of excise taxes to the extent that revenue loss could be replaced by loophole-closing measures and revising the corporate income tax and estate and gift taxes.

However, the Korean War compelled a change in federal tax policy because rising government expenditures required more tax revenue. By the Revenue Act of 1950 and 1951, the Truman administration implemented several provisions for closing loopholes and increasing the rates of individual and corporate income tax.[32] But Congress did not accept their recommendations to close loopholes. In 1952, when Truman completed his two terms in office, his administration left unfinished the tasks of adjusting the federal tax system in the postwar period and broadening the tax base by closing loopholes. After the Korean War ended in July 1953, the administration of Dwight

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Eisenhower took up these tasks. In the federal tax reform of 1954, the administration introduced several measures to reduce tax liabilities. Most of them, however, took the form of expanding tax preferences, decreasing revenue from federal individual income taxes while failing to provide for equity among taxpayers.[33] Throughout the postwar period, federal tax-reform programs did not resolve defects in the federal income tax system: a narrow tax base with inequities and an excessively high rate structure.[34]

WILBUR MILLS'S EFFORT FOR THE ACCOMPLISHMENT OF TAX REFORM, 1954–1960

In response to the defects in the federal income tax system, two organizations—the CWM and the Treasury—focused on constructing a federal income tax system that was equal, fair, and progressive and that would enable the federal government to avoid accumulating federal debts. A very senior and politically talented Representative, Wilbur D. Mills, significantly contributed to the discussion on comprehensive tax reform in the 1950s.

Mills was known as one of the top Democratic tax experts in the House. After finishing his education at Hendrix College in Arkansas and Harvard Law School, Mills returned to Kensett, Arkansas, to launch his political career. He was elected a county judge in 1934 and served for four years. In 1938, he successfully ran for Congress, becoming a member of the CWM in 1942. He enhanced his reputation for the plan he proposed in 1950 to speed up the collection of corporation income taxes—under which a corporation's tax liability was paid semiannually in the following March and half in June. During his first thirteen years' experience as a member of the CWM, he gained the confidence of members of both parties. In late 1954, Mills began chairing the Tax Policy Subcommittee of the Joint Committee on the Economic Report (JCER) and the Subcommittee of the Joint Committee on Internal Revenue Taxation of the CWM.[35] In both subcommittees, he was trusted and admired by both Republicans and Democrats, as one of the few members of Congress who did not have to rely on the advice of staff professionals to understand the working and effects of particular tax proposals. Mills charged that the Revenue Act of 1954 made changes that should not have been accepted, which increased loopholes that should have been closed and abolished. Then, he began leading studies over tax issues and economic and political functions of income taxation both inside and outside the CWM.[36]

In 1955, Mills held hearings in the JCER on the economic implications of tax-break reform and the manipulation of tax rates. After the hearings, Mills

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concluded that the federal tax system should be based on the rule of ability to pay and progressive taxation, involving neutrality, equity, and countercyclical flexibility in its overall economic impact. He was of the view that an excessively high rate structure was the most serious problem in the individual income tax system. In the hearings, he found that the rate structure resulted not only from high government expenditures but also from a shrunken income tax base that departed from neutrality among particular types of income because of tax preferences. He found that low- and middle-income classes, primarily recipients of earned income, principally bore the tax burden because they could not avail themselves of preferential rates and tax differentials that were available to recipients of other types of income. Consequently, he believed that if the income tax base were to return to an ability to pay by simultaneously cutting tax preferences and eliminating advantages that the average person did not enjoy, tax rates could be reduced and the tax burden could be distributed more fairly without revenue losses, increases in public debt, aggravating inflation, and reducing government expenditures.[37] He expected that such comprehensive tax reform would provide a fairer, simpler, and more equitable income tax system that could raise more revenue, keep the federal budget roughly in balance, and create equal opportunity for steady economic growth and expansion.[38]

After studying government expenditure in the JECR, Mills assumed the chairmanship of the CWM in 1958 and continued to work on a comprehensive tax-reform plan, which would become the hallmark of the federal tax-reform program without sacrificing the revenue required for responsible government financing.[39] In Mills's view, the public needed to know as much as possible about federal tax policy through discussions in Congress. On behalf of the CWM, Mills organized a series of congressional studies and hearings on the possibilities of tax reform, utilizing his networks among economic experts, political parties, business leaders, and the Treasury. The CWM, cooperating with the Treasury, held hearings to discuss specific tax-reform proposals from November 16 to December 18 in 1959.[40] After the hearings, the CWM concluded that the income tax reform should reduce marginal rates, revise brackets and rates to create a more progressive structure, and split the lowest bracket and tax the lower part at lower rates. The tax reform would include base-broadening measures, such as eliminating unnecessary tax preferences and redefining capital gains taxation. As for corporate income taxation, the CWM recommended reducing corporate tax rates and tightening definitions of business expenses and net income.[41] On the last day of the panel discussion, Mills agreed with the Treasury that the plan to propose

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an inventory of suggestions for tax revisions should be put off until 1960, when the CWM and the Treasury completed consideration of broad proposals of tax revision based on these discussions.[42]

SURREY'S TAX THOUGHTS

Although Mills played an important role in the discussion of the comprehensive tax-reform program, tax experts, including business, labor, and university economists, gave him and his committees great assistance. Among them, Stanley S. Surrey, Assistant Secretary of the Treasury for Tax Policy during the Kennedy presidency, significantly influenced the Treasury's crafting of tax reform as early as the 1930s and continuing into the late 1950s. Surrey, a tax attorney who graduated from Columbia University Law School in 1932, joined the administration of Franklin Roosevelt the following year. Subsequently, he became a staff member of the Treasury's Tax Legislative Counsel. After serving in the U.S. Navy, Surrey returned to the Treasury and in 1947 became a professor of law at the University of California, Berkeley. In 1949–50, Surrey joined the American Tax Mission to Japan under the chairmanship of Carl Shoup of Columbia University, and in 1951 he joined the Harvard Law School faculty as a law professor.[43] During the 1950s, Surrey actively convened several conferences of economists and tax attorneys to discuss issues of federal tax structure and tax administration.[44] In addition, while supporting Mills's research, Surrey advised members of the CWM regarding tax-reform proposals throughout the late 1950s.[45]

Surrey emphasized the necessity to improve the progressivity and equity of the tax system, and to smooth the rate structure without decreasing revenue.[46] At a hearing of the CWM on November 16, 1961, Surrey stated that preferential treatment for certain types of income had created an overly narrow tax base, excessively high marginal rates, low effective rates, and an inequitable tax burden among types of income. Then he argued that the combination of a rate reduction and the elimination of upper-bracket differentials would materially improve the federal income tax system without revenue loss. With respect to the significant differentials between the middle- and lower-brackets, he believed that their elimination would likewise be far easier in the context of a general revenue revision involving compensating rate cuts, a splitting of the first bracket, or an increase in exemptions. Furthermore, Surrey emphasized that any tax reform, whether tax reductions or increases, should be accompanied by structural improvement and elimination of as many differentials as possible to widen the income tax base rather than simply

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adjusting tax rates in order to treat any taxpayers fairly. Otherwise, he believed that the opportunity to improve the income tax system might never come.[47]

Since the 1930s, there had been a strong tradition of support within the Treasury for base-broadening reforms.[48] When Surrey assumed the position of assistant secretary, Seymour Harris, professor of Economics of Harvard University, became a senior consultant to the Secretary of the Treasury.[49] His tax ideas resembled those of Surrey. In a report prepared in 1956, Harris argued that taxes were the price of civilization, but that a dreary process of erosion and evasion under the federal tax law had created a privileged class of taxpayers who paid less than their fair share of the cost of government. As a remedy, he proposed broadening the tax base to boost progressivity and horizontal equity.[50] The Office of Tax Analysis (OTA) in the Treasury, led by director, Harvey E. Brazer, mainly worked with Surrey to study structural tax issues and to devise a tax-reform bill.[51] As for their tax ideas, Surrey stated in retrospect, "In the Treasury in the late 1960s, I faced the task of articulating why the Treasury opposed the widespread use of the tax incentives."[52] The Treasury and its staff under the Kennedy administration began their work toward the same goal as Surrey envisioned.

CEA'S IDEAS ON TAX POLICY

Members of the CEA, namely, Walter Heller, James Tobin, and Kermit Gordon, viewed tax policy quite differently from both the Treasury and the CWM.[53] The CEA viewed the most important economic problem as the gap between actual output and full-employment output.[54] They estimated that the federal tax system could increase revenue by $7–8 billion per year during normal economic conditions. In a slack economy, however, this "fiscal drag," as Heller called it, would kill the possibility for expansion. In response, the CEA utilized the concept of "full-employment budget surplus" to suggest that the "fiscal drag" be offset by "fiscal dividends" through tax cuts or increases in government expenditure.[55] The total budget deficit of general and trust funds of 1961 was about $2.3 billion. However, there was an estimated $10 billion surplus of the full-employment budget of 1961. The CEA argued that this full-employment budget surplus had to be eliminated by creating about $10 billion of fiscal dividends, even in the face of the actual budget deficit.[56]

The CEA calculated that the federal tax system at that time prevented the creation of $12–13 billion of budget deficits that the CEA thought necessary for recovery. As part of an address Kennedy planned in April 1961, Heller urged Kennedy to emphasize that economic output was far below its potential output,

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that the consumption-stimulating deficit would be inadequate without a tax cut, that congressional reluctance and administrative slowness would restrain increases in government spending, and that an economy stimulated by tax cuts would increase federal revenues.[57] By the time the tax-reform bill was finally proposed in 1963, the CEA and several economists, including Paul Samuelson and Robert Solow, had persuaded Kennedy of the importance of deliberate deficit financing.[58]

