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# Tax Policy for Great Society Programs: Tax Expenditure and the Failure of Comprehensive Tax Reform in the United States in 1969


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## Abstract

On December 30, 1969, Richard Nixon signed the Tax Reform Act of 1969—originally crafted by the Treasury Department during the presidency of Lyndon B. Johnson—into law. Some scholars who discussed the tax reform have evaluated that it succeeded in making the federal tax system somewhat fairer, simpler, and more equitable, while the others have pointed out that its legislative process exemplified the quandary of comprehensive tax reform; this paper analyzes and demonstrates the conflict regarding with the tax reform between tax reform proponents, such as the Treasury Department and Democrats in Congress, and the Johnson administration. The unenthusiastic Johnson administration, and particularly the CEA's argument of temporary tax surcharge based on "domesticated Keynesianism," delayed the proposal and legislation of the tax reform until the Nixon presidency, and doomed the ideal tax reform that the Treasury crafted on the basis of the concept of "tax expenditures." With greater support of the Johnson administration, the Tax Reform Act of 1969 could have not only made the federal tax system so much fairer and more equitable, but also restored the taxation–expenditure nexus the Kennedy–Johnson tax cut of 1964 had broken.

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## Introduction

On December 30, 1969, Richard M. Nixon signed the Tax Reform Act of 1969 into law. The act coupled structural reform measures that would be worth $6.6 billion a year when fully effective with tax cuts of $9.1 billion—an annual loss of $2.5 billion.[1] When he signed the act, Nixon emphasized that most of his major reform proposals had been adopted, and that they would make the federal income tax system simpler, fairer, and more equitable through providing lower-income allowances and closing several tax loopholes. In addition, he stated the reforms would encourage investment in residential construction and tighten tax preferences for tax-exempt foundations. However, the act resulted in falling almost $3 billion short of the original proposal in the face of expanding budget deficits and rising prices. Nixon then stated, "The effect on the budget and on the cost of living [that the tax reform act would provide] is bad."[2] His administration considered the tax reform as potentially impeding government revenues in future years, "limiting our ability to meet tomorrow's pressing needs." When Nixon signed the bill, however, he emphasized, "The tax reforms, on the whole, are good."[3]

From the 1930s in the United States, accomplishment of "one-package" comprehensive tax reform had been overdue in order to create a simpler, fairer, and more equitable federal income tax system with sufficient ability to raise revenue. The Department of Treasury and tax experts attempted to accomplish it.[4] In the late 1950s, one of most eminent tax experts, Stanley S, Surrey, cooperated with tax experts inside and outside the Treasury and with Congressmen, including a very senior and politically talented Representative, Wilbur D. Mills (Democrat—Arkansas). As Assistant Secretary of the Treasury for Tax Policy under the presidency of John F. Kennedy, Surrey led the Treasury's attempt to accomplish the one-package comprehensive tax reform in the early 1960s, but was once defeated by the tax cut of 1964, the so-called “Kennedy–Johnson tax cut.”[5] However, Surrey and other tax reformers restarted their effort for comprehensive tax reform under the presidency of Lyndon B. Johnson. In this context, although Nixon was not entirely satisfied with the form of the Tax Reform Act of 1969, it was nevertheless legislated as “the most comprehensive reform of the nation’s tax statutes in history and the largest tax cut since the Revenue Act of 1964.”[6] On the one hand, as John Witte pointed out, the bill exemplified the quandary of tax reform that “means moving toward a relatively simple income tax based on a comprehensive definition of income.”[7] On the other hand, several previous studies have evaluated the 1969 tax reform as a somewhat successful tax reform bill of the past 50 years in two senses: it succeeded in overcoming political difficulties with legislation of comprehensive tax reform; and it was generally well designed to reverse the bias toward tax preferences.[8]

The impact of the 1969 tax reform ran counter to the expectations of the administration. Except for the 1986 tax reform accomplished by the administration of Ronald Reagan, since the 1970s, the role of tax expenditures has been expanded in the federal budget as the “Hidden Welfare State.”[9] Eugene Steuerle pointed out that the expanding use of tax expenditures has narrowed the tax base since World War II.[10] The Congressional Budget Office demonstrated that it has favored higher-income classes unfairly relative to lower-income classes.[11] 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.[12] Furthermore, Andrea Campbell indicated that the complexity of the tax code made by the expanding use of tax expenditures not only makes it difficult and costly for taxpayers to comply with the rule. The complicated federal tax system "undermines the public trust in the federal tax system, with taxpayers fearing that those with better knowledge of how to navigate the system of loopholes, particularly the rich, get away with not paying their fair share."[13] Then, base-broadening tax reform by closing unnecessary tax loopholes has been a subject to be considered, devised, and accomplished.[14]

The development of the idea of the one-package comprehensive tax reform—which emphasizes fairness, simplicity, equity, and revenue-raising ability—began with the effort of Edwin R. A. Seligman in the early 20th century.[15] The taxation of income became an important subject in this period. Public finance scholars, including Seligman, were then confronted by the question of justifying the power of the federal government to impose tax on income: specifically, what did income really mean?[16] Robert Murray Haig defined income as "the increase or accretion in one's power to satisfy his wants in a given period in so far as that power consists of (a) money itself, or, (b) anything susceptible of valuation in terms of money. More simply to stated…Income is *the money value of the net accretion to one's economic power between two points of time*."[17] In Haig's view, based on the concept of income, "it is very undesirable from the point of view of economics and equity that the judicial definition of income should develop along narrow lines by the process of definitely eliminating from the concept certain items as not being income."[18] One of "Chicago school" economists, Henry C. Simons, based on Haig's definition of income and the rule of ability to pay, argued that progressive individual income taxes that would distribute the tax burden equitably among all taxpayers were the only proper means for financing government expenditure and mitigating poverty and inequality without creating inequality of political power.[19]

Then, Simons emphasized that drastic federal income tax reform was one of most significant elements for economic freedom and equity.[20] In his view, such a tax reform should accomplish raising revenues adequate for expenditure without revenue gain or loss, and with greater equity and fairness, neutrality, simplification, and enhancement of taxpayer compliance.[21]

A change of mainstream economic thought from the 1950s eradicated the idea of the federal tax system maintaining economic freedom and equity through government finance. By the late 1950s, leading economists increasingly believed that pursuing a precise level of fiscal policy would provide the most appropriate economic state. As Herbert Stein once concluded, through "domesticated Keynesianism," the "full-employment budget" concept—in which tax and expenditure policies should produce a balanced budget if the economy were operating at full employment—seemed to be established when the 1964 tax cut was passed.[22] The Chairman of the Council of Economic Advisers (CEA) for Kennedy, Walter W. Heller, argued that prosperity produced by the domesticated Keynesian fiscal policy would enlarge individuals' freedom, rights, and government power.[23] As James Buchanan and Richard Wagner contended, however, domesticated Keynesianism broke the fiscal constitution that expected expenditure to be financed from taxation, and replaced it with a new constitution that cyclical fluctuation in economic activity was to be damped by using fiscal policy to control aggregate macroeconomic variables.[24] By 1968, there was a breakdown in the consensus that appeared to have been established by the 1964 tax cut. Most policymakers resultantly became unwilling to subordinate their desires for specific tax and expenditure programs to any aggregate goal and balanced budget. During the Nixon presidency, any idea of government finance for society was no longer a force within the government and Congress while almost all policymakers had become opposed to raising taxes most of the time.[25]

