

[November 2, 1964]

INTERVIEW BY JACK BELL WITH SENATOR DIRKSEN AND SENATOR SMATHERS

Mr. Bell I will start with Senator Dirksen. In your judgment, Senator, is Congress going to vote a tax cut? Also, when?

Senator Dirksen I doubt it very much this year. I think it is pretty generally agreed there will be a tax cut, but not until 1964. And the reason for that estimate is the number of witnesses to be heard, the time you have to have to digest the testimony, the mark-up of the bill in consideration of amendments given the Committee, and then of course taking it to the Floor. But I would assume that all these preliminaries before you get to the Floor will take us up to the Christmas recess and even beyond.

Mr. Bell That would be sometime in . . . how long in 64?

Senator Dirksen Well, it would be the order of business, because the calendar of committees and also the Senate Floor remain in tact so the first day we are here we can go right back to the tax bill if that's the disposition to do so.

Mr. Bell Let's have the opinion of Senator Smathers on that.

Senator Smathers I don't violently disagree with the statement of the Senator from Illinois. I am more hopeful than he, however. I think it's pretty much dependent upon the progress that's going to be made with the civil rights bill. I think that if the civil rights bill does not come over from the House of Representatives and it looks right not like it's not, I think we can conclude the witnesses that are still scheduled before the Finance Committee and probably mark up the bill by maybe the first of December, in which event it would give us

an opportunity to pass it. Certainly I hope that we can pass it this year. I think the country needs it.

Senator Dirksen Perhaps one short comment is in order here. That is, we've got to set aside to consider the debt limit bill and then you have the intervening Thanksgiving recess. So putting it all together, it makes it appear that we couldn't under any circumstances get to it before 1964.

Senator Smathers Well we have the debt ceiling testimony set for November 18, 19, and 20. We have to pass that by the deadline of midnight, November 30. How long we take in our committee to argue about it and how long we take on the Floor is another matter, but I think most everybody recognizes that we are going to have to raise the debt ceiling somewhat. But in any event I'm still hopeful, more hopeful obviously than my colleague from Illinois.

Mr. Bell Senator Smathers, do you think there is a possibility of an economic downturn as some of the administration officials have argued, if this tax cut is not enacted this year?

Senator Smathers Well I don't believe we'll have an economic downturn this year. I heard Stewart Saunders, who is the Chairman of the Board of the Pennsylvania Railroad, and Henry Ford testify before our committee just this past week and both of them in essence said that the economic cycle of the upturn runs for about 42 months over its terminus and then we go into a recession thereafter. We are now operating right on the level of some 40 months and it was their feeling that despite the apparent rosy picture of economic profits for corporations and the good condition in which the country superficially

appears, nevertheless they were greatly concerned that if we did not have the tax cut immediately we would begin to experience a downturn in the early part of next year.

Mr. Bell What's your view, sir?

Senator Dirksen Well, there was considerable speculation about another recession if there were no tax bill. I thought of course that tying that to the tax bill was rather thin and tenuous, for the simple reason that you don't get the effect of the tax bill for quite awhile. Certainly it kind of predicated on the basis of how many months these earlier booms lasted. It seems to me that that's a rather arbitrary figure. Now as everyone might well presume, we keep in touch of course with economists and others who are expected to know a little something about the business cycles and what their estimates are and from what I can learn there is a good deal of steam in the present boom, if you want to call it that, that could well carry over into 1965 whether you have a tax bill or not.

Senator Smathers I might add right there, Joe, that quoting Mr. Saunders just the other day in his report he said the longer we wait before cutting taxes the closer we come to the next downturn. The sooner we act the better our chances of prolonging the present momentum. As Mr. Fordmeyer and I outlined in our recent letter to all the Senators, we believe serious risks are involved in not acting this year. And of course these are two top-quality businessmen. They are not even Democrats but they're still good fine citizens and this is their opinion.

Mr. Bell Senator Dirksen, do you believe that some definite spending limitation should be tied in the bill?