DRAFTING THE ORIGINAL TAX REFORM BILL IN 1961

When the Treasury drafted the original tax-reform bill in 1961, its ideas along with those of Surrey and Mills prevailed in the Kennedy administration. In his first public address concerning the administration's tax policy plan on April 20, 1961, Kennedy stated that the large number of tax preferences narrowed the tax base of the mass-based federal income tax system, distorted economic efficiency, provided preferential treatment to specific income groups, and made high rates necessary. He further stated that the administration intended to propose a "coherent package" tax-reform program to provide a broader and more uniform tax base with an appropriate rate structure for a higher rate of economic growth, more equitable tax structure, and simpler tax law without net revenue losses.[59] In a report circulated on April 22, 1961, Surrey recommended a more concrete set of tax-reform measures: reducing the top marginal rate from 91 percent to 65 percent; smoothing low- and middle-income tax rates;[60] reversing the normal corporate income tax rate (30 percent) and surtax rate (22 percent) to favor small corporations combined with a 2 percent rate reduction; and possible structural reform measures (see Table 1).[61]

Several tax experts aided the work of the Treasury staff as part-time consultants. On April 22, 1961, a meeting was held in Surrey's office.[62] Most of the consultants agreed on a reduction and simplification of itemized deductions and taxation of capital gains on assets less than five years with constructive realization at death or gift. Solow wrote to CEA members that the amount of revenue the reforms would presumably raise would determine the degree of revisions in the rate structure. The consultants generally agreed that some overall reduction in revenue, $3–4 billion at most, would be the price to pay for tax reform.[63] In a meeting on June 10, 1961, the consultants supported reform of individual income taxes, corporate income taxes, and estate and gift taxes with revenue losses involving $3 billion, $5 billion, and no losses, respectively. Furthermore, they supported

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Table 1. A Possible Tax Reform Program Reported on April 21, 1961 (In billions of dollar)

Item	Tax Revenue Involved	
	Less Probable	More Probable
Elimination of Sick Pay Exclusion	0.125	0.125
Personal Deductions		
Elimination of deduction for state sales taxes	0.500	0.050
Elimination of deduction for state property taxes	1.200	0.850
Elimination of personal interest deduction	1.600	0.800
Minimum floor on casualty loss deduction	0.050	0.050
Reduction in standard deduction	1.200	0.600
Capital Gains		
Definitional changes	0.100	0.100
Elimination of alternative rate and substitution of the inclusions in income	0.750	0.400
Tax Exempt Securities		
Elimination of exemption of outstanding issues	0.250	0.000
Elimination of exemption on new issues	0.025	0.025
Treatment of Aged		
Inclusion in income of Social Security and Retirement Pension	0.600	0.000
Elimination of retirement income credit	0.125	0.000
Changing additional exemption for persons over 65 years old to a credit	0.050	0.050
Percentage Depletion		
Reducing percentage depletion benefits by 50%	0.100	0.000
Total	6.700	3.000

Source: Stanley S. Surrey, "Preliminary Statement of Tax Reform Program for 1962," April 22, 1961, JFKL, WWHPP, Box 22, File: Tax Cut 4/61-11/61.

floors on deductions for medical care, charitable contributions, casualty losses, and state and local taxes; tightened exclusions for sick pay, Social Security retirement benefits, and interest from state and local securities; the elimination of various tax credits; and splitting the first income bracket in order to reduce the maximum marginal rate.[64] In addition, the consultants urged taxation of unrealized capital gains left at death, raising the rates of capital gains taxation, liberalizing loss deductions, lengthening holding periods, and restricting the definition of allowable capital gains.[65]

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In a meeting on November 24, 1961, those in attendance agreed that a tax-reform bill would be proposed in 1962 or 1963 as a measure for improving equity, reforming tax structure, and promoting growth.[66]

THE TAX REFORM BILL ARRIVES ONSTAGE

While discussions of tax reform were continuing, the political and economic conditions surrounding the Kennedy administration significantly changed. Soon after his inauguration, Kennedy made a number of appointments to regulatory agencies, including the appointment of Luther Hodges as Secretary of Commerce in order to break up the cozy relationship between the Business Advisory Council and Commerce. However, these moves outraged businesspersons who had grown used to regarding the agencies as an adjunct of their own trade associations.[67] In addition, a serious conflict over rising steel prices occurred between the administration and steel industries in 1962. The Republican congressional leadership termed the actions of the administration "a display of naked political power never seen before in this nation."[68] The economic growth rate that had increased consistently in 1961 began to decline in the first quarter of 1962.[69] In April 1962, stock prices fell sharply after rising from December 1961. The largest declines were suffered by growth stocks, which had been selling at high earnings multiples. On May 28, 1962, just after the steel fight ended, the stock market declined sharply again. Businesses, investors, and analysts worried that the recovery had ended and the disorder in the stock market was heralding a recession.[70]

As Heller later wrote, adding expenditure programs faced great resistance during this period. The political situation required an approach to expansionary policy that would not be rejected on grounds that it would bloat the budget.[71] The CEA attempted to persuade Kennedy to advocate tax cuts in place of comprehensive tax reform. On June 5, 1962, to help head off a recession, the CEA suggested a temporary across-the-board 3 percent cut in individual income tax that would take effect on July 1 or September 1, 1962 (with associated revenue losses of $3.7 billion) and terminate on July 1, 1963, and a 3 percent cut in the corporate income tax that would take effect on January 1, 1963 (with associated revenue losses of $1.5 billion). The CEA expected that such tax cuts would appeal to both business and labor. In addition, the CEA argued that the temporary rate reduction "should be geared to the permanent cuts planned in the major tax reform."[72] Meanwhile, the CEA recommended the division of the comprehensive tax-reform plan into two parts: first, the permanent rate cuts would take effect on January 1, 1963;

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second, "the bitter pills of base tightening would have [to wait] to be swallowed till January 1, 1964" in order to reduce the predictable opposition to the deliberate creation of a budget deficit (the two-stage approach).[73] Pursuant to their advice, Kennedy declared the administration's intention to propose a comprehensive tax reform "as net tax reduction" on June 7, 1962.[74] In addition, in a speech at Yale University, Kennedy attempted to distinguish "the myth and reality" in the national economy and gave the strong impression that the administration would use fiscal and monetary policy in order to stimulate the economy without increasing inflation.[75]

Several economists and businesses favored the CEA's position. Richard Musgrave argued for the immediate reduction of individual income tax rates, mainly for those with lower-incomes in order to stimulate consumption, and of corporate tax rates in order to assuage political opposition. He believed that the proposed rate cuts would be a step toward a constructive tax reform that would later involve permanent rate reduction and a broadened revenue basis.[76] Samuelson and Solow recommended an immediate tax cut to Kennedy because they concluded: "The steam of the advance is already dissipating" based on their estimate that the production and order of vehicles and housing construction had decreased in July 1962.[77] Gerhard Colm of the National Planning Association also stressed the need for an immediate tax cut.[78] Heller met the members of the Conference of Business Economists (CBE) on July 12, 1962. The CBE estimated that the GNP would decline by $5–10 billion from the fourth quarter of 1962 or the first quarter of 1963 owing to the slow rate of retail sales, construction, and business fixed capital investment. The CBE argued that these indicators reflected uncertainty and loss of consumer confidence. The CBE recommended that the reduction in individual and corporate income taxes of $7–10 billion should last at least eighteen months to two years, effective October 1, 1962. In addition, the CBE recommended that any tax cut should not involve structural reforms at this time.[79] Other business organizations, such as the Chamber of Commerce, also supported an immediate reduction of individual and corporate income taxes.[80]

A tax cut was appealing to the Kennedy administration because of the expected effect of restoring confidence in the administration, in addition to boosting the U.S. economy. On July 17, 1962, Kennedy's personal aide, Arthur M. Schlesinger Jr., wrote to Kennedy that the last Gallup poll showed a troubling decline in the belief that the Democratic Party could handle economic difficulties. Schlesinger was concerned about the possibility that enactment of the tax cut in 1962, mainly consisting of investment credit and depreciation reform, might lead the public to think that the administration was abandoning

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the traditional Democratic faith in the support of consumer demand by trying to fight stagnation with trickle-down theory. Schlesinger also argued that the risk of appearing to let the economy slide into recession was even greater than the risk of losing a fight over tax reform in Congress. In response, he urged Kennedy to adopt a tax cut to restore the public's belief in the Democratic Party "as the party which can be relied on to take action against recession."[81] Meanwhile, Kennedy stated at a press conference on July 24, 1962: "Consumer purchasing power has held up. What has been particularly disappointing has been investment, and we have to consider whether a tax cut, and if so, what kind of tax cut, would stimulate investment."[82] In summary, the Kennedy administration expected that a tax cut would be consistent with Democratic tradition while avoiding conflict with business.

TREASURY'S DISAGREEMENT WITH THE CEA'S VIEW

The Treasury disagreed with the tax cut recommended by the CEA, economists, and businesses. On the one hand, the Treasury questioned the CEA's expectation that the economy would continue to move forward until 1963. The economic trend had shown some improvement in July 1962 from the slowdown in the spring,[83] while a loss of revenue and a substantial budget deficit might have only increased foreign doubts about the course of the domestic economy and balance of payments.[84]

On the other hand, Warren Smith, one of the consultants for the CEA, elaborately detailed for Heller the Treasury position with regard to the relationship of monetary and fiscal policy.[85] The Treasury posited the following accounting formula: "Personal Savings + Gross Business Savings = Gross Private Domestic Investment + Net Exports + Government Deficit." As a consequence of this relationship, any increase in the government deficit had to be accompanied by an increase in personal or business savings, or a contraction in gross private domestic investment or net exports sufficient to release existing savings. However, the share of U.S. exports in exports of the entire world declined from 23.5 percent in 1948 to 17 percent in 1961.[86] Under the accounting formula, an increase in the deficit would be financed out of savings. In addition, a reduction of marginal tax rates would increase private savings. However, the Treasury was concerned that a separate enactment of rate reduction would result in much larger revenue losses than were necessary before the feedback effect of the tax cut. Meanwhile, the Federal Reserve would not increase supply reserves in the near future. Then, if tax cuts increased the budget deficits, bank purchases of Treasury securities would decrease bank acquisitions

