



EDWARD M. KENNEDY ORAL HISTORY PROJECT

INTERVIEW WITH PAUL MCDANIEL

November 6, 2008
Gainesville, Florida

Interviewer
Janet Heininger

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TRANSCRIPT

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Heininger: This is an interview with Paul McDaniel on November 6, 2008, in Gainesville, Florida. Why don't we start at the beginning. Tell me when you first met Edward Kennedy, and what your first impressions were of him.

McDaniel: I first became acquainted with Carey Parker working on the Tax Reform Act of 1969, when I was a legislative aide to Senator Albert Gore.

Heininger: The senior.

McDaniel: Right. He and I worked together. I don't think I did any work directly with Senator Kennedy during that period of time, although they were certainly active in the legislation. I think the next time I did any work with him was on a relatively small tax act in 1975. My best recollection is that I just worked with Carey, and by telephone. I don't think I visited the Senator.

Heininger: And you were at Boston College at that point?

McDaniel: I was at Boston College Law School at that time, yes. Then in 1976, when it became clear that there was going to be a really major piece of tax legislation, I was contacted again by Carey, who advised me that the Senator wanted to be really active when the bill came to the Senate floor. He asked if I would be willing and able to provide some significant input in the Senator's preparation and participation in the Senate consideration of that legislation. I agreed.

Heininger: You actually knew Carey from when he first came to Capitol Hill, then.

McDaniel: Pretty early on, yes.

Heininger: He had just come. He just started working for Kennedy, I think in '69.

McDaniel: Is that right?

Heininger: So, very early.

McDaniel: And so I agreed. I think it was the late spring that we started a series of preparatory meetings on the weekends, at Senator Kennedy's home. I would go down and we would typically begin at 9:00 or so on a Saturday morning. I would have selected the issues for his consideration and we would go through the bill, which by now had been reported out by the Senate Finance Committee, and go through the issues. I would explain what the tax issues were

with respect to each of the major pieces of legislation, and he would ask questions and discuss, and we would talk until he was comfortable with that particular issue, and then we would move on.

He worked at it very hard. He was extremely attentive and was really, I think, determined to get on top of it. The only thing that was allowed to interrupt us was if one of his kids or nieces or nephews came into the room needing some help, and then it was shut off and he went to attend to that issue and returned to keep on talking. I was very impressed at how hard he worked at understanding what was not easy stuff. The biggest issue probably in the legislation was legislation dealing with the then-existing tax shelters. That was difficult material but I think I was satisfied by the time that we finished up our series of meetings, that he understood what it was about, as well as other issues like alternative minimum tax and various other points that we went over.

Heininger: Now why was there tax reform in '76? I mean this is an election year, so they knew there was a chance that there was going to be a new President. Did it emanate from the [Gerald] Ford administration or did it start in Congress?

McDaniel: No, it emanated from the Ford administration. The Treasury Department, in 1975, had published a three volume set of tax reform studies and proposals. It was a major piece of work, and it went over from the Treasury to the White House in a pure, first form. Then i the White House sent it to the Congress in somewhat reduced form. One columnist, in reviewing it, I think in the *New York Times*, said that after the work by the White House staff, the score was White House one, Treasury nothing. [laughter] But even so, it was still major, and of course the Congress had—the tax writing committees had the Treasury studies, so they and the staffs knew what the better proposals were and could build on those.

Heininger: If you could summarize the '86 Tax Reform, I would say this is probably the time where the 30-second sound byte was tax simplification. How would you summarize what was the impetus for and what resulted from the '76 Tax Reform? What was it that people felt needed reforming?

McDaniel: Well, a lot. The publicity on tax shelters had really peaked by that time, because it was very intense during the early 70s. You had tax shelters like the Mexican vegetable rollover and the kumquat tax shelter, and these just stirred up a lot of people, and obviously, they were being invested in by high income individuals. I think that was the single biggest motivating factor. And you had tax writing committees at that time that really were interested in the tax system as such, unlike the last 16 years.

Heininger: So if you summarize it, would you say that it was an issue of tax fairness?

McDaniel: Yes, definitely.

