

PRESS CONFERENCE
TASK FORCE ON THE POST VIETNAM BUDGET
AUGUST 13, 1968

Vice President: I'll take just a moment to open this press conference and introduce to you the members of the Task Force that will be reporting to you today as they have been reporting to me this morning. First of all, I want to acknowledge the presence of Robert Nathan who has been chairing our whole operation on Task Forces. I just asked Mr. Nathan how many of the Task Force groups we have presently at work, and I believe the number is 32. These Task Forces represent some of the best talent in this nation on a number of subjects that will be of great importance to the next President of the United States, and will be of great importance to the national economy. We have nine Task Forces alone on subject matter relating to the economy, such as, for example, income maintenance, Task Force on Inflation, our trade and balance of payments problems, taxation, fiscal policy. There are others, but some of the very best talent that we can find in our country are giving of themselves. Their talent is being made available and the individuals are giving of themselves to me in an advisory capacity. This morning, we have the Task Force on the Post Vietnam Budget. There is a great deal of talk about what may be available in terms of resources as a peace dividend when and if we obtain a cease fire and when

the process of de-activation or demobilization for the Vietnam War starts. The members of the Task Force will explain to you their assumptions on this matter for the purposes of their report.

We have as the co-chairman of the Task Force on Post Vietnam Budget Outlook, Dr. George L. Perry of the University of Minnesota. Mr. Perry is here and we also have Dr. Charles Schultze, the former Director of the Bureau of the Budget.

We have other members, some of whom could not be with us this morning -- Washington economist, Dr. Gerhard Colm, but we do have Dr. Otto Eckstein, Professor of Economics at Harvard University, and this morning, Dr. Paul MacAvoy of Massachusetts Institute of Technology, could not be with us. He has been with us on other occasions. We also have Dr. Joseph A. Pechman, economist who is with us here in Washington, and is one of the most respected in his field. And Dr. Walter Heller who is the former Chairman of the President's Council of Economic Advisers, organized this and other Task Forces in the economic area.

I think you would be interested to know that we, of course, feel and understand the interdependence and the interrelationship of several of these Task Forces. Dr. Eckstein is chairman of the Task Force on Inflation. Whenever you talk about a budget outlook, you must surely keep in mind what inflationary pressures will be at work in your projections. Dr. Pechman is the chairman

of our special Task Force on Income Maintenance. This, likewise, is deeply involved in what happens to the peace dividends, the resources that might be released following a cease-fire in Vietnam. We will have Charles -- our friend, Charles Schultze, who is a member of the Task Force of Administration and Management. It's our view that any programming of the future must concentrate on new forms of management, on improvement of administrative structure and administration itself. We also have with us Dr. Branson, Professor of Economics at Princeton on the end of the line there who works as the Executive Aide to Mr. Nathan and helps us manage all of these Task Force operations.

I will just conclude by saying this: I believe that I am privileged to have the finest group of experts, of trained people, of keen minds, the best of the intellectual community helping us in the Task Force operation. These Task Forces have not been given any instructions by me other than one -- to come up with the best information that they can possibly produce in the areas to which they have lent their talents. The Task Force reports represent the thinking of the Task Forces. They are Advisory Reports; they are Informative Reports. They do not necessarily represent the ultimate views or the ultimate decision of either the candidate or the person that will be elected. I can say to you that I am highly honored by the participation of these men. Not only this group, the Task Force on Vietnam, but

on all others. And from time to time, you will get information on these men and women, and I hope that you will see fit to bring it to the attention of the American public. Because a campaign ought to be more than rhetoric; it ought to also have within it a solid base of substance, good information - the best that our people can produce. And all the way through this campaign -- even in the heat of it -- it is my intention to meet from time to time with Task Force members and chairmen so that I will be as well posted and informed as my talent and capacity permits me to be. Now, with that Mr. Nathan, I turn it over to you, and I am going to leave the room and permit you to make your inquiries of our members here. Thank you very much.

Mr. Nathan: Thank you very much, Mr. Vice President. I will just be very brief and say that this release which has been given to you represents a summary -- a summary of the analysis to date of this Task Force on Post Vietnam Budget Outlook. And you will be receiving reports from many other Task Forces as we proceed with getting these reports into shape -- they are coming in quite rapidly now. I want to emphasize one point - that these statements that we will be releasing like this are the positions of the members of the Task Forces. These are the summaries and there will be more detailed information, but these are the summary

positions of the Task Force members and we hope to make available ~~to~~ ^{the} members to the press as these additional statements are forthcoming in the domestic fields of welfare, cities, housing, ^{race} relations and the like in the economic fields and also in the area of foreign policy. And we will have the opportunity, I hope, to meet with the Vice President. We spent the better part of an hour and a half this morning. It was a good give and take session and he was very, very much interested. On perhaps briefly his reaction to this session this morning, Walter Heller you might take over and then you will have the Task Force to question.