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of private debt. Subsequently, the Federal Reserve would raise short- and long-term interest rates and increase the demand for money and credit to the extent that tax reduction would increase income, which would further raise interest rates. This operation of the Federal Reserve would result in increasing the cost of corporate finance while decreasing the availability of credit to private borrowers, reducing private demand for houses, automobiles, and plant and equipment, thereby diluting the expansive effect of the tax cut. As a result, the feedback effects of a tax cut on tax revenues would be reduced, so that the ultimate deficit resulting from the tax cut would be larger. Moreover, the rise in interest rates not only would increase the cost that the Treasury would have to pay on the new securities and outstanding debt as it matured and had to be refunded, but also would complicate the balance of payments problem.[87]

The public and economic trends did not immediately support the proposed tax cuts. Financial interests, such as Connecticut General Life Insurance Company, contended that a tax cut should be enacted only when signs of an economic decline were stronger than at that time.[88] In a Gallup Poll that Heller sent to Kennedy on July 31, 1962, only 19 percent of Americans supported a tax reduction while 72 percent opposed it. Specifically, 15 percent of Republicans favored a tax cut, 18 percent of Democrats favored it, and 26 percent of Independents did so. Respondents, when asked whether they considered their income tax payments "about right" or "too high," were split about evenly. However, only 31 percent of the group that considered their tax burden too large favored tax reductions.[89] In August 1962, the CWM concluded that no tax cut was needed at the time. They argued that an excessively bleak picture had been painted by business for self-serving reasons, and too much pressure for a tax cut had been generated by the administration figures. Mills was not convinced that a tax cut was desirable. He foresaw that the House would reject it.[90] Eventually, on August 13, in a thirty-minute television and radio address from his office, Kennedy stated that an immediate tax cut "could not now be either justified or enacted."[91]

PROPOSAL OF 1963 TAX REFORM BILL

Despite the administration's decision not to propose an immediate tax cut, the CEA and representatives of both labor and business continued to argue that the economy needed a tax cut and emphasized it over other reform measures. On August 9, 1962, Heller recommended that the administration should propose a tax-reform bill at the beginning of the next session and

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adopt the two-stage approach in recommending tax cuts.[92] On November 9, 1962, at a meeting of the CEA with business economists, 80 percent of the business economists agreed on substantial tax cuts even if they involved an expansion of budget deficits or federal expenditure. However, the economists generally opposed structural reform measures because they would impede the passage of tax cuts. In addition, the economists preferred the two-stage approach: making tax cuts first and tackling reform second.[93] Furthermore, in November 1962, representatives of the American Federation of Labor and Congress of Industrial Organization met Gardner Ackley and argued that a tax-reform bill would not be passed unless the tax cut and reform were separated.[94]

However, Mills was unwilling to agree to separate the rate cuts from tax reform. At a meeting with Douglas Dillon, secretary of the Treasury, in November 1962, Mills argued that there was no evidence of a near-term recession as forecasts by various economists in the summer and current economic developments were favorable because of increases in capital expenditure, auto sales, and inventory accumulation. In addition, he regarded the existing tax-rate structure as a drag on economic growth and higher employment and favored a permanent reduction of individual and corporate rates. However, he argued that it should be accompanied by base-broadening measures and a commitment to hold down increases in nondefense expenditure to a minimum while the rate reductions took effect in order to avoid destroying confidence in the government's fiscal responsibility and to maximize the possibility of enactment of the program.[95]

The CEA, the Treasury and its staff, and Kennedy worked toward a compromise. On November 19, 1962, Robert Wallace, special assistant secretary of the Treasury, wrote that it was necessary for the Treasury to consider a compromise. Pressures continued for the two-stage approach on the one hand and congressional resistance to a large deficit persisted on the other. He believed that it might be especially appropriate in view of the continuing business improvement that would blunt the standard arguments of the economists. As a compromise, he suggested the two-stage approach. Consequently, the Treasury agreed with his suggestion. The Treasury decided to propose that the bulk of the tax cuts along with the simplest reforms be presented for early action. The rest of the cuts and the more controversial reforms could be considered later.[96] The Treasury's staff did not intend to abandon the comprehensive tax reform they desired; nor was the administration's initial portrayal of the tax-reform bill with the two-stage approach an attempt to justify the failure of the administration of the quick tax cut or to

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appease Mills. Those who actually *did* abandon their ideal bill were the Treasury and Mills. The Treasury staff simply believed the two-package approach would make the eventual adoption of tax reform much more likely.

On January 24, 1963, the Kennedy administration finally proposed a tax-reform bill, taking the two-stage approach. The range of individual income tax rates was reduced from 20–91 percent to 14–65 percent over a three-year period.[97] Corporate rate cuts would take place in three stages.[98] These measures were aimed at relieving the barrier to full employment of manpower and resources and enhancing consumer demand and investment. Structural reforms, as displayed in Table 2, were proposed at the same time but did not take effect until January 1, 1964. Structural reform measures were aimed at avoiding an overly sharp drop in tax revenues for fiscal 1964–65, reducing inflationary pressures, decreasing the economic burden of the rate structure, and encouraging taxpayer cooperation and compliance by eliminating inequities and complexities. The measures to relieve "hardship" and encourage "growth" were aimed at providing relief to low-income taxpayers. The measures of "base broadening and equity" and "revision of capital gains taxation" were designed to eliminate or tighten preferential treatment of higher-income taxpayers and unearned income.[99] The reform of capital gains taxation was proposed as a step toward accomplishing estate and gift taxes reform.[100] Moreover, while the proposed bill would attempt to smooth differences in tax rates among each bracket, it would also increase the number of brackets from 24 to 25 by splitting the first $4,000 bracket.[101] The bill, when proposed, still intended not only to stimulate consumption and investment but also to boost progressiveness, fairness, simplicity, and equity.

DISPUTE OVER PASSAGE OF THE TAX REFORM BILL

Despite the compromise among the CEA, the Treasury, and Mills, the proposed structural reforms were attacked fervently, and the attacks impeded passage of the tax bill. They focused on key elements of the proposed structural reform, especially the repeal of dividend credit and exclusion, the 5 percent floor on itemized deductions, and the capital gains tax. The United Community Funds and Councils of America charged that the floor on itemized deduction for charitable contributions could invite dangerous changes that might do great damage to the country's voluntary system of health, welfare, education, and religious and cultural organization.[102] The United States Trust Company of New York argued that the floor on itemized deductions and capital gains taxation were deliberate measures to squeeze people in the

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Table 2. Estimated Revenue Effect before Feedback,[1] Full Year 1964 when all Proposals Are Fully Effective (In millions of dollars)

	Full Year
Individual	
Rate reduction	-11,040
Structural reforms	
Relief of hardship and encouragement of growth	
Allow minimum standard deduction	-220
Liberalize child care deduction	-20
Revise tax treatment of older people	-320
Income averaging	-30
Liberalize exclusion of moving expenses	-20
Raise limitation on certain charitable contributions	*
Total, relief of hardship and encouragement of growth	-610
Base broadening and equity	
5% floor under itemized deductions	2280
Flat 4% floor on medical deductions	30
4% floor under casualty losses	90
Repeal allowance of unlimited charitable contributions	10
Repeal sick pay exclusion	110
Repeal exclusion of premiums on group term insurance	60
Repeal of the dividend credit and exclusion	460
Revise taxation of natural resources	10
Total, base broadening and equity	3,050
Total, structural reforms	2,440
Total, individuals	8,600
Corporations	
Rate reduction	
Rate reduction and change in normal and surtax rates	-2,670
Limit surtax exemptions of affiliated groups	120
Repeal 2% consolidated returns	-50
Total, rate revision	-2,600
Structural reforms	
Relief of hardship and encouragement of growth	
Allow expensing of certain research and development costs	-50
Base broadening and equity	

Continued

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Table 2. continued

	Full Year
Revise taxation of natural resources	240
Amend tax treatment of personal holding companies	10
Total, base broadening and equity	250
Total, structural reforms	200
Total, corporations before acceleration of payments	-2,400
Acceleration of payments	1,500
Total, corporations including acceleration of payments	-900
Revision of taxation of capital gains and losses—individuals and corporations	
Reduce inclusion percentage and extend holding period	-440
Allow indefinite carryover of losses	-20
Tax net gains or allow net losses accrued at time of death or gift	360
Change definition of capital gains	200
Induced effect of capital gains revision—individuals and corporations	100
Total (before induced effect of capital gains revision)	700
Total, capital gains and losses	800
Total—before acceleration of corporation payments	
Rate reduction and revision	-13,640
Structural reforms including capital gains and losses	3,440
Total	-10,200
Total—including acceleration of corporation payments	-8,700

* Negligible

1. At levels of income estimated for the calender year 1963.

Source: The Treasury Department, "The Attached Tables Were Prepared to Accompany the President's Tax Message and Must Be Held for Release at 12:00 Noon, Est Thursday, January 24, 1963," January 23, 1963, JFKL, WWHPP, Box 21, File: Tax Cut 1/16/63-1/31/63.

middle- and high-income classes who received capital income.[103] Keith Funston of the New York Stock Exchange maintained that the reform of capital gains taxation would hit not only shareholders but also small businesses and farmers, and that the repeal of dividend credit and exclusion would create full double taxation of dividends.[104] The U.S. Chamber of Commerce declared that the structural reforms would take away most of the benefits to be derived from the rate revision in middle- and high-income brackets.[105] Vincent P. Moravec, a citizen of New York, insisted in a letter to Kenneth O'Donnell, special assistant to Kennedy, that the reform measures, particularly the 5 percent floor on itemized deductions for charitable contributions

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and the $1,000 maximum standard deduction, would put pressure on homeowners and investors in middle- and high-income classes and dry up sources of contributions.[106] Belden L. Daniels of the Pennsylvania Bankers Association argued for the maintenance of dividend credit and the exclusion and withdrawal of taxation on capital gains at death and gift.[107]

Many newspapers carried articles opposing the structural reforms. *Business Week* charged that loophole-closing reforms were not really "simple revenue raising," but rather, "a barely concealed cancellation of a substantial part of the cut that the revision of rates appears to give."[108] *The St. Louis Post* charged that "the inequity of the present tax system would be compounded by inequity in the 'reform'. . . . It would simplify enforcement by reducing the number of returns to be audited. If this is accomplished at the cost of depriving taxpayers of deductions to which they are justifiably entitled, equity would suffer for the sake of the tax collector's convenience."[109] The *Washington Post* reported that the 5 percent floor had been misinterpreted variously as a deduction ceiling, a takeaway of all deductions, and a bar against specific deductions.[110]

