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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
Office of the Chairman

File

Economy

Q&As on Economic Issues

1. Attached are 17 Q&As on Economic Issues, as follows:

   1. Sustained prosperity
   2. "Artificial prosperity"
   3. Full employment
   4. Fiscal policy
   5. State-local finances
   6. Taxes
   7. Monetary policy
   8. Balance of payments
   9. Guideposts: wages and prices
   10. Business-government relations
   11. Federal spending
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   13. Trade expansion
   14. Regulatory agencies
   15. Tax reform
   16. Tax credits for education
   17. Depreciation guidelines

2. These materials were worked out by CEA in close collaboration with the Treasury, Labor, and Commerce Departments, Budget Bureau, STR, and AID.

3. They have been cleared by the President in general terms for use in preparation of speeches and the like.

4. If you have any questions about the attached material, please call my office. My assistant, Joseph Walka (DU 2-2282), will serve as CEA's "clearing house" for this purpose.

Walter W. Heller

## 1. Sustained Prosperity

Question:

Do you believe that it will be possible to go another four years without a recession? What measures might you take to deal with a threat of recession?

Answer:

1. Our unprecedented 44-month peacetime prosperity has already broken the historical rhythm of recessions after every 2 or 3 years of expansion; to go another 4 years without recession would completely change the character of American economic history. No one can promise that such an achievement is "in the bag."

2. But we are convinced that recessions are not inevitable, and sustained prosperity is our realistic objective. Many of the free economies of Western Europe have gone more than a decade without a business decline.

3. Our prospects for continuing prosperity start from the solid base of a healthy and balanced expansion that shows no signs of faltering:

   . Nearly 5 million new nonfarm jobs have been created since early 1961.

   . Our total production is now expanding at a good 5% annual rate.

   . Profits after taxes are up more than 60% since early 1961.

   . Wages and salaries after taxes are up nearly $60 billion.

   . Prices and costs have been more stable than in any other industrial country in the world.

4. The best way to avoid slipping backward is to maintain strong and steady forward momentum. A continued partnership of government and private enterprise can supply that momentum:

   -- by continued restraint in costs and prices, combined with steady progress in modernization, improved management, and cost-cutting investments;

-- by further tax reduction, with excises first in line, carefully timed and tailored to maintain continued growth and to head off recession;

-- by monetary policies to provide the credit needed for steady expansion without inflation;

-- and, finally, by a spirit of constructive cooperation, not angry antagonism, between government and private enterprise.

5. A good offense -- a vigorous program for sustaining prosperity -- is our best defense against recession. But *if* recession were to threaten, a well-timed tax cut would be one of our most effective measures. And within the bounds of efficient government expenditures, a speed-up of public works and other Federal outlays could also help take up economic slack.

## 2. "Artificial Prosperity"

Question:

The opposition has labeled our economic performance this year an "artificial prosperity." What is your reaction?

Answer:

1. Our 44-month economic expansion rests on a solid and broad base of consumer and business spending. The dollars that are raising living standards, adding to savings, filling corporate treasuries, and financing business expansion are real dollars -- not artificial ones. Prices have not wavered from their remarkably stable course. Excesses and speculation have been avoided:

   . Inventories have been rising very modestly, far less rapidly than sales.

   . Credit expansion has been moderate, and the money supply has risen less than the Nation's output.

   . Expansion of plant capacity has been closely geared to developing markets.

2. In 4 years of this Democratic Administration, our great prosperity has boosted total output more than in the preceding 8 Republican years. This is real output, after all price changes have been eliminated. There is nothing artificial about this 2-to-1 ratio of economic performance.

3. The economic news also shows full business confidence in sound and sustained prosperity:

   -- business economists foresee continued advances in 1965;

   -- purchasing agents anticipate good gains in orders and production for the next two quarters;

   -- businessmen are currently spending 13% more on plant and equipment this year than last -- this expansion of capacity testifies eloquently to their expectations for sales and orders in the future.

4. We fully admit the charge that we have been working to promote prosperity this year. We are not sorry that the American people are enjoying prosperity this election year (unlike 1960) or that we have had an economic upswing right through 1961, 1962, 1963, and 1964. Every year is a good time for prosperity, in our opinion, and this Administration will continue to work to sustain and broaden prosperity every day that we are in office.

## 3. Full Employment

Question:

After a 3-1/2 year expansion, unemployment today remains excessive by your own standards. What is a feasible target for full employment?

Answer:

1. Our employment objective must be to provide job opportunities for all individuals willing and able to work.

2. We have already made considerable progress: unemployment has fallen from over 6-1/2% in January 1961 to about 5% today. In the previous four-year period -- 1957-1960 -- unemployment rose from 4% to over 6-1/2%. The reason for this encouraging reversal of direction is that we have had continued expansion in the economy for the past 44 months, whereas there were two economic recessions during the period 1957-1960.

3. More than 1,000,000 new jobs a year have been created in nonfarm employment during the past four years. This contrasts with about 500,000 jobs a year in the previous four years -- 1957-1960.

4. In 9 months of 1964 alone:

   - Unemployment has fallen from about 5-1/2% to 5%.

   - The number of civilian jobs has risen 1.2 million.

   - The unemployment rate for married men has fallen below 3%.

   - The rate for all men over 20 years of age has fallen below 4%.

5. But the task is far from complete. Despite recent gains, jobless rates for the unskilled, the young, the Negro worker are far too high.

6. We are now beginning to feel the impact of the postwar baby boom in the labor market. There are now one million more 17 year olds than 18 year olds. The labor force is expected to rise by about 1-1/2 million next year. These young people, on balance, are better trained

than new entrants to the labor force have been in the past and they afford a reservoir of talent for the continuing improvement of our standard of living. To use this talent effectively we must accelerate the growth of new jobs.

7. We must foster continued expansion of total demand, and, at the same time, devise special programs to deal with youth, the long-term unemployed, and the disadvantaged groups in our population. New programs are needed to extend the economic advances of the past four years. Our ultimate employment goal -- job opportunities for all persons willing and able to work -- can and will be achieved in the years to come.

## 4. Fiscal Policy

Question:

What are the basic principles for responsible and effective fiscal policy?

Answer:

Responsible and effective fiscal policy requires:

1. Comprehensive budgetary controls

   -- to insure maximum efficiency in operations;

   -- to weed out low priority and outmoded programs;

   -- to get a full dollar of value for every dollar spent.

2. Strong and innovating government programs that meet fully and efficiently our responsibilities at home and abroad.

3. A tax system which distributes the burdens equitably and raises revenue without blunting the incentive and efficiency of the private economy.

4. Careful appraisal of the budget's impact on our economic performance in pursuit of the goal of a balanced budget in anyeconomy balanced at full potential. At times when men and machines are idle, measures to raise production and create jobs may find the budget in deficit; at times when total demand would otherwise outrun our capacity to produce, a surplus is called for. This means the continuous pursuit of policies to promote steady and sustained prosperity without inflation -- not merely actions to counter recessions after they begin.

5. Flexibility in meeting the changing needs of the economy and the world situation. We cannot lay down rigid and mechanical rules for tax reduction, years in advance, without any possible knowledge of the budgetary needs and economic conditions that the future may bring.

## 5. State-Local Finances

Question:

The opposition has endorsed a program of unconditional fiscal grants to the States out of Federal revenues. Do you consider this an effective method of relieving the financial burdens on the States?

Answer:

1. Long before the opposition announced its plan, we were acting -- in line with the Democratic platform -- to consider "development of fiscal policies which would provide revenue sources to hard-pressed State and local governments to assist them with their responsibilities."

2. At the State and local level, we see responsibilities rising faster than revenues, while at the Federal level an average annual revenue growth of some $6 billion provides a comfortable margin for Federal tax reduction and more generous help to State and local units.

3. The opposition offers aid to States and localities with one hand, but, with the other, it would destroy existing programs of Federal-State-local cooperation in such vital areas as highways, public assistance, public health, urban renewal, and education. We want to strengthen these programs.

4. The national government, as a constructive partner in a creative federalism, should help restore fiscal balance and strengthen State and local governments by making available for their use some part of our great and growing Federal tax revenues -- over and above existing aids.

5. For the past four months, a task force appointed by the President has been studying intensively the various ways to strengthen the Federal-State-local partnership. One of the proposals they are weighing most seriously is unconditional grants to the States. They will report their findings to the President on November 15 -- in time to help the Administration formulate its program for the next Congress.

## 6. Taxes

Question:

You have announced that you will propose excise tax reductions next year. Can you say any more about these proposals now? What are the prospects and priorities for further tax cuts in the years ahead?

Answer:

1. Currently, the Treasury Department is intensively studying each of the 75 excise taxes to design a rational program of excise tax reduction.

2. The size and timing of excise tax reduction, as of any tax reduction, must be tailored most carefully to fit

   -- the budget program as a whole, and

   -- business conditions, so that it works to sustain prosperity without inflatinnary excesses.

   These needs can be assessed more clearly at the end of the year.

3. As long as the economy remains prosperous, rising incomes will increase the revenues of the Federal Government by roughly $6 billion a year at current tax rates. Unless a major increase in defense was required by unanticipated international developments, revenues would therefore tend to rise relative to expenditures. Fiscal policy must be constantly alert to the danger that such a growth in revenues could choke off our economic expansion, as it did in the late 1950's.

4. There are many ways by which this "fiscal drag" can be countered. The possibilities include: further tax reductions, increases in top-priority Federal programs, and an increased flow of funds to State and local authorities.

5. Thus far, we have cut both individual and corporate income tax liabilities by nearly one-fifth by

   -- revising depreciation guidelines, thus adding $1-1/2 billion a year to corporate "cash flow,"

   -- enacting the investment tax credit, thus reducing tax liabilities by more than $1 billion a year,

   -- cutting personal and corporate income tax rates, thus raising private after-tax incomes directly by $11-1/2 billion.

6. Excise taxes will have priority for the year 1965. Later, we will again focus on income taxation -- both personal and corporate -- as the major areas for future tax cuts. We fully anticipate that taxes will be cut further in the years ahead, barring any major unanticipated need for increased defense spending.

7. The exact combination of measures cannot be laid out in advance in any arbitrary, automatic fashion. Tax proposals should be examined most thoroughly and timed carefully with full consideration of the state of the economy and the priorities in the Budget.

## 7. Monetary Policy

Question:

Now -- as always -- the Federal Reserve isn't pleasing everyone: some say credit is too easy; others find it too tight. How would you evaluate the performance and prospects of monetary policy? In light of your experience as President, how do you feel about the independence of the Federal Reserve?

Answer:

1. The job of the money managers is never easy. But the results over the past four years have been remarkable:

   - Ample but not excessive credit has been available to businesses, homebuyers, and State and local governments.

   - At the same time, short-term interest rates have been pushed up to reduce capital outflows and help correct our balance of payments deficit.

   - Yet long-term interest rates, which are so important to domestic borrowers, have remained moderate -- in fact, home mortgage rates and the rates paid by State and local governments are lower today than in early 1961.

2. All this has been made possible by close ties between our monetary and our fiscal and debt management policies, and close harmony among the men responsible for these policies:

   - We have maintained the Federal Reserve's traditional independence within the Government.

   - Yet the Federal Reserve and the Administration agree entirely on the practical need for informal coordination among the various economic programs of the Government.

   - To do this the President meets periodically with Secretary Dillon, Budget Director Gordon, Chairman Martin, and Chairman Heller of the Council of Economic Advisers, and they in turn are in close and continuous contact.

   - In our view, these informal arrangements have worked very well.

Monetary Policy (cont'd.)

3. In the future as in the past, our monetary system must remain flexible, and not be bound by any rigid, mechanical rules:

   - In an atmosphere of private and public moderation, monetary policy has been steadily expansionary for 4 years.

   - With continued moderation, there can be continued monetary expansion.

   - But if inflation develops, or if excessive outflows of funds occur, the Federal Reserve System is in a position to do what is necessary.

## 8. Balance of Payments

Question:

Do you feel we are making satisfactory progress in reducing our balance of payments deficit?

Answer:

1. We have made much progress:

   - Our surplus of merchandise exports over imports is 40% above 1960.

   - Our balance of payments deficit (on regular transactions) has been cut by more than half -- from an average level of \$3.9 billion in 1958-60 to \$1.7 billion during the last fiscal year.

   - Confidence in the dollar has been restored.

   - As a result, the gold outflow -- which averaged an alarming \$1.7 billion a year from the end of 1957 through 1960 -- was cut in half in 1961 and 1962, and has ceased entirely over the past 12 months.

2. This progress has not come at the expense of our other vital responsibilities

   -- for maintaining and improving our defenses abroad,

   -- for providing needed assistance to developing nations,

   -- and for sustained and rapid growth at home.

3. Moreover, we have refused to seek "easy" and fast solutions to our balance of payments problem through controls and restrictions that would have curbed economic freedom, hurt our domestic prosperity, or damaged other countries' trade.

4. Instead, we have chosen the slower but surer path of progress through a more competitive, efficient, and prosperous domestic economy -- an economy fully equipped to maintain and expand its share of rapidly growing world markets.

5. During the past year, we have cut back hard on the U. S. Government flow of dollars abroad; we have passed the Interest Equalization Tax and raised short-term interest rates at home to cut off an excessive flow of capital abroad; we have given fair assistance to our exporters while our policies have helped to maintain the price stability that has advanced our trade; we have made investment at home more attractive by stimulating healthy economic growth.

6. But the task of restoring balance in our external payments has not been completed. To maintain our forward momentum and capitalize on the very real gains of the past four years will require further efforts to expand our exports and to create conditions that will keep more of our American capital at home.

## 9. Guideposts: wages and prices

Question:

The opposition has called your price and wage guideposts "irresponsible and dangerous," and has said, "They offer a serious threat to a free economy." How do you view the guideposts?

Answer:

1. The price-wage guideposts were developed under President Kennedy and reaffirmed by this Administration to facilitate decisions by business and labor that help us preserve price stability.

2. The guideposts provide the public with a means of judging whether the price and wage decisions made by business and labor are noninflationary and therefore consistent with the public interest.

3. The guideposts reflect the fact that over-all stability of prices can be assured if wage increases do not exceed the economy-wide rate of gain in productivity and if industries with exceptionally high productivity gains reduce their prices.

4. The guideposts are not compulsory and do not fix prices or wages. In our economy, those are matters properly left to free markets and free collective bargaining. The term "guideposts" conveys exactly what was intended -- not hard and fast prescriptions for every wage settlement or price-decision -- but criteria for responsible action by both labor and business.

5. With few exceptions, business and labor have generally followed the guideposts in the 1961-64 period:

   -- Price increases in industries with below-average productivity gains have been offset by price decreases elsewhere.

   -- Average wage and benefit increases have not exceeded the long-run rise in the productivity of our workers, so that labor cost per unit of output has been stable since the beginning of 1961. In fact, it has fallen by 3.4% in manufacturing.