The Tax Reform Act of 1969 was originally crafted in the period of the presidency of Lyndon B. Johnson—the very period in which the prevailing idea was that the domesticated Keynesian fiscal policy could control the national economy and enhance freedom, rights, and power of the American society most efficiently. Under the fiscally restrained condition, in 1966, Johnson had already argued for the necessity of a tax reform to make the federal tax system simpler, fairer, and more equitable by reviewing special tax preferences in the interests of equity and sound economy, while emphasizing that tax reduction was never feasible.[26] In January 1967, Johnson stated that his administration planned to submit a tax reform proposal without significant budgetary effects for the same purpose to the Congress.[27] The United States was in the middle of the Vietnam War, budget deficits had been persistent for years, inflation had become a continuous concern, and the political mood favored closing tax loopholes as well as taxing corporations and the wealthy. However, the Johnson administration never submitted such kinds of tax reform proposals to the Congress. Instead, the administration, mainly led by the CEA, attempted to deal with the situation through a temporary tax surcharge and restraining federal expenditure. In the end, the Congress, through the Revenue and Expenditure Control Act of 1968, requested that proposals for a comprehensive tax reform should be submitted by December 31.[28] Nevertheless, the Johnson administration did not meet the request. Then, Johnson and tax experts in the Treasury could only believe that "in justice to the Administration that will take office within the next month and who will have to live with and administer any legislation passed, it is only appropriate that they have the opportunity to examine carefully and make their judgment on these matters."[29]

Although explanations for the tax reform have varied, almost all existing studies have evaluated the 1969 tax reform as a somewhat successful tax reform bill of the past 50 years in view of political difficulties.[30] This paper demonstrates that the Tax Reform Act of 1969 failed to keep the revenue-neutral aspect of the original tax reform proposal. The Treasury led by Surrey attempted to make the federal income tax system fairer, simpler, and more equitable along with the concept of tax expenditures. Throughout the Johnson presidency, Democrats launched a movement to criticize the inequity of the federal income tax system—especially against tax avoidance by higher-income taxpayers. However, the Treasury and administration failed to awaken the country's interest in tax inequity. The provisions of the 1969 act were mostly patchwork rules that did nothing to alter the underlying laws that served as a foundation for abuse. At the same time, several new tax preferences were created to further politically acceptable goals of the time. The 1969 tax reform, as a wartime tax cut, failed to accomplish the tax reform that Haig, Simons, Surrey, the Treasury, and other tax experts had desired.

Many existing studies have examined the legislative process of a tax surcharge enacted in 1968 as a representative tax policy of the Johnson administration in order to finance both the Vietnam War and Great Society programs for economic freedom and equality. Most existing studies have evaluated that Johnson and CEA members contributed significantly to the accomplishment of the surtax, while pointing out that leaders of tax-writing committees in Congress—that is, Mills, the chairman of the House Committee on Ways and Means (CWM), and Russell Long

(Democrat—Louisiana), the chairman of the Senate Finance Committee (SFC)—were not enthusiastic for the enactment of the surtax.[31]

This paper instead demonstrates the possibility that the tax reform of 1969 might have restored the taxation–expenditure nexus and prevented the atmosphere favoring tax preferences that would continue until the present. The Treasury originally began crafting the tax reform program as a measure for Great Society programs. For the goals of the programs, the Treasury also devised the concept of tax expenditures as the criteria to distinguish necessary tax preferences from unnecessary ones that should be repealed or reduced. By the tax reform based on the "tax expenditure" concept, the Treasury attempted to retain the Great Society programs for economic freedom and equality. Owing to the experience of the 1964 tax reform, the Treasury did not want to give the impression of revenue-raising measures in the tax reform proposal. The Treasury coherently attempted to separate the reform from the surtax proposal and any tax increase recommendations. However, Johnson and the CEA prioritized the passage of the surtax proposal rather than the comprehensive tax reform proposal. When the Johnson administration proposed the temporary tax surcharge in 1967, domesticated Keynesianism prevented the taxation–expenditure nexus from being restored through the tax reform.

## 1. Defeat of Comprehensive Tax Reform in 1964

In the late 1950s, the Treasury, cooperating with the CWM, determined to begin their work to complete the unfinished business of the administrations of Harry S. Truman and Dwight E. Eisenhower until 1954: Reforming the defects of the federal income tax system constructed during World War II—lower personal exemptions, a steep and high rate structure, and a narrowed tax base that favored recipients of unearned income and relatively higher-income classes.[32] Wilbur Mills significantly contributed to this movement. Through his activity in several congressional committees in the 1950s, Mills concluded that the single package of comprehensive tax reform would provide a fairer, simpler, and more equitable and progressive income tax system that could raise more total revenues, keep the federal budget roughly in balance over the years, and create an atmosphere of equal opportunity for steady economic growth and expansion.[33]

After Mills became the chairman of the CWM in 1958, the CWM, cooperating with the Treasury, held hearings to discuss the specific measures of such tax reform from November 16 to December 18 in 1959.[34] Through the series of hearings, the CWM and Treasury succeeded in making tax experts, economists, and congressmen understood the necessity of achieving comprehensive tax reform. After John F. Kennedy took office on January 20, 1961, the Treasury, led by new Assistant Secretary of the Treasury for Tax Policy, Stanley Surrey, began crafting the comprehensive tax reform proposal based on the discussion of the CWM and Treasury in the late 1950s. When the Treasury drafted the original tax reform bill in 1961, the idea of the CWM and Treasury prevailed in the Kennedy administration. Advisers of the administration and the Treasury agreed to the proposal of a revenue-neutral and coherent tax reform combining base-broadening reforms with rate reductions, at least until 1963.[35]

However, the CWM and Treasury failed to accomplish their tax reform program in 1964. One reason for the failure was pressure from the CEA and economists working for Kennedy, who have been called "Keynesian" economists. However, their tax idea was definitely different from that of Surrey, and even John Maynard Keynes and his American contemporaries——who emphasized a progressive income tax system with vertical and horizontal equity, and the ability to finance expanding fiscal demands and balance the budget when national income approached full employment.[36] Based on the concept of a "full-employment budget," the CEA argued that the "full-employment budget surplus" should be offset by "fiscal dividends" through tax cuts or increases in government expenditure, even if the actual budget was in deficit.[37] From 1961 to 1962, the CEA and several neoclassical synthesis economists, such as Paul Samuelson and Robert Solow, persistently persuaded Kennedy of the importance of deliberate deficit financing through tax cuts to prevent economic decline. Economists outside the administration and business interests supported the CEA's argument.[38]

The change of economic and political conditions also prevented the accomplishment of the administration's original tax reform program. From 1961, criticism against the administration increasingly had spread among Republicans and business because of appointments to regulatory agencies unsatisfactory to business people and a serious conflict over rising steel prices between the administration and steel industry. A decline of economic growth and stock prices occurred in 1962 made business, investors, and analysts worried that a recession was on the verge of occurring.[39] Then, a tax cut then became an appealing measure to the Kennedy administration for both political and economic reasons.[40] In addition, the CEA expected that a tax cut would keep the Democratic tradition while avoiding conflict with business.[41] Therefore, the CEA recommended that the administration should propose the tax reform program as a net tax cut and divided it into two parts: the permanent rate cuts and simple tax-cutting measures would take effect first; then, a year later, controversial base-broadening reform measures should take effect to alleviate the predictable opposition (the two-stage approach).[42] Although the Treasury and Mills were not in favor of this approach, they finally accepted it after negotiations with the CEA.[43] The Treasury and Mills abandoned their ideal tax reform, hoping that the two-package approach would make the eventual adoption of tax reform much more likely. Thus, the tax reform program, when proposed in January 1963, did not take a revenue-neutral and coherent form but rather the form of a two-stage tax cut. The administration's proposal primarily emphasized the purpose of stimulating consumption and investment, while providing structural reform measures to boost progressivity, fairness, simplicity, and horizontal and vertical equity.[44]