Heininger: Because for Kennedy, taxes were not an area that he had traditionally staked out as one that was of great interest to him, it wasn't his committee. Why would Kennedy involve himself in this?

McDaniel: He never said to me why.

Heininger: Did Carey ever say to you?

McDaniel: I had the impression, frankly, that it was Carey who was really interested in it, and persuaded Kennedy that it was an important thing to do. I was never privy to those discussions, but—

Heininger: That's what good staffers do, though.

McDaniel: That was just my impression. But having said that, I repeat that Kennedy took it with great seriousness. He persuaded a group of 23 Democratic Senators to form a group that would vote together by and large, agreed upon amendments or agreed upon votes to remove items from the Senate Finance Committee bill. They began meeting regularly, once a week is my recollection, along with their staffs, and would go over what was being planned to be offered in the upcoming days, and make their decisions as to what they were going to support or oppose as a group, and they pretty well stuck together. There were some particular votes where some of them, one or more, might not be able to go along with the group, but nonetheless, they stuck together pretty well and were quite faithful in meeting and discussing the issues. Kennedy was the one really responsible for organizing and bringing that group of Senators together.

Heininger: Who were some of them? Were they mostly the traditional liberals, or did they cross the spectrum?

McDaniel: They were mostly the traditional liberals, but there were some I would say were middle of the road. Dale Bumpers from Arkansas was a member of the group, he's somewhat liberal I guess. Then Lloyd Bentsen joined in from time to time, not always. I don't remember the names of—

Heininger: Twenty-three is a lot, though. I mean that's a quarter of the Senate.

McDaniel: Yes, it was.

Heininger: That could be a very potent voting block.

McDaniel: And they did a good job, they were pretty successful. They didn't have the support of Russell Long, the Chairman—

Heininger: Surprise, surprise.

McDaniel: —of the Finance Committee. [*laughs*] but they stuck together pretty well. One of the things that we did—Stanley Surrey and I, when he was the former Assistant Secretary of the Treasury for Tax Policy and was at that time on the faculty at the Harvard Law School, along with Joe Pechman, an economist at the Brookings Institution—we gathered together a group of tax practitioners and tax professors to produce a book called *Tax Reform for 1976*, which was to be a working tool for primarily the 23 Senators, but more importantly for their staffs. Each person took a specific topic and wrote a three- or four-page, readily understandable discussion of whatever the topic they had agreed to do, and we distributed these, and they had them before we started our series of meetings with the 23 Senators and their staffs. Brookings had published this book, made it available.

Heininger: So there was really quite an effort to educate at least a quarter of the Senate about what the issues were that were going to arise with the tax reform bill.

McDaniel: Yes, that's right. The Senator gave us full support in doing that. We obviously cleared it with him before we started publishing a book, but he was supportive.

Heininger: So what did the bill look like when it came out of the House?

McDaniel: It looked pretty strong. They had effective anti-tax shelter provisions in them, they had addressed a lot of problem areas that had arisen—well, it was really the preceding seven years since the Tax Reform Act of 1969. It was good legislation when it came across. The Senate Finance Committee held extensive hearings on it, and I testified at one of those hearings, on the treatment of real estate in the House bill, which was to the dismay of the real estate industry. In the hearing, Senator [Robert] Packwood, who was the chair, addressed my fellow panel members, who all were members of the real estate industry. He had a list of about 20 different measures that affected real estate adversely. He went through every one of them with each of them and none of them agreed with anything. *[laughter]*

Heininger: This was a time when all the, what were they called, REITs?

McDaniel: Real Estate Investment Trusts.

Heininger: Yes, Real Estate Investment Trusts. Had they proliferated since the '69 tax bill, or did that come subsequently?

McDaniel: I just don't recall, but these provisions that Senator Packwood was discussing weren't directed at—they were not directed at REITs, they were directly affecting real estate.

Heininger: Directly affecting real estate.

McDaniel: And somewhat incredulously after the panel ended, Senator Packwood, turned to us and said, "I've gone over, let us say 20, and none of you can agree with even one of them?" Sure enough they didn't, and when the bill emerged from the Finance Committee, these provisions affecting real estate were pretty much as Senator Packwood had outlined. So he obviously was not happy with the way his proposals or ideas had been received by the real estate industry.