6. Our remarkable record of price stability has (a) protected consumers at home by maintaining the purchasing power of the dollar and (b) enabled us to strengthen the competitive position of our goods abroad and improve our balance of payments:

-- Wholesale prices are, on the average, no higher now than a year ago, and are 1/10 of 1% below 5 years ago.

-- Industrial wholesale prices have fallen 3/10 of 1% over the same period.

-- Since 1961, the wholesale price record in the United States is the best of any major country in the world. For example, while wholesale prices here were falling a bit, they rose in all the major European countries, from about 3-1/2% for Germany to 11-1/2% for Italy.

-- Consumer prices have also been more stable than in any other industrial country in the world. As compared to our consumer price increase of slightly less than 4% since the 1st quarter of 1961, major European countries experienced increases of 10% to 19%.

7. The guideposts are a sound basis for continued price stability and are increasingly important as our economy rises closer and closer to its full potential. They have made all of us -- in business, in labor, and in government -- more keenly aware of the importance of our own actions for price stability and sustained prosperity. This increased understanding and sense of responsibility will strengthen our economy in the years ahead.

## 10. Business-Government Relations

Question:

Do you share the opinion that attitudes and relations between business and government have shown marked improvement of late? If so, how do you explain this development?

Answer:

1. Relations between business and government have improved. An unusually large number of outstanding businessmen have spoken out in support of the general economic policies of this Administration. Businessmen have been very cooperative and constructive in discussing the problems of this Nation and considering possible solutions. The Administration, in turn, has been receptive and responsive to their views and suggestions.

2. There is a growing recognition by businessmen that:

   -- this Administration's policies make for a strong and growing economy; and

   -- a strong and growing economy means good business.

3. Through a strong and growing economy, profits after taxes in the second quarter of 1964 were:

   -- 64% above the first quarter of 1961;

   -- 20% above the old peak in the second quarter of 1959.

   And these profits have been earned in dollars of remarkably stable purchasing power.

4. Businessmen know their efforts have been supported by

   -- this year's tax reduction;

   -- the investment tax credit;

   -- the new depreciation guidelines;

   -- our efforts to maintain the ready availability of credit at stable interest rates;

-- our effective efforts to maintain stable prices;

-- our new programs to assist in the development of export markets;

-- our success in restoring world confidence in the dollar.

5. Businessmen approve of this Administration's business-like approach to the conduct of the Nation's affairs,

-- applying sound management practices and cost-consciousness to eliminate waste and raise productivity in Federal programs;

-- making well-planned investments in our human resources where the investments can yield a high return to the whole Nation.

6. Businessmen respect our efforts to promote competitive market performance by such activities as

-- improving the dissemination of technical information generated by Federal R and D programs;

-- assisting private industry in establishing voluntary marketing standards for U.S. commodities at home and abroad;

-- broadening the area for private initiative and market decisions in transportation industries;

-- reshaping Federal credit programs to assure that they stimulate and supplement -- but do not substitute for and displace -- private lending;

-- enforcing and updating our laws to prevent abusive and unfair use of the market.

## 11. Federal Spending

Question:

In the eyes of the opposition, you are a reckless spender. Meanwhile, your emphasis on frugality has concerned some liberals who see large unmet public needs. How would you summarize your position on Federal spending?

Answer:

The record of the past 10 months clearly refutes the charge of reckless spending. The Administration has had significant accomplishments in controlling expenditures, holding down Government employment, and effecting numerous economies in the management and operation of Government programs.

1. The first budget for which President Johnson is responsible is the 1965 Budget, for the fiscal year which began July 1, 1964.

   - Instead of increasing expenditures, this budget calls for a decrease -- and it is only the second budget in 9 years to do so.

   - Budget expenditures this year are smaller in relation to Gross National Product than at any time since 1951. They are running 15-1/2% of GNP -- no Republican budget from 1953 to 1961 was below 16%.

   - Instead of increasing Government civilian employment, this budget calls for a reduction -- and it is the first budget to do so in the last 8 years.

   - The President has requested $450 million less in 1965 appropriations than he said he would when he transmitted the 1965 budget.

   - During the first 2 months of this fiscal year (the only period for which figures are now available) -- July and August -- budget expenditures were $676 million below the same period last year.

Federal Spending (Cont'd.)

- Civilian employment in the executive branch in September, 1964 was down 21,000 from the beginning of the Johnson Administration and at the lowest level in nearly 2-1/2 years.

- During July and August many further steps to initiate management improvements and cost reduction actions were reported by Federal nondefense agencies; these steps are expected to produce savings of more than $178 million on an annual basis.

- Present rates of spending indicate that we will actually be able to reduce 1965 expenditures by $600 million below the budget estimates -- a reduction of $400 million below actual expenditures in fiscal 1964.

- The Federal debt at the end of this year will be smaller in relation to Gross National Product than at any time since 1941. It will be less than 50% of GNP, down from 133% of GNP in 1946 and from 58% of GNP in 1960.

2. Efforts to achieve economies in expenditures and employment already bore considerable fruit in fiscal 1964.

   - Actual expenditures in that fiscal year were down more than $1 billion from the original 1964 budget estimate of January 1963 and were $700 million below the estimates made in January 1964.

   - Civilian employment in the executive branch on June 30, 1964, was down more than 101,800 from the number in the original 1964 budget estimate, 43,000 from the revised estimate in last January's budget, and 21,000 from the actual number on the rolls one year earlier.

   - Cost reduction was made a continuing high priority concern of every department and agency. The following are a few major examples of results achieved in fiscal year 1964:

     -- Secretary McNamara's cost reduction program in the Department of Defense actually realized savings of $2.8 billion, compared with the initial forecast of $1.5 billion. This was accomplished at the same time that our military strength and combat readiness were being vastly improved.

Federal Spending (Cont'd.)

-- In the National Aeronautics and Space Administration, a cost reduction goal of $81.7 million was established for fiscal year 1964. Results far surpassed these expectations, and savings are conservatively estimated in NASA at $128 million.

-- In the Post Office Department, employment in June 1964 was 3,164 less than in June 1962, while mail volume was 3.7 billion pieces more than in 1962. If output per postal worker today were the same as in 1961, the cost of operating the Post Office would be $140 million more than it is.

-- The Treasury's Division of Disbursement improved employee output by more than 14% over 1963, due to electronic data processing improvements, consolidation of field offices, and streamlined procedures. This is equivalent to the work of nearly 200 employees.

-- The Veterans Administration's insurance program increased the productivity of its manpower by 24% over the preceding year, through reorganizations and the use of automatic data processing. This is the equivalent to the work of about 600 employees.

-- The Federal Aviation Agency's Systems Maintenance Service achieved a 6% increase over 1963 in the amount of maintenance of air navigation and air traffic control facilities per man-hour. This gain represents a saving of about 600 man-years.

3. This Administration's emphasis on frugality does not mean a do-nothing policy. On the contrary, it is our policy to reduce costs, curtail less urgent activities, and find other savings which will permit the Government to expand essential services or start needed new services without a wasteful burden on the taxpayer. Frugality is most meaningful when its fruits are used to contribute to human compassion and national progress.

. From 1961 to 1964, the bulk of the increase in expenditures (over 70%) went for strengthening our defense and space programs and for uncontrollable interest charges. These investments in military readiness now make it possible to reduce military spending without sacrificing military strength.

Federal Spending (Cont'd.)

- The cut in defense expenditures plus numerous economy measures enable us to turn to other unmet national needs.

- The austerity policy followed in the 1965 budget permitted the inclusion of a number of legislative proposals of great importance to the Nation's citizens. Almost all of the measures proposed were accepted by the Congress.

In addition to the reduction in income taxes -- which is the single most important step taken since World War II to strengthen the economy -- the following are a few of the proposals included in the 1965 budget to improve the Nation's well-being, promote better education, and provide better use of natural resources.

-- Economic Opportunity Act begins a war on poverty -- through measures to stimulate employment, better health, job training, education, rehabilitation, and other services to help the poor help themselves. This landmark legislation relies for its main success on the efforts of local communities.

-- Urban mass transportation. The new law provides for grants and loans to States and local public bodies to help them finance mass transit facilities. This Act will exert a major constructive influence on the sound development of our expanding urban communities, where 7 out of 10 of our citizens live.

-- Housing Act of 1964 carries forward efforts to eradicate slums, to assure decent housing to those least able to afford it, and to promote orderly growth in our communities. It is another substantial step toward the goal of assuring every American an opportunity to live in a decent home in a safe and decent neighborhood.

-- Education. Various acts were passed by the 88th Congress to improve education, among them laws expanding and improving vocational education, extending and expanding the National Defense Education Act, extending the impacted areas programs, providing better library services, and authorizing new programs of aid to medical education and grants and loans for construction of facilities at institutions of higher education. There is ample reason for designating the 88th Congress as the Educational Congress.

Federal Spending (Cont'd.)

-- Land and Water Conservation Fund Act of 1964 provides for acquisition of land and development of facilities to meet the urgent recreational needs of our rapidly expanding population. The Wilderness Act provides for preserving wilderness areas in their natural state for the enjoyment of all Americans.

-- Appalachian program was proposed to help this area of our country emerge from its depressed condition and achieve a better share in the prosperity being enjoyed throughout most of the Nation.

. These and various other proposals advanced by the President and included in the budget indicate better than words or slogans the concern of this Administration with the improvement of the lives of our Nation's citizens.

4. In summary, the President's position on Federal spending remains as he outlined it in his Budget Message to the Congress last January, as follows:

"In formulating my budget, I have been guided by two principles:

. I have been guided by the principle that spending by the Federal Government, in and of itself, is neither bad nor good. It can be bad when it involves overstaffing of Government agencies, or needless duplication of functions, or poor management, or public services which cost more than they are worth, or the intrusion of government into areas where it does not belong. It can be good when it is put to work efficiently in the interests of our national strength, economic progress, and human compassion.

. I have been guided by the principle that an austere budget need not be and should not be a standstill budget. When budgetary restraint leads the Government to turn its back on new needs and new problems, economy becomes but another word for stagnation. But when vigorous pruning of old programs and procedures releases the funds to meet new challenges and opportunities, economy becomes the companion of progress."

## 12. Foreign Aid

Question:

According to the Republican candidate, "Foreign aid has been a great failure . . . and we must reduce it drastically." How would you appraise the success of our foreign aid program and its prospects for the future?

Answer:

1. Foreign aid has been a success -- which is the reason for the broad bipartisan support it has received throughout its history. It has been a major contributor to the growing strength of the free world: a strength essential to our own security, to our own economic progress, and to the kind of world in which free institutions can survive and flourish.

2. Past aid efforts were clearly successful in helping Europe and Japan to recover and become strong, free and prosperous nations. This prosperity permitted a vast increase in trade -- U.S. exports to Europe doubled between 1950 and 1962 and exports to Japan tripled over the last decade.

3. Europe and Japan have now joined with the United States in providing aid to the underdeveloped countries. Since 1956, the other developed free-world countries have provided more than $13 billion in aid to the less-developed world -- about what the United States invested in the recovery of Western Europe through the Marshall Plan between 1948 and 1952.

4. Experience has proved that, despite obstacles, economic and social progress can be achieved in the poorer nations, through a combination of their own efforts and outside help. And this experience again shows that trade can follow aid, just as has happened in Europe. Over the past five years, U.S. exports not financed by aid rose by 14% to Taiwan, 23% to Colombia, and 76% to Israel. We can now identify a dozen or more countries which have made good headway and are approaching the point where their development can go ahead without soft loans and grants.

5. But there are still many countries which need support from the advanced nations to develop a solid base for economic growth. And there are other countries, such as Vietnam, where economic progress must await the establishment of basic security conditions, and where U.S. military and economic aid is crucial to security.

6. This year's aid request was the lowest ever made. It was:

   -- far less than 1% of GNP;

   -- less than 5% of the Federal Budget;

   -- and less than half as much of a burden on U.S. resources as was the aid program of 15 years ago.

7. Nevertheless, today's aid program is accomplishing more, dollar for dollar, than ever before, because aid today

   -- is based on what recipient countries are doing to help themselves;

   -- is concentrated in the most important countries;

   -- places more emphasis on the role of private enterprise; and

   -- is being administered in a tight-fisted and realistic fashion.

8. It is simply romantic nonsense to believe that Free World strength can be increased without spending money. Military strength takes equipment and money. Roads, schools, and factories -- the most effective weapons in the fight for economic progress -- cost money. Those who believe in peace and freedom are willing to pay that price.

## 13. Trade Expansion

Question:

How do you view the problems and prospects for trade liberalization?

Answer:

1. The policy of trade liberalization -- pursued ever since the Trade Agreements Act of 1934, by both Democratic and Republican Administrations -- has served this country well. Our foreign trade, which amounted to only $3.8 billion in 1934, is now running at an annual rate of $42.5 billion -- $24.5 billion in exports and $18 billion in imports.

2. Our exports provide jobs for about 3.6 million American workers and outlets for the crops of one out of every four acres of our farms. Our imports provide essential raw materials for our industries, maintain a healthy pressure on our own producers and workers to step up their efficiency, and offer our consumers a wider choice of goods at competitive prices.

3. On the basis of the Trade Expansion Act of 1962, we are currently able to engage in the sixth round of international negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT). The Trade Expansion Act is one of the great legislative monuments to President Kennedy's leadership, and this Administration is fully committed to its vigorous implementation.

4. The current negotiations will not impose burdens on some nations to provide gains for others. They are being conducted on a basis of reciprocity, and their success will be advantageous to all participating nations. The negotiations may be lengthy, complex, and at times difficult, but we are prudently confident of fruitful results.

5. Special import difficulties confronting particular sections of our economy may at times require remedial action. This Administration has taken action to meet the problems of meat producers and of cotton textile and apparel manufacturers. Currently, we are seeking to work out with other woolen textile-producing nations orderly marketing arrangements which would be in the mutual interests of all.

Trade Expansion (Cont'd.)

6. However necessary, such remedial actions are the exception rather than the rule. The main thrust of this Administration -- as of Democratic and Republican Administrations for the past 30 years -- will be toward trade liberalization.

## 14. Regulatory Agencies

Question:

Our regulatory agencies (SEC, FCC, ICC, FTC, etc.) are under fire from the opposition. How would you appraise their effectiveness? Do you plan any major changes in government regulation of business?

Answer:

1. Ours is a competitive, free enterprise system. Government policies toward business should increase the effectiveness of competition. Among the many ways in which government encourages competition is the vigorous enforcement of our anti-trust laws; these rules of the game enhance the opportunities of American businessmen to develop new markets in an atmosphere of economic freedom and fairness.

2. Direct Federal regulation is necessary in only a few areas in which resources of a public nature are involved and in which the problems are interstate or international in character. Each of the independent regulatory agencies was set up to meet an urgent national need of this kind. Their activities have been important in insuring that major national resources be used for the benefit of all and not just a privileged few.

3. The regulatory agencies are independent of the Executive Branch -- Congress carefully specified this status so that they would not be altered significantly with changes in the Presidency. The independent commissions are often referred to as the fourth branch of government just for this reason.