Nevertheless, business, Republicans, and several newspapers fervently attacked the proposed structural reform measures, especially opposed the restraint of itemized deductions, the repeal of dividend credit and exclusion, and the restraint of preferential treatment for capital gains. They viewed that the reform measures would unfairly impose an excessive tax burden on higher-income classes, investors, and homeowners.[45] In the face of fervent opposition, Mills, who had been one of the imminent proponents of comprehensive tax reform, emphatically became a tax-cut proponent.[46] Consequently, most loophole-closing provisions were abandoned or gutted by the CWM and SFC. The tax reform program was legislated in 1964 as the largest tax cut until 1981 with huge rate cuts in individual and corporate income taxes and almost no reform measures—the so-called Kennedy–Johnson tax cut.[47] The original impetus for tax reform had vanished. "Keynesians" had emerged victorious in the mainstream federal tax policy by the enactment of the Revenue Act of 1964.

### 2. The Treasury's Work to Devise the Concept of "Tax Expenditure"

When it turned out that they would very likely be defeated in 1964, the Treasury attempted to portray the result of tax cut of 1964 as a representation that they had decided to arrest the gradual erosion of tax base through tax preferences and privileges for certain groups of taxpayers. On March 2, 1964, Henry H. Fowler, Under Secretary of the Treasury, stated that the tax design of the future, "if the policy of the 1964 act is followed," would be the provision of necessary revenues at the lowest possible tax rates whenever base-broadening opportunities were presented.[48] Then, Fowler emphasized that it would be a commendable switch from the old pattern of opening new "loopholes" in the existing structure with the inevitable result of increasing upward pressure on existing rates or passing up opportunities to reduce the rate scales. He declared that the eradication of a number of long-standing flaws in the field of equity and simplification of the federal income tax system would have to give way to prioritizing and emphasizing the overall tax policy.[49]

Two tax experts inside the Treasury mainly directed this attempt. One of them was Surrey, and the other was the new director of the Office of Tax Analysis (OTA), Gerald M. Brannon. On March 30, 1964, Brannon first suggested the fundamental idea to judge whether a certain tax preference followed Treasury's policy: a tax preference "is very much like a government expenditure" in order to judge whether a certain government expenditure or tax preferences would be a good idea. Brannon criticized the tendency to jump to the conclusion that special tax treatments, such as deductions, or credits, or exemptions, would be good for the economy.[50] For instance, the OTA recommended that the administration should oppose tax credits for education. They viewed such a measure as an inefficient and inequitable way because large amounts of tax relief would be provided to higher-income taxpayers who could afford to educate their children, while forcing up college tuition fees. The OTA regarded such results as being most unfair to children whose families did not have enough income to take advantage of the tax credit.[51]

Based on the primitive concept of "tax expenditures" suggested by Brannon, by early 1965, Surrey had determined to begin intensive work on tax reform to provide the federal tax system with the ability to produce sufficient revenue "in as fair and simple way as possible." Surrey, on the one hand, pointed out that it had long been the custom in the United States for anyone to consider the start of any new social or other programs by suggesting that they be encouraged through special tax benefits, but far too often the tax incentives of those days to achieve specific non-tax objectives had turned into loopholes, "which drained vital revenue that could have been used far more effectively to attack the problem directly." On the other hand, Surrey emphasized the importance of the distinction that who had no real need for help to avoid wasting tax revenue that instead could be used directly to finance a constructive program for those most in need of it. In addition, Surrey recognized the tax preferences mainly favored higher-income classes so that those who really needed help would be so much further from their goals. In the budget for the next fiscal year, the administration of Lyndon B. Johnson intended to increase expenditure programs where they considered necessary—that is, poverty, vocational, educational, and health programs—while imposing expenditure reductions wherever possible. Thus, Surrey emphasized that any tax preferences designed to further a specific and desirable social goal should be tested to assess whether it was possible to achieve it more efficiently, directly, and fairly compared to government direct expenditure programs as a means to achieve the goals of the Great Society.[52]

Brannon thought that a test of tax preferences would be useful for avoiding criticism against the federal tax policy for Great Society programs. On August 17, 1965, Brannon suggested to Mark Sheehan, the Deputy Assistant to the Secretary for Public Affairs, that the Treasury staff should present the view that Great Society programs were aimed at structuring social institutions in such a way that Americans could achieve not only a free society but also one with justice, peace, and full employment. Brannon defined maintaining full employment as "one device for maximizing freedom" because an individual who was unemployed "does not have much real freedom to do a whole host of things that cost money." In addition, he recognized that the preservation of a basic freedom for minority groups did require some sacrifice of lesser "freedoms to discriminate." Then, Brannon recommended that the Treasury's staff take the attitude that comprehensive tax reform that would enable the federal government to finance programs for these goals should be prioritized for freedom and equity.[53]

By October 1965, Surrey came to be of the view that taxes foregone because of a desire to benefit or induce a particular activity were "in a real sense, monies spent" on the basis of the "cost-effectiveness techniques" that the Bureau of Budget of the White House (BOB) attempted to apply to evaluate non-defense expenditures.[54] Surrey mentioned the exemption of estate and gift taxes, tax preferences for any unrealized appreciation in value of assets occurring prior to the ascendant's death, capital gains, charitable contributions, dividends and interests, state and local taxes, and medical expenses that benefited only middle and upper-income groups as "monies spent." As for Great Society programs for education, pollution, manpower training, and research and development, Surrey argued "we must consider the non-tax approach" because "the benefits [from tax preferences] may be misdirected by going to taxpayers who do not need them and by being withheld from those whose low incomes or losses keep them from being taxpayers at all." Then, Surrey determined the priority goal of the Treasury's tax policy for Great Society programs as accomplishing the elimination of poverty, and the improvement of equity and simplification of the federal tax system through reducing differences among types of tax treatment by researching many of the preferences and deductions, and through lowering tax rates.[55] The Treasury, led by Surrey and the OTA, began its work in the early 1966 to concrete contents of a possible tax reform program to provide greater fairness, equity, simplicity, and efficiency for the federal income tax system with maintaining progressivity but no revenue gains or losses. The Treasury intended to recommend the tax reform program in 1967 after finishing their research.

### 3. Tax Reform Planning of the Treasury in 1966

While researching a possible tax reform program, the Treasury simultaneously had to work on another tax matter that the Johnson administration faced—the possible countercyclical surtax proposal.[56] The necessity for a tax increase was raised in the early 1966 owing to the Vietnam War and inflationary pressure. The Johnson administration envisioned the accomplishment of the goals of meeting their international commitments, fighting inflation, and maintaining essential social programs, such as aid for education and job training, by the across-the-board tax rate increase. The administration's views were founded on the argument of the CEA—a tax increase would be needed in the face of inflation and the full-employment budget deficit. The Johnson administration intended to propose the surtax in 1967.