Walter Heller: Well, again, I don't want to take time from your questions because I am sure you have some, but the Vice President was tremendously interested in this and he had been, needless to say, confused by the kinds of statements that had been coming out earlier from various people -- Schultze, Eckstein, Heller, Pechman, etc., and he really wanted to get down to the bottom of what is going to be available, both from the peace dividend and and from the growth dividend in the four years of what he hopes to be his Presidency. And we tried to help on that score. He asked a number of penetrating ^{probing} and ~~significant~~ questions that are going to lead us to go back to the drawing boards, but even so, I think it is fair to say that this is by far the most, (since I didn't do it, I can say this) this is by far the most penetrating, the most complete and comprehensive look at this post-war revenue and expenditure picture that anyone has made. And I think we are going to have a more solid basis from here on out. Now, the Vice President has suggested that when we make such revisions and fill in a few of the blanks that still exist, he has suggested that a more detailed paper be made available, somehow, and we hope that by early September the complete study could be released in

one form or other. Final plans have not been made as yet, but we have some hopes that the full detail will be made available within the next few weeks. And with that, I think...

Q.: Mr. Heller, could you just give us some idea of what does lie ahead in terms of peace...?

Heller: Well, I think I ought to turn this now to the co-chairmen of the Task Force, Charles Schultze and George Perry, and I will let them fight between themselves. Charlie, why don't you start off?

Charles Schultze: George did all the work and I'll talk. In essence, this paper attempts to put four things together in terms of looking at the future budget prospects given peace in Vietnam.

One, the growth of revenues which accompanies economic growth;

Secondly, the resources that would be made available by the cessation of hostilities and no longer having to spend funds in fighting the war in Vietnam, offset by two things, the expiration of the surtax and the automatic built-in increases in Federal expenditures.

The paper then attempts to come to a very tentative and rough conclusion taking a look four years out at how much discretionary, if you will, discretionary funds would be available to the President for expanding existing programs and initiating new ones. And I think the key part of this summarized on pages 4 and 5 and in essence, in round numbers, it says that by Fiscal 1973, the sum total of these four kinds of developments given peace in Vietnam should leave about \$30 billion in terms of discretionary budget resources with which the President could operate. Now, let me go on to make a couple of obvious qualifications on this .

In the first place, it is impossible to pin down precisely what the exact incremental add-on cost of the Vietnam war is. And so the estimate here must

necessarily be somewhat rough.

Secondly, in making any judgments with respect to the amount of discretionary spending that the President would have available it is necessary to make some specific estimates with respect to how much other expenditures would more or less automatically grow because of pay increases, price increases, growth in population, pricing out of existing approved military programs, and the like. So, again here, there are a number of judgments that enter into it. And various kinds of budgetary attitudes, for example, toward military spending would raise or lower the ~~\$20~~ \$30 billion discretionary amount by a significant amount. In other words, military spending ~~is~~ ^{beyond} Vietnam military spending could be significantly higher or significantly lower than the numbers implicit in this projection, depending upon the precise posture with respect to screened to defense programs, with respect to foreign policy overseas commitments, with respect to our strategic posture, for example.

Nevertheless, the \$30 billion is our attempt to give the Vice President a feel for the sum total of the combination of these four developments. Let me make one final comment and I will be quiet. In order to make the estimate available to the Vice President, we have to ^{make} some assumption with respect to cessation of hostilities in Vietnam, and for purposes of presenting an estimate, we chose for illustrative purposes a cease-fire on January 1 (roughly early '69 and six months later, a beginning of withdrawal and de-activation of U.S. troops. I want to emphasize that this is an illustrative assumption, and it is by no means an attempt to predict.

(Question from the audience indistinguishable)

The military number? Well, in effect, the military number netted after Vietnam with pay and price increases would range in the \$70 billion area, in Fiscal '73.

(Question from the audience indistinguishable)

No, it does not. In other words, it attempts to - and again I have to emphasize that this is necessarily rough -- it attempts to project into the future two kind of things. One, a kind of a present military posture with where at the same time, a pretty strict budget review of the military weapon systems needed to keep us in that posture. I guess that is about the best way to describe it.