Senator Dirksen One difficulty with doing so of course is exactly how you enforce it. How do you set it up in order to give it real effect? I think that was one of the difficulties with the limitation that they tried in the House bill. I don't know quite how you can spell it out. You can probably phrase language to put some kind of a ceiling on but my experience with ceilings over a long period of time -- and that includes 17 years of service on the appropriations committees of the House and Senate -- teaches me and leads me to believe that you have some difficulty there.

Mr. Bell Your conclusion is there is no practical way of doing the thing.

Senator Dirksen Well, its difficult to say the least. Now that was one of the factors that entered into a consideration of the tax bill in '64 rather than in '63, because early in '64 obviously we'll have the President's budget message. We'll see then what the spending level is in the administrative budget and there you'll have some figures that you can tie to, rather than a speculative estimate on trying to write a ceiling into a tax bill.

Mr. Bell Lets get Senator Smathers' view on this.

Senator Smathers Well, I very much agree with the Senator on that point. I would add that it was argued in the House when the Republicans over there attempted to make a condition of the tax bill that expenses would be cut. I thought the argument valid at that time. What then happens is that you have the legislative branch abdicate its authority and turn over to the executive branch of the government a sole determination as to whether or not a tax cut would be effective or not. That was the first thing wrong with it. The second thing wrong with it was

that as the Senator has said is considerable doubt as to after all we are the ones here in the Congress who will determine the amount of appropriations. It is not done over in the executive branch of the government and if we really are sincere about cutting expenses we can cut them, because this is the place where appropriations are made and appropriations are reduced.

Senator Dirksen I might say to my distinguished friend from Florida that in addition thereto if you should set a ceiling of that kind in a revenue bill the chances are that all the funds that get up to that ceiling might be requested, whereas it might be the purpose and the intent of the Congress to cut well below that. And yet it's an invitation to come in with budget requests right after the ceiling. So in a sense, as Senator Smathers said, you have to some extent the transferring of authority over appropriations to the executive, whereas the exclusive power of the purse under the Constitution reposes in the legislative branch.

Mr. Bell Senator Smathers, as you know, some of the members of the Finance Committee have charged that this tax bill as it is now drafted is a rich man's bill. What is your opinion of that contention?

Senator Smathers Well, my contention is that is not true. I think the first point to be certain of is that when you look at the percentage of reduction, the group which gets the highest percentage of reduction is in that lowest group of income taxpayers. They have a little bit over 30 per cent tax reduction. It then works on through the various income groups until it gets to the very highest, where they have roughly 29 per cent. It's not supported by the percentage. Now when you look at the take-home pay, percentage of take-home pay, which each person

will receive after taxes, you see that the percentage actually in the low income groups is higher. Then I think the final reason which demonstrates that the charges of a rich man's tax bill are unfounded is the fact that the AFL and CIO are all related organizations which would not be supporting the bill if they really believed it was a rich man's tax bill, and they are supporting the bill.

Mr. Bell What do you feel about that, Senator Dirksen?

Senator Dirksen Well, I think the figures speak for themselves as it was set up and this may have been mentioned in the President's message accompanying the tax bill, that in the lower brackets you go up to a cut as high as 38 per cent individually and then you drop down to 12. The real argument about the tax bill is not so much the difference in rates as it is the steepness of the progression in the whole tax table and witness after witness has belatedly capitulated on that item so that offers no real difficulty and I think it can be worked out.

Mr. Bell Senator Dirksen, what's likely to be the effect of a tax cut made in an election year?

Senator Dirksen Well, it's hard to say because, Mr. Bell, it's very speculative to say the least. One would normally think that if a tax cut could be well propagandized in an election year it might have some political benefit, but people are pretty well onto these dodges in our political system and perhaps its impact will not be as great as one might anticipate.

Mr. Bell You don't think the Democrats are going to be able to claim in an election year then, that they cut taxes?