In the face of fervent opposition, Mills, who had been one of the imminent proponents of comprehensive tax reform, revised his role from a protector of comprehensive tax reform to a promoter of tax cuts. Neither Congress nor the nation favored the tax-cut bill immediately after it was proposed by the Kennedy administration.[111] In the House, structural reform faced strong opposition. In February 1963, Douglas Dillon, during the second day of his testimony before the CWM, drew a barrage of attacks by Republicans regarding the proposal for a 5 percent floor, a capital gains tax at death, and the repeal of dividend credit and exclusion. The Republican members of the CWM argued that those measures would severely pressure higher-income classes above $10,000 a year, investments, and homeowners who paid local estate tax.[112] Representative John W. Byrnes (R-Wisc.) charged that the Kennedy administration "seeks to favor the person who doesn't own his own home, who doesn't pay real estate taxes, who doesn't support his church, who doesn't give to the Community Chest."[113] Then, on the House floor in 1963, Mills stated: "The route I prefer is the tax reduction road which gives us a higher level of economic activity and a bigger and more prosperous and more efficient economy with a larger and larger share of the enlarged activity initiating in the private sector of the economy."[114] On the House floor, it was argued that the capital gains tax and the repeal of dividend credit and exclusion would damage capital markets and dilute the effect of rate reductions.[115] The bill passed the House (271–155) on September 25, 1963. However, most structural reform measures had been

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dropped, except for modified capital gains taxation, the first $100 exclusion of dividends, and a few other minor reforms. Mills, with his inconsistent attitude, could not protect the original bill.

Ultimately the administration abandoned the surviving reform provisions, especially capital gains tax reform, in exchange for quick passage of the bill. Soon after he assumed the presidency, Lyndon Johnson addressed the Congress saying, "No act of ours could more fittingly continue the work of President Kennedy than the early passage of the tax bill for which he fought all this long year," adding that the legislation would increase national income and federal revenues while providing insurance against recession.[116] The OTA regarded the House bill as having various defects with respect to capital gains taxation. The House bill reduced the inclusion rate on long-term capital gains and the alternative tax rate, while determining not to tax capital gains at death, and adopting a much lower new tax rate schedule on realized gains than the administration originally proposed. These measures would reduce taxes on long-term capital gains, favor high-income earners, and maintain serious inequity among income classes. Furthermore, the OTA believed that the House bill would increase the complexity of the income tax system. For these reasons, the OTA concluded that the Treasury should abandon capital gains tax reforms until the law could be amended to deal with the problem of unrealized appreciation at death either by taxing the transfer at death or on a carryover basis.[117] Finally, the OTA decided to recommend that the Senate Finance Committee retain the existing tax treatment of capital gains.[118]

The Senate passed the tax bill on February 7, 1964, and Johnson signed it on February 26. The range of individual income tax rates was reduced to 16–77 percent in 1964 and to 14–70 percent in 1965. The withholding rate of individual income tax and the normal rate and surtax rate of corporate income tax were also reduced.[119] With regard to structural reform, the new act increased the deduction for retirement income and the minimum standard deduction. Both these measures cut taxes and revenues. However, most base-broadening elements of the original administration proposal had disappeared. Consequently, the new legislation did not strengthen the progressivity and equity of the tax system, and was, in general, little more than a huge tax cut.[120] The original impetus for tax reform had vanished.

CONCLUDING REMARKS: THE AFTERMATH OF THE 1964 TAX CUT

The sharp acceleration in the economic growth rate seemingly convinced much of the nation that the Kennedy–Johnson tax cut represented one of the

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most important legacies of the Kennedy administration. When Johnson signed the tax cut into law in February 1964, for example, he applauded the legislation as "inspired and proposed by our late, beloved President John F. Kennedy."[121] Kennedy's economic advisers repeatedly referred to the tax reform as having contributed to this economic boost. For instance, Heller concluded: "Early returns—and circumstantial evidence—show the economy to be responding well to the tax cut."[122] Accelerated economic activity, the resultant revenue increase, and economists' arguments for the tax cut of 1964 eventually forced both the Democrats and the Republicans to consider tax cuts in their respective platforms in the face of budget deficits. During the 1964 presidential contest between Johnson and Barry M. Goldwater (R-Ariz.), Johnson recommended a consumption-tax reduction and another income tax cut, despite the accelerating economic recovery.[123] Meanwhile, Goldwater, despite his vote against the tax cut in 1964 on grounds that it would be fiscally irresponsible in the face of a budget deficit, proposed a far larger tax reduction (25 percent over a five-year period) through across-the-board rate cuts.[124]

During the 1964 presidential election campaign, the Treasury staff did not adopt a new orthodoxy, but they had to endorse the result of the 1964 tax cut and their legislative effort because of the importance of the Kennedy–Johnson tax cut for the image of the Democratic administration. Surrey continued working on crafting tax reforms based on his fiscal beliefs until he returned to Harvard.[125] He nevertheless noted in a letter to a congressional representative that the Revenue Act 1964 "contains many revenue raising and revenue reducing provisions, primarily intended to provide more equity and uniformity and to reduce hardship."[126] While denouncing Goldwater's tax cut as fiscally irresponsible, Wallace told Myer Feldman, deputy special counsel to the president, "I think the best approach to the Goldwater proposal from a fiscal standpoint is 'Welcome to the club! You have finally recognized your error in voting against the tax cut by proposing an even bigger one.'"[127] The theoretical stance on comprehensive tax reform taken by its proponents was more similar to the ideas of Keynes, Hansen, and Lerner than that of the "tax cut" proponents now referred to as "Keynesians." However, the tax cut argument finally won. Then, ignoring what Keynes actually advocated, the victorious CEA and other economists promoted the popularity of the Kennedy–Johnson tax cut as a part of "the completion of the Keynesian revolution," despite the fact that it did not involve the structural tax reforms suggested that Keynes and his American contemporaries suggested. This promotion by the CEA and other economists subsequently influenced the direction of many studies that have uncritically viewed the tax cut as "Keynesian tax policy," a tax policy

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that simplistically emphasized the creation of a budget deficit to stimulate consumption as a response to a sluggish economy.

Remembering the legislative process and result of the Kennedy–Johnson tax cut, Mills thereafter required that every comprehensive tax-reform program include tax reductions.[128] When it turned out that the Treasury would very likely be defeated in 1964, the Treasury and its staff determined to develop and propose a new comprehensive tax-reform program.[129] Based on its research and discussion, the administration of Richard Nixon proposed a revenue-neutral comprehensive tax-reform program in 1969.[130] However, the CWM originated most of the changes encompassed in the bill.[131] Mills called for more rate reductions and increases in the low-income allowance and the standard deduction than Nixon originally proposed. The bill that the House finally approved added $2.4 billion in tax reductions to the Nixon proposal.[132] Thus, the legislation would lose more revenue than it produced, thereby threatening to increase deficits. In response to this concern, Mills drew on the logic of the 1964 tax cut to explain that in the long run, the economic improvements from the bill would generate higher revenue.[133] When the tax-reform bill was enacted in 1970, the number of loophole-closing provisions that could have raised revenues (+$3,320 million) was much less than that of income tax relief (–$9,134 million) over the long run.[134] The Treasury again failed to accomplish its desirable base-broadening revenue-neutral tax reform. Nevertheless, Mills justified the result not only by invoking the experience with the 1964 tax cut, despite the fact that it was far from success. He also argued that people from all income brackets would enjoy the benefits of tax preferences.[135]

The victory of the 1964 tax cut and Mills's action seemingly made tax expenditures and tax cuts popular among politicians and the public. In the early 1970s, because of the effects of "bracket creep," tax policy took the enviable form of returning revenues to voters in the form of tax cuts while retaining some for government programs.[136] In the late 1970s, the Carter administration advocated the reduction of tax expenditures in light of Treasury investigations and attempted to roll back the surging wave of tax preferences from the early 1970s. However, Democratic and Republican leaders in Congress who were opposed to this approach favored tax preferences for the higher-income brackets, and their approach prevailed.[137] The Reagan administration, in turn, implemented the tax cut of 1981 and included indexing of income tax brackets on the basis of the results of the 1964 tax cut. However, in reality, it resulted in explosively larger federal deficits and weakened political taxing potential. Thereafter, the Reagan administration temporarily eased

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away from the path of tax cuts by implementing tax increases in 1982 and 1983, as well as a comprehensive tax reform through tax expenditure cuts in 1986. However, during the 1990s, the Clinton administration increased tax expenditures instead of direct social expenditure. Furthermore, in the early 2000s, the administration of George W. Bush weakened the capacity of the federal tax system to generate new revenues through a succession of five tax cuts. The memory of the 1964 tax cut held back the movement toward the kind of tax reform that might have helped solve subsequent fiscal problems, and it gave posterity to the impression that tax policy was more important as a tool to stimulate the economy rather than to raise revenue. Furthermore, the "tax-cutting culture" established by the 1964 tax cut meant that subsequent attempts by the government to seek new or higher revenue through legislated tax increases were a politically precarious task.

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NOTES

1. At the same time, both Kennedy's and Johnson's administrations chose to attempt to reduce government expenditures, doubting the wisdom of stimulating the economy through a higher level of government spending. Johnson stated: "From time to time we are going to carefully study each department and agency and try to bring those expenditures down further. We have been encouraged in that move by the Chairman of the Ways and Means Committee and the Chairman of the Finance Committee; they have proven their faith in us by passing this tax bill, and we are trying to—going to keep faith with them by cutting expenditures. By taking this course we have made this bill an expression of faith in our system of free enterprise." Lyndon B. Johnson, "Radio and Television Remarks upon Signing the Tax Bill," 26 February 1964, ed. Gerhard Peters and John T. Woolley, *The American Presidency Project* (http://www.presidency.ucsb.edu/ws/?pid=26084).