4. In our dynamic society, regulatory agencies and policies should be flexible and alert to new needs and conditions. We must be careful that regulation does not survive after the need for it has disappeared. In view of rapid changes in the area of transportation, this Administration will continue to urge legislative changes which will reduce the scope of regulation and provide a larger role for competition in this industry.

## 15. Tax Reform

Question:

Few of the tax reforms recommended by President Kennedy in 1963 were, in fact, enacted in the Revenue Act of 1964. Do you plan renewed efforts to achieve further tax reform?

Answer:

1. The Administration did not get everything it sought in the area of tax reform; but many significant reforms were enacted.

2. The Revenue Act of 1964 contained $835 million per year of revenue-increasing reforms. In addition, the Revenue Act of 1962 picked up another $855 million through revenue-raising reforms. The total of these is three times more than all of the revenue-increasing reforms enacted during the previous 20 years.

3. Important and much needed reforms involving revenue losses were also enacted. The major reforms of this nature included:

   -- the minimum standard deduction -- which eliminated over 1.2 million low-income taxpayers from any tax liability;

   -- the introduction of a moving expense deduction;

   -- a badly needed averaging device providing tax relief for individuals with widely fluctuating incomes.

4. Prior to the 1964 Revenue Act there were extreme differences in the way the tax system treated different kinds of income: personal income was taxed as high as 91%, corporate income at 52%, capital gains at 25%, and dividend income enjoyed a preferential treatment through the dividend credit. These wide discrepancies created enormous incentives for people to alter their business operations in order to minimize tax liabilities. The extent of this differential treatment has now been markedly reduced: starting in 1965 personal income will be taxed at a top rate of 70%, corporate income at 48%, capital gains still at 25%, and the dividend credit will have been eliminated. These reduced disparities are in themselves a major reform -- improving the equity of tax treatment and, thereby, the efficiency of the economic system.

5. This Administration certainly intends to continue to seek further tax reform. A better excise tax system is next on our agenda. After that, we will turn again to the income tax. The Revenue Act of 1964, because it sharply reduced the unequal treatment of different types of income, effectively sets the stage for future tax reform. Moreover, our experience with the operation of the Revenue Act of 1964 will guide us in designing new tax reform measures.

## 16. Tax Credits for Education

Question:

The Republican candidate has said, "Tax credits for educational taxes, tuition, and donations would . . . pose no threat of federal control. They would maintain diversity and freedom of education while improving its support." Apparently, you do not consider tax credits an effective means to support higher education. Would you explain your position on this issue?

Answer:

1. The Administration opposes tax credits for education because they are an inefficient and inequitable way of broadening educational opportunities.

2. The inefficiency and inequity of the approach is made obvious by the facts regarding college attendance relative to family income:

   . In October 1960, only 9.2% of all persons aged 16 to 24 from families with incomes under $5,000 were currently enrolled in college. These families pay little or no income tax and hence would gain little or nothing from the tax credit.

   . But 44.1% of those with family incomes over $10,000 were enrolled in college. This upper income group, many of whom can comfortably afford college bills, would get a big windfall from a tax credit, while thereby reducing the opportunity for general tax reductions that would benefit everyone.

3. To the extent that a tax credit encouraged colleges to raise tuition fees, it might actually hurt the children of low-income families.

4. The most effective way to support higher education is through a program of scholarships, guaranteed loans, and work-study programs to students, and aids to colleges and universities to help keep tuition down. This Administration has advanced and supported such measures. Recently passed were:

   -- the Higher Education Facilities Act of 1963 -- to provide more "bricks and mortar" for an expanding college-age population, and

-- amendments to the National Defense Education Act -- to increase loan funds and scholarships for needy college students.

5. We will continue to propose effective measures to achieve the promise of the Democratic Platform of 1964:

> "New methods of financial aid [to education] must be explored, including the channeling of federally collected revenues to all levels of education ..."

## 17. Depreciation Guidelines

Question:

The Republican candidate has said, "We must make sure that a sensible and uncomplicated policy is established toward depreciation allowances. I am definitely opposed to the so-called reserve-ratio system about to be put into effect by administrative order." In 1962, depreciation guidelines were revised; do you feel that tax treatment of depreciation is now sensible and satisfactory?

Answer:

1. The tax treatment of depreciation is a highly complex technical subject. In 1962 the Administration made a major step forward, and broke with past practices, by permitting business more freedom in their choice of the life period of assets they wished to use for depreciation purposes.

2. As part of the new "guideline approach," however, the Administration also required a test (the reserve ratio test) which was designed to ensure that the depreciation lives would, in fact, at least roughly correspond with the actual lives of their assets.

3. The Administration is interested in a workable and fair depreciation policy. It is aware of the problems that have arisen under the existing reserve ratio test and is studying the matter carefully to find the best way of alleviating these problems. It is certainly not irrevocably committed to the details of its present form. We do need some way to insure that depreciation for tax purposes bears a reasonable relation to actual business practice. Recently, at the request of the Treasury, the National Industrial Conference Board has undertaken a survey of 1,000 manufacturing firms in order to provide data on how the new depreciation procedures are operating. The results of this survey will soon supply an objective basis for review of the reserve ratio test.

4. The tax treatment of depreciation is only one aspect of the over-all taxation of business income. Since 1962 the Administration has afforded business not only the new liberalized depreciation guidelines, but also the investment credit, a much lower tax rate for small corporations, and an over-all 4-point reduction in the corporate tax rate becoming fully effective in 1965. In combination, all of these provisions operate to increase the rate of return on investment by about 35 percent for most classes of assets. Investment incentives have been greatly strengthened, which helps account for the recent sizeable increases of business investment spending.

[1964?]

Policies to Sustain Prosperity and Promote Economic Growth

As we begin the 1964 election campaign, the economy is in the 43rd month of the longest and strongest economic expansion in the nation's history. And the end is not in sight. The gross national product—that is, the sum total of what the entire economy produces—is already in excess of $625 billion; it will exceed $650 billion next year.

This achievement was made possible by the coordinated and sophisticated use of all policy instruments available to the federal government to eliminate recession and promote economic growth. The Kennedy-Johnson Administration first halted and reversed the 1960-61 recession, and then kept the expansion going by the adoption of growth-promoting budgetary, tax, and monetary policies. Consumption and investment spending have been stimulated by large and effective tax reductions and structural reforms of the tax system. All groups in the population have benefitted from the unprecedented degree of prosperity.

## The Record

When John F. Kennedy took office in January 1961, the economy was suffering from its fourth postwar recession, the last three of which occurred during the previous Republican Administration. Industrial production had declined 8 percent from the peak in the previous year. Retail sales were down more than a billion dollars a month. Business investment had declined $2.5 billion and corporate profits before taxes had plummeted $9.2 billion at an annual rate. Unemployment had reached almost 7 percent of the labor force.

During the past three and a half years, the strength and vigor of the economy have been restored:

1. Gross national product rose from $501.4 billion in the first quarter of 1961 to $618.6 billion in the second quarter of 1964, an increase of $117 billion or more than 23 percent.

2. Industrial production rose more than 28 percent.

3. Retail sales increased more than $4 billion per month, or almost $50 billion per year.

4. Business investment increased about a third; corporate profits rose 46 percent before taxes and over 60 percent after taxes.

5. Total employment increased by 5.7 million people.

6. The unemployment rate was pushed down to 5 percent for the first time in over four years.

7. The spendable income of the average American family rose over $1,200, or 15 percent.

All of this was accomplished in an environment of relatively stable prices. Wholesale prices are now slightly lower than when President Kennedy took office, and consumer prices have edged up very slowly. Our price record during these three and a half years has been better than that of any other industrial country of the world.

Policies for Stability and Growth

The major ingredient of the successful economic program of the Kennedy-Johnson Administration has been a vigorous and effective fiscal policy, which is designed to stimulate private consumption and investment and to increase economic incentives.

Economic recessions occur when the demand for goods and services by consumers, businessmen, and governments is not sufficient to employ all the productive resources of the nation. In former days, governments did very little to halt recessions, believing that only "natural" forces will do the trick. We now know that such a policy is too slow and often self-defeating; more important, it imposes cruel penalties on those who suffer from unemployment and reduced incomes. If private expenditure is too low, the government can and should step in to fill the gap by increasing its own expenditures on necessary public services or by reducing taxes, or by a combination of expenditure increases and tax cuts.

When the economy was in recession in 1961, federal expenditures were accelerated, housing was stimulated, unemployment compensation payments were extended for many who exhausted their claims, and credit was made more plentiful. These measures contributed directly to the security and welfare of the nation. At the same time, they enlarged the stream of incomes going to the private sector of the economy, and thus stimulated more spending. The economy responded quickly to this stimulus. By the end of 1961, the economy was well ahead of the peak levels reached in the aborted 1958-1960 expansion and was growing at a rate that compared more than favorably with prior recoveries.

In 1962, two tax reductions were enacted to improve investment incentives and thus stimulate more spending on the part of businessmen. The first of these was the announcement by the Administration in July 1962 of new depreciation rules that permitted business firms faster tax write-offs for their capital investment. The second was the enactment by the Congress of a 7 percent investment tax credit, which had been recommended a year earlier by President Kennedy. Together, these two important changes reduced business taxes by $2.5 billion a year. The increased rate of return on new investment and the higher cash flow have already had a substantial impact on investment, and there is every indication that this effect will continue to be felt for many months ahead.

In 1963, President Kennedy recommended a large tax cut for individuals and corporations to keep the expansion going. Although the cut was not enacted until a year later, the recognition on the part of most taxpayers that a tax reduction was coming undoubtedly contributed to the maintenance of confidence in the strength of the economy.

The rationale of the tax cut may be simply stated: In the past, consumers have consistently spent about 92 or 93 percent of their after-tax incomes. There was every reason to expect that they would respond to the additional take-home pay from a tax cut in the same way that they respond to an increase in wages or other increases in disposable income. This addition to consumer spending would increase employment and incomes, leading to further rounds of spending. The improvement in sales expectations would, in turn, stimulate spending on the part of businessmen to increase their inventories and add to their fixed capital investment.

We are all benefitting at this very moment from these employment-generating effects of the tax cut, which amounted to about $11 billion when finally passed by the Congress. Consumers have been spending their tax cut about as expected, and businessmen have been investing more. But they did not go on a wild spending spree. No bottlenecks have become evident, supplies have been plentiful, and prices have not increased sharply. The success of the tax cut is evident everywhere in higher incomes, higher sales, higher employment, a higher growth rate, and stable prices.

Monetary policy has also made a significant contribution to the growth of the economy in recent years. It is not enough to increase disposable incomes in the private sector of the economy through expenditure and tax policies. A tight money policy can choke off much of the spending generated through fiscal policies. But the Federal Reserve Board has permitted the supply of money to increase and has kept the cost and availability of long-term credit favorable for spending on residential and commercial buildings, business plant and equipment, and state and local government construction.

It has not been easy to maintain an expansionary monetary policy in the face of our balance of payments problems, but new techniques were developed and the policy is now paying off.

Problems for the Future

Even though we can be proud of the record during this Administration, we are not complacent—because a great deal remains to be done.

First and foremost, we must strive for full employment, not just high employment. Unemployment is still 5 percent of the labor force, and we cannot be content until the rate has been pushed down at least below 4 percent. To achieve this objective, it will be necessary to continue an expansionary fiscal policy so as to avoid choking off the rise in consumer and business spending. As incomes increase, taxes of the federal government automatically increase by about $6 billion per year. The economy cannot sustain such a large withdrawal of funds from the spending stream for very long.

The $6 billion annual rise in federal receipts can be handled in one of three ways: it can be used to reduce the debt, or to increase expenditures, or to reduce taxes further. Debt reduction would be in order if the economy showed signs of inflationary pressures, but there are no such signs now. This leaves expenditure increases and tax cuts, and there is no reason why we should not afford ourselves a little of both. We should begin to plan now to provide for more federal services where they are needed, including assistance to the hard-pressed state and local governments to meet the huge demands that are being made on them by a growing population and a growing economy. Tax cuts would be in order if there is something left over after such expenditure needs have been met.

Second, we must continue to avoid the excesses of inflation. We have learned through hard experience that inflation contributes very little to the real growth of the nation and entails unnecessary suffering to millions of our people who cannot protect themselves against the deterioration in the value of the dollar. The basic policy to prevent inflation must be to keep the federal budget under control. If private demand is too high, we should not hesitate to hold down expenditures and run a surplus in the federal budget. Monetary policies must also be prepared to restrain the flow of credit when inflation threatens.

It is also important, however, that businessmen should exercise restraint in their pricing policies and that wages should rise on the average by as much as the rise in average productivity. Another flare-up of the price-cost spiral will inevitably force the government to slow down the rate of growth. It is in the interest of all groups to eliminate this threat to our continued growth.

Finally, as the affluence of the large majority of our citizens continues to increase, we must not forget those in the minority who may not be able to share in the general prosperity for reasons of age, health, lack of education, and other factors. In the Great Society to which President Johnson and I aspire, there will be no pockets of poverty, no discrimination in employment opportunities because of race, or creed, equal educational opportunities for all, and adequate social welfare programs for the needy and the sick. The Congress has already made a good start in tackling these hugh problems, and much more will be done in the years ahead.

* * * * * * * *

Economic growth is the product of a skilled and educated labor force, operating in modern plants with efficient equipment. It also depends on continued technological progress, which releases labor and other resources for new uses. A policy to promote economic growth involves the wise use of government policy—in such varied fields as taxation, money and credit, education, welfare programs—to stimulate private incentives to produce and innovate more. The Kennedy-Johnson Administration has demonstrated to the entire world that the U.S. economy has not lost its vigor and vitality.

We will continue to improve the performance of the economy in the years ahead, to the benefit of all our people as well as the people abroad who may need our help.

[1964?]

File: Economy

SPEECH SECTION: PROSPERITY THEMES

Almost everywhere around here I see unmistakable signs of prosperity. And that is no wonder. You are sharing in 44 consecutive months of economic prosperity. This is the longest solid stretch of economic growth in the history of the United States.

Do you remember the stagnant Fifties -- when a Republican Administration dawdled and bumbled along, letting a misguided economy take its own course?

-- Do you remember their helplessness in the face of three serious recessions? (1953-54, 1957-58, 1960)

-- Do you remember how they ran up the highest peace-time deficit on record -- a deficit which reached $12.4 billion in 1959?

-- Do you remember how they let unemployment increase until it reached almost 7 percent in 1960?

Do you remember how the Kennedy-Johnson Administration came in and took decisive action to get America moving again? The results are what we see today.

-- The average American today has a take-home pay of about $2,200 a year. That is $225 more than in 1960 -- at the same price levels.

-- The average factory worker earns $103 a week - compared with only $89 at the end of 1960.

-- American consumers have an extra $8 billion in their pockets this year as a result of the Kennedy-Johnson tax cut. When this is spent, it will help generate another $32 billion in income this year.

-- The 20 million American stockholders will receive divident checks this year totalling 11 percent more dollars than a year ago.