(Question from the audience indistinguishable)

Well, not in the sense of the built-in expenditure increases we have in here, no. . .

The totals that Charles has been talking about are totals before you make discretionary increases with the room that you have to make such discretionary ~~XXXXXXXX~~ expenditures in, and that would fall into the class of discretionary expenditure -- in the sense that what we are calling known discretionary things are things that are automatic -- things coming from existing legislation or things which we know about work load increases or assumptions about inflation and pay increases.

(Question from the audience indistinguishable)

Let's make a number of points with respect to that. In the first place, let's turn that around positively, and suggest that with an end to the war in Vietnam and given some time for this ^{to} work its way through obviously in the budget and with ~~xxx~~ a relatively hard-headed policy with respect to non-Vietnam military expenditures, ~~xxx~~ substantial additional resources could be freed in increasing amounts, starting out relatively small, but in increasing amounts

for social programs. To say it your way on the other hand, certainly within the next several years. If Vietnam hostilities don't cease, the room for added social programs will be quite small.

(Question from the audience)

The Vice President had nothing whatsoever to do with the assumptions which we made in this paper. We were giving him an exercise, not him giving us one.

(Question: Why did you pick January 1?)

Well, I'll tell you -- if you like, we can shift the whole thing back six months. We can start in July 1 with cease-fire and January 1, it wouldn't affect the 1973 number. There was no specific reason to pick this. Simply, we had to pick a date and we started with early '69 as an assumption. It has nothing whatsoever to do with any prediction with respect to the outcome of negotiations in Paris. It was simply a convenient assumption to start with. You can run through the exercise by shifting that six months into the future, a year more into the future, it wouldn't change the '73 numbers. It would change the fiscal 70 and '71. ~~xxxxxxx~~

(Question indistinguishable)

In this particular set of assumptions, yes. Am I right?

Yes.

(Question)

The level of economic aid to Vietnam right now is in the neighborhood of a half billion dollars and to be honest with you, we didn't make any explicit assumptions here with respect to that. As Mr. Perry indicated, there is \$30 billion dollars approximately of budgetary room available for a new President to use by 1973, and this could be one of the things that it could be

used for.

(Question)

I can't answer that, Bart, for several reasons, one, that would require a detailed set of alternative scenarios with respect to dates. And two, it would depend obviously upon the economic conditions prevailing -- we did not attempt in that sense to come forth with a forecast of economic conditions with respect to what the desirability would be with respect to the surtax.

(Question)

Again, clearly if there is a year's postponement of the cease-fire and deactivation, the likelihood of having to extend the surcharge will, of course, be substantially greater. However, again, I don't think the group as a whole want ~~it~~ to get to the point right now of making the kind of economic predictions which would be necessary, ~~xxx~~ in order to make the final decision with respect to surcharge extension. With or without Vietnam at the moment. ~~xxxxxxx~~ ~~again~~ We are trying to say that given full employment, what are the budgetary resources available. We are not trying to make an economic forecast of next year.

(Question)

I'd take it the way it reads. It says that unless major deactivation of Vietnam forces is underway, part or all of the surcharge may need to be extended. The Task Force wanted to bring that to the Vice President's attention very clearly. It is obviously an important point. We did not want at this stage to make a prediction in the sense of saying: Take some other assumption about Vietnam and predict for me right now what we should do about the surtax. We didn't want to do that.

stion)

That's without the surcharge. With the most optimistic assumption that we made about the end of the war and with the surtax expiring. Now, you are very near the line that if you were too optimistic about this war-end assumption, it would cost you quite a bit. You are not in an area where you have a lot of money to spend, so that the possibility that the surtax would have to be extended in part can't be ruled out. You are near enough to the zero mark, I think, that ~~at~~ ^{from} this point, we wouldn't want to make a firm projection on exactly what conditions you would have to keep it or dismiss it.

(Question)

For the purpose of this exercise, the price assumption was something of a pro forma assumption -- that is, there is a Task Force concerned with the inflation problem specifically. Our assumption for working purposes was at a rate declined from the present rate which is in the neighborhood of 4% to the neighborhood of 2 1/2% by 1973. We would hope that the decline is fairly steady through the period. I think we would want to concern ourselves ^{ways of} with/slowing inflation further than that.

(Question)

This is -- this looks forward to the release of 850,000 men from the Armed Forces, which make an addition to the labor force. It assumes that you return to below 4% unemployment if you go above it, within the next year, if you return to it by later in the period. And in effect, yes, a labor force growth which approaches 2% annually as the period goes on.