However, the Democrats recommended that the administration propose several measures to close loopholes that benefitted higher-income brackets and corporates as a tax increase measure. They contended that citizens had already faced with high state and local taxes which sharply increased in prices for essential items, causing hardships for both the poor and those in the middle-income brackets.[57] However, Surrey and the Treasury staff did not consider such kinds of proposals appropriate for a tax increase. They maintained that temporary tax changes should have simplicity, immediacy, and certainty of economic effects, and ready and speedy acceptance. The tax changes suggested by the Democrats, Surrey viewed, would have very uncertain economic effects, particularly in the short run, provoke controversy, and cause considerable delay of legislation. Therefore, Surrey and the OTA intended to separate the tax reform program from any necessary action on tax rates. Furthermore, the Treasury's staff also determined to take the attitude to rule out the proposal of loophole-closing measures as temporary countercyclical tax increases.[58]

For the goals of their ideal tax reform, the Treasury attempted to craft the tax reform program along with three tax expenditure policy lines: Reducing taxes in ways that would give the most benefit to the poor; closing loopholes that were of particular benefit to the wealthy; and extending anti-poverty programs by providing direct income payments through either an expanded system of welfare payments or a negative income tax.[59] By December 1966, the Treasury finished drafting a final report regarding with the comprehensive tax reform proposal that was almost along with the tax expenditure policy lines. On reducing taxes for the poor, the Treasury recommended an increased minimum standard deduction or a reduced first bracket rate, and liberalization of the deduction for moving expenses for the low-income tax relief aspect. With regard to closing loopholes, the Treasury recommended reforms of capital gains taxation at death and of estate and gift taxes, a certain percentage of adjusted gross income floor for personal itemized deductions (a minimum tax), elimination and reduction of high-income tax preferences, such as deductibility for state and local taxes on gasoline and personal property, artificial farm losses, and unlimited charitable contributions deductions, special tax benefits for the aged and the exclusion of employee sick payments, and reform measures for percentage depletion, natural resource provisions, foundations, pension trusts, multiple corporations, tax-exempt organizations, financial institutions, and timber companies. Furthermore, the Treasury discussed measures for federal individual income tax simplification: Revising the standard deduction and itemized deductions combined with lowering tax rates throughout that scale.

Those reform proposals that would particularly increase the tax burden of higher-income taxpayers could be associated with balancing features providing rate relief for high-income taxpayers or rate relief across the board for all taxpayers. The Treasury determined to treat the possible temporary tax surcharge that would be advanced in 1967 separately from the tax reform program for its speedy passage, while emphasizing that rate relief should probably be much lower than the separated temporary tax increase. The Treasury emphasized that these contents would make the tax reform program a balanced tax package. However, they estimated that the reform proposal would generally receive extensive public hearings and Committee discussion, and that it would take two sessions to pass the reform program. Thus, the Treasury recommended the Johnson administration that the tax reform should be proposed in 1967 rather than 1968.[60]

## 4. Tax Reform vs. the Surtax Proposal in 1967

The turmoil regarding with the comprehensive tax reform proposal began with the proposal of a 6 percent tax surcharge on both individual and corporate income tax as a temporary tax increase. In the State of the Union address on January 10, 1967, Johnson proposed the surtax "to last 2 years or for so long as the unusual expenditures associated with our efforts in Vietnam continue." When Johnson explained the idea of the surtax, he emphasized how minimal the burden would be.[61] More importantly, he highlighted the tax surcharge as a measure by which his administration would attempt to keep the budget deficit in fiscal 1968 within prudent limits and "to give the country and to give our fighting men the help they need in this hour of trial." While attempting to deal with the problem of the tax burden and the emergency in Vietnam, the Johnson administration intended to meet the needs of the country at home through social welfare programs. However, nowhere in Johnson's address did he refer to the tax reform program that the Treasury had developed.[62] Then, the tax reform program was publicly separated from the Great Society programs. The original intention of Surrey and Brannon had vanished.

The leaders of Congressional committees viewed the Treasury's tax reform as more important than the administration's surtax proposal. Russell Long, the Chairman of the SFC, somewhat opposed the surtax proposal although he recognized that it was tied to the Vietnam War. He felt it would be difficult to vote against the surtax proposal. While approving the tax reform program the Treasury had crafted, Long recognized that it should not be recommended in 1967.[63] Moreover, in a meeting with Surrey, the Chairman of the Joint Economic Committee (JEC), John Byrnes, argued that there should be continuing effort with respect to tax reform while it would be proper to separate it from the tax surcharge proposal.[64] Surrey, in considering the arguments of the leaders of the Congressional committees, thought that the message should be postponed until later in the spring, when the CWM had finished discussing the surtax proposal.[65] Furthermore, Mills pointedly opposed the tax surcharge because he viewed that the discussion on the surtax in the Congress would probably delay the recommendation of the tax reform bill. He publicly promoted the importance of the tax reform that the Treasury and the tax-writing committees in Congress aimed to accomplish. Mills declared that all members of the CWM had agreed the tax reform would enable the federal tax system not only to raise the necessary government revenues in a simpler, fairer, and more equitable manner, but also to provide economic stability and growth of the private economy.[66]

In response to opposition of the Congressional committee leaders, several Congressmen gradually realized the inequity and unfairness of the federal income tax system. In remarks before the JEC, Representative Henry Reuss (Democrat—Wisconsin) noted that both old classic and new discovered tax loopholes catalyzed the growing imbalance between the rich and the poor. He pointed out that the rich would get richer by the help of the trust companies and the skills of battalions of lawyers with intimate knowledge of the intricacies of the tax system, while the poor could not receive the same help. Reuss particularly criticized Johnson, a Texan in the White House, for being unlikely to reform the loophole of the 27.5 percent oil depletion allowance that gave oil billionaires an enormous tax break. The final element of Reuss' criticism was that as the cost of the Vietnam War escalated and the pressure on prices grew, there was increasing awareness of the tax bite and the inequities built into the topsy-turvy tax structure.[67] Even from the Republican side, a senior member of the SFC, Senator John Williams (Republican—Delaware), recommended that the Treasury submit the tax reform program to the Congress in time for consideration along with the surcharge.[68] However, Fowler rejected Williams' request. Fowler was afraid that when there were important issues before the Congress with respect to the total amount of taxes to be collected, objections to arguments about the respective shares of the tax burden and the size of the required tax increase would inordinately slow down the necessarily rapid legislative process of the surcharge in a protracted debate on tax revision.[69]

The atmosphere against the proposed tax surcharge and existing tax loopholes continued to spread across the country. *Colorado Post* carried an article criticizing that "big-hearted congressmen" kept popping up with new ideas for more tax loopholes, not only "each meritorious in itself but potentially dangerous to the national budget," but also "to provide new loopholes in a tax law already as full of holes as a Swiss cheese."[70] *Los Angeles Times* pointed out that Johnson's request for an across-the-board tax surcharge in individual and corporate income taxes revived the question: "What about oil? Why not require the oil industry, which paid a lower effective tax rate on its profits than most industries, to pay more taxes so the rest of us won't have to pay so much?"[71] *Intelligencer Journal* opined "it would help if the nation's ordinary taxpayers who believed the oil industry should carry its share of the tax load would begin now to let their Congressmen know their wishes."[72] George K. Romoser, associate professor of political science at the University of New Hampshire, contributed an article to *The New York Times* in which he criticized the proposed tax surcharge for affecting lower- and middle-income groups the hardest, and for evading the need to overhaul the distribution of tax burdens and plug the loopholes.[73] *The Washington Post* emphasized that additional tax revenue for the Vietnam War should be achieved simply by closing the tax loopholes, especially the 27.5 percent oil depletion allowance benefiting oil barons, rather than the temporary surtax that would raise larger revenue from less privileged taxpayers.[74]