Heininger: Let's back up a minute. Talk to me about the concept of tax expenditures, and what that really meant in terms of looking at the tax reform bill of '76. This was a new concept, wasn't it?

McDaniel: Yes. We had introduced the idea first at the end of 1968, first of 1969, as the administrations were changing. The Treasury had sent it forward to Congress and the Secretary of the Treasury testified, actually in the closing days of the administration, before the tax writing committees about the idea. The basic idea was that as we looked at the Internal Revenue Code and thought about the concept of what is a tax on income, and how you define income. There were a lot of provisions in the Internal Revenue Code that had nothing whatsoever to do with defining income in a sort of normal sense of the term. It was Stanley Surrey's idea that, "Well these provisions really should be viewed as spending provisions, because that's what they were

designed to do. They were designed to provide subsidies for certain kinds of activities, incentives for certain kinds of investments, and you could analyze them as spending programs.”

As we looked at it in the Treasury Department, what became clear is that you could classify these provisions in the same budget categories as was used for the direct budget, and so that was what was sent forward, a list of these tax expenditures. Surrey coined the term “tax expenditures” to indicate that they were spending programs run through the tax system. So you had tax expenditures in international affairs, defense, agriculture, oil and gas, and the like, and the economic staff at the Treasury prepared revenue estimates of the cost of these tax expenditure provisions. That was really the origin of the idea.

In 1974, in the Budget Act of 1974, Congress formally adopted the tax expenditure concept and put a definition into the Budget Act, and instructed the administration to submit each year a tax expenditure budget or a tax expenditure account to Congress as part of its overall budget presentation. Simultaneously the act instructed the Congressional Budget Office to likewise prepare a tax expenditure budget, which that office did in conjunction with the staff of the Joint Committee on Taxation, which had the necessary expertise, revenue numbers, and the like. And so each year from that time forward, a tax expenditure budget has been prepared and submitted to Congress.

The idea had been that it was a way of understanding what the total impact of government was on various sectors of the economy. Surrey, I think, wanted to use it as an instrument of tax reform. I came to see that it didn’t have anything to do with tax reform. If you were talking about reform, it was spending reform, not tax reform. Subsequently, I think it had a major impact in the 1986 act; there was some impact in the 1976 act, but at that point we’d only been two years into the Budget Reform Act of 1974 instruction, to prepare the tax expenditure benefit. Probably only the one had been published—

Heininger: Probably only one, given the—

McDaniel: —by that time.

Heininger: —progressive way you have to look forward about two years in the cycle. My guess is—I’m looking back—that this is actually a fairly revolutionary concept, because to treat—there’s a big difference between loss of revenue and viewing something as loss of revenue and viewing it as an expenditure, because psychologically, one is proactive and the other is kind of slipped in and you’re just not getting as much revenue from that end. So it’s almost like a sunshine act. If you’re going to call these expenditures and say, “These are really spending; we’re using the Tax Code for defined purposes, to encourage certain things, and we’re going to use the taxes that way,” it’s not just a loss of revenue, it’s actually an expenditure. I would assume that there would be many people who were not happy to see the sunshine directed on some of these things.

McDaniel: That’s certainly true. There was a lot of opposition.

Heininger: Particularly those who were benefiting from these expenditures.

McDaniel: The beneficiaries were not interested in viewing themselves or having others viewing them as recipients of government subsidies, so there was, and really still is, opposition from some quarters, to the idea. The [Ronald] Reagan administration was not enthused about the idea and tried to modify it in what we considered unhelpful ways. The staff of the Joint Committee on Taxation really remained quite true to it, I think in part because it had been Congress that had passed this, and they were responsible to the members of Congress, not the administration. And so they remained quite rigorous in their application of the concept.

Heininger: But the problem with this is that this is basically where all the shelters were.

McDaniel: Oh, absolutely.

