President John F. Kennedy and the 1964 Tax Cut

BY DAVID SHREVE

In the current political contest over President Bush's proposed federal income tax cut, we see the Kennedy presidency, once again, through a glass, darkly.

Featuring excerpts from Kennedy's December 14, 1962, New York Economic Club address, a recent political radio ad advertises JFK's support for tax cutting and suggests implicitly that the 35th president would have supported the tax cuts proposed by the current administration. "Our present tax system," Kennedy declares in the featured excerpt, "developed as it was, in good part, during World War II to restrain growth, exerts too heavy a drag on growth in peacetime." Kennedy, the liberal politician and Democratic icon, has, it would appear, suddenly become a benefactor of supply-side economics and an exemplar for conservative politicians. Yet at the time of this address, Kennedy was engaged in a spirited battle against conservative politicians and much of the business community who then opposed his tax cut proposal. Against today's conventional wisdom, which lumps all tax cuts in the supply-side policy category—where marginal rates function only as a relative work or investment disincentive—this opposition seems either wholly inexplicable or a relic of an indecipherable and eccentric political confrontation.

How was it that all but a few prominent business leaders—Tom Watson of IBM, Frederick Kappel of AT&T, and Henry Ford II of the Ford Motor Company, for example—opposed the Kennedy tax cut proposal when it was first announced in the summer of 1962? If President Kennedy was, indeed, a nascent supply-sider, why were most conservative politicians so staunchly opposed to the Kennedy proposal? Were they motivated simply by the historic mistrust of business community for FDR's Democratic successors? Or did the business community of that period simply respond more quickly and more fervently to a different political economy, one that had little place for the now much more familiar supply-side concerns? Kennedy, after all, wanted his tax cut to produce a fiscal deficit; perhaps this alone was too much for conservatives. Only by looking more fully at the political economy of both Kennedy and Lyndon Johnson (under whom the tax cut proposal won passage) can we begin to unravel this paradox. The commentary and writings of Kennedy-Johnson economic advisors, the complete text of the 1962 Economic Club speech, and material from recently released presidential recordings, provides us with at least some of the necessary clues.

To Kennedy and the liberal economists who advised him, most supply-side effects were simply derivative: the primary (although not singular) goal of the tax cut was to stimulate demand and thus to achieve full employment. In their way of thinking, this demand would serve as a precursor to a virtuous cycle within which productivity and investment would also respond positively. "The tax cut is good for long run growth," Kennedy adviser James Tobin declared in 1965, "only in the general sense that prosperity is good for investment."1 The effect of the '64 tax cut on the productive capacity of the nation was significant, to be sure, and very much anticipated in the Kennedy-Johnson political economy, but it was mostly incidental to rising demand and full employment.

“The Revenue Act of 1964 was aimed at the demand, rather than the supply, side of the economy,” Kennedy economist Arthur Okun recalled.[2] Among business leaders in private, Kennedy seldom put it any other way: “What you want is a deficit,” he reminded a small group of business leaders at an August 9, 1962, White House meeting. “You want more money being spent than is being taken out of the economy.” Focusing naturally, then, on the propensity to consume—the tendency, that is, of individuals in various income brackets to spend additional income—the administration sought a tax cut that showered most of its direct benefits upon working class and middle class Americans. “The fundamental law upon which we are entitled to depend with great confidence,” John Maynard Keynes remarked, describing this tendency, “is that men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income.” Though it is widely ignored today—or cast aside by competing, but far less robust analyses—this consumption function was critical to the Kennedy-Johnson political economy.

It underscores, as well, the paramount goal of the Kennedy tax cut proposal: to put more money into the hands of people most inclined to spend it. This is not to say that the Kennedy administration dismissed a somewhat different kind of tax cut entirely or that it ignored the merit of other supply side policy, however subordinate it might have been. In the end, the Kennedy-Johnson tax cut offered some benefits for the wealthy and for corporations mostly because it was politically impractical not to do so. Too few members of key congressional committees, reflecting southern Democratic conservatism or a decidedly pro-business orientation, would have voted for the proposal in any other form. “We can only applaud his political acumen,” Tobin remarked in 1965, “while regretting the misguided, but powerful, ideology which made his bargain necessary.” Moreover, if supply-side initiatives were never counted on for any of the heavy lifting, Kennedy and his Keynesian cohorts still found them useful in a variety of circumstances. The seven percent Investment Tax Credit, accelerated depreciation schedules (effected by Executive Order), and a special tax credit for the DuPont Corporation were among these activities.