The Treasury nevertheless wanted to avoid proposing the comprehensive tax reform proposal in connection with the surtax proposal. The Treasury continued inquiring whether the particular tax preferences actually encouraged the desired activity significantly, whether the encouragement was worth the extra tax burden that had to be carried by other taxpayers, whether there were more efficient ways to achieve the goal, and whether the tax laws should be changed to encourage people to support the government by paying their fair share on the basis of their ability to pay.[75]

Many Democrats, shaken by constituents' protests against the administration's surtax proposal, gradually became strong supporters of what they called "closing tax loopholes" as an alternative to the surtax proposal. Representative Wright Patman (Democrat—Texas) emphasized that reform of abuses in the area of tax-exempt foundations and their impact on the economy was clearly in the public interest.[76] In New York, Senator Robert Kennedy (Democrat—New York) observed increasing social demands on measures for poverty, the unskilled, education, environmental pollution, transportation, health, and immigrants alongside an explosive increase in expenditure on the Vietnam War. Kennedy then stated that "if we are to generate the public funds needed to finance these projects and our responsibilities abroad, we cannot, we must not, allow our present tax system to continue unreformed. For under the maze of loopholes which have developed, too many Americans escape their fair share of the cost of shaping our nation's destiny…Now—right now—when we are considering an increase in taxes, we must begin the process of reform…It is just. It is fair. It should be enacted now."[77] Furthermore, a member of the CWM, Representative James Burke (Democrat—Massachusetts) told *The New York Times,* "My folks say, 'Why tax me more when you let some of the rich fat cats off scot free?'"[78]

Despite the growing support for tax reform, the situation in the Congress was still fluid. The CWM had to continue committing to the administration's surtax proposal. Mills had coherently opposed it. The Democratic leadership in the House was also committed to a tax increase. However, Republicans, by and large, had spoken out strongly against a tax increase. Instead, they insisted on drastic cutbacks in spending.[79] Outside the Congress, the view prevailed that the substitution tax reform for the proposed tax surcharge could simply not raise enough money without a disruptive effect on the economy and inevitable time-lag revenue collection that would kill the effectiveness of reducing the budget deficit and preventing further inflation. Furthermore, if it were assumed that the $7.5 billion in additional taxes that Johnson had asked for was about the budget state and economy would require, then tax reform would be required to eliminate completely every provision that someone regarded as a loophole in order to reach this figure. "In a real world, few, if any, are proposing such blunt action."[80] When Mills discussed the line of approach for tax reform with Surrey and the chief of the Joint Committee on Internal Revenue Taxation, Lawrence Woodworth, Mills principally asked the Treasury to postpone sending the tax reform program to the Congress until 1968 simply because he did not want to get involved in any further tax matters in 1967.[81] Thus, the administration and Treasury determined to put off the tax reform proposal until 1968, while discussing particular items of the proposal.[82]

By October 24, 1967, the Treasury had completed drafting a tentative tax reform program.[83] In a meeting on October 30, Fowler stated that the reform measures represented a balanced revenue package and were directed at four principal objectives: To relieve low-income groups at or below the poverty level from the burden of income tax; to meet the valid charges that a large number of the wealthy did not pay their fair share; to ease the burden on those few among the wealthy who were paying far more than their fair share because of very high tax rates; and to achieve a complete revision of estate and gift taxes.[84] Mills favored the program as a whole. Mills re-emphasized that he did not consider it advisable that the tax reform message be sent to the Congress in 1967, and that it should be kept separate from the surcharge. Fowler, as the leader of the Treasury, agreed with him.[85] Furthermore, Treasury officials decided not to talk about both tax increase and reduction as a means to close the "fiscal gap" that the CEA of the Kennedy presidency had devised in such a way as to imply a tax decrease similar to that enacted in 1964. The CEA recognized there was a bias in favor of solving the fiscal gap problem through tax reduction.[86]

By November 27, 1967, Johnson had already received the first draft of a tax-reform message that would call upon the Congress to tighten the tax loopholes. Despite the pressing national need, however, Johnson deliberately held up his tax reform message. It was predicted that the inequity and unfairness of the federal tax system would remain, at least until 1968. Meanwhile, it was reported the majority of voters who paid the taxes that the oil barons and other millionaires escaped were either unaware of or unconcerned about the tax reform. Public interest in the great tax tangle was so low that a legislator simply could not count on voters to re-elect him for championing their course. "If this trend was not soon reversed," however, there was concern that "a tax rebellion could result that would threaten their whole system of tax collection."[87] Furthermore, the concept of tax expenditures had gradually been spreading among the public as the revenues that were lost by virtue of the tax preferences Congress had granted to certain groups of taxpayers, or "government expenditures through the tax system."[88] Nevertheless, Johnson did not make the surtax bogged down in debate on tax loopholes or structural changes in the tax system. As a result, the tax reform program was withheld from the session despite Johnson's promise that it would be offered in 1967.[89]

**5. Decision of Tax Reform Proposal in 1968**

At the beginning of 1968, it was predicted that the political line regarding with tax policy would shift 180 degrees. Surrey had gradually become known as an originator of the concept of tax expenditures. Regardless whether the idea might be accepted, it was viewed that a loophole-closing tax reform based on the concept of tax expenditures would rank as the single most important tax idea of 1968. Business, the biggest beneficiary of tax loopholes and the biggest advocate of expenditure cuts, then turned its attention to tax reform. It had become difficult to argue for cutting social expenditures unless they were also willing to accept the idea of trimming tax expenditures benefitting businesses, banks, insurance companies, and so on.[90] Thirty-one Democrats gathered and stated that they would not vote for the surtax bill unless it was accompanied by a tax reform bill.[91] At the National Conference on Federal Tax Reform of the Chamber of Commerce of the United States, Long and the previous Commissioner of the Internal Revenue Services, Mortimer M. Caplin, emphasized how important the tax reform was for equity, simplification, and tax revenues.[92]

As Long stated at the Conference, in 1968, the pressing problems demanding the attention of the Congress and the nation at large were war, crime, riots, the balance of payments, the budget deficits, and inflation. "Broad tax reform, though important, just does not possess the air of urgency necessary to seize the concern of the nation this year," Long stated.[93] In testimony before the JEC on February 14, the Chairman of the Federal Reserve Board, William M. Martin Jr., suggested that a 10 percent or more tax increase might be desirable.[94] The White House strategy called for holding back the tax reform bill until after the CWM passed the Vietnam surtax. The more important tactical explanation was that Johnson deliberately was holding back the tax reform bill as the reward that the administration would offer liberal Congressmen in exchange for their support for the surtax if it ever reached the House floor. Barring a marked shift in Congressional sentiment, there would be a loss of most Democrats supporting the tax reform even if the administration were to propose it at that time.[95] The Treasury did not change their attitude: They would not substitute the tax reform program for the surtax because the tax reform would not be designed to produce a net revenue increase.[96] The controversial war tax was buried in the CWM and the reform proposals were buried in the Treasury. Thus, they viewed that "tax reform is dead for 1968."[97] Nevertheless, Long continued urging Johnson to send the Congress the tax reform bill, although his definition of tax reform did not include a cut in the 27.5 percent oil depletion allowance—oil was as important in Louisiana as in Texas and Arkansas.[98]

