August 2, 1968

The Vice President's
ECONOMIC POLICY TASK FORCE MEETING
Sheraton-Cadillac Hotel
Detroit, Michigan

Dr. Clara Penniman, Professor of Political Science, University of Wisconsin

Dr. Joseph E. Pechman, Economist, Bethesda, Maryland

Dr. Robert R. Nathan, Director of Task Forces

Dr. Richard Cooper, Professor of Economics, Yale University

Dr. William Branson, Associate Professor of Economics and Public Affairs, Woodrow Wilson School, Princeton University

Dr. Walter Heller, Professor of Economics, University of Minnesota and former Member of Council of Economic Advisors

Dr. Charles Schultze, Former Director of Bureau of the Budget

Dr. Woodrow Ginsburg, Director of Research, Industrial Union Department, AFL-CIO

Econ. meeting in Detroit

HHH: Aug. 2, 1968



Nathan: Mr. Vice President, we appreciate the opportunity to meet with you here to discuss some of the problems in the economic area that are facing the U.S. We have present here some chairmen and members of various task forces in the economic field. And today we follow what we did in L.A. a few days ago, namely, discussing with you, informally, frankly what we regard as the critical issues in the months ahead and the years ahead, in the economic area as we did there in the social areas, the city problems the health problems, the poverty problems, the education problems. And as we hope in a few days hence to discuss with you problems on foreign policy. And today for this discussion and meeting here we have with us Charles Schultz who is former director of the Budget Bureau, and Prof. at the Uviv. of Md., we have Walter Heller who was formerly chairman of the President's Council of Economic Advisors and now Prof. of ~~xxxx~~ & Economics at the Uviv. of Minn. We have Joseph Pechman who is an economist in Washington, we have Woodrow Ginsburg who is research director of the industrial union at the AF1-CIO. We have Clare Hetherman who ~~m~~is prof. of Pol. Science at the Univ. of Wisc. We have Richard Cooper who is Prof. of Econ. at Yale Univ. and we have William Branson who is Asst. Pfof. of Econ. ~~xx~~ and Public Affairs at Princeton. We are prepared to follow up on what we have been talking ourselves Mr. Vice President on many economic subjects.

HHH: First of all I'd just like to say, Bob, I appreciate all of you coming together. We hand a very good session in Los Angeles. I thought it highly productive and from my point of view what it boiled down to was a chance to listen to key experts on our social problems particularly some of my own thoughts and kick them back and forth with people who are undoubtedly more knowledgable in their respective fields. Today If we can, I'd like to continue a conversation that we had some weeks ago. Some of us gathered together and discussed sort of the economic future. We were thinking of post-Vietnam/ the discussion was somewhat predicated on the assumption that the war in Vietnam would be brought to a close and what would we do with our resources, what resources would we have in quantity as well as in quality. And I'd like to have your views, that goes for all of you here, as to what we're going to have in terms of funds, public revenues and all other resources and to take care of what needs to be done in this country. Everybody's got their own idea of what needs to be done but let's just assume that one of the things that needs to be done is rather substantial, and I've used the word massive, attack on the urban ills, both the physical resources as well as the problems of human resources. And Charlie if you could lead off on that, Charles Schultz, why, I'd appreciate it if you'd give us the benefit of your views and then I'm just going to let you go to it and see if we can find some meaning, some common denominators here, and possibly some agreement.

Schultz: Mr. Vice President, let me start with the fact that you're obviously well aware of. Ours is a terribly productive economy and grows pretty rapidly. Every five years, every 5 or 6 years anyway, we had the equivalent of a W. Germany. It's as if you start in 1968 and in 1973 the American would be equal to what it is today plus a W. Germany. So we're growing awfully rapidly.

CS: Every 5 to 6 we add the equivalent of a W. Germany, the third largest industrial power in the world. by our economic growth

WH: Let me say that I think he's kind of conservative. I think it's every 4 or 5 years.

CS: Somehow we left our statistics at home and we've been quarreling about this, so we can say between 4 to 6 years we add a W. Germany

HHH: That's fantastic.