-- And these remarkable gains in a growing and prosperous economy have been made with stable prices.

President Johnson's Administration has passed the most rigid test. They have demonstrated that government can maximize prosperity, prevent inflation, and keep the economy moving full-steam ahead.

Senator Goldwater has proved, time and again, that his ideas are extreme, radical and amateurish. Do you want your government to be dizzy with deficits? Do you want him to tinker with your prosperity? Do you want him to run economic experiments, with you as the guinea pigs? Do you want Senator Goldwater to sow his wild oats in the American economy?

Or do you want President Johnson and prosperity?

Note to Editors:

FCO - Depressed Areas WF

Attached is a copy of a letter and attachments sent to the editor of Reader's Digest as a result of a recent article in that magazine.

[May 1 1964]

U.S. DEPARTMENT OF COMMERCE
AREA REDEVELOPMENT ADMINISTRATION
WASHINGTON, D.C. 20230

May 18, 1964

Mr. DeWitt Wallace, Editor
Reader's Digest
Pleasantville, New York

Dear Mr. Wallace:

I have read the article, "Is This the Way to Fight the War Against Poverty?" in your May issue, and would like to reply to the many misleading and incorrect statements in it.

We have prepared a list of the principal allegations in the article together with a factual reply to each. We would appreciate your publishing our reply to give your readers an opportunity to get the other side of the story.

Sincerely,

William L. Batt Jr.

Administrator

Enclosure

THE AREA REDEVELOPMENT ADMINISTRATION

REPLIES TO

READER'S DIGEST ARTICLE

The Reader's Digest in its May 1964 issue made a series of allegations regarding the Area Redevelopment Administration in an article entitled: "Is This the Way to Fight the War Against Poverty?"

ARA has received many inquiries from Congressmen, newsmen and interested citizens, and this paper has been prepared to provide a point-by-point, factual reply to the allegations in the article. The reply follows:

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ALLEGATION -- That ARA loaned money for the Schweitzer Basin, ski resort at Sandpoint, Idaho, when two local men were about to open a ski run on nearby Baldy Mountain.

FACTS --The Schweitzer Basin project had been under consideration by the local community leaders long before the Baldy Mountain project. The two local men mentioned in the article had sought support from the Sandpoint Chamber of Commerce and other community leaders, but were unable to obtain it.

The community, itself, financed a professional survey which showed the Schweitzer Basin site superior to the Baldy Mountain site. The community leaders applied for an ARA loan which was granted after careful consideration. The ARA loaned $320,000 on the $530,000 project. Some 700 Sandpoint residents -- more than half of the wage earners in the town -- bought stock in the venture and in all about $200,000 in private funds were invested by local sources, including the City of Sandpoint, itself.

The Schweitzer Basin Ski Resort opened for business last December and enjoyed a successful first season. More than 2500 skiers visited the slope one day at Christmas time last year. Besides the scores of jobs the ski lift provided, it also had an impact on the local economy. The January 1964 issue of the Idaho Labor Market Report said: "The opening of the new Schweitzer Basin ski area in December boosted employment in the trade and service areas to near summertime levels."

A local Certified Public Accountant, Ronald L. Hall, in a front page reply to the Reader's Digest article in The Sandpoint News-Bulletin, predicted that the success of Schweitzer Basin ultimately, "could be the making" of another ski resort on nearby Baldy Mountain.

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ALLEGATION -- That an access road to the Schweitzer Basin ski area at Sandpoint, Idaho, was built "despite Idaho health Department warnings that this could contaminate the municipal watershed." And that Sandpoint's water supply ultimately was condemned.

FACT -- Dr. T. O. Carver of the State Health Department states that not only has the water supply of Sandpoint not been condemned, but that at no time within the last two or three years has the State Health Department ever warned Sandpoint about its water supply, or comtemplated any sort of condemnation.

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ALLEGATION -- That an ARA loan to Technical Tape Corp. had resulted in the firm's moving a division of its operation from Beacon, N. Y., to Carbondale, Illinois, where the ARA had helped the community transform a city-owned warehouse into a factory building which Technical Tape took over. The allegation involved a gift-wrapping division of the firm and it quoted the Beacon Chamber of Commerce president as saying that the gift-wrap division was moved out because of the Carbondale development.

FACT -- Mr. Paul Cohen, president of Technical Tape, in a sworn statement to ARA, says Technical Tape never considered a gift-wrapping division for Beacon because there was not enough space available in the Beacon plant.

As to allegations that the "government induced an industry to expand in one depressed area at the expense of another" (namely, Beacon), Mr. Cohen says employment at his Beacon plant has increased steadily from 85 employees in 1961 to 358 employees presently. He says production in other facilities the firm has in New York and New Jersey are up 20 per cent over 1961 figures and employment has remained constant despite technological improvements. He says the

428 persons working at the Carbondale, Illinois, facility, which was assisted by ARA, "represent new additional jobs and payroll for the company and the community."

Mr. Cohen says he learned before publication that Reader's Digest intended to quote the Beacon Chamber of Commerce president as they did, and that the Reader's Digest was told that the statement was inaccurate before publication.

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ALLEGATION -- That ARA staged a stepped up campaign to pull other areas into the program in this election year, pointing specifically to the fact that seven major U. S. cities -- Philadelphia, Cleveland, Toledo, Buffalo, Newark, Miami and Oakland -- were made eligible for assistance under ARA.

FACT -- These seven cities became eligible to qualify for ARA assistance under a new formula for measuring unemployment within the city limits, and this had nothing to do with politics. The move was prompted primarily by the interest which the cities, themselves, had expressed in the program. These cities, suffering from high unemployment within city limits, had been unable to qualify because they were included in a larger labor market area whose unemployment was not serious enough to bring them under the ARA act. Thus, ARA was faced with the irony of denying its aid to large blocks of jobless persons in the big cities while making it available to smaller blocks of unemployed in the smaller cities and rural areas.

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ALLEGATION -- That "ARA has built a 72-room luxury motel" in Woodville, Texas, which is threatening the existence of a nearby 24-room motel owned and operated by a widow. Also, that "there is not much reason for Woodville except the old courthouse and some lumber mills."

FACT -- ARA did not build the motel. It loaned $420,000 of a $700,000 project to build it, but it was the community, itself, which came forward with the desire and the plan to build the motel. The motel, known as the Woodville Community Inn, was not built with an eye to competing with the widow's motel. Local leaders planned it as a means of helping to build up the town, itself. Some 100 Woodville residents bought stock in the motel, providing $130,000 of the total investment. Two local banks also participated in the financing.

The East Texas Tourism Association endorsed the facility because of its proximity to the McGee Bend Dam which is expected to generate tourism business in the area. The Inn is located at the juncture of three main highways in the commercial center of Tyler County (population 10,700). It is equipped to handle sizeable meetings and small conventions, and community leaders are of the opinion that as the economy of the area grows the Inn will actually prove beneficial to the 24-room motel which the article said was threatened.

The article also referred to a sign erected at the project during construction identifying a Texas congressman with the venture. The ARA, of course, had nothing to do with the sign.

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ALLEGATION -- That jobs constitute the reason for ARA's existence but that ARA provides brazenly inaccurate figures and refuses to make reports on current employment figures available to the public.

FACT -- The ARA does, of course, receive regular reports on employment from the projects it is interested in. But it does not make this available to the public on a regular basis because this is, in a sense, private information. Any reporter wishing to know how many people are employed by a certain business is free, however, to check with that business.

The ARA does publish regularly a record of approved projects and lists an estimated projection of employment expected after one year of activity. These are based on estimates provided by the applicants, who, as might be expected, sometimes miss the mark. There is no effort to mislead, however.

The ARA recently made a survey of 57 plants which had been in operation for at least a year to determine employment results and to see how the estimates of employment were holding up. This survey showed the 57 plants were expected to have employment of 8,543 after one year. Actual head count showed 9,376 employees. In 20 of the plants, employment was higher than anticipated; in 23, it was lower, and in five plants it was approximately as estimated and published in the ARA Directory of Approved Projects as of March 31, 1964.

Through March 1964, ARA has approved 459 loans and grants which will, when the projects are fully operational, help create an estimated 105,000 direct and indirect jobs.

*The article cited as one example the North Vernon Processing Co.'s burned out forging plant in North Vernon, Indiana, in an effort to prove faulty reporting on employment. It said the ARA claimed to have saved 60 jobs and created 40 new ones as a result of its post-fire help. The article claimed only 50 persons were working there -- 15 more than before the fire. An ARA field check showed 92 persons working at the North Vernon plant, right in line with the original estimate on employment.

*Another claim of faulty employment reporting was made concerning a co-op grain feed mill which an ARA loan helped get underway at Wetumka, Okla. It said the ARA, in lending $68,000, said the project was expected to create 20 jobs. The Reader's Digest reporter found only 6 men working andlittle prospect of any more jobs because the operation was highly automated. This is the most accurate report in the entire article. There will be six full-time and two part-time persons employed at the mill when it reaches peak operation in June 1964. The original job estimates were in error.

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ALLEGATION -- That 75 county agricultural agents in Texas quit in disgust over the past two years because they were being used to organize communities to prepare to apply for ARA assistance.

FACT -- A check with the U. S. Department of Agriculture and officials in charge of county agents at College Station, Texas, shows there was a turnover of 75 agents in the two-year period. But only one had resigned because of dissatisfaction with his assignment. The others either retired, went to other jobs in the USDA or to better paying jobs in private industry.

ALLEGATION -- That "less than $2 out of every $5 from ARA" goes into areas of highest unemployment.

FACT -- $165.5 million or 81.9 per cent of all ARA funds for approved financial assistance projects went into areas which are officially classified as areas of substantial and persistent labor surplus. That's $4 of every $5. These projects, incidentally, are creating an estimated 80,253 jobs.

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ALLEGATION -- That Gregg County, Texas, dissatisfied with being classified as a redevelopment area, had to struggle two years to get the classification removed.

FACT -- Gregg County originally was classified under detailed standards set forth in Public Law 87-27. After the Chambers of Commerce of the cities of Longview, Kilgore and Gladwater passed resolutions requesting de-designation, county officials wrote a letter on December 11, 1962, asking termination of the designation. ARA files show action to terminate the designation was taken on March 29, 1963, to be effective 10 days later. That's a spread of a little over three months -- not two years.

*The article also cited Gilpin County, Colo., as a horrible example of a county designated for ARA assistance as a low-income farm area. It noted that the county was high up in the mountains with few farms.

FACT -- Gilpin County became classified because of a statistical error. When it was discovered, the classification was removed.

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ALLEGATION -- That Rice County, Kansas, is an example of a prosperous area which has been declared "a depressed area" by ARA.

FACT -- Rice County came under the Department of Agriculture's Rural Areas Development program back in the administration of President Eisenhower. The Congress directed that these counties be brought in under ARA as a means of taking advantage of this kind of experience. The county obviously wanted to participate in the ARA program, for it filed an Overall Economic Development Program, as required by the act, and at least one ARA project has been approved there.

ALLEGATION -- That ARA is "dressing up" 5,000 acres of Eastern Oklahoma land with a "palatial" state-owned resort, without its "costing the state a penny."

FACT -- ARA loaned $9 million to a State agency, the Oklahoma Lake Redevelopment Agency, on this project. The $9 million is repayable with interest. This could hardly be described as not "costing the state a penny."

This is a $10.3 million project to create a state-owned recreation center at Lake Eufaula, a 143,000-acre lake being created by the U. S. Army Corps of Engineers; $1.3 million of it was financed by a public facility grant from the ARA.

It is designed to attract tourists to the area and help rebuild and diversify the economy which has been suffering from high unemployment and low incomes. Unemployment has been running from 8.4 per cent to as high as 18.7 per cent of the workforce.

The site is close to two important highways -- Interstate 40 and the Tulsa-to-Texas turnpike, and the tourist facility being created is expected to provide jobs for 1,500 workers -- 500 at the resort center and an additional 1,000 at private cabins, boat sales and service centers, sporting goods firms and other tourist services.

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ALLEGATION -- That ARA went far beyond the original plan for the "40 single-industry regions" which were intended to receive assistance, and "dragooned or enticed" a third of the nation's counties into "accepting the label of poverty to be showered with largess."

FACT -- A total of 581 areas or 55 per cent of all ARA areas meet the specific criteria specified by Congress in the Act to identify areas of substantial and persistent unemployment. The remaining areas which were designated for eligibility meet standards for underemployment which were established by ARA and which are based largely on low average incomes for those living in the area.

As for "dragooning and enticing" areas into the program, the ARA early this year notified 152 areas that they would be dropped unless they expressed a firm desire to participate within a one-month deadline. Only 15 of the 152 areas failed to respond.

ARA receives many requests every day from counties and areas wanting to know how they can qualify for assistance under the Act. ARA applies strict statistical standards to all these requests, and only those areas which truly qualify on the basis of unemployment or underemployment are designated.

One reason more areas qualify for the Act than were known about when the Act was first passed is that unemployment statistics were not made available for many very small labor markets prior to 1961. It was only after the Area Redevelopment Act was passed that the Labor Department began providing this information.

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ALLEGATION -- "The agency flouts the law under which it was created." The article cites four "examples" of ARA loans made to organizations able to make "reasonable" financial arrangements elsewhere.

FACT -- Three of the four examples cited involve loans made not to large corporations, but to local development companies created under State law and promoting industrial development with local resources. The three large companies in question (Melpar Corp., a subsidiary of Westinghouse Air Brake; Rawlings Manufacturing Co., a subsidiary of A. G. Spalding & Bros.; and American Optical Co.) were all tenants of these local development companies and had no direct financial dealings with ARA.

The loan allegedly made to "the Howard Johnson chain together with a local concern' was in fact a loan made exclusively to the new business concern, which had a franchise from the Howard Johnson chain and was thereby entitled to use the Howard Johnson name. ARA's investigation of the availability of other financing to the concern disclosed that two large insurance companies had already declined to make a loan to the project. To confirm the fact that other financing was not available, ARA sought participation unsuccessfully from three other insurance companies. However, a local bank and the Government Development Bank of Puerto Rico both participated significantly in the project.

*The article further charges that ARA by its policies has failed to keep faith with the statutory requirements pertaining to community participation in projects. The reference is apparently to ARA's policy of not restricting an industrial applicant from participating in community fund raising efforts provided that the community group does not simply use such a source of funds as a substitute for other reasonable potentials for raising funds on a broader base.

Other State and federal programs have by tradition recognized the right of local development corporations to finance participating requirements by acquiring needed funds from industrial concerns benefitting from a project. The Area Redevelopment Act does not by its terms limit the source of the community funds. However, in keeping with the objective of developing a sense of local responsibility and a capacity for local initiative, ARA has required that communities make first resort to obtaining funds from diversified and independent sources.

*The third allegation in this connection is that ARA assisted the Technical Tape Corp. to close down its plants in New Rochelle and Beacon, N. Y., and to relocate its operations at Carbondale, Ill.