The situation with respect to the tax reform plan changed because of the legislative process of the surtax proposal in the Senate. The surtax program was included in the so-called "Easter Basket Bill," which consisted of several reforms of taxing and spending programs. In the legislative process in the SFC and on the floor of the Senate, Democrats fervently emphasized the importance of the tax reform program, and required its proposal as a prerequisite for the passage of the surtax proposal. As a result, the Easter Basket Bill included not only the 10 percent surcharge on individual and corporate income taxes and a ceiling on federal spending in fiscal 1969 of $180.1 billion, with an exemption granted for special items, such as the Vietnam War. It also included the following provision: An order to the administration to submit the tax reform program by December 31, 1968.[99] When Johnson signed the bill, called the Revenue and Expenditure Control Act of 1968, into law on June 28, 1968, it contained the requirement that Johnson had to send the Congress a comprehensive tax reform proposal by the end of the year. It helped mollify a persistent bloc of Congressmen calling for tax reform along with, or instead of, temporary tax increase. Mills stated that the tax reform would be the panel's top-priority business in 1969, although he expected it to take two years to pass into law, as the Treasury had done. Then, advocates of tax reform in Congress and the administration hoped that fresh White House backing would speed action on a number of ideas gaining support in Congress.[100]

### 6. The Tax Reform Proposal in 1969

Impetus for tax reform finally peaked just before Richard Nixon took office on January 20, 1969, when the interim Secretary of the Treasury, Joseph Barr, warned Congress of an emerging "taxpayer's revolt" spurred on by increased public awareness of existing tax inequities. In testimony before the JEC, Barr warned of an impending "revolt" of middle-class taxpayers against a tax system that allowed high-income taxpayers and millionaires to pay little or no taxes altogether through investment in tax-exempt securities and the use of other tax shelters while middle-income taxpayers bore the brunt of taxation. “Our income tax system needs major reforms now,” Barr told the committee. “We face now the possibility of a taxpayer revolt if we do not soon make major reforms in our income taxes.” To drive the point home, Barr cited 155 “extreme cases” in which individuals with adjusted gross income in excess of $200,000 paid no federal income tax.[101] Barr’s warning made tax reform a major issue almost overnight. On February 18, the CWM opened the most extensive hearings on the subject in a decade. Finally, on April 21, 1969, the Nixon administration proposed a comprehensive tax reform bill.[102]

By scaling down a number of tax preferences enjoyed by the wealthy and reducing taxes for lower-income taxpayers, the tax reform proposal aimed to make the federal tax system fairer, simpler, and more equitable while keeping federal tax revenue balanced and avoiding increasing pressure on prices that were already rising too fast. The Nixon administration recommended the following: A “minimum income tax” for citizens with substantial incomes by setting a 50 percent limitation on the use of tax preferences;[103] a “low-income allowance” that would remove low-income families from the federal tax rolls;[104] liberalizing deductions for moving expenses; reduction or elimination of deductions for stock dividends, mutual saving banks, private foundations and exempt organizations, mineral transactions, charitable contributions, and farm incomes, and accelerated depreciation by public utilities; and the repeal of a 7 percent investment tax credit accompanied by extension of the full surcharge at 10 percent only to January 1, 1970, with a reduction to 5 percent on January 1, 1971.[105]

When Nixon introduced the administration’s tax reform proposal, he stated that it aimed to eliminate the situation in which special preferences in the law permitted far too many Americans to pay less than their fair share of taxes or to be successful at tax avoidance, while too many Americans bore too much of the tax burden.[106] Nixon argued that tax preferences "should be viewed as a form of expenditure, and weighed against the priority of other expenditures." Nixon emphasized that the overall tax reform program would be equitable and essentially neutral in its revenue impact. The administration crafted the program to reduce the tax burdens of lower-income taxpayers by utilizing the revenue gain raised by several structural reforms. Furthermore, he argued that the tax reform would make the federal tax structure more equitable and efficient so as to be more conducive to stable economic growth and responsive to urgent social needs. The administration was afraid that the reform proposal might be bound to be controversial. However, Nixon emphasized that "tax policy should not seek to 'soak' any group or give a 'break' to any other." The Nixon administration expected that the proposed tax reform would make the federal tax system "give life to the people's purpose in having a Government: to provide protection, service and stimulus to progress," and serve the nation as a whole.[107]

The tax reform bill was submitted to the CWM on the next day of Nixon's proposal. On August 2, the CWM reported a clean bill, coupling rate reductions for taxpayers in almost all categories of income with a 6-month extension of the tax surcharge until June 30, 1970, as requested by the administration. Mills called for general reduction in the rate schedules from the prevailing 10 percent to 5 percent. The CWM's bill also recommended increasing both the low-income allowance and the standard deduction, and no changes in the personal exemption. The CWM and the House agreed to increase tax rate on capital gains, repeal investment credit, and impose a 50 percent minimum income tax. In addition, total deductions would be reduced by the percentage of income that was ultimately exempted. Furthermore, the CWM bill included tax increases in mutual saving banks, mineral transactions, charitable contributions, real estate depreciation, and farm income, while lowering the percentage depletion allowance. The bill balanced \$6.81 billion of tax relief with \$6.86 billion of tax increases. On August 5, however, the CWM voted to amend the bill by adding an additional \$2.44 billion in tax reductions for middle-income wage earners who received very little in the way of tax breaks from the CWM bill. Mills argued that every comprehensive tax reform be proposed as a tax reduction. Finally, the House approved the bill on August 7 by a vote of 394–30. The bill provided \$9.3 billion a year in tax reductions and \$6.9 billion in tax-break reform.[108] The legislation would resultantly lose more revenue than it would produce, 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 born out of the bill would generate higher revenue.[109]

The SFC aggravated the issues by heavily amending the bill to combine an annual \$9 billion tax reduction by new exemptions with only \$5 billion in loophole-closing reform in 1972 and \$6.6 billion in 1979. The final Senate bill, which passed by a vote of 62–30 on December 11, contained about \$11 billion in eventual tax reductions and \$5.6 billion in reform measures. Although Nixon then threatened to veto the bill, by Mills' effort to eliminate many of the costly amendments that the Senate had adopted, the final legislation restored the amount of revenue by lowering personal exemptions.[110] In the long term, however, the amount of loophole-closing provisions that could have raised revenues (+\$3.32 billion) was far less than that of income tax relief (−\$9.134 billion). In addition, it was estimated that the termination of the temporary tax surcharge in 1972 would decrease the amount of raised tax revenues.[111] While obtaining loophole-closing measures in part, the Treasury failed to accomplish comprehensive revenue-neutral tax reform again.

## Concluding Remarks

When Nixon signed the Tax Reform Act of 1969 into law, he stated that he believed, on balance, "it is a necessary beginning in the process of making our tax system fair to the taxpayer."[112] Almost all subsequent administrations have conclusively fallen short of his expectation. In the 1970s, the use of tax expenditures expanded although the administration of Jimmy Carter attempted to roll back the movement.[113] An exception was the administration of Ronald Reagan, which temporarily eased away from this path of tax preferences by implementing a comprehensive tax reform through cuts in tax expenditures in 1986. It has been frequently emphasized that the 1986 tax reform could overcome political difficulties with legislating a comprehensive tax reform.[114] In the 1990s and 2000s, the administrations of Bill Clinton and George W. Bush took the direction of federal tax policy back to the path of tax expenditure increase.[115] Furthermore, the Tax Reform Act of 1969 met the liberal definition of a "tax cut during a time of war," which undermined the claim various pundits made in 2003 that the Bush wartime tax cuts were unprecedented.[116] The 1969 tax reform did not involve the force to change the direction of US tax politics in spite of the Treasury's effort from 1964—seemingly almost along with the idea of Haig and Simons.