CS: No really, this is the central thing to remember. This is not a poor society, not only is it not a poor society, it is a rich society which is getting richer awfully rapidly in the aggregate, in total. This isn't just in terms of money, this means the production of goods and services, the resources of what we can do, is adding the third largest industrial power every 5 years, or as Walter will have it every 4 years. Now, we've got a tax system that grows along with the economy in the sense that as income grows the Federal government gets more revenue.

HHH: On the same basis.

CS: On the same basis. Without raising tax rate, without changing tax rates. As corporate profits grows and incomes grows and sales increase the same tax system yields more money every year and obviously with an economy that is expanding like that, the tax revenues grow pretty rapidly, even without changing tax rates. So that the first thing you start with therefore, is a rapidly growing economy, if we pursue reasonable economic policies and keep it growing well, it gives us also more funds, budgetary funds to devote to important purposes. I think on the average you could say inm the next several years that may be an additional 13 billion or so a year, 14, 15 billion a year, large sums, in any event.

HHH: Of new revenue?

CS: Of new additional revenue in the federal tray. That obviously varies from year to year. It's not precise, but it is large sums, 13 to 15 billion dollars.

HHH: And that doesn't refer to state and local revenues.

CS: No this is just federal, federal only. However, it seems to me is you want to take a look at what's going to available from a future budgetary standpoint you've got to break the thing down into two parts. I would say within the next several years, the next two years let's say, a large part of that increase in revenue threatens, even with Vietnam expenditures declining, even with peace in Vietnam and Vietnam expenditures declining, nevertheless, a large part of that increase is threatened, maybe threatened isn't the right, maybe I'll use a more neutral word, is likely to be eaten up by increased non-Vietnam military expenditures and by increased expenditures simply to maintain running the federal government. As youknow, over the last several years (HHH: like what) let me give some examples, it's very hard to give precise numbers on this but if you look at the new weapons systems that have been approved or are in the process of being approved and money voted by the Congress in recentyears, just starting out

As you know, over the last several years...

HHH: Like what?

S: Let me give you an example, it's hard to get precise numbers on this, but is you look the new weapons systems which have been approved or which in the process of being approved and money voted by the Congress in recent years just starting out. The anti-ballistic missile system originally costing supposedly four to four and a half billion, now already it looks like five and a half billion and that may be just the beginning.

HHH: And that's what we call the think defense.

S: Yes. Secondly, nuclear carriers is a case in point. The last conventional carrier we built, the John F. Kennedy, cost two hundred and thirty seven million dollars. The new nuclear carriers at present estimate will cost 544 million dollars and there three in thepipe line in a sense. There are important inprovements in our ballistic missiles the so-called new Poseidon missile and a number of other items. there is a large destroyer building program underway. In addition, there have been a number of proposals kicking around which have not been approved which will clearly be up for grabs when Vietnam is over, a new advanced strategic bomber, a new fighter for the Navy, a new fighter for the Air Force, a new interceptor, a new Army anti-tank missles, a whole host of things that are kind of in the wood work looking for approval once Vietnam is over. On the basis simply of what's been approved so far, a very rough judgment would indicate that in the next several years a significant part of that fiscal dividend barring really rough decisions in this area, may very well go for that even with Vietnam coming off, even with Vietnam coming off.

W. Heller: Are you saying in effect that the dividend from the ending of the war in Vietnam is going to be all eaten up by other military expenditures?

S: I'm saying a very large part of it will be.

W.H.: Will be or could be depending upon the presidential decisions?

S: Very good point. Could be. But those are not easy presidential decisions. Those are decision not simply which involve holding off absurb items. But in deferring or postponing items which have already been approved or of holding off items where the judgment will be very difficult. Or in devising international relations which will make it possible to reduce this arms race. They will not be easy things for us to do. I would agree with Walter that it's not inevitable.

HHH: Some of these decision have already been made by the Congress. I know that some of the weapons systems have been approved but they have been deferred.

S: Approved and deferred and are waiting.