Heininger: And tax shelters, just the semantics of the word, tax shelter, is negative. Tax expenditure is also negative, and so what happens when the bill that emerged from the House, which was relatively strong, trying to meet the requirements of the 1974 Budget Act, comes into the Senate, what happens when it comes there? Was Russell Long a proponent of this?

McDaniel: Not historically. He had become what I would consider a much more responsible chair by this time, and he didn't oppose everything as he had done frequently in prior tax legislative efforts. He really, I think, took it very seriously. He certainly worked very hard, I think in the committee, but certainly on the Senate floor. He was on the floor, as far as I could tell, 100 percent of the time, and some of the sessions were very lengthy.

Heininger: Energy saving.

McDaniel: So even coming out of the Senate Finance Committee, it wasn't as strong as the House Ways and Means Committee bill, but it was still a significant piece of tax reform legislation.

Heininger: If I recall, when it came out of the House, there was a—let's see if I can remember—a \$17.3 billion—well, then we get into the whole Budget Committee stuff. Actually, maybe we should go into that piece. So then you get the Budget Committee, so you get the Senate Budget Committee, and there was a bit of conflict with the Senate Budget Committee and the Finance Committee over this.

McDaniel: I guess. I wasn't involved in that, so I don't really remember much about that.

Heininger: The Budget Committee, under Ed [Edmund] Muskie, attempting to meet requirements of the Congressional Budget Act, set a revenue loss total of \$17.3 billion, and then in its accompanying report but not in the resolution itself, in the first concurrent budget resolution, it said that this was to be achieved—well, it set a total revenue loss of \$15.3 billion, to be achieved with \$17.3 billion individual and corporate tax reductions, and \$2 billion in increased tax collections from changes in existing tax expenditures. Which gets right back to the expenditures issue.

McDaniel: Yes.

Heininger: And this didn't sit real well with the tax-writing committees. So do you remember how Long dealt with this?

McDaniel: No, I don't. I just wasn't involved in that at all.

Heininger: OK. Because at this point, what Long does is he comes up with a bill that meets that total of \$15.3 billion in revenue reduction, but he doesn't do it by meeting the \$2 billion reduction in tax expenditures, which gets into the whole issue—then it comes back into Kennedy's lap, of dealing with the bill and the tax expenditure side. So what happened? How did Kennedy deal with the bill when it was on the floor?

McDaniel: By the time it came to the floor, as I say we, individually with him, and with the group, had settled on a set of amendments that we were going to propose, and they had decided who was going to propose which amendment. So we had been working—Carey and I had been working with the Senate in preparation of floor statements for him with respect to the amendments that he was going to offer, as well floor statements on other amendments to be offered by other members of the group, in support of their positions. He obtained permission for me to be on the Senate floor.

Heininger: Unusual.

McDaniel: Very unusual.

Heininger: Because you were not, at this point, an employee of the Senate.

McDaniel: No.

Heininger: You were just a consultant to Kennedy?

McDaniel: Yes. And so Carey and I—I was there 100 percent of the time, and Carey would be there as his other obligations permitted—but Senator Kennedy was there, on the floor, for very substantial periods of time. It was not easy for him, because it was when he was having trouble with his back, and so sitting there or standing there for long hours was I'm sure not comfortable, but he never complained.

Heininger: I heard it said subsequently that he complained that his problems with his back were not because of the back injury from the plane crash, but from standing on the floor for two months over the tax bill. *[laughter]*

McDaniel: That could be, because he was there a lot, arguing or debating Senator Long. But it was an interesting experience.

Heininger: Were most of these—I mean, this was a really coordinated effort with this group of 23 then.

McDaniel: Yes.

Heininger: If you really had amendments all parceled out and statements all parceled out, I don't know of other efforts like that. That's really kind of extraordinary.

McDaniel: It really was. The group didn't win every amendment, that's for sure, but they were well prepared.

Heininger: Were most of these attacking particular, specific tax shelters?

McDaniel: Or tax—well, we would label them as tax expenditures, yes, trying to get rid of certain things. I mean for example, oil and gas companies were, are, entitled to deduct immediately, their costs of drilling wells, when they should be forced to—

Heininger: Amortize them over time.