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[25] Wesley W. Widmaier, *Economic Ideas in Political Time: The Rise and Fall of Economic Orders from the Progressive Era to the Global Financial Crisis* (Cambridge: Cambridge University Press, 2016), 3-27, 77-132; Herbert Stein, "The Fiscal Revolution in America, Part II," in ed. W. Elliot Brownlee, *Funding the Modern American State, 1941-1995: The Rise and Fall of the Era of Easy Finance* (New York: Woodrow Wilson Center Press and Cambridge University Press, 1966), 194-286.
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[31] Ippolito, *Deficits, Debt, and the New Politics of Tax Policy*, 82-88; Bank, Stark, and Thorndike, *War and Taxes,* 126-137; Zelizer, *Taxing America,* 255-282; Stein, "The Fiscal Revolution in America, Part II," 201-209; Cathie Jo Martin, *Shifting the Burden: The Struggle over Growth and Corporate Taxation* (Chicago: The University Press of Chicago, 1991), 81-106; and Anderson and Hazleton, *Managing Macroeconomic Policy*, 43-85.
[32] As to the tax regime structured during the wartime, see W. Elliot Brownlee, "Tax Regimes, National Crisis, and State-building in America" in *Funding the Modern American State,* ed. Brownlee, 88-96; 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. As for the details of the federal tax system structured by tax reform programs until 1954, see U.S. Congress, Joint Economic Committee, *The Federal Revenue System: Facts and Problems, 1961* (Washington, D.C.: U.S. Government Printing Office, 1961).
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[37] This concept 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.

[38] Cathie Jo Martin, *Shifting the Burden*; Herbert Stein, *Fiscal Revolution in America*.

[39] As to the details about the changes of political and economic conditions, see Arthur M. Schlesinger, Jr., *A Thousand Days* (Boston: Houghton Mifflin Co., 1965), chapter 23.

[40] Based on the full-employment budget, the CEA could have chosen government expenditure increases as a measure to stimulate economy. However, the political complex required an approach to expansionary policy that would not be rejected on grounds that it necessarily meant bloated budgets. See Walter W. Heller, *New Dimension of Political Economy,* (New York: W.W. Norton & Company, Inc., 1966), 113.

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

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[44] *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.

[45] "5 Per Cent Tax Deduction," *The Washington Post*, February 14, 1963. In 1961, Congressional opposition to Surrey's appointment was intense. The oil and gas industry, the mining industry, the savings-and-loan associations, and an army of others who benefited from tax preferences raised a storm of protest. Surrey's reception before the SFC was particularly hostile, with Chairman Harry Byrd (Republican-Virginia) indignantly accusing him of harboring a low opinion of the nation's legislators. See Jeffrey H. Birnbaum and Alan S. Murray, *Showdown at Gucci Gulch: Lawmakers, Lobbyists, and the Unlikely Triumph of Tax Reform* (New York: Random House, 1987), 14.

[46] Herbert Stein, *The Fiscal Revolution in America*, 449-450. Stein cited Mills' Statement from U.S., Congress, House, *Congressional Record,* 88th Cong., 1st Sess., 1963, Vol. 109, pt. 13, 17908-17909.

[47] 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.: Government Printing Office, 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, 1st ed.* (Washington, D.C.: The Brookings Institution, 1964), 236.

[48] Fowler assumed the position of the Secretary of the Treasury on April 1, 1965.

[49] "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, March 2, 1964, 7:30 P.M., EST: A Turning Point in Tax Policy," March 3, 1964, NACP, RG 56, OTPSF, Box 69, Folder #96: Tax Policy (1964-1965).

[50] Gerald M. Brannon, "Statement of Treasury Policy on Tax Credits," March 30, 1964, NACP, RG 56, OTPSF, Box 69, Folder #96: Tax Policy (1964-1965).

[51] Jacob A. Stockfisch to Donald I. Lamont, "Answers to Questions Regarding Tax Policy," October 2, 1964, NACP, RG 56, OTPSF, Box 69, Folder #96: Tax Policy, 1964-1965.

[52] "Remarks by the Honorable Stanley S. Surrey Assistant Secretary of the Treasury before the Tax Executive Institute Shoreham Hotel, Washington, D.C. 6:30 P.M. EST, Sunday, March 7, 1965: The Function of Tax Policy," Undated, NACP, RG 56, OTPSF, Box 69, Folder #96: Tax Policy, 1964-1965.

[53] Gerald M. Brannon to Mark T. Sheehan, "Attached Correspondence," August 17, 1965, NACP, RG 56, OTPSF, Box 69, Folder #96: Tax Policy, 1964-1965.

[54] The "cost-effectiveness techniques," which had been used in the Department of Defense, consisted of evaluating priorities of proposals, programs and projects not merely by their cost, but also by what they would accomplish in meeting specified goals. In the period, the BOB, at the direction of Johnson, was in the process of applying to non-defense expenditures and programs. Surrey thought that the cost-effectiveness studies would enable the administration and the Treasury to appraise the efficacy of the tax approach as compared with the direct expenditure approach, and that they desired, through the studies, an achievement of a wise allocation of their resources and the avoidance of distorting the allocation through inappropriate tax provisions.

[55] The Treasury Department, "Remarks by the Honorable Stanley S. Surrey, Assistant Secretary of the Treasury at the Financial Analysts Federation Conference, Washington Hilton Hotel, Washington, D.C., Tuesday, October 5, 1965, 12:30 P.M. EDT: The Role of Tax Policy in the Great Society," Undated, NACP, RG 56, OTPSF, Box 69, Folder #96: Tax Policy, 1964-1965.

[56] Stanley S. Surrey to Henry H. Fowler, "Current Tax Matters," January 14, 1966, Folder: Domestic Taxes: Tax Reform, 1967――Problems and Program, Box 112, Papers of Henry Fowler (PHF), Lyndon B. Johnson Library (LBJL).

[57] Richard L. Ottinger to Lyndon B. Johnson, June 9, 1966, NACP, RG 56, OTPSF, Box 68, Folder: Tax Reform: 1966-68 Replies to Reform Proposals Submitted by Congressmen, 1966-1969; Richard L. Ottinger to Wilbur D. Mills, June 9, 1966, NACP, RG 56, OTPSF, Box 68, Folder: Tax Reform: 1966-68 Replies to Reform Proposals Submitted by Congressmen, 1966-1969.

[58] Stanley S. Surrey to Richard L. Ottinger, June 20, 1966, NACP, RG 56, OTPSF, Box 68, Folder: Tax Reform: 1966-68 Replies to Reform Proposals Submitted by Congressmen, 1966-1969.

[59] Office of Tax Analysis, "Tax Reform—The Issues," August 23, 1966, NACP, RG 56, OTPSF, Box 68, Folder #71: Tax Reform: 1966-68 Issues & Topics for Legislative Proposals for Tax Reform, 1966-1969.

[60] "The Possibilities for Legislative Proposals in 1967 for Tax Reform," Undated, Folder: Domestic Taxes: Tax Reform, 1967――Problems and Program, Box 112, PHF, LBJL. This report was attached to Stanley S. Surrey to Joseph A. Califano, Jr., December 8, 1966, Folder: Domestic Taxes: Tax Reform, 1967――Problems and Program, Box 112, PHF, LBJL; and Stanley S. Surrey to Henry H. Fowler, "Tax Reform and Tax Revision," December 8, 1966, Folder: Domestic Taxes: Tax Reform, 1967――Problems and Program, Box 112, PHF, LBJL.

[61] "For example," Johnson stated, "a person whose tax payment, the tax he owes, is $1,000, will pay, under this proposal, an extra $60 over the 12-month period, or $5 a month. The overwhelming majority of Americans who pay taxes today are below that figure and they will pay substantially less than $5 a month."