HHH: Because of budgetary limitations, because of the war in Vietnam, and therefore the next President would be face if he were going to restrain that output or that cost item. He would be faced with the decision of the Congress that had already authorized it, with pressures building up to go ahead with it, with alot of talk that we haven't kept pace, our inventories are run down. You'd be under a great deal of pressure, would'nt you? This is one of the things I mentioned to you earlier. I feel that this is going hostilities in Vietnam. And the pressures will be tremendous--alright, let's get going, the stuff that we've delayed.

[illegible] _________ Now on this point Mr. Vice President, as you know I feel, I agree with what you just said one hundred percent. I think that as economists we can't tell you how to run your foreign policy, we're not foreign policy experts. But you have recently been talking about a new kind of a foreign policy. To me, that means that in addition to the diplomatic policy, it requires a new thinking of the military policy to see how it can be dovetailed into the foreign policy. And all I can advise you as an economist is to ask yourself the question, "Is this extra $10 billion that we are going to spend for these things that seem to be desirable on military _________. Will this <u>really</u> add to the national security of the nation in terms of the foreign policy that I want to pursue? I submit that you ask yourself that ~~xxxxxxxxxxxxx~~ very tough questions. Even things that have                may have to go. In other words, they may be inconsistent with a new policy which has peace throughout the world...

HHH: ...the reassessment of what we consider to be our national interests and the involvement we ought to have in securing those national interests. Let me get back to Charlie again though because you gave us this figure of some extra $12 to $14 billion of new revenues that you generate out of an expanded economy. That's leaving aside the reduction in expenditures in Vietnam. And what you're saying is, that a big [illegible]

[illegible] be promptly consumed by weapons systems unless new decisions, very difficult and tough decisions, are made. Right?

W.H.: Exactly.

HHH: Now, what about the rest -- assuming that we get a cessation of hostilities so that we can look ahead to fiscal 1970 which is just around the corner.

W.H.: Well, there are really a number of things that you have to take into account -- one that we have just talked about -- the non-Vietnam military expenditures. There are, of course, looking just one or two years ahead large increases in other kinds of Federal expenditures about which in the very short runs, there is not very much you can do. For example, there are increases in Federal expenditures needed simply to keep the pay of Federal employees up with the pay of the civilian economies so that you can retain confident, professionally trained employees. There are ...

HHH: We have comparability now written into the law.

W.H. And that law itself will require in statute significant increases in Federal pay in the next year or two.

HHH And this is not something that is left to the discretion of the President.

W.H. It is not, it is written into the law.

HHH: That's like a Veterans compensation benefit. That's an order of the Congress, isn't it?

W.H. That's correct. It is written into law. And, this will hit you ...

HHH Thanks.

(laughter)

W.H. I'd rather have it hit you than other people.

HHH Thank you

W.H. There are many programs that we have. For example, our city in housing program. Or even if you don't increase the size of the program for the moment, the backlog in the pipeline will start spending out and so this will increase your expenditure. When you add all of those up, the military potentiality, some of the increases in the civilian area, then in the next several years, the amount of that fiscal dividend available for use will depend on a lot of tough decisions. In other words, it won't kind of automatically fall in your lap. There will be tough military decisions, there will be really tough priority decisions among Federal programs to be made. Looking a little further beyond the next two years but three, four and five years, while always tough decisions are necessary, of course, it becomes a little easier, a lot of these built-in increases will have been made. Then, you have more flexibility as to how to deploy this big $13, $14, $15 fiscal dividend.

HHH Now, that amount goes a little bit, too, because as your economy gets a bigger base, you get - while the bite is the same size, it's on a bigger piece of pie.

W.H. That's correct, exactly.

C.S. Plus the fact that it is aggregative as we were saying earlier. It's \$14 billion the first year and the next year it is \$28 billion because it's \$14 from the year before plus the \$ \$14 of the next year and the third year with another \$14, you are really talking about \$30 to \$40 billion available to many of these purposes three or four years from now.