(Question)

I am glad you asked that. Let me elaborate a little bit on the problem of social programs, and timing. The press release talks about two numbers, giving all the assumptions it makes, \$2 to \$4 billion in 1970, and in round numbers in 1973, \$30 billion in 1973. Now given the lead time and clearly

it will grow between '70 and '73 --. it is not going to be stable and all of a sudden jump. Now given the lead time both technical and managerial for expanding efficiently existing major social programs or for developing new ones, clearly the implication of this document should not be that there is even in Fiscal 1970 or in the next calendar year, 1969, no room for social inventiveness. I think what it does mean is that the fruits of a reduction in expenditures on Vietnam will come gradually and that the timing of expenditures on new programs would have to be fit into that. But it does not mean, as I say let me underline again that there can be no new social inventiveness because you have to take into account that any program, for example, inaugurated in Calendar 1969 will take a year or two to get itself well.

(Question)

In the first place, it is not at all clear that it is a \$30 billion war. In a sense, the war in Vietnam in one sense may be said to be costing \$30 billion. But some of that expenditure would have been made had there been no Vietnam. You know, B-52s don't sit on the ground and rust in peacetime. They are flying. So, the total cost, for example, of B-52 missions isn't a net cost of the Vietnam war. Therefore, in working on this paper, the Task Force did not assume that a cessation of hostilities would allow \$30 billion to be taken out of the military budget. Rather, a smaller number. Because of the fact that some of those expenditures continue anyway.

Secondly, the \$30 billion availability in 1973 does not mean that that is all the expansion in programs which will occur. Rather, that is the amount available^{le} over and above the kind of inevitable expansion that is likely to occur. There will be pay increases. There will be increases undoubtedly in social security benefits. Things of this nature are on top of the \$30 billion. The \$30 billion is a measure of the discretionary sum available to the President, excluding automatic increases and expenditures before that.

In summary then, the \$30 billion isn't the measure of the cost of the Vietnam war. It is less than that and the \$30 billion we will have in 1973 is after making allowances for other increases and expenditures.

George Perry: Could I add a footnote to that? If you will notice at the top of page 4, we use the figure Gross Budget Leeway, \$64 billion, and that's after disappearance of surtax and the expiration of the excise taxes, etc. Now, from that \$64 billion, you see we have already provided for \$13-\$14 billion of increases in social security benefits which we are calling virtually automatic because Congress, as a matter of record, in the past has always expanded benefits up to the revenues that were available. Now, that doesn't mean that the President won't have some discretion on this. For example, if you have the kind of President that we hope we will have, he might say: Well, let's use some of that ~~tax~~ to relieve taxes on the lower income groups, or increase the benefits for the lower income groups. But the fact that \$13-\$14 billion will be spent on increases in social security benefits is just a fact of history.

And we have a \$7-\$8 billion increase in the Federal aids and a \$8 billion increase in transfer payments and a \$7-8 billion allowance for pay increases. All of those come out of the \$64 before we talk about the discretionary \$30 billion that is left over. And I think that is very important to get across.

(Question)

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\$70 million assuming there is a very rigorous review of military budgets.

(Question)

That's \$70 billion ex-Vietnam.

\$64 is after . .

(Question)

In the neighborhood of \$20 million.

In essence, aside from immediate changes in economic changes, this is kind of a balanced full employment budget. Simply in the sense that in calculating the amount of expenditure availability, you set expenditures roughly to equal revenue.

(Question)

The military budget projected for this fiscal year including \$2 1/2 billion addition announced by the President last March would be \$81 billion. Now, there is a good bit of talk of taking some of the \$6 billion expenditure out of that, so that it would be \$81 minus something.

(Question)

Again, I would like to give the flavor of the \$70 as a round number.

(Question)

No, this doesn't apply anything at all with respect to this. It says that \$64 billion gross will be available. We estimate something like \$35 billion round numbers in expenditure increases you can count on. Leaving round numbers \$30 billion available for budgetary leeway for program expansion or tax reduction, depending upon the policies.

(Question)

You know very roughly, verry, very roughly, the Fiscal 1973 number won't be affected by a slip over a year or a year and a half. Obviously, the intervening years will. Now, beyond that, there is nothing more that I can really usefully tell you. ~~Indiscretionary~~

It's fair to say, isn't it Charlie, that if you leveled off Vietnam where it is now, God forbid, you know that Vietnam goes on for years, the growth dividend would still make substantial revenues available. I mean

you've got to keep in mind the difference between the Vietnam peace dividend of about \$20 billion and the growth dividend which comes to \$13-\$14 billion a year of automatic growth in Federal revenues.