2. Ibid.

3. Eric M. Patashnik, "Budgeting More, Deciding Less," in *Seeking the Center: Politics and Policymaking at the New Century*, ed. Martin A. Levin, Marc K. Landy, and Martin Shapiro (Washington D.C., 2001); Herbert Stein, *The Fiscal Revolution in America* (Chicago, 1969).

4. Walter W. Heller, *New Dimensions of Political Economy* (New York, 1966), 2.

5. Eugene C. Steuerle, "Financing the American State at the Turn of the Century," in *Funding the Modern American State, 1941–1995: The Rise and Fall of the Era of Easy Finance*, ed. W. Elliot Brownlee (Washington, D. C., 1996), 409–44.

6. Herbert Stein, "The Fiscal Revolution in America, Part II," in *Funding the Modern American State, 1941–1995*, ed. Brownlee, 194–286.

7. Isaac W. Martin, *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* (Stanford, 2007).

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8. Ronald Reagan, "Taxes, October 18, 1977," in *Reagan, In His Own Hand*, ed. Kiron K. Skinner, Annelise Anderson, and Martin Anderson (New York, 2001), 274–77.

9. Jacob S. Hacker and Paul Pierson, *Off Center: The Republican Revolution and The Erosion of American Democracy* (New Haven, 2005), 30.

10. When Bush signed "The Economic Growth and Tax Relief Reconciliation Act of 2001" on 7 June 2001, he stated, "Across the board tax relief does not happen often in Washington, DC. In fact, since World War II, it has happened only twice: President Kennedy's tax cut in the sixties and President Reagan's tax cuts in the 1980s. And now it's happening for the third time, and it's about time." See "Remarks on Signing the Economic Growth and Tax Relief Reconciliation Act of 2001," *The American Presidency Project, The Public Papers of the Presidents*, 7 June 2001, http://www.presidency.ucsb.edu/ws/index.php?pid=45820&st=&st1=

11. Paul Pierson, "From Expansion to Austerity: The New Politics of Taxing and Spending," in *Seeking the Center: Politics and Policymaking at the New Century*, ed. Martin A. Levin, Marc K. Landy, and Martin Shapiro; Christopher Howard (Washington, D.C., 2001); *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States* (Princeton, 1997).

12. Dennis S. Ippolito, *Deficits, Debt, and the New Politics of Tax Policy* (New York, 2012), 92–103, 157–95; John F. Witte, *The Politics and Development of the Federal Income Tax* (Madison, 1985), 176–98.

13. Joel Slemrod and Jon Bakija, *Taxing Ourselves: A Citizen's Guide to the Debate over Taxes,* 4th ed. (Cambridge, Mass., 2008); Eugene C. Steuerle, *Contemporary U.S. Tax Policy,* 2nd ed. (Washington, D.C., 2008); W. Elliot Brownlee, *Federal Taxation in America: A Short History,* 2nd ed. (Cambridge, 2004). The five tax cuts of George W. Bush mainly included a reduction of individual income tax rates, temporary estate tax cuts, accelerated depreciation, the exclusion of dividend income, cuts in capital gain taxes, and increases in corporate tax breaks. In addition, the Bush tax cuts included other measures, such as the expansion of child tax credit and the deduction of higher education.

14. Steuerle, *Contemporary U.S. Tax Policy,* 38–42.

15. Congressional Budget Office, *The Distribution of Major Tax Expenditures in the Individual Income Tax System,* http://www.cbo.gov/sites/default/files/cbofiles/attachments/43768_DistributionTaxExpenditures.pdf, 2013.

16. Suzanne Mettler, *The Submerged State: How Invisible Government Policies Undermine American Democracy* (Chicago, 2011).

17. Eric M. Patashnik, "Budgeting More, Deciding Less," 43–44; Paul Pierson, "From Expansion to Austerity: The New Politics of Taxing and Spending," 56–61; C. Eugene Steuerle, "Financing the American State at the Turn of the Century," 419–25.

18. This letter appeared in the *New York Times* on 31 December 1933.

19. Keynes, Hansen, and Lerner also mentioned tax cuts as measures to stimulate recovery. However, I would put greater emphasis on the following two points. At first, when Keynes referred to the possibility of tax cuts in *The Means to Prosperity* in 1933, the world was in the midst of the Great Depression. Keynes recommended tax cuts as temporary measures to promote economic recovery. In addition, Hansen and Lerner argued that controlling individual income tax rates could have useful short-term purposes, such as economic recovery and restraint of inflation. Second, all three individuals, especially Keynes, stressed that tax cuts are applicable to all additional expenditure made,

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not in substitution for other expenditure, but out of savings or borrowings. See John M. Keynes, *The Means to Prosperity* (Oxford, 2011); Abba P. Lerner, *The Economics of Control: Principles of Welfare Economics* (New York, 1947); Alvin H. Hansen, *Economic Policy and Full Employment* (New York, 1947), 137–44.

20. Meanwhile, Keynes described that the passage of recovery measures and social reforms were long overdue. He mentioned price stability through monetary policy as a long-range purpose. See Donald Moggridge, *The Collected Writings of John Maynard Keynes, Volume 21: Activities 1931–1939: World Crises and Policies in Britain and America* (Cambridge, 1982), 290–93.

21. Keynes wrote that "Income taxes, especially when they discriminate against 'unearned' income, taxes on capital-profits, death-duties and the like are as relevant as the rate of interest. . . . If fiscal policy is used as a deliberate instrument for the more equal distribution of incomes, its effect in increasing the propensity to consume is, of course, all the greater." He continued: "Assuming that the State applies the proceeds of these duties to its ordinary outgoings so that taxes on incomes and consumption are correspondingly reduced or avoided, it is, of course, true that a fiscal policy of heavy death duties has the effect of increasing the community's propensity to consume." See John M. Keynes, *The Collected Writings of John Maynard Keynes, Volume 7: The General Theory of Employment, Interest and Money* (Cambridge, 1973), 94–95, 372–73.

22. It seems that Keynes drew his tax ideas from the development of the British income tax system. After 1799, the British income tax system increased its progressivity until 1920, the year in which the full development of the progressive principle became a permanent part of British income tax. See F. Shehab, *Progressive Taxation: A Study in the Development of the Progressive Principle in the British Income Tax* (Oxford, 1953). Focusing on the political economy, Martin Daunton examined the detailed process of its development. See Martin J. Daunton, *Just Taxes: The Politics of Taxation in Britain, 1914–1979* (Cambridge, 2002); *Trusting Leviathan: The Politics of Taxation in Britain, 1799–1914* (Cambridge, 2001).

23. Keynes described his desire to take advantage of "the opportunity of war finance to effect a considerable redistribution of incomes in the direction of greater equality."

24. John M. Keynes, *How to Pay for the War* (London, 1940), 34–51.

25. Heller reputed that Hansen had achieved the "Americanization of Keynes." See Heller, *New Dimensions of Political Economy*, 4. Lerner is generally reputed as one of old fiscal policy scholars who were influenced by Hansen.

26. Alvin H. Hansen, *Fiscal Policy and Business Cycles* (New York, 1941), 125–85, 289–312.

27. Lerner continued as follows: "Increased taxes on the rich, offset by decreased taxes on the poor or by greater bonuses to the poor, will increase total demand without unbalancing the budget." See Lerner, *The Economics of Control,* 319–20.

28. C. Eugene Steuerle, *Contemporary U.S. Tax Policy*; W. Elliot Brownlee, *Federal Taxation in America*; Julian E. Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945–1975* (New York, 1998); Iwan W. Morgan*, Deficit Government: Taxing and Spending in Modern America* (Chicago, 1995); Ronald F. King, *Money, Time, and Politics: Investment Tax Subsidies and American Democracy* (New Haven, 1993); Cathie Jo Martin, *Shifting the Burden: The Struggle over Growth and Corporate Taxation* (Chicago, 1991); Witte, *The Politics and Development of the Federal Income Tax*; W. Elliot Brownlee, *Dynamics of Ascent: A History of the American Economy*, 2nd ed. (New York, 1979); Herbert Stein,

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The Fiscal Revolution in America (Chicago, 1969); Edward S. Flash Jr., *Economic Advice and Presidential Leadership: The Council of Economic Advisers* (New York, 1965).

29. Bruce Bartlett, *The Benefit and the Burden: Tax Reform––Why We Need It and What It Will Take* (New York, 2012); Zelizer, *Taxing America*; John F. Manley, *The Politics of Finance: The House Committee on Ways and Means* (Boston, 1970); Stein, *Fiscal Revolution in America*.

30. W. Elliot Brownlee, "Tax Regimes, National Crisis, and State-building in America," in *Funding the Modern American State, 1941–1995: The Rise and Fall of the Era of Easy Finance*, ed. W. Elliot Brownlee, 88–96. As for the "mass-based income taxation," see Carolyn C. Jones, "Class Tax to Mass Tax: The Role of Propaganda in the Expansion of the Income Tax during World War II," *Buffalo Law Review* 37 (1989): 685–737.

31. Treasury Department, *Annual Report of the Secretary of the Treasury on the State of Finance for the Fiscal Year ended June 30, 1948* (Washington, D.C., 1948), 50–53; Treasury Department, *Annual Report of the Secretary of the Treasury on the State of Finance for the Fiscal Year ended June 30, 1946* (Washington, D.C., 1947), 89–93.

32. Treasury Department, *Annual Report of the Secretary of the Treasury on the State of Finance for the Fiscal Year ended June 30, 1951* (Washington, D.C., 1952), 44–52; Treasury Department, *Annual Report of the Secretary of the Treasury on the State of Finance for the Fiscal Year ended June 30, 1950* (Washington, D.C., 1951), 34–42.

33. This reform included not only the reduction of the individual income tax rate scale from 22.2–92% to 20–91%, but also reform measures designed to narrow the tax base. The reform measures included the application of an income-splitting return rule to widows with dependents, child care deduction up to $600 per year for widows and lower-income working women, expansion of itemized deductions, retirement income tax credit, exclusion of an employer health insurance contribution, exclusion of the first $50 of dividends against a shareholder's taxable income, and a 4% dividend credit in excess of the $50. See Treasury Department, *Annual Report of the Secretary of the Treasury on the State of Finance for the Fiscal Year ended June 30, 1954* (Washington, D.C., 1955), 43–53, 246–86.