HHH And the point that I think I get out of Charlie's comment is that the first year or two, you ought not to go around thinking that somehow or xx other you're going to have a lot of pocket money extra to do a lot of things with. Because even if you have the cessation of the hostilities inVietnam the first year, and you got an increase in your economy that gave you that extra \$12 or \$13 billion, unless you were prepared to defer certain military budget items - and that is really what it boils down to - you would have a large amount of the new income consumed, wouldn't you?

W.H. That's right, yes sir.

HHH Without really getting at the tough nut social problems that we've been talking about or that I have been talking about.

C.S. Mr. Vice President, the decisions within the next two years, while they are much tougher than what they will be four, five or six years from now, -- you'll have 70 billion five years from now an increase in Federal revenues -- nonetheless, what is done in the next two years has its impact in the third, fourth or fifth. And that is why I agree with Joe Pechman that while the restraints are going to be greater; these are difficult decisions that are going to have to be made and we are very strong on the economic side feeling that some meaningful priorities are going to have to be decided ...

HHH  That's been my view of it. I have figured that if I use the phraseology that '68 is the year of national decision and, of course, election-wise, it is , but it's a sort of the end of an era and the beginning of a new -- you really have to take a brand new look at what your priorities are. That's what you are really saying...

C.S. Yes, yes.

HHH  And the decisions that you make in the calendar year '69 and the fiscal year '70 will have a profound impact on what's going to happen to the use of your resources in the next three or four years.

W.H. Even though in '69 and '70, you are operating under very severe limitations because of these upcoming and already almost built-in increases. Although you must remember, Mr. Vice President, when you listen to a former director of theBudget -- you know, my successor, Bud __________, says When you get an estimate of built-in increases from a present or former budget director, cut it by half. When you get one from the present or former Chairman of theCouncil of Economic Advisors, double it.

HHH  You fellows are going to be very helpful. I always found these directors of the budget to be a heartless bunch of characters.

_________ They're heartless but they see the building.

_________ You did put your finger on a very important truth, that with all this abundance, with all this tremendous growth in our economy, and that's one economic problem we've pretty well solved I think. I think we have in this country at last, a bi-partisan consensus on how to keep the economy pretty fully employed, e~~x~~xpand~~xx~~ing and growing. Now that means that our gross national product will g~~s~~row what, a hundred ~~m~~billion dollars every couple of years.

Nathan: Double in 15, 16 years and quadrupled by the year two thousand.

Heller: Well, there you are. And that means you can buy a tremendous amount of goals, a tremendous amount of social objectives. But the somewhat paradoxical thing is that it still isn't enough to cover all of our private ~~xxx~~ and pu~~g~~blic wants. I mean that's perfectly clear that when all of the social problems you've talked about, the misery in the ghettos, the ~~x~~ problem of ignorance, the problem of disease, theproblem of poverty, the problem of pollution. Sure when we deescalate the war in Vietnam we have to re-escalate the wars on all these other fronts.

HHH: These domestic fronts.

[illegible]: ~~xxxx~~ that's right. these domestic fronts. The war on pollution, the war on poverty, the war on misery in the ghettos and so forth. and at the same time there're an awful lot of private comforts, luxuries necessities that are going to come in for their share. People are that by the way while an economist can tell you what resources are available, he x can't tell you unfortunately what choices to make between say additional education for the poor in the ghettos and xx a third or a fourth television set.

HHH: This is what I was going to ask you about Walter. Now you've got a couple of young economists here, Bill Branson and Dick Cooper. Bill's 30 and Bill Branson's about 33. I imagine that even in their lifetime we won't be able to fulfill all the needs ~~mxxpxxxpxxxxxxxxxxxxxxxxxxxxxxxxxx~~. They have a longer lifetime on the odds than I have. So that the may be around, they will obviously be around in the year 2000. I'm envious of you even though Im's working on it. With all that we've said about these new/re sources and the aggregates and the totals that keep coming xx along because of the new productivity and the expanded gross national product, we still have to have priorities. ~~Exxxxx~~ At least you've got to set priorities early, that's where we were leading with Charlie. You've simply got to make those decisions early and when you take alook at those priorities,/we'd welcome some of your views, Walter, as to just how do you see them, just where do you see kthe top priorities being.