Senator Dirksen Well, I'm thinking back of course to the verities and realities of the tax cut in the Eisenhower Administration, and I'm not at all sure that except for the presidential race itself, the benefits of the votes had any great

impact so far as Congressmen and Senators in the local elections were concerned.

Mr. Bell Let's have Senator Smathers' view.

Senator Smathers Well, I don't believe it will make a great deal of difference generally speaking because in this instance most of the Republicans are supporting the tax bill. As a matter of fact most of the leaders of this business group, whom I have been quoting, frankly admit they're members of the Republican Party. I think that the betterment that would resort to the presidential candidate would be on the general conclusion that economic conditions are good. I think this cut will insure that economic conditions will be good, and he will then be able to campaign on the fact that maybe we hope we are not in war and we have prosperity. But I don't believe actually you'll be able to make the point. As a Democrat, I don't think the Democrats will be able to make the point that they, the Democrats, were for the tax cut whereas the Republicans were against it, because that isn't the case.

Senator Dirksen I could add this one comment. It's rather singular after all the propagandizing, if that were polite and can be used, and all the front-page material that has gone to the country for months on the tax bill, that the responses from the electorate generally have been so modest. Had this been in any other field of activity I think we would have been fairly inundated with mail and in addition the various polls that are taken from time to time would indicate that there's not that much political steam in the tax bill.

Mr. Bell Is there then a suspicion in your mind, Senator, that the people don't want a tax cut?

Senator Dirksen Oh Mr. Bell, I never have any suspicions. I think people always like to have a tax cut but if they are persuaded that it's not going to be of

material impact on their daily living it obviously leaves them somewhat indifferent. But as a general proposition, who wouldn't want a tax cut if he could get it.

Mr. Bell Well, that leads to the question I addressed to Senator Smathers, whether a tax cut will really lift the economy sufficiently, for instance, to balance the budget in a couple of years as the President has said.

Senator Smathers I firmly believe that, as does the business advisory group that has been with us for the past couple of days. I think the best illustration is what has recently happened in Great Britain. Well, last April they reduced their taxes rather substantially and in a very short space of time they reduced their unemployment by half and the revenue that's now returning to the government has increased by about 20 per cent. Look at the situation in Austria, where since the end of World War II they have reduced their taxes five times and each time they have reduced their taxes they have stimulated the economy, lessened their unemployment, and brought more revenue into the government. And you go back to 1954 when we reduced taxes here under your Republican Administration. The next year, 1955, and the next year, 1956, we had balanced budgets and those were the only two years in the Eisenhower Administration when we had balanced budgets because we had no revenue brought into the government even at lower rates. So if you look at the history of tax reduction it is conclusive that a tax reduction will stimulate the economy, at the same time will bring in more revenue, and thereby will give us an opportunity to balance the budget and it is rather obvious that we're not going to be able to balance the budget any other way.

Senator Dirksen Well there are a good many observations to be made on that subject. I think of course this comparison . . .

Mr. Bell This is the man to make them to. (Laughs)

Senator Dirksen ". . . it's rather interesting when you think of unemployment here and in Britain that over there you've only got about 2 per cent of your youngsters who are unemployed, whereas here you've got 15 per cent . . . 35, 40, 45 you've got skills, you've got competence and that's where you've got about a 2 per cent unemployment factor. It's in those beyond that age and under that age where you really get this impact. Now the reason for the difference between youngsters unemployed here and in Britain is that over there they work at some kind of an apprenticeship for a period of time and nothing more than enough to keep them in a token way. Here, however, our whole weight is measured by whether or not the individual in question can put out and if he isn't productive obviously they're not going to find a job for him, they're going to resort to automation, they're going to resort to overtime and I was amazed that out of all the civilian labor 7 per cent of the man hours now put in are compensated for to the extent of 7 per cent by overtime. There is the key to your answer as to whether or not the tax bill is going to have any appreciable effect. It will have some, but in my judgment not nearly as much as is anticipated.