McDaniel: Amortize them over a period of time, and that was one that was assigned, or that we took on with Kennedy. He offered that amendment; it lost 89 to 1. He came back to the desk where I was sitting, looked at me quizzically and said, "Why in the world did we offer that amendment?"

Heininger: Because it was the right thing to do.

McDaniel: That's what I tried to say about it, but I don't think he was too convinced. He's not accustomed to losing 89 to 1 on measures that he put forth.

Heininger: What happened to his group of 23? Weren't they supposed to vote together?

McDaniel: That's right. But we had more success at other times.

Heininger: Do you remember which ones were successful, or what areas seemed to engender less opposition than others? Obviously, oil and gas—particularly in the wake of the '73 oil embargo—was like pushing a button.

McDaniel: The more memorable ones were actually the ones that we lost. We had one amendment that would have restricted the deduction for business air travel to an economy fare ticket.

Heininger: Ooh, that's another button.

McDaniel: We offered that one and during the course of the debate, Senator Bentsen came over to Senator Kennedy's desk and said, "Ted, I worked hard for years to be able to afford to buy first class, and now you're trying to take it away from me." We lost.

One of the elements of the real estate tax shelters was and is the ability of real estate developers to borrow on what's called a non-recourse basis; that is, they're not personally liable. If things go bad, the lender can only get the property. So we were on the floor at 11:00 or 12:00, at midnight, and there was just a handful of Senators there. So we offered an amendment, the Senator did, to deny the interest deduction if you weren't personally liable on the loan. It passed on a voice vote because nobody—

Heininger: Nobody understood it.

McDaniel: No one understood it. The next morning, I came into the office and here was a big Boston real estate developer on the phone, furious, and apparently every other Senator got the same phone call from their own particular constituents, because when we went back out on the floor that afternoon, the amendment was quickly reversed.

Heininger: Oh, really?

McDaniel: Overwhelmingly. One of the arguments that a real estate person used to explain this was the banks wouldn't stand for this, to which I responded, "You mean the banks don't want the personal liability of these people? Why would that be?" Of course it wasn't the banks that were concerned about it at all, it was the real estate people who were concerned about it.

One of our victories was that this was really the first time. I think the tax expenditure analysis was responsible. Many on the staff, the Joint Committee staff, I and others, thought that some of these tax credits really are just like direct grants to businesses, and when the government gives a direct grant to business, it's taxable income, and so why shouldn't these business subsidies also be taxable income? So the Joint Committee staff had developed proposals to make several of these, in effect, taxable income, but they knew that if they directly said that credits should be included in income, it would go nowhere.

What they did is propose that if a taxpayer took the credit, it had to reduce the amount of the deduction by the amount of the credit. So if you had a 20 of tax credit but 100 of deduction, you could only get 80 of deduction and 20 of tax credit. What we understood but nobody else did was that this produced the identical result of making the credit taxable, to include it in income, but nobody could say that either, and so we developed a strategy, along with the Joint Committee staff, that you had to support this to stop the "double dip." And so taxpayers were getting a double dip if they could take the credit after the deduction. We arranged for several Senators to stand up and pound the desk, and sure enough it passed.

Heininger: Well, there's a lot of artful dodging that comes with dealing with debate over the Tax Code, for exactly what you pointed out. The semantics of doing it one way appear one way, when in fact they're doing exactly what they'd be doing if you couched it in more direct phraseology, shall we say.

McDaniel: That's correct.

Heininger: Artful dodging. Do you remember what other ones you won on?

McDaniel: I'll have to think about that.

Heininger: I don't recall there being many.

McDaniel: No.

Heininger: Did you get the sense, in listening to the debate on the Senate floor, that other Senators were well versed in this?