W.XH.: Well I think that even before we look at that, we have to talk about how do you go, what kind of a process do you go through in setting priorities? How does the President of the United States get the various competing factors into focus and how does he then manage them so that ~~haxwhmaxhmkm~~ so that there is an efficient use of resources? In setting these priorities it is perfectly clear that there are some things an economists can tell you 'well, thims will produce more than the other investment in some other form. Let's that we ~~cam~~ could tell you for ~~xn~~ example that if you put money into plant and equipment, into the corresponding public works, etc., this is going to produce more good s and sexrvices. Unfortunately, there are other problems that are of a non-economic character that are going to wait, right here in Detroit. The problem of eruption in the ghettoes. That's not going to wait. We can't give you an order of priority, as economists, on that. The rebuilding of the urban areas need not On the poverty problem, for example, we can tell you, for example, that bringing up the minority populations of this country to the same level of education axnd jobs and incomesthat is those who are being discriminated against, ~~xh~~ remove all discrimination, in jobs in education and so forth. That can add 20 or 25 billions dollars to the gross national product. But that isn't essential. It's a moral a human question. The 25 billion is a marvelous dividend to get for our annual production and consequently in using these resources you have to go way beyond any economic criteria and you have to have a mechanism in the White House, a mechanism in the Government that is going to bring these problems up in a national manner and show where the lacks are and then of course as I ~~ssay~~ say you have to get the management capability to see to it that what resources are taken by the Federal as against the States and localities and against the private community that those resources are used efficiently.

a woman: ____ I was just mgoing to suggest that in semtting these priorities the problem is not juxst at the national level, although I think there are national priorities and national ____________ partly this comes backs to the decision that are being made and that ought to be madexx at the stste and local/level. But you Government do have a whole larger process that justone overall, this always – scares I think most of us in a Democratic society.

HHH: You know one of the suggestions that I outlined and I wanted to gixxx/in more precise terms since we have Walter, Dr. Hxmeller detail it here he was chairman of the Council of Economic Advisors, I've always thought x that we ought to have had some kind of, and there are all kinds of economic indicators, projections that tell us what might happen or what could happen, or at least trends. I have proposed that we have a Council of Social Advisors, so to speak where you gimmet social indicators to be sure the economic indicators tie in, but where you begin to get a kind of an early warning system on your health problems and on your housing probl and on your education problems and then how those all fuse into very basic human problems and psychological problems. Now this kind of information, if it's properly gathered and evaluated for the President and for the Congress can be very helpful in the shaping of priorities.

The arriving at priorities and the shaping of legislative and aduministrative policies. But I agree, I think your pointis well taken that even with that kind of information, it needs to findits way back into the local and state levels of government as well as the private sector. Because while we're all talking about what the Federal government ~~xxxxxx~~ ought to do, we're now saying more and more that the initiative must come at the local level and the management of a great deal of this, if we want to come to that, needs to be at the local level. But you can't just design a national plan that you can have national guidelines, priorities and that Federal government can do a great deal to condixtion developments. But actually the planning, the initiation of plans, ~~xxx~~ and the implementation of plans even that require these/resources that we're talking about out of the Federal Treasury, really must come out at a local level. And I've been wondering in my discussions about it how we balance out what you call your national priorities that a President and a Congress and his advisors may make along with what the Governors and the Mayors and the local people call priorities. Because we can't give orders from ~~xxx~~ on top, you know. And yet by the same token the people at the bottom can't give orders from the bottom on up. So ......

----Well, I was going to say as a former Mayor (laughter) I'm have so often, and this is especially true in your major cities. The local governments/so ~~xxxx~~ often have ended up with the problems and have not had the resources with which to work with. And that one of the major issues before us is really how you get these resources more matched needs. The experience ~~xxx~~ over the last 20 years, the state and local governments in this country have raised their expenditures by something like 400 per cent. Now some of thisis Federal money, but the Federal money isnot a very substantial part of it. It's something like a fifth. Despite all the Federal money that's gone in here. Still a large part of this is a result of what's been going on in the state and local governments making additional effort, until the point that someof our cities, some of our largest cities, where you're dealing with the poverty tax which all of us are involved in. Whether we're renters or whether we're owning houses or what we're doing. In many cases the affect of the present poverty tax is something like a 25,~~xx~~ 30, 35 per cent excise tax on the annual value of the properties. (V. P. says something which is inaudible). This is the kindofproblem~~x~~ that they're facing.