34. Treasury Department, *Annual Report of the Secretary of the Treasury on the State of Finance for the Fiscal Year ended June 30, 1958* (Washington, D.C., 1959), 41–52. As for the details of the federal tax system structured by the Revenue Act of 1954, see U.S. Congress, Joint Economic Committee, *The Federal Revenue System: Facts and Problems, 1961* (Washington, D.C., 1961).

35. The Subcommittee included Senator Paul Douglas (D-Ill.), Representative Thomas Curtis (R-Mo.), and Senator Barry Goldwater (R-Ariz.).

36. Louis Cassels, "This Man Shapes Your Tax Bill," *Nation's Business*, March 1956; "Looking at Tax Effects," *Business Week*, 21 May 1955.

37. At this time, Mills clearly answered that he disagreed with the theory argued in the 1920s that "the lower the tax rates the higher the business activity, and therefore the higher the income." He thought it was inconceivable that greater economic activity could never be achieved without more manpower, resources, and capital to generate increased economic activity. He disagreed with the argument that a mere reduction in rates of taxation would generate these economic aspects. Furthermore, he observed, "When I hear people urging us to cut tax rates in order to increase revenues when we have full employment, then I know they're either asking for inflation or hoping for some kind of fiscal black magic." He did not believe that the rate or level of taxation itself was necessarily such

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as to prevent a continued rise in economic activity, although he thought that rates could be reduced, and must be reduced in the long run. He thought that high tax rates might diminish incentives to make more money. However, he said he did not find who said at the hearings of his committees that the rate of taxation was such as to prevent him from working 12 months in the year. He believed that the federal tax system did not destroy the middle class. In addition, he was of the opinion that the tax system did not prevent opportunities for more equity capital for larger businesses. See "Keep the Income Tax but Make It Fair," *U.S. News & World Report*, 27 July 1956.

38. "Keep the Income Tax but Make It Fair," *U.S. News & World Report*, 27 July 1956; Louis Cassels, "This Man Shapes Your Tax Bill," *Nation's Business*, March 1956.

39. "Chairman Wilbur D. Mills, Committee on Ways and Means, House of Representatives, Announces Committee's Plans for Study Aimed at Revision of Federal Tax System," 18 May 1959, National Archives College Park (NACP), Record Group (RG) 56, Office of Tax Policy: Subject Files (OTPSF), Box 68, File Folder #55: Tax Legislative Program for 1959–60, Mills Subcommittee, 1959–62; "Address of Chairman Wilbur D. Mills, Committee on Ways and Means, U.S. House of Representatives, before the Ninth Annual Mid-Year Conference of the Tax Executive, Shoreham Hotel, Sunday Evening, 15 February 1959," 15 February 1959, NACP, RG 56, OTPSF, Box 68, File Folder 55: Tax Legislative Program for 1959–60, Mills Subcommittee, 1959–62.

40. "Program of Panel Discussion in General Revenue Revision, 1959," 8 September 1959, NACP, RG 56, OTPSF, Box 68, File Folder 55: Tax Legislative Program for 1959–60, Mills Subcommittee, 1959–62. As for this series of hearings, see U.S. House of Representatives, Committee on Ways and Means, *Tax Revision Compendium of Papers on Broadening the Tax Base,* vols. 1–3 (Washington, D.C., 1959).

41. "Tax Policies for Economic Growth," 17 December 1959, NACP, RG 56, OTPSF, Box 68, File Folder 56: Suggestions for TAX REFORM Submitted to Treasury for Comment, 1959.

42. "Closing Statement of Chairman Wilbur D. Mills, Committee on Ways and Means, at the End of Five Weeks of Panel Discussions on Tax Reform," 18 December 1959, NACP, RG 56, OTPSF, Box 68, File Folder 55: Tax Legislative Program for 1959–60, Mills Subcommittee, 1959–62; Fred C. Scribner Jr. to Wilbur D. Mills, 18 December 1959, NACP, RG 56, OTPSF, Box 68, File Folder 55: Tax Legislative Program for 1959–60, Mills Subcommittee, 1959–62.

43. For Surrey's background, see, for example, Mirit Eyal-Cohen, "Preventive Tax Policy: Chief Justice Roger J. Traynor's Tax Philosophy," *Hastings Law Journal* 59 (March 2008); Erwin N. Griswold, "A True Public Servant," *Harvard Law Review* 98, no. 2 (December 1984); "Stanley S. Surrey, 74; Taxation Law Expert," *New York Times*, 28 August 1984. For the Shoup Mission and Surrey's contribution to it, see *The Political Economy of Transnational Tax Reform: The Shoup Mission to Japan in Historical Context*, ed. W. Elliot Brownlee, Eisaku Ide, and Yasunori Fukagai (New York, 2013).

44. Stanley S. Surrey, "The Relationship of Revenue Administration to Fiscal Policy with reference to Underdevelopment Countries," 15 November 1956, Historical Special Collection (HSC), Harvard Law School Library (HLSL), Stanley S. Surrey Papers (SSSP), Box 35, File No. 26–3: Tax Administration Conference; Henry S. Bloch to Stanley S. Surrey, "Preparatory Meeting for the Conference on Tax Administration in Under-developed Countries," 8 February 1957, HSC, HLSL, SSSP, Box 35, File No. 26–3: Tax Administration Conference.

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From 1958, Surrey served with Shoup on a tax assistance mission to Venezuela. See Brownlee, ed., *The Political Economy of Transnational Tax Reform*, 431–38.

45. Stanley S. Surrey to Frank Ikard, 17 November 1959, HSC, HLSL, SSSP, Box 39, File: Ways and Means Committee, 1957–60; Stanley S. Surrey to Lee Metcalf, 17 November 1959, HSC, HLSL, SSSP, Box 39, File No. 28–1: Ways and Means Committee, 1957–60; Stanley S. Surrey to Lee Metcalf, 15 January 1960, HSC, HLSL, SSSP, Box 39, File No. 28–1: Ways and Means Committee, 1957–60; Stanley S. Surrey to Frank Ikard, 15 January 1960, HSC, HLSL, SSSP, Box 39, File No. 28–1: Ways and Means Committee, 1957–60; Stanley S. Surrey to John W. Byrnes, 15 January 1960, HSC, HLSL, SSSP, Box 39, File No. 28–1: Ways and Means Committee, 1957–60. In late 1958, in a memorandum for Mills, Surrey recommended that the CWM reexamine the income tax structure in 1959 and 1960, make the revision of the income tax base its most important subject, study whether broadening the tax base would permit a reduction of income tax rates for all brackets, and utilize outside experts, largely from universities, on a topic-by-topic basis. Stanley S. Surrey to Wilbur D. Mills, "Memorandum re General Tax Revision Activities of House Committee on Ways and Means, 1959–1961," 24 December 1958, HSC, HLSL, SSSP, Box 14, File No. 40–5: Hon. Wilbur D. Mills, 1956–59.

46. William Andrews, who was the Eli Goldston Professor of Law at Harvard Law School, described in retrospect the following: "This unity [of Surrey's thought and action] resulted partly from the single-mindedness of Stanley's concern for a fair, progressive tax system; wherever he was working and whatever he was doing, he was bound to be continuing the crusade for that objective." See William D. Andrews, "A Source of Inspiration," *Harvard Law Review* 98, no. 2 (December 1984): 332.

47. Stanley S. Surrey, "Summary Statement of Stanley S. Surrey for Hearings on Broadening The Tax Base, House Committee on Ways and Means November 16, 1959, The Federal Income Tax Base for Individuals," undated, HSC, HLSL, SSSP, Box 39, File No. 28–1: Ways and Means Committee, 1957–60.

48. Joseph J. Thorndike, *Their Fair Share: Taxing the Rich in the Age of FDR* (Washington, D.C., 2013). It is said that the ideas of Robert Murray Haig were greatly influential to the Treasury's tax experts. W. Elliot Brownlee, "Tax Regimes, National Crisis, and State-building in America," in *Funding the Modern American State*, ed. Brownlee, 37–104.

49. Harris worked as one of the economic advisers to Kennedy in the presidential campaign in 1960. After Kennedy took office, he convened Treasury consultants' meetings regarding tax, monetary policy, debt, and government expenditure.

50. Seymour E. Harris, "Where Is the Money Coming From?" 8 October 1956, HSC, HLSL, SSSP, Box 14, File No. 40–5: Hon. Wilbur D. Mills, 1956–59. It is not obvious for whom Harris wrote this report. However, I surmise it was for Mills considering the title of the file that contained this material.

51. Harvey E. Brazer, born in Montreal, received a Bachelor of Commerce degree from McGill University in 1943. After his graduation, during World War II, he served for three years as an artillery and infantry officer in the Royal Canadian Army. After the war, he received master's (1947) and doctoral degrees (1951) at Columbia University and taught economics at Rutgers (1947–48) and finance at Lehigh (1948–50) and Wayne State universities until 1957, when he joined the Michigan faculty as an associate professor. He became a professor in 1960. He served the Treasury as a deputy assistant Secretary of the Treasury and director of the OTA under Kennedy from 1961 to 1963. His special area of focus was

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public finance, and this involved the examination of various methods of raising money to operate the government and its numerous public service programs. Among other things, his students studied ways to distribute tax burdens equitably among income groups. See, for example, "Harvey E. Brazer, 68, Professor of Economics," *New York Times*, 18 May 1991; Faculty History Project of University of Michigan, http://um2017.org/faculty-history/faculty/harvey-e-brazer.

52. I elaborate on Surrey's responsibility and role inside the Treasury at the time he wrote this in the last section.

53. As for their backgrounds, see, for example, "Walter Heller, 71, Economic Adviser in 60's, Dead," *New York Times*, 17 June 1987; Tobin's curriculum vitae (http://cowles.econ.yale.edu/faculty/vita/cv_tobin.pdf); Finding Aid of Kermit Gordon Personal Papers, http://www.jfklibrary.org/Asset-Viewer/Archives/KGPP.aspx?f=1. Gardner Ackley and John Lewis replaced Tobin and Gordon later, respectively.