McDaniel: Several of them were. Dale Bumpers, Senator Bumpers, was quite well versed, and Senator Bentsen was too. He didn't always agree with us, I mean he was more inclined to go along with Russell Long, but he was quite knowledgeable. And Long himself was really well versed. He's a smart guy and by that point in time, he had straightened everything out and was really effective. The chief of staff of the staff of the Joint Committee on Taxation was an economist, Larry Woodworth, and he always sat beside Long on the Senate floor. Long was well prepared and very effective. Larry and I were good friends, and we'd get into some of these amendments and Senator Kennedy would make his presentation, and Larry would be whispering to Senator Long, Senator Long would get up and thunder in opposition to that. I would be whispering to Kennedy, and Kennedy would get back up and denounce Long's position, and back and forth they would go, with Larry and me providing our respective principles, but they're arguing points on the run, and then he and I would have a good time later talking about it.

Heininger: Did you find in general, the other Senators? I mean there's a big body there. Did they mostly understand what was going on? Or was tax policy something that was just—I mean it's pretty arcane, pretty damn important but very arcane.

McDaniel: Only a few Senators were really present on the floor for substantial amounts of time, and as you would expect, most of those were members of the Senate Finance Committee. So it was really hard to know, because you might not have seen 70, 75 of them during the course of the debate on any particular issue or any particular amendments, so how well versed they were, I don't have much of an idea.

Heininger: What was your sense of how Long viewed Kennedy?

McDaniel: I don't know. At that time, Senators were still respectful of each other on the Senate Floor.

Heininger: Yes, they were. "My esteemed colleague."

McDaniel: Yes, exactly. There wasn't, or at least I never observed, any significant interaction between the two of them.

Heininger: Were you present when—there was a point in time when [Robert] Dole said about Kennedy's efforts, "You impugn the integrity of some of us and we don't like it. You have said in effect, that all members of the Finance Committee can't be trusted. We are slipping in little amendments in the dark." Do you remember hearing that?

McDaniel: No, I don't.

Heininger: I have to wonder about how Kennedy, who had not been a real active participant on taxes previously, he was considered one of the most liberal members of the Senate. All of a sudden his perhaps nagging voice of conscience at these other Senators on the floor about tax shelters, all of which had to have been inserted by someone, on behalf of some industry or some group or some entity.

McDaniel: Well interestingly, in the tax shelters in those days, a lot of it was taking advantage of provisions that hadn't been put in for subsidy reasons. All of the agricultural tax shelters took

advantage of the fact that farmers could use the cash method of accounting rather than the accrual method, but that had been put in years and years before, really as a simplifying measure so that farmers—who were then, by and large, individual farmers—didn't have to learn the accrual method of accounting or hire accountants or the like. But in the 70s, it was taking advantage of exactly that fact, which was a mismatch of income and expenses, that ingenious tax people created the agricultural shelter.

You know, it was very similar even with respect to oil and gas, I mean the breaks it allows and the deduction for the intangible developing cost had been put in. The companies had used them but they hadn't marketed them out to high bracket individuals. So the phenomenon was really taking advantage of longstanding measures and using them in ways that nobody had ever anticipated at the time they were put in. For example, the oil and gas depletion, I think, was put in, in 1927 or something like that, and there wasn't any tax shelter until the late 60s, early 70s.

So that was one of the phenomena that were used. And interestingly enough, the recent corporate tax shelter stuff is much of the same nature; it was taking advantage of provisions that never were intended to be subsidies or anything else, but tax lawyers and accountants started using it in ways again, totally unintended.

Heininger: How then would you summarize what the outcome was of the '76 Tax Reform Act?

McDaniel: I would say on the whole, positive. It would have been better if it had been able to be stronger in terms of reform. As you might expect, it wasn't even—my recollection is that I'm not sure it was quite as strong coming out of Congress as it was coming out of the White House even, but that happens.

Heininger: Did you get the sense that there was a media piece of Kennedy's strategy in dealing with this tax reform?

McDaniel: What?

Heininger: A media piece, that part of what was going on was intended to be educating the press as well, too?

McDaniel: I don't recall any formal effort. We were in close touch with the reporter—I don't know if Eileen Shanahan was still working at the *Times* then, and then a fellow at the *Wall Street Journal*. We were in close touch with them, but often it was them asking us questions, but I don't recall that we made any formal effort to influence the media.

Heininger: Well, I always have to raise the question, because I think Kennedy has always been extremely media conscious, recognizing that you can sometimes win things through the press that you can't necessarily win directly through action on the Senate floor.