The plant referred to in the article was leased from the City of New Rochelle. The City subsequently objected to the normal noise resulting from Technical Tape's machine operations. As a result of frequent police summonses for creating a nuisance, the plant ceased manufacturing in May 1961 and was converted to a warehouse and research facility. Manufacturing operations were transferred to the Beacon plant. When Technical Tape's lease expired in 1963, the City refused to renew. However, it is presently considering an offer from the company to reopen the plant as a research laboratory. Thus, the Technical Tape "factory" was closed down at the instance of the City two years prior to the date alleged in the article, and negotiations are now going on for a renewal of the lease from the City.

The implication that Technical Tape ever had a gift-wrap division in Beacon, New York, or intended to move one there, is incorrect. It is answered elsewhere in this paper.

-0-

ALLEGATION -- That ARA "bludgeoned" votes by letting a "political friend" make a project announcement involving an $844,000 ARA loan to help modernize an abandoned pulp and paper mill in New York Republican Representative Clarence E. Kilburn's district, the political friend being Kilburn's Democratic opponent.

FACT-- Notification of approval of the project in Congressman Kilburn's district was advanced from the scheduled release date because the Mayor of Norfolk informed ARA that unless ARA gave its decision immediately, the project would fall. When this became known, a wire was dispatched to the president of the local development corporation, informing him of ARA's decision to approve the project. No authorization was given for public release. Unfortunately, word was leaked to the press prematurely through no fault of ARA.

-O-

ALLEGATION -- ARA advanced money to re-open one, and expand a second coal mine in Carbon County, Utah, "where demand for increased coal output is just not present."

FACT -- Both applicants for ARA assistance submitted to ARA letters from dealers, distributors and private users requesting additional sources of coal to meet their expanding demand.

Many of the mines in the area are "captive" and their entire output is consumed by their owners and is not for public sale. ARA verified the claims of the applicants with experts, including the U. S. Bureau of Mines. The financial soundness of these two loans also was ascertained. The coal mined in Carbon County is among the highest in quality in the United States.

-O-

ALLEGATION -- That ARA helped the Salem, Indiana, Redevelopment Corporation provide a plant and other facilities for the "foreign-controlled" Bata Shoe Co., and that firm was pouring 40,000 pairs of shoes a week on the abundantly supplied shoe industry.

FACT -- Bata Shoe Co., Inc., is an American corporation chartered by the State of Maryland. It does have plants in many sections of the world, but it employs some 3,000 workers in factories located in the United States.

The Salem plant manufactures canvas and vulcanized footwear only, and this segment of the shoe industry has been growing at the rate of some 10 per cent a year with 60 per cent of the total U. S. market now being supplied by imports.

Bata Shoe is expected to export a significant part of its production, thus affecting the nation's balance of payments problem.

Bata Shoe currently is employing about 250 workers and expects the payroll to grow to around 500 when the plant reaches full production.

The article also charged that Bata Shoe could pull out of Salem anytime it wanted. The firm has signed a 20 year lease on the facility.

-O-

ALLEGATION -- That the president of the Bata Shoe Co., Augustin Dolezal, told reporters that his firm had decided to locate a plant in Salem, Indiana, long before it heard of ARA. It quoted Mr. Dolezal: "We would have built in Salem anyway."

FACT -- In a letter to ARA dated May 4, 1964, Mr. Dolezal says: "I want to assure you that I have never spoken to any correspondent and told him we would establish a plant in Salem without ARA help. Contrary, it was the first condition that we stipulated ... that they must procure the assistance of ARA...

"I am sure that this is a great contribution to the community and they are thankful to the ARA who made this project in their community possible."

-O-

ALLEGATION -- That ARA is financing new enterprises in industries already beset by overcapacity, thus jeopardizing existing jobs.

FACT -- Since its inception, ARA has continuously considered the potential impact of its loans. Procedures have been developed to make sure that ARA funds will be used to create job opportunities in our expanding economy.

Industrial experts in the Department of Commerce supply ARA with information on the national capacity of a particular industry, the extent to which the industry is utilizing such capacity, the relative efficiency of existing capacity and, in appropriate cases, the impact of imports on the market.

Industrial market trends are analyzed for ARA by the Small Business Administration and by private marketing experts. The Department of Agriculture provides information on all agricultural and forest products proposals. The Department of the Interior reports on mineral-based industries. Other agencies and experts are used in special cases.

ARA has made public its concern for existing businesses and for the workers who depend upon these enterprises for jobs. A series of policy guidelines published and circulated nationally contain clear-cut criteria for use by ARA in the various circumstances involved in project consideration.

Policy Guideline 13, for example, states that projects may be declined if "there is an oversupply of the particular product, either locally, regionally or nationally."

Policy Guideline 26 provides that "ARA will not finance new capacities in industries experiencing a long-run gap between production and capacity except "under these circumstances: The excess capacity must be obsolete or outmoded, or the new capacity must compete with imports, or there must be an identifiable regional insufficiency of productive capacity, or such excess capacity must be only temporary because of a strong, growing demand for the product, or the new capacity must be capable of developing new markets for the industry.

These guidelines are constantly utilized by ARA, interested State and local agencies and prospective borrowers.

-O-

ALLEGATION -- That ARA helped finance a 432-room luxury hotel in Detroit, Michigan, even though existing hotels suffered from the lowest occupancy rates of any city in the United States.

FACT -- The Downtown Investment Corporation, in cooperation with civic and business leaders, developed the proposal to construct a $9.1 million hotel (the Pontchartrain Hotel), directly across from Cobo Hall which is the focal point of a $70 million convention center recently constructed by the city in an effort to diversify its economy through convention and exposition business.

Civic leaders reported that Detroit was losing conventions and failing to utilize Cobo Hall and its facilities to the fullest because of the lack of a modern, high quality motel convenient to the convention center. No new hotels had been built in the city for more than 35 years. Marketing experts analyzed the quality and quantity of hotel accommodations and reported to ARA that the Pontchartrain project was economically viable and merited approval

A combination of private lenders and investors, including the Detroit Metropolitan Industrial Development Corporation, raised $7.2 million (approximately 80 per cent) for the project. The ARA loaned the remaining 20 per cent at 4 per cent interest.

Administratively Confidential

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 5, 1964

MEMORANDUM FOR THE PRESIDENT

Subject: Background Series on International Monetary Problems

Purpose of this Series

1. Between now and September -- when the International Monetary Fund (IMF) and World Bank meet in Tokyo -- you'll be hearing a lot about "international liquidity," and "the international monetary system."

2. This summer both the IMF and the Finance Ministers of the Group of Ten* will publish reports of their studies on what, if anything, should be done to improve the international monetary system, and how to solve the "problem" of international liquidity.

3. To provide some background for the talk and reports that will come your way, we thought it might be useful to do 3 background memos for your use:

   I. How the present system works

   II. The problem of international liquidity

   III. Solutions to the problem and remaining outstanding issues among "the Ten."

   The first one is attached.

s/ Walter W. Heller

* U.S., U.K., Canada, Japan, Belgium, France, Germany, Italy, Netherlands, and Sweden.

Administratively Confidential

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 5, 1964

MEMORANDUM FOR THE PRESIDENT

## I. How the Present International Monetary System Works

### A. General.

1. Although each country has its own domestic currency, only a few key currencies are used in international transactions -- mainly the dollar, but also the pound sterling, and the French franc. For example, when an Italian imports a machine tool from Germany:

. He buys dollars from his central bank, paying Italian lire for the dollars.

. These dollars are transferred to the German exporter, who in turn sells them to the central bank in Frankfurt in exchange for Deutsche marks.

The central banks of most countries stand ready freely to buy and sell dollars in exchange for their own currencies at fixed exchange rates. Thus:

. When a foreign country has a surplus in its balance of payments, its central bank finds itself gaining dollars.

. With a deficit, it loses dollars.

The United States stands ready to buy and sell gold (in transactions with foreign central banks or Treasuries) at a fixed price ($35 per ounce) in exchange for dollars. Thus:

. Most currencies are tied to the dollar, and

. The dollar is tied to gold.

### B. Reserves and Credit.

1. Since deficits can't always be anticipated and avoided, all advanced countries carry their own reserves which can tide them over -- finance their deficit -- while the conditions that caused the deficit are being corrected.

2. International credit is a partial substitute or supplement to reserves. Sources of credit are:

   -- international organizations, especially the IMF

   -- foreign governments or private lenders.

C. The Forms of Reserves

1. U.S. reserves are held mainly in gold.

2. Other countries hold gold and dollars in their reserves -- in proportions that differ from country to country. Thus the dollar occupies a special position as a reserve currency -- a position which gives the United States both benefits and headaches.

3. Although the dollar is often held as a reserve, it is not universally "as good as gold."

   . Some countries traditionally hold the bulk of their official reserves in gold and carry only "working balances" of dollars. They ask us to give them gold in exchange for any excess dollar build-up they get from their balance-of-payments surpluses. Examples are Switzerland, UK, and the Netherlands.

   . Others hold most of their official reserves in dollars and let surpluses or deficits show up in changes in their dollar holdings. Examples are Germany, Canada, and Japan.

   . From time to time, countries change their practices regarding dollar holdings, depending on their confidence that:

     -- the U.S. won't change the dollar price of gold,

     -- the U.S. will continue to let them use their dollars as they wish.

   . This confidence is obviously affected by the size and duration of U.S. balance of payments deficits, and by the health and strength of our domestic economy.

D. Total World Reserves.

1. When the U.S. runs a deficit -- which means the rest of the world collectively has a surplus -- foreigners are acquiring dollars. If these dollars are all turned in for our gold, U.S. reserves go down by just the amount that other countries' reserves go up.

2. But -- to the extent these countries simply hold on to extra dollars -- their reserves still go up . . . but ours don't decline.

3. Thus, under our present "reserve currency system," additional world reserves have been and are created when two conditions are met:

- the U.S. (the main "reserve currency country") runs a deficit, and, at the same time,

- other countries are willing to accumulate more dollars in their reserves.

4. The gold component of the Free World's total reserves grows when governments buy gold -- not from each other but from mining companies, the Soviet Union, or hoarders and speculators. Growth of official world gold reserves roughly equals

-- newly mined gold plus Soviet sales,

-- minus industrial uses and net gold hoarding.

E. Total reserve expansion.

1. The rest of the world has -- in total -- increased its official gold and foreign exchange reserves over the past 10 years (since Korea) by about $21 billion, through acquiring:

- $7-1/2 billion of gold from the U.S.;

- $5 billion of other gold;

- $7-1/2 billion of added dollar holdings;

- $1 billion of holdings of sterling and francs (which serve -- like the dollar -- as "reserve currencies" for certain other countries).

2. Thus total official reserves of all Free World countries, have risen by $14.5 billion, or about 30%.

F. Role of the IMF.

1. The IMF tries to assure stability of exchange rates.

2. It approves changes in rates only when countries are in "fundamental disequilibrium."

3. It works to maintain and extend freedom of international transactions.

4. It provides unbiased outside advice to countries on how to run their financial affairs.

5. It lends to countries who have deficits that they can't or don't want to handle by reducing their reserves.

s/ Walter W. Heller

July 22, 1964

MEMORANDUM FOR THE PRESIDENT

Subject: Background Series on International Monetary Problems -- Part II: The Liquidity Problem

Almost everyone thinks our international monetary system has a "liquidity problem" -- that there's either too little, or too much, or the wrong places have it. Three main strands of criticism are presented below:

A. that we don't have any systematic way of creating the right amount of liquidity;

B. that our liquidity system is inherently unstable; and

C. that the U.S. has abused its place in the system by creating too much liquidity.

This memo explains and evaluates these criticisms.

A. The first criticism is that the world lacks a systematic method of creating the right amount of new monetary reserves. This criticism is essentially correct.

1. Additions to the supply of international reserves now come mainly from

-- the gold mined in South Africa (of all places) supplemented by what the Soviet needs to or decides to sell; plus

-- the increases in other countries' dollar balances resulting from deficits in the U.S. balance-of-payments.

2. The need for added reserves depends on the size and duration of deficits and surpluses -- and these are likely to get bigger as trade grows and as capital is permitted to move more freely among countries.

3. There is no good way in which the supply and the needs come into balance.

4. South African gold production has been fairly steady, but the explosive racial situation there could easily interrupt supplies to the free world.

5. The dollar component of new reserves clearly does not adjust to the need -- our payments deficit, after all, does not respond to the world's needs for liquidity but to our success in boosting exports, attracting and holding capital funds, and so forth. When the U.S. stops running deficits, it will stop generating new international monetary reserves whether they are needed or not.

B. The second criticism is that the present system has a built-in tendency toward instability. This criticism has some merit.

1. If dollar balances in foreign hands are to grow at a rate that matches the world's need for larger reserves (to support growing international trade, travel, and finance), the U.S. will have to run a deficit, and possibly lose gold as well. This means U.S. liabilities would rise while our reserves would be steady or falling.

2. Sooner or later, foreigners' confidence in our ability to redeem dollar liabilities in gold would weaken.

3. This either:

-- would lead to a run on gold until the U.S. has to devalue or restrict the useability of dollars; or

-- would force the U.S. to take actions that will slow down its own economy and perhaps start a world-wide recession.

/Something of this sort -- though not this extreme -- happened between 1957-58 and 1963. Since mid-1963, of course, the dollar has become notably stronger./

4. To be sure, the Treasury and Fed have built an impressive array of defenses against a "run" in recent years:

-- "swap" agreements with foreign central banks

-- forward exchange operations

-- "Roosa bonds"

-- the London gold pool

-- close consultation and cooperation with foreign monetary authorities.

5. These defenses have performed well -- during the Cuban crisis, the 1962 stock market crash, on November 22 -- but the risks of instability are by no means wholly eliminated.

C. The third criticism (by Europeans) is that the U.S. has created too much liquidity and forced them to hold it. This criticism is largely wrong (but fairly plausible and widely believed).

1. The dollar is a "reserve currency" -- which other countries have found it was useful to hold in their reserves -- and many Europeans say

- we have abused this status by living beyond our means;
- we have spent abroad on private foreign investment, defense, and aid more than we earn from our export surplus;
- we have financed this "profligacy" by "forcing" our dollars on them.

2. In theory, they can always cash for gold any dollars they don't need. But there are now so many dollars outstanding relative to our gold stock that if they purchase very much of our gold they could start a run which would lead both us and them down the road to ruin.

3. In practice, therefore, they say we have them over a barrel

   -- making them take our dollars and

   -- thereby causing them to have inflation.

4. The U.S. so the criticism runs, is thus like a bank -- and the only bank in town -- whose big depositors

   -- don't like its policies,

   -- know that if they try to withdraw their deposits, they will start a run that will destroy everyone, and

   -- therefore let the bank go on with its unsound ways.

5. But we don't need to apologize too much for our deficits. In large part, they have resulted (especially in the 1950's) from our defense and foreign aid in behalf of the whole Free World, (especially in the 1960's) or from borrowing here by Europeans, Canadians, and Japanese who find our capital markets freer and cheaper than their own.