------Well, I think the fiscal interrelationship in the large sense that you're pointing to, Clara, is that at the state and local level you have very oppressive taxes - regressive - they hit the lowest income groups ~~xxx~~ hardest. And they don't respond to economic growth -- just take, take them off - poverty taxes sales taxes, excise taxes. At the other end, the Federal government, you have this highly progressive personal income tax, corporate income tax, which generates these huge increases in revenues and in some way or another -- well and as a matter of fact, look between 1962 and 1968.Even with the 10 per cent surtax Federal income taxes are very substantially below whatthey were in 1960. In the meantime all of these state and local taxes have been rising and some way of reconciling these two things other than we've done so far has to be found.

Clara: Well, it's a fiscal problem but it's also an institutional problem. (----sure it is). And when these things play together, it seems to me for instance that somehow the local government especially your big city governments and I keep coming back to that because after all the major aspects of poverty, the major aspects of housing are here. And that our present programs however much money the Federal government put in there have tended to be sort of like bee-bee shots (----exactly) here, there and without any, without sufficient concentration in a particular fashion that suits the community. And it seems to me it's in this area that we come back to the problem of how we could use Federal

S:
You eliminate discrimination and the country gains $25 billions a year of income.

HHH: Right out of the, yes.

S: But if there's one thing that I have faith in it's the educability of the public. Let me just give you the results of a poll in our own state of Minnesota, now I'd like to think that it's a you know superior state, but on the other hand it may serve as a fairly good index. Two years ago they asked people, "What do you think of this negative income tax idea, how many of you like it? And on the response they got 24 percent. They did it again three weeks ago and it was 36 per cent said they thought it was a good idea. In other words, as these ideas are explained, as they are talked about, as I say, I have a lot of faith in the American public and educability.

HHH: The leaders of the business community are coming around (S: that's right) on some of this too. This is going to have a salutory effect. Bob, I know you want to get on to something else.

S: No, what we have, we have two other subjects at least we'd like to cover. I don't know what your time schedule is, Mr. Vice President. (HHH) A, I guess I'm having to move, so I always get from the staff...Yes, well I noticed the signals, Mr. Vice President. I just want to say that what we have if Dick Hoover is chairman of our Task Force on international economic policies including the balance of payments, gold and trade policy and we will have an opportunity to discuss that under our foreign policy Task Force as well, as the time is short. But there was one otherarea I wanted to mention and not give you what our views are in detail and that has to ~~xxxxxxxxxx~~ do with inflation. Because I think we're all convinced here that as our economy has tremendous potentiols of growth as Charlie Schultz and Walter (Heller Hillin?) and others have said, we also very importantly have a tremendous need for integrating, coordinating, tieing together these aspects and one problem to get our major benefits is ~~xxxyxx~~ the maximum degree of price stability. And we don't want to sell price stability forunemployment, but we think we can achieve both in our task force on inflation and price stability is headed up by Otto Reichstain of Harvard who is a former member of the Council of Economic Advisors. And that report is also in draft form. And so we're going to be haking that in your hands very soon. And I do want to say basically that the opportunity to present these pictures to you and how they all tie together is sort of summary form as it's been, we'll be giving you much more in detail is appreciated I know by every one of us, and we ....

HHH: There also inter-related you know, I mean if you sit just separately with the Income Maintenance Task Force for example and you don't come on over and talks in terms of someof the proper allocation and uses of the new revenues or sources of revenues, you're really just playing games. You're really not focusing in on the total problem. But I'd like to hear a little bit ~~xxxxxx~~ if we've ~~xxxxxxxxxxxxxxxxxxxx~~ got just a few minutes since we're all here, on eith the price stability or which you wish to call inflation item and maybe just a quick rundown on the international aspects. Because those two sort of ~~xxxx~~ kind of tie in too if your price stability gets out of hand and your price structure then you don't do much exporting.