McDaniel: He may have done some of that, but I didn't, except in response.

Heininger: What happened when the bill went to conference? How did it come out?

McDaniel: You know, I had planned a longstanding trip to Europe with my family, and so I left just prior to the end of the Senate bill. We were living for six months in the Netherlands, and I didn't have a firsthand experience with the conference report.

Heininger: Apparently, Kennedy's efforts paid off more in the conference than they did on the Senate floor, so that the bill emerged out of the conference committee stronger than it did out of the Senate, meaning his efforts had strengthened the hand of those who in the House were sitting here watching all of this, and the bill came out stronger, more like the House bill than like the Senate bill that came out. Now then, you continued to work with Kennedy as a consultant for a number of years?

McDaniel: Well, I think the last tax bill that he took any interest in was in 1978.

Heininger: And this was [Jimmy] Carter's bill?

McDaniel: Yes, but his participation was nothing on the order that it had been in 1976. Again, I don't know whether—I just don't recall whether I actually ever went to Washington or worked with him on that bill or whether it was done by backing and forthing between me and Carey, as we had done in 1975.

Heininger: Have you stayed in touch with Carey subsequently?

McDaniel: Not a lot really, because after 1978, they really didn't do anything—

Heininger: No, he hasn't done anything on taxes.

McDaniel: —in tax matters, and so I hadn't really had occasion to. And I haven't been involved in political matters since then.

Heininger: When you and Carey were working so intensively on this, did you also work with Ralph Nader's group at all?

McDaniel: Let me think.

Heininger: I think he was involved at that point. He had a tax group.

McDaniel: I was trying to remember the name. It wasn't Nader himself.

Heininger: No, it was Nader's tax reform group, and Robert Brandon.

McDaniel: Yes, Bob Brandon, exactly. We did work with him, yes.

Heininger: Why do you think Kennedy involved himself in this, or why did Carey think that Kennedy should be involved in this?

McDaniel: That I don't know. Neither of them ever expressly stated why they wanted to be involved. Carey just said they'd made the decision to do so, would I help.

Heininger: What did you observe of Carey's relationship with Kennedy?

McDaniel: They worked very closely together and very effectively, I thought. I mean Carey is one of the most able legislative aides I observed over the roughly ten years where I was more or less actively interacting within the legislative process. He was very effective. He was very influential with the aides to other Senators. They respected him a lot and followed his leadership a lot. He was very good.

Heininger: To what extent do you think the '76 Tax Reform Act set the stage for the '86 Tax Reform?

McDaniel: Well, I don't know, because it was an entirely different cast of characters, particularly at the Treasury Department of course. They had a very strong tax staff, tax office, at the Treasury at that period of time; their economic staff particularly was very strong. So when they put out their, what was it, '85, their set of proposals, those were really very good. I think I misspoke. The three-volume set was the '85 act, not the '75 act.

Heininger: If part of what drove the tax reform effort in '76 was the proliferation of tax shelters, did that become more or less of an issue by the time you get to '86?

McDaniel: Oh, much less. I was of counsel to a law firm in Boston that had a big real estate practice, and the '76 act ended it totally. We had one client who didn't do anything but tax shelters, so he was unaffected by it, but the rest of them, that put an end to it. That was truly another—I mean tax shelters came to an end, the so-called “at risk rule” and the passive investment income rules really put an end to the kind of tax shelters that were being developed at that time. It was very effective.

Heininger: Well, this has been very useful. You really illuminated an area that we have very little on with Kennedy, kind of a unique time period where he got deeply involved in something that was outside the realm of what he's done throughout his career, but using the same methods that we've seen in so many other areas, of getting intensively involved and really educating himself and drawing a coalition of other Senators to work with. It's really very helpful.

McDaniel: Well, good. It was a great experience.

Heininger: Did you like him?

McDaniel: I did—do, I guess—I really enjoyed working with him. I felt that I had his respect for the knowledge in this particular area, and he listened carefully and learned, and proved to be quite effective.

Heininger: Well, wonderful, thank you very much.

McDaniel: You bet.

Heininger: I really appreciate this.