6. Moreover, our past deficits have been essential to let Europe restore its depleted post-war reserves. Without our gold and dollars, the world could not have had

   -- the tremendous growth of trade and payments, side by side with

   -- a wholesale dismantling of restrictions, including the restoring of currency convertibility in 1958.

7. We're most vulnerable when Europeans point out that we're "forcing" dollars on them while our businessmen are buying up their most profitable businesses -- their central banks end up with U.S. Treasury bills paying 3-1/2%, while American firms acquire European facilities earning a much higher return (a process the French are trying to restrict).

8. The argument that our deficits are causing Europe's inflation is very largely incorrect -- our deficits may let them inflate, but we certainly aren't forcing them to.

9. In any case, we are reducing and hope soon to eliminate our deficit. We predict that they won't like that any better.

Note: The third and last memorandum in this series will discuss some of the solutions proposed to the "liquidity problem" and describe the outcome of the 1963-64 "Group of Ten" negotiations.

Walter W. Heller

File
Speech material

RECEIVED JUL 29 1964

MEMORANDUM

July 23, 1964

To: Democratic Senators

From: Ronald F. Stinnett, Research Director
Democratic Senatorial Campaign Committee

Re: Progress report by the President on the government economy.

Enclosed is a copy of the statement made by President Johnson on government economy -- July 18, 1964.

This statement and outline of facts and figures should be very helpful in your speech preparation, for your newsletters, and the like.

The statement includes statistics on expenditures, receipts, the defecit, federal civilian employment, the dollar outflow, productivitiy gains in government agencies, decisions to close or reduce field installations, foreign aid program, cost reduction.

The economy in government issue should be a strong one for us this fall.

July -- 1964

MEMORANDUM

To: Senatorial Administrative Assistants

From: Ronald F. Stinnett, Research Director
Democratic Senatorial Campaign Committee

The Agency for International Development has just released a new color film about the foreign aid program, entitled "Quiet Battle." You may have received notice concerning this, but I wanted to bring this to your attention in case you missed hearing about it.

The film takes 28½ minutes and is a 16 millimeter motion picture filmed on location in Greece, Taiwan, and Pakistan.

The film is a report on the current thinking behind our foreign aid program. According to the U. S. Department of State news release, the film tells of economic breakthroughs by two countries with the help of American aid and the continuing efforts of a third nation to win its battle against economic stagnation.

The scenes filmed in Greece and Taiwan record the transformation during the last 15 years of these two countries -- from ruin, despair to economically sound nations with high prospects for the future.

The film is available free of charge (except for return postage) on a loan basis to organizations, schools, clubs, churches, discussion groups, and similar audiences. To borrow the print, please call:

Films Officer
Office of Media Services
Bureau of Public Affairs
Department of State
Washington, D.C.

FOR IMMEDIATE RELEASE JULY 18, 1964

Office of the White House Press Secretary

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THE WHITE HOUSE

STATEMENT BY THE PRESIDENT
GOVERNMENT ECONOMY:
PROGRESS REPORT

I now have the closing figures on budget expenditures, receipts, and Federal civilian employment for the fiscal year 1964 which ended last June 30.

On every count, the news is very good indeed.

Expenditures amounted to $97.7 billion

-- Down more than $1 billion from the original 1964 budget estimate

-- Down $700 million from our revised estimate in last January's budget

-- Down $600 million from the re-estimate we made only two months ago

Receipts totalled $89.4 billion

-- Up $2.5 billion from the original 1964 budget estimate

-- Up $1 billion from the revised estimate in last January's budget

-- Almost the same as the $89.5 billion re-estimate we made two months ago.

The Deficit was $8.3 billion

-- Down $3.6 billion from the original 1964 budget estimate.

-- Down $1.7 billion from the figure carried in the budget last January

-- Down $0.5 billion since our May re-estimate.

The details on receipts and expenditures will be available next week when the Treasury Department completes its work and issues the June Treasury Statement.

Federal civilian employment in the executive branch on June 30 totalled 2,468,700 regular employees

-- Down 101,800 from the original 1964 budget estimate

-- Down 43,700 from the revision carried in the budget last January

-- Down 28,500 from our latest employment ceiling

-- Down 21,600 from the actual number on the rolls one year ago

-- Down 15,900 from the actual number on the rolls two years ago.

The dollar outflow abroad resulting from Federal programs was reduced in fiscal year 1964 as a result of vigorous actions taken within the executive branch. Estimated 1964 overseas payments by the Federal Government dropped $380 million and regular receipts rose by $116 million compared with the previous year.

MORE

(OVER)

This means that the net dollar outflow from Federal programs decreased in fiscal year 1964 by $500 million -- about 18 per cent.

This is a net improvement of more than $300 million since I sent the budget to Congress last January.

<u>Productivity gains in Government agencies</u> helped to reduce Government employment last year.

-- The Treasury's Division of Disbursement improved employee output by more than 14 per cent over 1963, due to electronic data processing improvements, consolidation of field offices, and streamlined procedures. This is equivalent to the work of nearly 200 employees.

-- The Veterans Administration's insurance program increased the productivity of its manpower by 24 per cent pver the preceding year, through reorganizations and the use of automatic data processing. This is the equivalent of the work of about 600 employees.

-- The Federal Aviation Agency's Systems Maintenance Service achieved a 6 per cent increase over 1963 in the amount of maintenance of air navigation and air traffic control facilities per man-hour. This gain represents a saving of about 600 man-years.

<u>Decisions to close or reduce field installations</u> were taken by many departments and agencies during the year just ended. These are some examples:

-- In addition to previous actions to terminate unnecessary operations, the Department of Defense in fiscal year 1964 initiated 126 new measures to consolidate, reduce, or close installations or activities. These steps will realize annual savings of $252 million. When added to previous actions, the total annual operating savings will be $568 million. Future actions by the Department are expected to raise the annual savings to about $700 million.

--The Tennessee Valley Authority closed 52 installations.

--The Department of the Interior closed 6 installations.

--The Treasury Department closed 35 of its installations.

--The Post Office Department closed 469 post offices and 9 regional data processing installations.

--The Department of Commerce closed 20 local operations.

--The Federal Aviation Agency closed 3 manned facilities and eliminated 15 intermediate airfields together with a large number of obsolete or unnecessary air traffic control, navigation, and terminal aids.

--The Department of State closed 13 consulates.

We will continue the drive to close down or curtail any installation which is not necessary to perform essential functions.

A drive to lessen the burden placed on private business by Government requests for reports has been under way for the past several months. This has resulted in eliminating or simplifying 415 repetitive reports. The annual number of responses will be reduced by 2,851,000. 195 forms involving 1,933,000 responses were eliminated entirely. 95 new reports were started in this period, so that the net result of this drive has been either to discontinue or to simplify 320 reports representing a net reduction in annual responses of 2,536,000.

Small savings are not being neglected. A review of Government publications has produced savings of $1,795,000. 240 existing publications were eliminated. 130 proposed publications were cancelled. 50 were consolidated. I expect that these results will be greatly increased after the Department of Defense completes its review.

In our foreign aid program, substantial economies have been achieved in fiscal year 1964.

--By insisting on rigorous self-help standards by recipient countries, and withholding aid when the standards are not met. Savings in two cases alone total $30 million.

--By diligent efforts to maximize the participation of other free-world lenders. In one such case, other donors contributed $21 million more than originally planned.

--By strong efforts to use local currencies instead of dollars. Two such examples alone produced savings of $16.5 million.

--By improving AID procurement practices, including use of excess U.S. Government property instead of buying new equipment, savings totalled $32 million.

Cost reduction has been a priority concern of every department and agency, as it will continue to be. A full report of cost reduction activities will be issued in a few weeks. I will cite a few major results achieved in fiscal year 1964:

--Secretary McNamara's cost reduction program in the Department of Defense actually realized savings of $2.5 billion, compared with the initial forecast of $1.5 billion. This was accomplished at the same time that our military strength and combat readiness were being vastly improved.

--In the National Aeronautics and Space Administration, a cost reduction goal of $81.7 million was established for fiscal year 1964. Results far surpassed these expectations, and savings are conservatively estimated in NASA at $128 million.

--In the Post Office Department, employment in June 1964 was 3164 less than in June, 1962, while mail volume was 3.7 billion pieces more than in 1962. If output per postal worker today were the same as in 1961, the cost of operating the Post Office would be $140 million more than it is.

In concluding, I want to say that few, if any, of these accomplishments were easy to come by.

They took hard work, and in many cases courage. Saving money is always hard; spending it is always easy.

MORE

(OVER)

I want the Government officials and employees who made these savings possible to know that I think they did a good job. They deserve the thanks of the American people.

We are tightening our belts in Government. We are making every dollar stretch as far as it will go. We arenot brushing aside any saving, no matter how insignificant it might seem.

Cost-conscious government is the kind of government I believe in.

It is the kind of government that this administration intends to continue.

\# # #

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

File Economy

August 5, 1964

MEMORANDUM FOR THE PRESIDENT

Subject: Background Series on International Monetary Problems -- Part III: Solutions and Remaining Issues

A. Reform Proposals

There are almost as many international monetary proposals as there are international monetary experts. Most of the proposals are aimed at one or more of the problems outlined in the previous memorandum:

-- alleged excess liquidity creation by the United States,

-- the unsystematic process of creating liquidity,

-- the potential for instability in the present gold-dollar system.

B. Issues in Group of Ten

The Group of Ten -- meeting over the past 9 months under the chairmanship of Undersecretary Roosa -- is now giving birth to a report on international liquidity.

1. In the course of these negotiations, the French and some of the other Continental countries have worked:

   -- to establish a system of collective discipline (now called "multilateral surveillance"), under which countries would watch over each others' practices in financing payments deficits -- a system applicable to all members of the Ten, but aimed mainly at the United States;

   -- to dethrone the dollar as a reserve currency, in order to eliminate the special privileges which they believe we get from reserve currency status; and in its place

   -- to establish a new form of international reserve (a Collective Reserve Unit -- "CRU") closely linked to gold.

2. The United States has argued mainly for a large increase in IMF quotas, and for other changes in IMF rules:

   -- to provide liquidity in the years ahead when the U.S. expects to be in payments balance and will therefore not be adding dollars to international reserves, and

   -- to share with the rest of the world the responsibility for, and the benefits of, providing new international liquidity.

3. The Europeans -- especially the French, Dutch, and Belgians -- have opposed the enlargement of the IMF, because:

   - The IMF operates on the basis of the existing gold-dollar system.

   - They think the IMF is dominated by the U.S. and its underdeveloped-country allies.

   - They feel the IMF is too soft in its loans to and treatment of underdeveloped countries.

4. The United States is wary of the European proposals for "multilateral surveillance" and for the "CRU" because:

   They threaten to impose a liquidity straightjacket on the world and thereby hobble economic growth.

   They ignore the needs of the less developed world.

C. Area of Agreement

Nine months of pulling and hauling have now produced:

1. Agreement to support a modest increase in IMF quotas, smaller than we would like but larger than the Europeans wanted.

2. A form of "multilateral surveillance" which will probably be interpreted differently on the two sides of the Atlantic:

   - The Europeans will hail it as agreement to control the generating of dollar reserves.

   - We will regard it as a further sensible development in international consultation.

3. An agreement to study further new forms of reserve assets -- both the proposal for a CRU and an expanded and altered IMF. A Study Group has been established for the purpose -- to report sometime in the spring of 1965.

D. Remaining Issues

These agreements leave the problems of international liquidity -- and their solutions -- still unsettled:

1. We did get something useful in that a somewhat larger IMF -- and U.S. willingness to use it if necessary -- lessens the dangers of instability.

2. This modest enlargement of the IMF improves the chances of ultimately strengthening its role in the international monetary system. In time it may be possible to transfer to the IMF the international reserve-creating functions now carried by the United States, without in any way harming U.S. political and economic interests.

3. The CRU as proposed by the French is a restrictive scheme, motivated by anti-American sentiments. But, stripped of these features, the CRU might possibly be turned into a constructive reform:

    -- a way of adapting the gold-dollar system to the needs of the 1960s; and

    -- an acceptable alternative to a strengthened IMF.

Walter W. Heller

From the desk of MAX M. KAMPELMAN

1700 K Street, N. W.
Washington 6, D. C.

296-3300



8/18/64

John,

This might be helpful for some speech material and some work you are doing on automation and unemployment. Bill Shore used to work for the Senator back in the days when I was there.

MMK

URBAN STUDIES CENTER
RUTGERS - THE STATE UNIVERSITY
137 CHURCH STREET
NEW BRUNSWICK, NEW JERSEY

# UNEMPLOYMENT: BENEFIT NOT BURDEN

by

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Unemployment is one of the great opportunities of America.

The unemployed are a resource no longer needed in one part of our economy and now available for other service. They can lift our civilization to new levels of style and satisfaction.

While one agency of government laments the high and continuing unemployment, another is beseiged by citizens asking for services the unemployed could provide. Between the willing workers and the needed services, we need a broker.

Apartment dwellers protest the switch from manned to automatic elevators. They w ant the safety of an operator. At the same time, elevator operators displaced by automation and incapable of learning more skilled tasks wait around employment offices for work. The apartment owner argues that rent control or other economic forces impel him to cut costs by unmanning his elevators. But to our economy as a whole, it might even be cheaper to keep the operators, giving the tenants the protection they want as well.

In automating his elevators, the apartment owner is buying a product of skilled technicians and engineers.

The highly skilled and educated workers who make automatic elevators represent resources in relatively short supply; we can think of hundreds of goods and services we would want these people to provide if they weren't making automatic elevators. When we tap these relatively scarce resources to replace the unskilled workers who have no other jobs to do, we appear to be wasting resources, not economizing.

Right now, then, it may be cheaper for society as a whole to have elevator operators in apartments than to have automatic elevators. But someone must translate total-economy bookkeeping into figures that give the apartment owner a profit. It is still cheaper for him to automate.

Of course, automatic elevators are only a small example of how skilled resources in short supply are replacing unskilled workers looking for jobs. In other parts of the economy, the case for investigating the total cost of automation to the national economy may be even stronger.

Gradually, however, we should be able to work out jobs for the unskilled that are even more valuable than those that automation could replace. Many economists use words like "hard core" to describe today's unemployed, implying that there is no work for people who cannot learn new and complicated tasks. That is nonsense. There are plenty of services we want that the unskilled unemplyed can provide. If we begin to think of them as people eager to work -- preferring work to the dole in most cases -- we can find hundreds of ways for them to make the city more livable. Even the middle-aged, automated from their jobs, and youthful high school drop-outs can contribute.

Recall as spring comes on the joys of the double-decker buses on Fifth Avenue. We can't afford them because we can't afford bus conductors. Instead, a harassed driver delays traffic by trying to do two jobs at once. If the Transit Authority advertised for bus conductors, hundreds of men would wait at the employment office hours before it opens.