[62] Lyndon B. Johnson, "Annual Message to the Congress on the State of the Union," January 10, 1967, Online by Gerhard Peters and John T. Woolley, *The American Presidency Project* (http://www.presidency.ucsb.edu/ws/?pid=28338).

[63] Stanley S. Surrey to the Files, "Tax Increase and Tax Reform—Conference with Senator Long," January 11, 1967, Folder: Domestic Taxes: Tax Reform, 1967――Problems and Program, Box 112, PHF, LBJL.

[64] Stanley S. Surrey to the Files, "Various Tax Matters—Conference with Congressman Byrnes," January 23, 1967, Folder: Domestic Taxes: Tax Reform, 1967――Problems and Program, Box 112, PHF, LBJL.

[65] Stanley S. Surrey to the Files, "Tax Reform," January 31, 1967, Folder: Domestic Taxes: Tax Reform, 1967——Problems and Program, Box 112, PHF, LBJL.
[66] "Address of Chairman Wilbur D. Mills before the Joint Luncheon of the Fellows of the American Bar Foundation and the Conference of Bar Presidents, Houston, Texas, February 17, 1967: Tax Policy for National Goals," Undated, Folder: Domestic Taxes: Tax Reform, 1967——Problems and Program, Box 112, PHF, LBJL.
[67] Through the oil depletion allowance, oil producers were permitted to reduce their annual taxable income by an amount equal to either 27.5 percent of gross income from oil sales or half of net income. Marquis Childs, "Build-In Privileges of the Very Rich," *The Washington Post*, February 17, 1967.
[68] John J. Williams to Henry F. Fowler, June 28, 1967, NACP, RG 56, OTPSF, Box 68, Folder: Tax Reform: 1966-68 Replies to Reform Proposals Submitted by Congressmen, 1966-1969.
[69] Henry F. Fowler to John J. Williams, July 14, 1967, NACP, RG 56, OTPSF, Box 68, Folder: Tax Reform: 1966-68 Replies to Reform Proposals Submitted by Congressmen, 1966-1969.
[70] "$40 Billion in Loopholes," *Colorado Post,* July 18, 1967.
[71] Vincent J. Burke, "Tax Reformers Pose No Threat to Oilmen," *Los Angeles Times,* August 7, 1967.
[72] "For Tax Reform," *Intelligencer Journal*, August 8, 1967.
[73] George K. Romoser, "Letters to the Editor of the Times: New Tax Measure," *The New York Times*, August 10, 1967.
[74] "Plug Loopholes to Avert Tax Rise," *The Washington Post, Times Herald*, August 11, 1967.
[75] Gerald M. Brannon, "Tax Reform," August 13, 1968, NACP, RG 56, OTPSF, Box 68, Folder #71: Tax Reform: 1966-68 Issues & Topics for Legislative Proposals for Tax Reform, 1966-1969.
[76] Wright Patman to Lyndon B. Johnson, September 6, 1967, Folder: Domestic Taxes: Tax Reform, 1967——Problems and Program, Box 112, PHF, LBJL.
[77] "Address by Senator Robert F. Kennedy, Civil Service Employees Association, Commodore Hotel, 9:00 p.m., September 7, 1967," September 8, 1967, Folder: Domestic Taxes: Tax Reform, 1967——Problems and Program, Box 112, PHF, LBJL.
[78] "Many in Congress Prefer Tax Reform to Johnson's Proposal for Increase," *The New York Times*, September 12, 1967.
[79] Ibid.
[80] Eileen Shanahan, "Tax Reforms Can't Do the Job," *The New York Times*, October 1, 1967.
[81] Stanley S. Surrey to Henry H. Fowler, "Possible Tax Reform Conversation with Mr. Mills," October 10, 1967, Folder: Domestic Taxes: Tax Reform, 1967——Problems and Program, Box 112, PHF, LBJL.
[82] John Herling, "Double Tax Whammy," *The Washington Daily News*, October 12, 1967.
[83] Stanley S. Surrey to Henry H. Fowler, "Summary of Tax Reform Proposals," October 24, 1967, Folder: Domestic Taxes: Tax Reform, 1967——Problems and Program, Box 112, PHF, LBJL.
[84] Attendants of the meeting were Fowler, Surrey, Mills, and Woodworth.
[85] Stanley S. Surrey to the Files, "Discussion of Tax Reform Message with Chairman Mills," October 30, 1967, Folder: Domestic Taxes: Tax Reform, 1967——Problems and Program, Box 112, PHF, LBJL.
[86] "Summary, Consultant Meeting, November 4, 1967: Long Range Tax Research," November 7, 1967, NACP, RG 56, OTPSF, Box 68: Tax Reform: 1966-68 Suggested Programs for the Study of Tax Reform Issues.
[87] "LBJ Ponders Tax Loophole Reform," *The Washington Post, Times Herald*, November 11, 1967.
[88] "Tax Expenditures," *The Washington Post, Times Herald*, November 29, 1967.
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[90] Robert Metz, "Tax Reformer Opens Drive to Plug Some Costly Loopholes," *The New York Times*, January 8, 1968.
[91] Joseph M. Bowman to Stanley S. Surrey, "Tax Reform and Tax Surcharge," January 19, 1968, Folder: Domestic Taxes: Tax Reform——Problems and Program——1968, Box 111, PHF, LBJL.

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100 "Washington Outlook," *Business Week*, July 6, 1968, 36.

101 "Treasury Secretary Warns of Taxpayer's Revolt," *The New York Times*, January 18, 1969.

102 Congressional Quarterly, Inc., *Congressional Quarterly Almanac, 1969*, 589.

103 Nixon stated that this would be a major step toward assuring that all Americans bear their fair share of the federal tax burden.

104 This provision would also benefit students, other young people who worked only in the summer and earned $1,700 in taxable income, and the married couple with an income of $2,300.

105 Richard M. Nixon, "Special Message to the Congress on Reform of the Federal Tax System," April 21, 1969, Online by Gerald Peters and John T. Woolley, *The American Presidency Project* (http://www.presidency.ucsb.edu/ws/?pid=2010).

106 In order to repeal the tax of inflation, the Nixon administration intended to cut budget spending.

107 Richard M. Nixon, "Special Message to the Congress on Reform of the Federal Tax System."

108 Congressional Quarterly, Inc., *Congressional Quarterly Almanac, 1969*, 596-611.

109 Zelizer, *Taxing America*, 306.

110 Congressional Quarterly, Inc., *Congressional Quarterly Almanac, 1969*, 589, 611-635.

111 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.: Government Printing Office, 1970), 29.

112 Richard M. Nixon, "Statement on Signing the Tax Reform Act of 1969."

113 Congressional Quarterly, Inc., *Congressional Quarterly Almanac, 1978* (Washington, D.C.: Congressional Quarterly, Inc., 1979), 218-227.

114 W. Elliot Brownlee and C. Eugene Steuerle, "Taxation," in *The Reagan Presidency: Pragmatic Conservatism and Its Legacies*, ed. W. Elliot Brownlee and Hugh Davis Graham (Lawrence: The University Press of Kansas, 2003), 155-181.

115 Ippolito, *Deficits, Debt, and the New Politics of Tax Policy*, 157-195; Steuerle, *Contemporary U.S. Tax Policy, Second Edition*; W. Elliot Brownlee, *Federal Taxation in America: A Short History, 2nd ed.* (Cambridge: Cambridge University Press, 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

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