(Question)

No, simply in making the assumption we would assume that you would get the full benefits from Vietnam within terms of budget expenditure cuts within two years. So, if you start down with '69, you pretty well have it by '71. And you can still slip it a little more and the '73 figure would be unaffected.

(Question)

Let George who has been making the calculations give you a little more about that.

Well, if we think of a number before taking any automatic away from it, we are probably talking about \$15 1/2 - \$16 billion. In this very rapidly growing economy that we see in the future, you do have, I mean there is some claims that come immediately out of that. Some of that is trust fund money.

(Question)

Yes, that includes -- a lot of that includes trust fund money which is automatic. If you ask then what it is after the Social Security Trust, you're down to something like \$13 billion or \$12 1/2. Now, I don't know which number you are interested in.

(Question)

Oh, the difference isn't that large -- I mean that's an average. Let's say that would be the average between now and 1973. Perhaps it would be \$12 1/2 next year. The number grows, of course, with a growing economy.

(Question)

\$7 sounds low, even as a recollection. Normally, about \$9.

In 1964, we talked about \$7. What's happened since then has been an expanded economy -- it was an underestimate. Also, expansion of the rate of inflation, don't forget inflation increases the GNP and adds to the automatic revenue growth. In 1964, we were dealing with a ~~unexpected~~ 1.2% price rise and what's built into this estimate is 2 1/2%.

We are approaching during this period a trillion dollar economy. The ratio (indistinguishable)

No, there is not a great amount I can add to that. \$20 billion isn't that nice, hard a number. It is hard to estimate -- it is our best estimate looking at a lot of things. It roughly checks with an estimate which you get by going back to 1964 and assuming non-Vietnam expenditures were roughly constant, and then ~~xxxxx~~ subtracting out -- you actually get a little less than \$20 billion that way. So, you know, it checks OUT WITH that kind of approach. What is the incremental cost of Vietnam? Well, that's one other way to check it. Assume that you had the 1964 real level of military spending outside of Vietnam, price it up to today's prices and take the difference.

(Question)

No, if it turns out that when you turn Vietnam off, our estimates are a little low, admittedly, this leaves some more one can take out. But on the basis of looking at incremental costs, we would say that \$20 billion is about the best we can come out with. I wouldn't fall over and drop dead if someone were eventually to prove \$24 billion, nor would I if someone were to show \$17.

Charlie, am I correct in saying and I ask this for my own information that a \$20 billion peace dividend, saying that the peace dividend is \$20 billion is not necessarily saying that the incremental cost of Vietnam is \$20 billion.

Because the peace dividend has to take into account the fact that certain repressed inventories, for example. As long as you are producing currently, you don't need to build up such stockpiles.

No, No.

The way the inventory buildup affects the figures is that you cut your spending a little more slowly than you otherwise would. The \$30 billion is our estimate of the incremental cost of Vietnam in round numbers.

(Question)

Yeah, you just come down a little slower. You cut your production lines a little slower and build them up before you cut them off.

(Question)

Well, look, this is simply the difference between an accounting cost which estimates what the total cost of what's going on in Vietnam. I am perfectly willing to accept that \$30 billion is not a bad estimate of that. What you are ~~xxxx~~ saying is that a lot of that would have been incurred in any event. Now, there are some other things that are built in on the ~~xx~~ side. Military family housing has been postponed. A normal budget, excluding Vietnam, would have had a higher level of military housing than we have had. All of these things enter into that incremental cost.

(Question)

Yeah, but nevertheless if you go back, you will recall that over the last three to four years, there has been a big postponement in construction. So, even construction for a force, excluding the Vietnam force, would require additional military . . . And there are a number of things which have been deferred or delayed.

(Question)

Yes.

(Question)

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Well, I'd say if I am asked and wanted, yes, I think I will, We have certainly been trying to provide the Vice President with a wide range of views on foreign policy, domestic policy, welfare policy, economic policy, and I am quite confident in my own mind that the platform of the Democratic Party will reflect these forward LOOKing progressive views and I believe that whoever is the candidate, and I am convinced myself it will be Hubert Humphrey, but whoever is the candidate, will pursue those views, and I would be glad to be helpful.

(Question)

Well, as you know, Congressman Boggs who is chairman of the Platform Committee issued a letter to the Vice President asking him to submit whatever views he had with respect to the platform and he designated a small committee chaired by David Ginsburg and many views have already been submitted to Cong. Boggs from the staff workers of the Vice President.

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