When city children get to romping age, parents who can, move to the suburbs where the children can romp outdoors on their own. The city mother has to spend her day in the park supervising. Couldn't some kindly men who are out of work supervise play, keep the big kids from spoiling the games of smaller children, keep the baseballs from bouncing into the sand boxes?

New York is one of the few cities in which people can almost ignore the clock in looking for things to do. We can stay awake all night enjoying as varied a choice of goods and services as smaller cities provide all day. But this freedom is threatened by midnight crime on the streets and in the subways. Why not more police? Why not an attendant on every pair of subway cars late at night -- someone to prevent crimes and help if a person gets sick or a stranger becomes lost?

All around the city, the personal is being replaced by the impersonal, just when we have an excess of personal services available. Hospitals talk about automating routine nursing jobs -- while patients languish without the human touch. Hotels are gradually dispensing with bellhop services. Railroad stations provide luggage carts but few red caps. Home owners find it hard to get handyman help. But there appear to be people around who would gladly do these jobs.

The city is dirty while we have manpower to keep it clean. City residents need new housing, suburban residents need more frequent bus and train service -- while workers who would provide them get unemployed insurance.

Who can be the broker to bring together our city's service needs with these willing suppliers of service? Only the federal government. This is one of the projects the President's "poverty program" should do. But it will take a different vision of the unskilled-unemployed part of the poverty problem to do it. That part must be a prosperity program aimed a t raising the standards of life for everyone by adding the contribution of the unemployed to the efforts of the rest of America. It should not treat the unemployed as a burden requiring assistance.

This approach should appeal to political conservatives who resist paying welfare to those who do not work. It should also appeal to conservatives because it offers a chance to put back into our mechanized society a little of the more personal style of a bygone day. At the same time, the liberal who worries about the psychological state of the unemployed must surely approve of finding productive and appreciated services the unskilled can perform at standard rates of pay -- a welcome for them back to the nation's economy.

A century ago, workers sabotaged the automation of their day. More recently, trade unions have resisted automation by requiring that employees continue to do work that has become unnecessary. It is far more rational to provide the money for jobs which do mean something.

Many federal-city channels already are open to raise the standards of urban life through the work of those now avidly seeking jobs. Only additional appropriations are needed. Other federal-city channels could easily be stretched to include new programs of this kind. For example, a "demonstration project" grant under present mass transit legislation might add personnel on subways and buses and increase the number of bus, train and subway runs. Public housing already is aided by the federal government; middle-income housing could be added. Federal aid is available for parks and could be extended to cover recreation supervision within the parks. Welfare payments are contributed by the federal government. An increase to the level of reasonable wages would make available unemployed workers to keep streets cleaner or hospitals more human.

Because we would be using resources that are now wasted, the economic cost would be close to zero. The resources represented by the work of the unemployed are not taken from any productive part of the economy. The only transfer from resources in demand for other goods and services would be the time and talent of the administrators and political overseers of the program and, in some projects, materials. But little now being produced or performed would be taken away. Putting the unemployed to work almost surely would add to total goods and services. These federal payments -- the difference between the unemployment and welfare payments the unemployed now receive and a working wage -- would come back in extra tax revenue to all levels of government as well as giving the economy a general fillip toward higher levels of prosperity. We simply put idle resources to work. In production, it is resources that count.

That is why the federal government is the only possible large-scale investor in the services of the unskilled unemployed; because only the federal government has the fiscal power to enlarge the money supply to equal the resources available for purchase. If the city and state government tried to purchase the services of the unemployed, they would have to extract the money through taxes or cut expenditures on other programs at a time when city and state taxes are high and programs for which these governments are responsible seem squeezed on the whole.

This kind of federal spending contrasts with additional appropriations for, say, the moon shot or cancer research or university teaching, for which taxpayers would pay the full cost out of their present income. People who work at these skilled tasks are in very short supply. When the federal government adds appropriations for these programs, talented persons transfer from presumably useful activities to these, usually with a raise in salary as they move. This can cause inflation if the federal government increases its spending over-all to expand such programs. But when we use extra federal funds to employ the unskilled, we subtract little from production of goods and services now being produced. Neither do we spend much money chasing resources already in use. Therefore, there is little danger of inflation from extra spending.

Conceivably, in fact, the cost of employing the unemployed would be less than zero. By welcoming back to the economy people who are outlawed, the tremendous cost of coping with anti-social behavior and ill-health -- physical and mental -- that can come from prolonged unemployment may be cut. The unemployed are kept alive by welfare payments, but not at a satisfactory level, nor have they the self-respect that comes from playing a constructive role in society.

We can sense how resources turn sour by looking at parks. A wonderful asset to the city, they are unusable at night because we are afraid to enter. In large measure, the people we fear are the unemployed, driven to attack society by their economic abandonment. We could change this negative force to positive by hiring more park police from among the unemployed. At least symbolically, the same persons we now fear could be our protectors. Whether psychologically the same person could police who, if unemployed, would commit a crime is not the point. What is important is that many now unemployed almost surely could increase the satisfactions of all of us instead of adding to our discomfort. If this is so, the cost of their employment would be less than zero.

Though there are established channels through which wages could be paid for better city services, it will be a little trickier to subsidize unskilled labor in the private economy. How do we make it economically feasible for the apartment owner to keep elevator operators? How can the handyman be introduced to the suburban scene? Federal aid to small businesses that use unskilled labor might be possible. The handyman business should support itself, but the risk of getting it organized might be cushioned by a guaranteed loan. For businessmen who could either choose unskilled employees or automatic equipment, the government could make up the difference in cost as long as the pool of unskilled unemployed remains. While it might be difficult to figure the right subsidy, it should not take much experience to determine whether it can be done fairly to both the businessman and the public.

There are three dangers of misdirection in this program, but all seem avoidable.

First, users of the services probably should pay part of the cost to insure against "made" work, service that is really of little interest to them. If, for example, apartment dwellers would not pay any more rent for an elevator operator than for an automatic elevator, it probably is not worth the public investment either to keep the operator.

Second, employing the unemployed in unskilled jobs might divert them from learning higher skills and raising their status above the menial. Because many of the unskilled are Negroes, it is particularly important to keep pressing for more training and education. If we do not, it is all too easy to see them in the age-old stereotype: perpetual servants and laborers. But as long as the opportunity for training and education for better jobs is not only available but is pressed upon the unemployed, there is no justification for preventing those who will not or cannot improve their skills from performing the needed services that they can.

The other danger is that we might concentrate so hard on finding jobs that we overlook the alternative we might choose instead -- more leisure. Thinking about it carefully, we might decide to cut working hours rather than to increase goods and services. But we do not seem ready -- economically or psychologically -- for this alternative. Civic spokesmen are calling for freedom <u>to</u> work, not freedom from work. When the Transit Authority installed an automated shuttle, the Transport Workers Union chose to have a man accompany the train rather than to ask for shorter hours for all as automation expanded. Similar stands have been taken by several unions. We still are afraid of the freedom not to work, despite our reluctance to get up on Monday morning.

Gradually, it seems probable that we will adjust to a world in which work will not be such an important part of our lives. But for now, our whole vocabulary and approach to employment demonstrate that we really do prefer work to idleness.

As long as this is true, there is no excuse for leaving men unemployed who want to work, while New York and other cities in which so many of the unemployed live have needs these people can satisfy.

August, 1964

# THE BANK OF NEW YORK

INVESTMENT RESEARCH DEPARTMENT

August 28, 1964

## THE BUSINESS OUTLOOK

John S

It is now more than five months since the initiation of the tax cut and it seems appropriate to review its effects and to assess the probable course of the economy. Economic reports in recent months afford little corroboration of the fears expressed prior to the tax cut, which fell into two general classes. On the one hand, some felt that the increase in disposable income coming in an expansionary phase, and coupled with the tax incentives to capital spending might lead to a surge of spending accompanied by accelerated price rises, increased speculation and a deterioration in the balance of payments resulting from excessively high imports and loss of confidence in the dollar. In contrast to this viewpoint others expressed a worry that the tax cut would be ineffective if consumers and business should choose to increase their savings as a result of augmented disposable income rather than to increase spending. Under these conditions it was felt that we might incur a high level stagnation and a later deterioration leading to a recession. At such a time a high Federal deficit resulting from the decrease in tax receipts might not permit a stimulation of the economy by an increase in Government spending.

In actuality the economy has shown an encouraging response to the stimulus of the tax cut. Expanded incomes have been reflected in tax receipts so that the deficit has been reduced below expectations. But we have not experienced an acceleration of prices or speculation. The percentage increase in consumer expenditures on durable goods has been lagging slightly behind the increase in disposable income. However, one third of these outlays are accounted for by automobiles. Hence, a buoyant response from present already high levels would have been surprising. Consumer expenditures for nondurables have increased nearly as much as those for durables and these appear to be still gathering strength, while consumer expenditures for services pursue their placid upward way continuing to demonstrate virtual independence of income changes, as in most of the postwar period.

Residential construction at a $26 billion annual rate remains high although it appears to be in a declining phase, and the downward course of housing starts, vacancy rates and, at long last, stability in rental rates, augur further reductions in activity. A decline in this area with the economy expanding is not a new phenomenon, however, as residential construction has been a major contracyclical element in the economy in many recent years.

Nonresidential construction, at around $23 billion, is continuing to move up moderately despite some evidence of scattered local softness in commercial office building and will probably continue to expand as a result of business expenditures on plant and equipment. Producers durable equipment, running around $36 billion currently, has been the star sector and bids fair to continue in that role. Each successive survey of capital spending plans reports upward revisions to the point where the machinery industries may be pressed to keep up with the schedule of demand.

Only in the realm of inventory accumulation have we witnessed little response to the tax stimulus. This, however, is a very important exception. Fluctuations in this sector over the years have initiated more recessions and recoveries than any other except possibly fluctuation in Government defense spending in and out of wartime. In retrospect it appears that at the end of 1963 we were rapidly reaching a point when business might well have chosen to initiate inventory reductions. These normally would have been followed by a reduction in the rate of production and in the income stream of the economy. In the light of this it seems probable that the passage of the tax cut provided a new and necessary stimulus to the economy. Since that time sales and orders have been strong and the relationship of inventories to the flow of demand has receded from the critical level. In the absence of a long strike or disrupting political developments here or abroad, a resumption of deterioration in this relationship, even if it should develop now, would not again become critical within six months. Meanwhile the prospects of expanding capital expenditure by business probably means that future improvements will be witnessed in this relationship for some months to come.

It is possible that computer controls of inventory, a strong supply situation, and better transportation are bringing about a major revision in past inventory relationships. Business has had phenomenal success in curtailing expansion of its inventories since 1956. Meanwhile unfilled orders on manufacturers' books have declined by about $10 billion dollars. They now amount to only 87% of inventories, barely above the postwar low of 80% witnessed in 1962 and far below the 135% recorded in 1956. In other words, the protection against inventory risk afforded by a full order book is greatly reduced.

Curtailment of inventory expansion, however, has been heavily concentrated at the retail level and in the stocks of purchased materials and supplies in the hands of manufacturers. Inventories of the latter are now so heavily concentrated in finished goods that expansion of sales seems likely to be accompanied by a proportionate need for materials and supplies and work in process.

If there should be a resumption of prospects of price increases or scarcity of materials, a rush for materials might provide a short-lived stimulus to the economy and to prices which would justify a recurrence of the fears outlined in our opening paragraph.

In the light of this analysis the stress placed by the President and his economic advisers on wage and price stability is particularly appropriate. The close adherence of the recent settlements in the nonferrous and rubber industries to the wage rate guideposts of the Council is heartening. In that connection the outcome of the pending wage negotiations in the automobile industry appears particularly important to the continuation of healthy expansion in the economy.

Assuming that wage developments do not introduce distortions, we would anticipate further gains as consumers' response to the increase in disposable income accelerates to cover the slight lag witnessed so far. A lag of this duration is typical in the response of consumer spending to sudden changes in disposable income.

MEMORANDUM

September 29, 1964

File Economics

TO: Democratic Senators

FROM: Ronald F. Stinnett,=Research Director
Democratic Senatorial Campaign Committee

Re: The Economy as of September 16, 1964

Below is a list of the Economic Highlights brought up-to-date -- 9-16-64.

You may want to update your last memo on the economy and any changes on Economic Growth in the Speech Cards. This series of points brings the whole economic picture up-to-date.

ECONOMIC HIGHLIGHTS

September 16, 1964

The current economic expansion:

...September is the 43rd month of the current economic expansion

...GROSS NATIONAL PRODUCT rose in second quarter '64 to $618.6 billion (annual rate)

.up 1.6% or $10 billion from the previous quarter (about 1% in price-corrected dollars)

.up 7.1% or $41 billion from second quarter '63 (about 5% in price-corrected dollars)

.up 23.4% or $117 billion from first quarter '61 recession low (about 18% in price-corrected dollars)

...INDEX OF INDUSTRIAL PRODUCTION advanced in July to 132.7% of 1957-59 average, the 11th consecutive increase.

.up 3/4% from the June index of 131.7

.up 5-2/3% from the July '63 index of 125.6

.up 28½% from the January '61 recession low of 103.3

...RETAIL SALES (10-day preliminary figures) increased in August to $22.1 billion.

.up $.1 billion or .8% from July sales of $22.0 billion

.up $1.4 billion or 6-3/4% from August '63 sales of $20.7 billion

.up $4.3 billion or 24% from April '61 recession low sales of $17.8 billion.

...NEW ORDERS RECEIVED BY DURABLE GOODS MANUFACTURERS rose in July to $21.3 billion ($18.0 billion excluding defense orders).

.up $1.3 billion or 6½% from June

.up $3.0 billion or 16.4% from July '63

.up $7.3 billion or 52.1% from the January '61 recession low

...PLANT AND EQUIPMENT EXPENDITURES in '64 are expected to increase 13% over '63 according to the August survey.

.to $44.2 billion in '64 from $39.2 billion in '63.

.up $9.8 billion or 28½% from '61 expenditures of $34.4 billion

The job picture:

...EMPLOYMENT at nonfarm establishments totaled 58.9 million in July

.up 147,000 or ¼% from June

.up 1.6 million or 2.8% from July '63

.up 5.4 million or 10.1% from February '61

...CIVILIAN LABOR FORCE expanded to 74.3 million in August

.up 85,000 or 0.1% from July

.up 1.3 million or 1.8% from August '63

.up 2.9 million or 4.1% from the April '61 low.

...UNEMPLOYMENT RATE edged up in August to 5.1% of the civilian labor force

.up from the 4.9% rate of July

.down from the 5.5% rate of August '63

.down from the 7.1% high of May '61

.slightly above the 4.9% rate of February '60

.rate has declined from 5.8% in first half '63, to 5.6% in second half '63, and 5.4% in first half '64.

.average rate for the past 3 months, 5.1%, is the lowest 3-month average in 5 years.