“The Heller strategy of the 1960s,” James Tobin remarked in 1982, “was not a one-sided program of demand expansion.”[3] Yet, these initiatives, along with other efforts in the realms of international trade and currency, wage and price control, and domestic monetary policy, were never as basic to the Kennedy political economy as demand management. “Although there is some merit in some of the ‘supply side’ proposals so popular today,” Tobin added, “the danger is that they are considered a substitute for expanding demand.” In short, Kennedy used the Economic Club speech to sell these ideas to a constituency who believed them heretical and whose friendship and forbearance Kennedy hoped to cultivate, if only well enough, in the short term, to pass favored legislation. At Yale in June 1962, he had characterized his relations with the business community as “a bog of sterile acrimony.” Only weeks before his Yale address, Kennedy told Ben Bradlee, “We want the support of business on trade, we want them on the tax bill. I’ve been breaking my ass trying to get along with these people.”[5] A heated confrontation in April 1962 with steel companies over steel pricing, the appearance of “Help Kennedy Stamp Out

Free Enterprise" bumper stickers, and a subsequent stock market decline blamed on Kennedy's anti-business attitude had marked the first two years of his presidency. A New York Times poll of 30,000 members of the business community, taken in June 1962, revealed that over 88 percent believed President Kennedy to be strongly or moderately anti-business. In December 1962, at the New York Economic Club, he hoped to turn the corner. He counseled his assistants to avoid using terms that raised the ire of business opponents, asked his anti-trust division to soft-pedal their investigations, and he adopted a rhetoric of conciliation with a sharpened focus on business concerns. The times did not permit him to speak directly or "to wait until the economic intelligence gap had been closed," chief economic adviser Walter Heller recalled.6 Reflecting on the Economic Club speech the morning after, Kennedy adviser and speechwriter Ted Sorensen remarked, "It sounded like Hoover, but it was actually Heller." Yet, as Walter Heller would put it, "because the arguments for the tax cut were poured into old molds, its success cracked, perhaps even shattered, those molds of ideology and error." Only the most selective reading of the Economic Club speech, therefore, would reveal genuine supply-side predilection.

Hoping to convey an appreciation for frugality and private enterprise while selling demand management and full employment, Kennedy was, nonetheless, pessimistic about his chances for a positive response. "Lip service to free enterprise, Goodyear Tire executive Roy Dinsmore had warned him in May, "is belied by the steady march to socialism." When he finished, the positive response cheered President Kennedy.

"I gave them straight Keynes and Heller," he boasted to Walter Heller afterward, "and they loved it." Indeed, Kennedy reminded his listeners often of the importance of purchasing power. "When consumers purchase more goods, plants use more of their capacity, men are hired instead of laid off, investment increases and profits are high," Kennedy declared, voicing sentiments repeated throughout the address. In a recently releasedWhite House recording of a meeting with his economic advisers in August1962, Kennedy repeats this overriding concern for the dual problems of insufficient demand and idle machinery. "The unused capacity is so great," he remarked, "that there really isn't an incentive for more investment than modernization or technological changes require."7 Moreover, as Nixon adviser Herb Stein noted, looking back at the period just after the Kennedy-Johnson tax cut, the slower growth in output per person employed suggests that the cut itself had only minimal supply-side effects.8

With increased consumer demand the paramount goal of the Kennedy-Johnson economic policy team, the tax cut proposal, comprised only part of a more general plan, a plan predicated upon a fiscal deficit and the creation of greater political space for increased government spending. Less than two weeks before he died, Kennedy assured Heller, "First we'll get your tax cut, and then we'll get my expenditure programs." Indeed, the tax cut was proposed mostly because it was the only politically viable fiscal stimulus within Kennedy's reach after the Berlin crisis military buildup. "The use of tax reduction," Heller recalled, "made it possible to induce a coalition of conservative and liberal forces to endorse and work for an expansionary fiscal policy even in the face of an existing deficit, an expanding economy, and rising government expenditures."

Looking back in 1966, Heller added, “I would hope that the tax cut lesson of the past few years has been learned wisely but not too well. The on-target success of the 1964 tax cut should not blind us to the special circumstances that made massive tax cuts the clear choice over more rapid expenditures at that time—circumstances that may not repeat themselves in the future.”

In the end, Presidents Kennedy and Johnson supported a large income tax reduction, but it was neither the most significant aspect of their more general economic policies nor was it a tax cut very much like those proposed today. Caution, rhetorical boundaries, and the difficulty of creating an arresting and compelling afflatus, likely prevented Kennedy, Johnson, or any of their advisers from spelling this out clearly enough for later generations. In a retrospective on his years advising the Kennedy and Johnson administrations, Walter Heller worried that in the effort to construct an economic policy he characterized as both liberal and progressive, the homage paid to the conventional wisdom and “to balanced budgets, and the hostages thus given to the old deficit, debt, and spending phobias, will rise to haunt us in later efforts.”

The recurrent misuse of the Kennedy Economic Club address, in itself, may well suggest that Heller, who died in 1987, was right to be concerned about the way in which posterity would judge the political economy of the presidents he served. ✦