54. "Full-employment output" is the notion of output assumed when an economy is at full employment. The CEA defined the criterion of full employment as a 4% unemployment rate.

55. The concept of "full-employment budget surplus" means the difference between the balance of the actual budget and of the full-employment budget, which is the notion assumed when an economy is at full employment.

56. In 1966, Heller wrote in retrospect: "The $13 billion full-employment surplus in 1960 was an oppressive economic drag, a major force pulling us down into the recession of 1960–61." Walter W. Heller, *New Dimensions of Political Economy*, 67.

57. Walter W. Heller to James Tobin and Kermit Gordon, "Eventual Memo to the President on Tax Cuts," 20 February 1961, John F. Kennedy Library (JFKL), Walter W. Heller Personal Papers (WWHPP), Box 21, File: Tax Cut 11/24/60–3/29/61.

58. There has been frequent reference to Kennedy having not mastered economic knowledge at all. Kennedy's special aide, Arthur M. Schlesinger Jr., wrote, "Kennedy had received his highest grade and only B in freshman year at Harvard in the introductory course in economics. The course made no deep impression on him. Indeed, he remembered his grade as C, or so at least he liked to tell his economists in later years" (Arthur M. Schlesinger Jr., *A Thousand Days*, 621). Although Kennedy appointed Heller, Gordon, and Tobin, all of whom have been called "Keynesian," to the CEA, when the Berlin Crisis occurred in August 1961, Kennedy at first suggested a tax increase of $3 billion to finance the additional defense outlays. Heller described this choice as having made the CEA members feel at "a low point" (Walter W. Heller, *New Dimensions of Political Economy*, 32).

59. *Public Papers of the Presidents of the United States, John F. Kennedy: Containing the Public Messages, Speeches, and Statements of the President, January 20 to December 31, 1961*, 290–91.

60. The structural reform measures to tax rates suggested by Surrey were as follows: (1) reducing the rate in each bracket by 5 percentage points (decreasing revenue by $9.5 billion), (2) splitting the first $2,000 bracket into two brackets of $1,000 each and applying a 15% rate to the first bracket, and (3) reducing the rates for the other brackets by 3 percentage points (decreasing revenue by $7.4 billion), or by 2 percentage points (decreasing revenue by $6.2 billion).

61. Stanley S. Surrey, "Preliminary Statement of Tax Reform Program for 1962," 22 April 1961, JFKL, WWHPP, Box 22, File: Tax Cut 4/61–11/61.

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62. Douglas Eldridge, other staff from the OTA, Cary Brown, Richard Musgrave, Robert Solow, and Joseph Pechman attended the meeting.

63. Robert Solow to Walter W. Heller, Kermit Gordon and James Tobin, "Tax Reform in 1962," 24 April 1961, JFKL, WWHPP, Box 22, File: Tax Cut 4/61–11/61.

64. Otto Eckstein, Richard Goode, Joseph Pechman, Carl Shoup, and Seymour Harris attended the meeting.

65. "A Summary of the Views of Tax Consultants Eckstein, Goode, Pechman, and Shoup on the Tax Reform Issues Discussed at the Treasury Department on June 10, 1961," 26 October 1961, HSC, HLSL, SSSP, Box 59, File No. 208–3A: Consultants Prof. Seymour Harris, 1961–62.

66. Surrey, Eldridge, and Brazer from the Treasury, Robert Turner from the Bureau of Budget of the White House, and Arthur Okun from the CEA attended the meeting. Arthur Okun to Robert Solow and Joseph Pechman, "Tax Meeting of November 24," 25 November 1961, JFKL, WWHPP, Box 22, File: Tax Cut 4/61–11/61.

67. Arthur M. Schlesinger Jr., *A Thousand Days,* 631–33.

68. The administration was in conflict with the steel industry over the price of steel. The administration regarded a rise in the price of steel would significantly influence the prices of other products and the economy as a whole and sent major steel companies letters to inform them they should not seek profits via price increases. In April 1962, the steel companies approved this recommendation. Nevertheless, just after the approval, US Steel, the biggest steelmaker, and five other major companies, including Bethlehem Steel, issued a declaration to raise prices. Then, the administration put great pressure on these companies to reverse their decision and finally, they had no choice but to obey. Schlesinger, Jr., *A Thousand Days,* 638; Walter W. Heller to John F. Kennedy, "The Price Situation in General (and Steel Prices in Particular)," 2 August 1961, JFKL, WWHPP, Box 5, File: Memo to JFK 8/61; Walter Heller to John F. Kennedy, "The Price Situation in General (and Steel Prices in Particular)," 2 August 1961, JFKL, WWHPP, Box 5, File: Memo to JFK 8/61.

69. The growth rate of GNP in each quarter proceeded as follows: 1960 IV–61I, -1%; 61I–61II, 2%; 61II–61III, 1.5%; 61III–61IV, 2.8%; 61IV–62I, 0.8%; 62I–62II, 0.7%; 62II–62III, 0.2%; and 62III–62IV, 1.2%. *Economic Indicators, February 1961*, 1; *Economic Indicators, February 1963*, 2. The author calculated the growth rate on the basis of these sources.

70. "Wall Street Takes a Dim View," *Business Week*, 5 May 1962.

71. Walter W. Heller, *New Dimension of Political Economy,* 113.

72. The Council Economic Advisers, "Proposals for Tax Reduction," 5 June 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62.

73. Walter W. Heller to John F. Kennedy, "Where We Stand on Budget and Tax Policy Decisions," 9 June 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62.

74. *Public Papers of the Presidents of the United States, John F. Kennedy: Containing the Public Messages, Speeches, and Statements of the President, January 20 to December 31, 1962,* 457.

75. *Public Papers of the Presidents of the United States, John F. Kennedy: Containing the Public Messages, Speeches, and Statements of the President, January 20 to December 31, 1962,* 470–75.

76. Richard Musgrave, "Fiscal Policy Outlook," 28 June 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62.

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77. Paul A. Samuelson and Robert M. Solow to John F. Kennedy, "The Final Decision August Look at the Case for an Immediate Tax Cut," 10 August 1962, JFKL, WWHPP, Box 22, File: Tax Cut 8/62.

78. Gerhard Colm to Walter W. Heller, 11 July 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62.

79. Walter W. Heller to John F. Kennedy, "Business Economists on the Economic Outlook and Tax Policy," 12 July 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62.

80. Walter W. Heller to John F. Kennedy, 29 June 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62; Walter W. Heller to John F. Kennedy, "Report from Scattered Sectors: Economic and Tax Front," 20 July 1961, JFKL, WWHPP, Box 22, File: Tax Cut 4/61–11/61.

81. Arthur M. Schlesinger Jr. to John F. Kennedy, "Tax Cut," 17 July 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62.

82. Arthur Okun to Walter W. Heller, "Yesterday's Press Conference," 24 July 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62.

83. "Kennedy Bars Tax Cuts Now, Citing Upturn," *New York Times,* 14 August 1962.

84. Dillon wrote: "Even though it included a loss of revenue and a substantial budget deficit, provided it was understood that this was geared to an effort to improve the overall state of the economy . . . any indication of over-hasty action or undue concern at this time would only serve to increase foreign doubts as to the course of the American economy and could well lead to very dangerous reactions on our balance of payments." C. Douglas Dillon, "The Current Economic Situation and Proposals to Meet It," 6 June 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62. This is a blind report.

85. Warren Smith to Walter W. Heller, "Financing of a Deficit Resulting from a Tax Cut," 7 August 1962, JFKL, WWHPP, Box 22, File: Tax Cut 8/62.

86. N. Fatemi et al., *The Dollar Crisis: The United States Balance of Payments and Dollar Stability* (Rutherford, N.J., 1963), 38–39, 54.

87. Smith argued as follows: "We must continue to keep our interest rates adjusted to those prevailing in foreign money centers in order to prevent . . . outflows of capital which complicate our balance of payments problem. However, interest rate increases beyond those required for balance of payments reasons are clearly undesirable under present conditions (whether taxes are cut or not) and should be avoided." Warren Smith to Walter W. Heller, "Financing of a Deficit Resulting from a Tax Cut," 7 August 1962, JFKL, WWHPP, Box 22, File: Tax Cut 8/62.

88. Frazer Wilde to Walter W. Heller, 11 July 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62; Frazer Wilde to Walter W. Heller, 27 July 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62.

89. Walter W. Heller to John F. Kennedy, 31 July 1962, JFKL, WWHPP, Box 22, File: Tax Cut 6/62–7/62.

90. Lee Preston to Walter W. Heller, "Dillon Testimony before Ways and Means Committee," 7 August 1962, JFKL, WWHPP, Box 22, File: Tax Cut 8/62.

91. The *New York Times* in August 1962 stated, "Without a 'clear and present danger'—as the President expressed it—the Administration felt that it could not excite Congress into emergency action. It is a fact, contradicting the popular notions about politicians and tax cuts in election years, that neither the Congress nor the public has been aroused by all the recent tax-cut talk." "Kennedy Bars Tax Cuts Now, Citing Upturn," *New York Times,* 14 August 1962.

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92. Walter W. Heller to John F. Kennedy, "The Range of Tax-Cut Choices before Us," 9 August 1962, JFKL, WWHPP, Box 22, File: Tax Cut 8/62.

93. Walter W. Heller to John F. Kennedy, "Business Views on the Economic Outlook and Tax Cuts," 10 November 1962, JFKL, WWHPP, Box 22, File: Tax Cut 11/62.

94. Gardner Ackley to John F. Kennedy, "Your Meeting with AFL-CIO Economic Policy Committee," 8 November 1962, JFKL, WWHPP, Box 22, File: Tax Cut 11/62.