------I think that's right. I don't like to think that the international aspect can be dispatched.

HHH: Oh no (laughter) N

----- Which means we'll probably be with you for hours (?)

----- I would like to underline the fact thatthe United States as an economy speaking (?) now did very well from 1960 really from '64-65 interms of its pricex behavior and that price behavior was reflected quite directly and the balance of payments, current account, trade positions improved from a post-War low of 1959 to over $8 billion in 1964. And I think we now face a serious possibility of eroding that very great improvement. In fact we have already to some extent

Point of view that the tax increase did not take place earlier when it should have rather than just this year. The tax increase will help a great deal during the next year and combinedwith the recovery from Continental Europe's real first recession since the Second World War last year, our balance ofpayments outlook should be much rosier in the next 12 to 18 months than it has been recently.

HHH: I hope so.

---- As one goes out further into the future of course it becomes much more conjectural, depends very much what happens in Vietnam and then back again on the domestic economy, what happendswith respect to our own, our own price positinn here and I think there is some room for concern there. Let me add just one more point because I think it does undårline the point that you just made that all these things do tie together. I think it ill-behooves large industries which have some influence over their prices to raise prices and then at the same time appeal to the government for protection against imports, competition of imports, although rise in imports do hurt our balanceof payments, they also serve as a great stabilizing device for the domestic economy. I think we ought not to forget that aspect of it -- that very directly the cost of living in periods of high, very high demands, such as we've had are held down -- the cost of living is held down by the fact that we can draw in goods from the rest of the world. And here's a case where trade policy and balance of payments policy tie together with domestic and inflation policy. I would hope, and perhaps Bob Nathan will want to add something on this, that the government can sit down with both labor and business and work out both an early warning system on price pressures and a series of understandings or procedure whereby major damage to the economy can be avoided by un(?) and unnecessary increases in prices.

HHH: What about substitution of materials on increased prices. Sometimes one material is as good as another for a particular purpose. Doesn't that have the same kind of competitive effect in the sense that imports do in terms of price stability?

--- That is right. I was really speaking to the general price level for themost part. But if any one price of one commodity or group of commodities increases there are always substitution possibilit And the greater those are the more difficult it is to sustain high prices (?). I suppose a very good illustration in the past five or six years has been the substitution of aluminum and even cardboard for steel xxd in beer cans and concentrated orange/juice cans and so forth. .....tradeoffs among different commodities.

HHH: Alright, what about xxxx on this price business? You know Walter, one time we used to have the guidelines the Council of Economic Advisors put out. I see that (laughter blocking out what he was saying) -- it slowly got eroded (laughter). We're depending now primarily on compeition andon restraint, aren't we? I mean, you might just call it rational restraint.

----Well, I think this is right, and a well, Dick Cooper was saying a moment ago we should have had thattax increase much earlier. We should have had it in 1966. That's when you and many other advisors of the President said let's have it and he said quite rightly that he f he couldn't get it at that time. That's when we should have had it. Because that you needed to hold down that excess demand which afterall is what generates the price increases to begin with, then labor, quite rightly said, you can't expect us to take just productivity advances at 3 percent when you're putting 3 and 4 per cent price advances on top of it. Sothen labor gets 6 per cent, that gets billed(?) it and you really are in this spiral. Now we've taken the first essential step to cool off this spiral -- namely, the tax increase and the expenditure cutback. But that won't do it alone. If it has to be translated, let me put it this way: I think that the Federal governmen Congress at long last working in with the President has bitten the bullet on budget restraints and if you will fiscal restraintx through taxes. Now it's up to business and labor to bite the bullet of restraint and that's self-restraint. And that's going to be one ofthe primary problems that a new President faces. There is just no question about it. Every major advanced country in the world that's operating near full employment andin a good growth pattern has these pressures. And these are pressures that no government, unless it wants to knock the enonomy down to five, six, 7 per cent unemployment, can resolve, or unless it wants to impose direct wage and price controls, and that's that's the ball game.