Senator Smathers Let me say just this much. I don't disagree with what the good Senator has just said. As a matter of fact I think he sort of agrees, from what I gather, with what I am saying. We're just merely arguing about whether or not it will decrease unemployment. We're having automation add to our employment roles at about one million people a year. It was brought out, however, by figures, that where everything else has gone up -- consumer spending has gone up greatly in the last five years -- our gross national product has gone up. Nevertheless, the last five years, compared to the previous five years, our investment in capital

goods in plant and equipment has actually dropped off one and one-half billion dollars and this type of thing we cannot permit to go on because it's the investment in plant and equipment that finally makes more jobs and modernizes our industrial capacity. We've got a certain industrial capacity when we talk about its being unused. It is unused and one of the reasons it's unused is because it's inefficient compared to that in some of the other European countries. So what we need to do is to give more profits, strangely enough, because the percentage of our profit to our gross national product has dropped, even with the rosy pictures we have got today, from 8 per cent down to 5 per cent this year. So what we need to do is to encourage people to go into plant building and equipment manufacturing and thereby that will create new jobs which we will need in order to take care of these young people who are coming out of school and looking for jobs.

Senator Dirksen One comment, since the public was mentioned. There you can get all manner of opinion. You may recall that Arthur Byrnes, who is the Chairman of the Board of Economic Advisors under President Eisenhower, thought it might be as late as 1972 before we ever got around to hailing this sense of a balanced budget for it depends on what economists you dig out and how you devise and generate these figures.

Senator Smathers I think that's absolutely correct and with that particular economist I would not like to bring up any unpleasant memories, but I remember in 1950 he was the one that said we're going to have a balanced budget and we had a twelve and one-half billion deficit. So, as Ev says, it's whichever economist you want to choose but the business community thinks this is the thing we ought to do, have the tax cut as quickly as we can get it.

Mr. Bell Senator Samthers, on a specific point in the bill do you think that the Senate is going to retain the provision of 4 per cent tax credit on stock dividend income?

Senator Smathers I don't know. The way I count the votes, it's nine to eight now to go back to the old position. In other words, to knock the provision out of the House and to go back to the old position which would give four per cent credit.

Mr. Bell How about the Senate?

Senator Smathers The Senate itself twice defeated this particular proposal. It may be that the Senate does it again but as I look at the Finance Committee, it's my judgment at the moment the Finance Committee will restore that provision.

Mr. Bell How about you, Senator Dirksen?

Senator Dirksen Well, I can add one more thing there. I'll be one of the nine to report it. (everyone laughs)

Mr. Bell One last question here now. Senator Dirksen do you look for the Senate to broaden the oil industry tax provision in the bill perhaps by reducing the depletion allowance?

Senator Dirksen It has been under fire, as you know, for years and years and thus far the 27 $\frac{1}{2}$ depletion allowance has stood up. Now, we have a great interest in it because the Southern half of my State is an oil state. Those are small wells. They are ~~done~~^{dug} on a speculative basis and all I can say is if you remove the 27 $\frac{1}{2}$ per cent there will be no incentive for that kind of a rich capital to be invested. You put a \$70,000 hole in the ground and take a chance on the averages, which are about one whole well out of nine holes if you drill. Take it away and what happens. You begin to dry up your oil.

Mr. Bell You don't think it will be disturbed, then?

Senator Dirksen Well, this unpredictable atmosphere is one in which you give no categorical answer. I can only say, I hope not.

Mr. Bell Let's have Senator Smathers' view on that.

Senator Smathers I don't think it would be disturbed. I think that there is already enough provision in the Housebill which toughens up and closes the loophole. and if they are loopholes with respect to the oil depletion, eliminating the

aggregate theory, I don't believe that that would reduce the $27\frac{1}{2}$ per cent depletion allowance.

Mr. Bell Thank you, gentlemen. I think we'll wind it up with that. We're a little over our time but that's just about it. As you understand, we may have to edit parts of this to get it down but certainly there will be no change.

The End