95. Henry H. Fowler to the Files, "Conference with Chairman Wilbur Mills re Tax Program," 15 November 1962, JFKL, Record of Department of Treasury Microfilm Print Outs (RDTMPO), Roll 48, File: 1964 Revenue Act Mr. Surrey's Memos to the File 2/27/62–6/15/63.

96. Wallace presented the following package of the combinations as a tentative code: (1) cut corporate rates and speed up corporate collections, and (2) cut individual rate, eliminate dividend credit and exclusion, abolish sick-pay exclusion, and set a 4% floor on casualty losses. Robert A. Wallace, "Possible Compromise on Tax Package," 19 November 1962, JFKL, RDTMPO, Roll 40, Folder 2 of 2, File: Asst. Secy. of Treasury (Robert A. Wallace), Troika, September–December 1962.

97. Individual tax rate reductions would take place over a three-year period: the rate schedule would range from 18.5% to 84.5% and the withholding rate would be reduced from 18% to 15.5% in calendar 1963; the cutting rate schedule would range from 15.5% to 71.5% with the withholding rate reduced to 13.5% in calendar 1964; and permanent rate cuts would range from 14% to 65% in calendar 1965.

98. The normal rate of 30%, applicable to the first $25,000 of taxable corporate income, would drop to 22%, while the surtax rate would rise to 30% in 1963. The surtax rate would drop to 28% in 1964 and 25% in 1965.

99. *Public Papers of the Presidents of the United States, John F. Kennedy: Containing the Public Messages, Speeches, and Statements of the President, January 20 to November 22, 1963*, 73–92.

100. Henry H. Fowler to Russell B. Long, 28 January 1963, HSC, HLSL, SSSP, Box 84, File No. 71–1(C): Estate and Gift Tax (1), 1961–67; Stanley S. Surrey to Henry H. Fowler, 24 January 1963, HSC, HLSL, SSSP, Box 84, File No. 71–1(C): Estate and Gift Tax (1), 1961–67.

101. The Research Institute of America, Inc., "Tax Research Report to Executive Members," 24 January 1963, JFKL, WWHPP, Box 22, File: Tax Cut 1/16/63–1/31/63.

102. Lyman S. Ford to United Funds, Community Chests and Community Welfare Councils, 25 January 1963, HSC, HLSL, SSSP, Box 63, File No. 194–2: Deductions—General, 1962–63.

103. J. Sinclair Armstrong to Stanley S. Surrey, 24 April 1963, HSC, HLSL, SSSP, Box 92, File No. 194–1A: Five Percent Floor, 1963.

104. Office of the Secretary of the Treasury, Office of Tax Analysis, "Answers to Specific Points Raised by Mr. G. Keith Funston, President of the New York Exchange," 11 March 1963, HSC, HLSL, SSSP, Box 81, File No. 194–4: Dividend Credit Exclusion, 1963–64.

105. "For Release Sunday Morning Papers, 27 January 1963: Statement by the Board of Directors of the Chamber of Commerce of the United States," 26 January 1963, JFKL, WWHPP, Box 22, File: Tax 1/16/63–1/31/63.

106. Vincent P. Moravec to Kenneth O'Donnell, 13 February 1963, JFKL, WWHPP, Box 22, File: Tax 2/13/63–2/27/63.

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107. Belden L. Daniels, "Resolution on Tax Reduction," 8 April 1963, JFKL, WWHPP, Box 23, File: Tax 4/63. This is a blind mail. I surmise Daniels wrote it to Heller, considering the title of this material and the fact that I found it in a file from a collection of Heller's personal papers.

108. "The Right Remedy but Late and Little," *Business Week*, 26 January 1963.

109. "Compounding Tax Inequity," *St. Louis Post*, 28 January 1963.

110. "5 Per Cent Tax Deduction," *Washington Post*, 14 February 1963.

111. Joseph F. McCaffrey to Walter W. Heller, 23 January 1963, JFKL, WWHPP, Box 22, File: Tax 1/16/63–1/31/63; *Meet the Press: America's Press Conference of the Air*, vol. 7, no. 5 (10 February 1963), JFKL, WWHPP, Box 22, File: Tax 2/1/63–2/12/63; "If Taxes Are Cut—the Chances of a Boom," *U.S. News & World Report*, 11 February 1963.

112. "Dillon Defends Curbs on Deductions as Allowing Across-Board Tax Cuts," *Wall Street Journal*, 7 February 1963.

113. "5 Per Cent Tax Deduction," *Washington Post*, 14 February 1963.

114. Stein, *The Fiscal Revolution in America*, 449–50. Stein cited Mills's Statement from U.S., Congress, House, *Congressional Record,* 88th Cong., 1st sess., 1963, vol. 109, pt. 13, 17908–9.

115. Stanley S. Surrey to Edward J. Patten, 8 January 1964, HSC, HLSL, SSSP, Box 81, File No. 194–4: Dividend Credit Exclusion, 1963–64.

116. *Public Papers of the President of the United States, Lyndon B. Johnson, 1963–1964,* bk. 1, 9–10.

117. Office of the Secretary of the Treasury, Office of Tax Analysis, "The Treasury Recommendation for Deleting Provision H.R. 8363 Reducing the Percentage Inclusion and Alternative Rate on Net Long-Term Capital Gain," 16 January 1964, HSC, HLSL, SSSP, Box 53, File No. 48–1: Capital Gains, 1961–68.

118. Stanley S. Surrey to K. H. Koach, 6 February 1964, HSC, HLSL, SSSP, Box 53, File No. 193–5: Capital Gains, 1963–64.

119. The withholding rate was cut to 14% in 1964. The normal rate of corporate income tax was reduced to 22% in 1964, while the surtax rate was reduced to 28% in 1964, and reduced further to 26% in 1965.

120. The Treasury Department, *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1964* (Washington, D.C., 1965), 36. Richard Goode demonstrates the particular result and effect that the tax reform of 1964 had on the individual income tax system. See Richard Goode, *The Individual Income Tax* (Washington, D.C., 1964), 236.

121. Lyndon B. Johnson: "Radio and Television Remarks upon Signing the Tax Bill," 26 February 1964, ed. Gerhard Peters and John T. Woolley, *The American Presidency Project,* http://www.presidency.ucsb.edu/ws/?pid=26084.

122. Walter W. Heller to Lyndon B. Johnson, "Economic Impact of the Tax Cut," 2 June 1964, JFKL, WWHPP, Box 23, File: Tax 6/63.

123. Office of the White House Press Secretary, "Presidential Statement #5 on Economic Issues, Further Tax Reduction," 27 October 1964, HSC, HLSL, SSSP, Box 53, File No. 187–5: Campaign, 1964.

124. "Goldwater's Tax Cuts," *Washington Post,* 14 September 1964; Robert A. Wallace to Myer Feldman, "Goldwater Tax Proposal," 8 September 1964, HSC, HLSL, SSSP, Box 53, File No. 187–5: Campaign, 1964.

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125. Surrey served in his position until 1968. Before he returned to Harvard, while in the Treasury, he prepared a major study on tax reform that was published in early 1969. This study, according to Surrey, essentially regarded the task of tax reform as that of restoring "fairness" to the federal tax system by ending both the escape of many well-to-do individuals and large corporations from the burdens of that system and the ironic contrast of placing an income tax on those still in the poverty class. This study became the basis of the Tax Reform Act of 1969. At Harvard, "with the benefit of hindsight," he sought to link tax reform to the concept of tax expenditure in order to consider the criteria for choosing between tax incentives and direct expenditure. See Stanley S. Surrey, *Pathways to Tax Reform: The Concept of Tax Expenditures* (Cambridge, Mass., 1973), vii–viii.

126. Stanley S. Surrey to Thomas G. Morris, 12 March 1964, HSC, HLDL, SSSP, Box 81, File No. 194–4: Dividend Credit Exclusion, 1963–64.

127. Wallace regarded Goldwater's tax-cut program as irresponsible for the following reasons: (1) The idea that a potential increase in revenues could possibly achieve all that was expected by Goldwater was patently absurd. (2) The Goldwater proposal would seal in a tax cut for future years when the economic situation facing the country may require retrenchment. (3) It would give too large a proportion of the tax cuts to corporations (46% of the total tax cut) and upper-income individuals (54% of the cut to individuals with less than $10,000). Robert A. Wallace to Myer Feldman, "Goldwater Tax Proposal," 8 September 1964, HSC, HLSL, SSSP, Box 53, File No. 187–5: Campaign, 1964.

128. Wilbur D. Mills, "Remarks before the American Institute of Certified Public Accountants, Washington, D.C.," 16 October 1968, The Hendrix College Archives (HCA), Wilbur D. Mills Papers Collections (WDMPC), Box 644, File 3.

129. "Remarks of the Honorable Henry H. Fowler, Under Secretary of the Treasury, at the Fourteenth Annual Midyear Conference of the Tax Executives Institute, Mayflower Hotel, Washington, D.C., Monday, 2 March 1964, 7:30 P.M., EST: A Turning Point in Tax Policy," 3 March 1964, NACP, RG 56, OTPSF, Box 69, Folder 96: Tax Policy (1964–65).

130. As to the outline of the Nixon administration's proposal, see The Treasury Department, *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1969* (Washington, D.C., 1970), 26–33.

131. Witte, *The Politics and Development of the Federal Income Tax,* 166–72.

132. U.S. Congress, Joint Committee on Internal Revenue Taxation and the Committee on Finance, *Summary of H.R. 13270, The Tax Reform Act of 1969* (Washington, D.C., 1969).

133. Zelizer, *Taxing America*, 306.

134. The Treasury Department, *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1970* (Washington, D.C., 1971), 29.

135. Zelizer, *Taxing America*, 309. Zelizer cited this Mills's argument from *Transcript: Meet the Press*, 11 June 1972, HCA, WDMPC, Box 397, File 3.

136. "Bracket creep" means the effect of inflation that pushes taxpayers slowly into higher tax brackets. In particular, Steuerle argued that tax-cutting measures fitted well into the postwar era until the late 1970s. See Steuerle, "Financing the American State at the Turn of the Century."

137. Carl W. Biven, *Jimmy Carter's Economy: Policy in an Age of Limits* (Chapel Hill, 2002).

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