----- But all of those other countries are also taking into account not only the wage and price factors but they're trying to look at the other sources of price pressures within the economy. They're trying to look at the profit picture as well. They're trying to see whether there are bottlenecks in labor supply in certain industries as we have in this country in help in medical, in local transportation, in some of the construction trades where those local bottlenecks act to actually provide more price upward pressure than these big settlements in concentrated industries which get all the headlines.

-----It's Sort of a three-ply program to fight inflation. One is to avoid excess, overheated demand. The second is to break to bottleneck, do the structural thing, get some way of getting more efficiency and more rationality into the construction industry

I mean, that's driving us all wild whether it's for (two people are talking at once and I can't understand it) and third business, labor and government sitting ~~xxxxxxx~~ together in some, some kind of an economic disarmmament axgreement which is not going to be easy. That's going to be one of the major problems.

HHH: I was just saying here, I'm begginning to wonder why a man runs for this (laughter). Obviously now this management problem of our resources and of our tools so to speak, our governmental tools & of our resources, is fundamental to the ~~xxxxxx~~ proper, to the effective use of whatever resources we have. The value of those resour ces is related ~~xx~~ a great deal to the value of the dollar and the purchasing power of that dollar. These figures don't mean very much unless they, unless they buy bomething. So you get into this ~~y~~ wage price problem. The problem of inflation. And all that it entails with fiscal policy~~xx~~ of the government. The relationship of government to labor and capital in terms of price, and profits andwages. And braaking up these bottlenecks as you say that put any artificial, it's really a kind of artificial pressure. It really isn't artificial, it's extraordinary pressure upon the economic structure, the price structure. Well, Bob, as usual we've covered an awful lot of territory. I've never really come to a good understanding of how we really handle this balance of payments problem and of its seriousness. I know/that it's serious. The degree of its seriousness I think is something that's always debatable. The whole subject again going back to what we talked to our foreign policy commitments, our national security commitments, the nature of our foeign aid -- whether it's bi-lateral or multi-lateral and the volume of it -- the troops and the deployment of Armed Forces over seas which chew into our earnings and utilize dollars. These are all factors , again the national security foeign policy factors which relate to the balance of payments problem. Then there's the whole matter of the overseas capital, investment ofthe U.S. capital overseas. I've worked very closely/with -- when I say worked I mean I've sat in very often with -- Mr. Fowler, Secretary Fowler, and with the Council of Economic Advisors and the President's grup. The President has a group that works on this and there's his Balance of Payments Committee, as you know. What's you view about it? Have we really come to grips with it or have we been dancing around with it and playing with it and not really hitting it? I'll take Branson here, Cooper or ~~xxx~~ either one.

-----Well, I think/that at least for the next year as Dick Cooper saad, the outlook is pretty good. The tax increase should increase the trade balance by maybe a billion dollars. And while I think/while it's true that an economy running at 4 per cent ~~xx~~ unemployment is bound to have a lower trade surplus than an economy loafing along at 6 per cent unemployemnt. Nevertheless, we'll be able to run a sufficiently large surplus at say 4 per cent unemployment. ~~xx~~ We can finance the rates of capital outflow we have now.

So that it seems to me that the period of deepest crises is clearly past and the situation looks considerably better now.

I would think that you could allocate your time best by worrying very little about the ~~xxxxxx~~ difference of payments. (~~pxxxxx~~(laughter).

HHH; What is the impact of the Vietnam war on this balance of payments problem.

----Very substantial.

HHH---Very substantial?

----There are really two quite separate impacts. One has to do with the direct expenditures we make overseas in Vietnam, in the Far East generally, to supply our forces in Vietnam, and one could well put that cost to our balance ofpayments at the order of magnitude always with some margin of error of a ~~xxxx~~ billion and a half dollars which as measured against GNP of course is a negligible sound. But as measured against our balance of payments deficit is a very substantial part.

-----It's About half of it right now.

HHH: Guess we have to break up. I want to say the next time we have it we're not going to have these hot lights. (laughter)

HHH