The income picture:

...PERSONAL INCOME advanced to $490.8 billion (annual rate) in July

.up $1½ billion or 0.3% from June

.up $26.8 billion or 5-3/4% from July '63

.up $85.8 billion or 21% from January '61

...AVERAGE WEEKLY WAGE (Gross) for production workers in manufacturing declined to $102.72 a week in July. (not seasonally adjusted)

.down 76¢ or 3/4% from June

.up $3.49 or 3½% from July '63

.up $14.10 or 15.9% from December '60

...NET FARM INCOME (realized) was unchanged from the first to the second quarter at $12.3 billion

.unchanged from the second quarter '63 total of $12.3 billion

.down slightly from the $12.5 billion total of first quarter '61

.per farm income in 1963 was a record $3,504, up 2½% from the $3,420 figure of 1962

...CORPORATE PROFITS before taxes (including inventory valuation adjustment) rose slightly in second quarter '64 to $57.4 billion (annual rate). Profits after taxes in second quarter '64 were up to $31.7 billion.

.before tax profits up $1.0 billion or 1-3/4% from first quarter '64 profits of $56.4 billion

.before tax profits up $7.2 billion or 14-1/3% from second quarter '63 profits of $50.2 billion

.before tax profits up $18.2 billion or 46½% from first quarter '61 profits of $39.2 billion

.after tax profits up $½ billion or 1.6% from first quarter '64 profits of $31.2 billion

.after tax profits up $5.1 billion or 19.2% from second quarter '63 profits of $26.6 billion

.after tax profits up $12.2 billion or 62.6% from first quarter '61 profits of $19½ billion

Other indicators:

...WHOLESALE PRICE INDEX rose to 100.4% of 1957-59 average in July after declining in the first half of 1964

.up 0.4 points and the same percent amount from June '64 index of 100.0

.down 0.2 points and the same percent amount from July '63 index of 100.6

.down 0.6 points and the same percent amount from the January-March '61 indexes of 101.0

...CONSUMER PRICE INDEX increased to 108.3% of 1957-59 average in July.

.up 0.3 points or 1/10% from the June '64 index of 108.0

.up 1.2 points or 1.1% from the July '63 index of 107.1

.up 4½ points or 4-1/3% from the May '61 index of 103.8

...HOUSING STARTS (private nonfarm) were 1.50 million units (annual rate) in July.

.down 4½% from June '64 and July '63 starts of 1.57 million units.

.down 5-2/3% from first half '64 average starts of 1.59 million units

.down 17.1% from October '63 high of 1.81 million starts

.up 32-3/4% from April '61 low of 1.13 million starts.

...EXPORTS in July were at an annual rate of $25.3 billion

.up $1.2 billion or 5% from June '64 rate of $24.1 billion.

.up $3.4 billion or 15½% from July '63 rate of $21.9 billion

.up $4.8 billion or 23.4% from July '60 peak of $20½ billion

...MERCHANDISE TRADE SURPLUS was running at an annual rate of $6.2 billion in July
.up $0.2 billion or 3.3% from the June '64 rate of $6.0 billion
.up $1.8 billion or 40.9% from the July '63 rate of $4.4 billion
.up $0.9 billion or 17% from the July '60 level or $5.3 billion

...BALANCE OF PAYMENTS deficit in the second quarter was $3.2 billion annual rate
.up from $0.3 billion rate of first quarter '64
.down from $5.2 billion rate of second quarter '63
.down from $5.0 billion rate in fourth quarter '60

From the desk of . . .

WALTER W. HELLER, *Chairman*
*Council of Economic Advisers*

September 17, 1964

THE PRESIDENT

(For week end reading)

1. This is an updated review of the impact of the tax cut, which we prepared for Wilbur Mills.

2. We are also placing it in a few other strategic hands.

CEA
9-16-64

<u>A Review of</u>
<u>The Economic Impact of the Revenue Act of 1964 to Date</u>

1. Although it is too soon to draw final conclusions on the impact of the Revenue Act of 1964 on the economy, a good deal of evidence on its impact is already at hand.

2. So far, it <u>shows the tax cut to be working very much in line with expectations</u>.

   a. It is serving as a buoyant force in the economy, not only in the general sense of reinforcing and prolonging the 1961-64 expansion, but in the more specific sense of:

      -- lifting both investment and consumer spending and expected spending for the rest of 1964 and into 1965 and,

      -- as a result, visibly stepping up the pace of production and jobs.

   b. Its expansionary effect so far is being achieved without signs of worrisome credit expansion, inflation, or speculation -- in other words, without "overheating."

A. <u>Duration and strength of expansion</u>

   1. This month, September, the 1961-64 economic expansion is in its 43rd month -- the longest expansion in U.S. peacetime history (barring only the 1933-37 expansion, which ended with the unemployment rate still at 14 percent). Not only government economists but the great majority of business analysts and executives agree that no end is in sight in 1964 or early 1965. <u>The tax bill is widely credited as the key force in thus renewing the vitality of the expansion and avoiding recession.</u>

   2. Under the impact of tax reduction, the President's <u>Economic Report</u> last January foresaw a 1964 gross national product of $623 billion (viewed as the mid-point of a $10-million range) --

a rise of 5 percent in real terms, over 1963. The Council of Economic Advisers reports that:

- The $19.6 billion (annual rate) first-half-year rise in GNP was "right on track."

- Economic developments so far in the second half of 1964 are also consistent with the $623 billion forecast.

B. Recent developments in 1964

1. Investment spending shows an accelerating rise. Successive quarterly gains since the first quarter of 1964 amount to $0.95 billion, $1.05 billion, $1.60 billion (the last being the expected gain from 3rd to 4th quarters of 1964).

2. Consumer spending:

- Consumer spending rose $8.7 billion (seasonally adjusted annual rate) in the January-March quarter, the largest quarterly increase of the 1961-64 expansion. The rise exceeded the gain in after-tax income for the quarter.

- In February, expectations of the tax cut pretty clearly had a lot to do with the 2-1/2 percent jump in retail sales to a new monthly record, together with an annual rate of 8.0 million car sales.

- In the second quarter, consumer outlays rose "only" $6.1 billion (annual rate) while consumer saving rose by $5.7 billion -- similar to the initial pause in consumer spending in Great Britain after their big tax cut last year and echoing previous experience in the U.S. when saving has temporarily spurted up following a sudden jump in income.

- Estimates of third quarter total consumer outlays indicate another large rise. In July and August:

  -- retail sales scored two consecutive strong increases of close to 1 percent each, and averaged 6.5 percent above the same months a year ago

-- sales of new cars, for the two months together, amounted to a peak 8.2 million unit annual rate (seasonally adjusted), and

-- preliminary estimates of income suggest that the saving rate has now started to drop back toward normal.

. This time pattern is strong evidence that the rise in consumer spending has come in response to the income gains from the tax cut.

3. Production is responding to the increased buying.

   a. The Federal Reserve Board index of industrial production -- which had been moving upward steadily but slowly -- has now spurted 5.1 percent since the start of the year.

   b. New orders for durable goods -- the harbingers of further production -- stood at a new high in July, almost 19 percent above a depressed December figure and almost 17 percent above a year earlier.

4. The increased production has required more workers on the job.

   a. There has been a gain of about 1.4 million new nonfarm jobs from December to August.

   b. The unemployment rate is down from 5.5 percent in August 1963 and 5.6 percent in January 1964 to 5.1 percent in August this year. (It actually dipped to 4.9 percent in July.)

   c. Labor force time lost through unemployment and part-time work is down even more sharply: from 6.3 percent in August 1963 and 6.2 percent in January 1964 to 5.7 percent this August.

C. Business and consumer expectations and attitudes

1. The repeated revisions of business investment expectations for 1964 show a time pattern strongly suggesting that the investment rise was directly in response to tax reduction:

- McGraw-Hill's January survey showed an expected 9 percent rise for 1964 over 1963 and their April survey a 12 percent rise.

- The February Commerce-SEC survey showed an expected 10 percent increase for industry as a whole and 13 percent for manufacturing; the May survey 12 percent and over 16 percent; and the recent August survey raised the over-all figures further to almost 13 percent (while the expected manufacturing gain remained a little over 16%).

2. This repeated upward revision in capital spending plans since the Revenue Act of 1964 was signed is further evidence of the improved tone of business confidence that is closely associated with both the 1964 and the 1962 tax actions -- actions that have contributed substantially to the growth in after-tax corporate profits to a record \$31.9 billion (annual rate) in the second quarter of 1964.

3. Once the tax cut became certain, business expected the strong gains in sales that have occurred this year. The February Commerce-SEC survey showed an expected rise of 6 percent in manufacturers' sales in 1964, half again as large as the 4-percent actual rise from 1962 to 1963. (Sales through July have been running 6 percent or more ahead of a year earlier.)

4. Dun and Bradstreet's quarterly surveys of over 1500 businessmen have shown that:

   - Optimism about the business outlook has been near record highs.

   - In the latest report, the highest number in over a decade were expecting a gain in employment.

5. The National Association of Purchasing Agents, in its monthly surveys, has found:

   -- continued favorable sentiment, described in the latest report as "a high degree of confidence, optimism, and general satisfaction with the state of the economy,"

   -- a notable absence of speculative build-up in inventories or commitments for capital outlays.

6. Surveys of consumer intentions also support the hypothesis that the tax cut played a major role.

   a. The quarterly surveys by the University of Michigan Survey Research Center have shown that:

      . Those who were confident in January and February of the passage of the tax bill were more optimistic about business prospects and, more frequently than others, reported plans to buy durable goods.

      . Over-all expectations have remained optimistic.

   b. Most consumers, when queried about the effect of the tax cut on their own spending, deny its importance. But this is quite consistent with what students of consumer psychology would expect, and not inconsistent with the tax cut in fact boosting their spending.

D. Overheating

1. The wholesale price index for all commodities was 100.3 in August, down from 101.0 in February 1961 and January 1964, although up just a bit from the low point of 99.7 in April 1963. The upward creep of consumer prices has shown no speeding-up in 1964 as compared with earlier years.

2. Bank loans to business have accelerated moderately since April, but there has been no speculative surge of borrowing either from banks or in capital markets.

3. While capacity utilization in manufacturing industries has increased, Federal Reserve estimates show it still below the rates preferred by businessmen. And few businessmen report any slow-down in the rates at which orders are filled.

E. Conclusion

1. In the nature of the case, the evidence of a direct causal relationship between the Revenue Act of 1964 and this year's favorable economic developments is circumstantial rather than the hard, sure proof of the scientist's test tube.

2. But the pattern and strength of the continued advance to date, as well as the bright prospects ahead, are hard to explain except in terms of the fresh confidence, the expanded purchasing power, and the new incentives created by the Revenue Act of 1964.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

file SD-Economy

September 17, 1964



MEMORANDUM FOR THE PRESIDENT

Subject: NICB Study of Economic Growth

Articles in this morning's Washington Post and New York Times reported on a new study by the National Industrial Conference Board, a conservative but nonpartisan business research organization.

A. Highlights of the study

1. By 1957, the steam had gone out of the post-war boom. We had drawn down the backlogs of demand and available technology (that grew out of depression and war).

2. Since 1960, the tendency toward stagnation has been reversed by a "revolution" in Government policy.

3. NICB credits our sustained 1961-64 prosperity squarely to this revolution which "amounts to the principle that fiscal policy should be geared not simply to the cushioning of short-term recession, but to the stimulation of growth."

4. In explaining current prosperity NICB emphasizes the tax cut, easy money, and planned deficits when economy operates below capacity.

5. They see a new wave of prosperity for the later '60's based on "a confluence of streams of population and technology."

   -- Population factors will accelerate labor force growth and the formation of new households.

   -- The stream of technology will come from the tremendous investment in R&D in recent years. Partly financed by Federal funds, R&D expenditures have grown from $600 million (0.5% of GNP) in 1940, to $3 billion (1% of GNP) in 1951, to nearly $20 billion (3% of GNP) in 1964.

## B. Comments

1. Even though they put in the usual warnings about balance of payments, private debt and budget deficits, this is a surprising endorsement of the Kennedy-Johnson policies from an unexpected source -- it's another example of the "growing economic consensus" I've been emphasizing.

2. As to their glowing outlook for the late '60's:

   - We too feel that our expansionary economic policies are, in a sense, bridging a gap between the lush post-war years and the late sixties, when the jump in household formation will bring new zip to the private economy.

   - We are not as sure as they are that the pay-off on technology will be all on the plus side (for example, in jobs).

   - If we keep things going briskly in 1965 and 1966, there is a good chance that in the later sixties the private economy will build up a big enough head of steam to keep the economy moving -- and balance our Federal budgets.

Walter

Walter W. Heller

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

John R
Al Stern
and then
fill in
"Economics"

September 24, 1964

MEMORANDUM FOR THE PRESIDENT

Subject: Economic Round Up

With the deluge of monthly statistics for August behind us, we now have a little breathing space for an economic round up of 1964 so far. It's a good time to do it -- only 1 more month of statistics will come in before election day.

As the picture of 1964 begins to take shape, here's what it shows:

1. There is new life in the old expansion, with a clear speed-up over 1962 and 1963:

   - Since mid-1963, real GNP has expanded at an annual rate of almost 5%, well above the 3-1/2% rate of 1962 and the first half of 1963.

   - 1964 is likely to show gains of $40 billion in current dollar GNP and nearly $30 billion after adjustment for price changes, each about $10 billion greater than the increases we experienced in 1963.

2. Our more rapid growth this year has made a real dent in excess industrial capacity and unemployment, whereas expansion in 1962 and 1963 just about matched the advance in productive capacity:

   - After remaining stubbornly between 5-1/2 and 6% in 1962 and 1963, the unemployment rate dropped to 5.3% in the first half of 1964 and is running at 5% in the third quarter.

   - Operating rates in manufacturing averaged between 85 and 87% of capacity in 1962 and 1963; the rate is now about 88%.

3. The two strongest elements of private demand have been consumption and business fixed investment:

- The strongest single element is consumption -- responding to the tax cut. Three strong quarterly gains have put consumer expenditure today about $23 billion above year-end levels. This means an unprecedented rise in living standards. And it accounts for more than 80% of the rise in GNP, compared with its contribution of about 60% in 1962 and 1963.

- Business plant and equipment has also been moving solidly ahead. Capital spending plans rose sharply early in the year, and are still being revised upward. The totals for 1964 are now expected to show a 13% gain over 1963, with acceleration in the second half. Growing profits and depreciation allowances have supplied most of the necessary funds. Corporate cash flow in the second quarter was 12% higher than a year earlier.

4. The two weak spots have been inventory investment and residential construction:

- While improved management and computers have trimmed inventory needs in recent years, it is surprising that the faster pace of sales in 1964 has generated the slowest pace of stock-building so far in the expansion period. Indeed the latest monthly figures (July) show a small decline in total business inventories. (This current "weakness" in inventory build-up is a source of strength for the longer pull, since it lessens the risk of the inventory run-offs that have so often fueled recessions.)

- But the August survey of manufacturers' expectations points to a more rapid rise in stocks for the second half of the year ($2.2 billion annual rate compared to $0.6 billion for the first half). This is still modest, but it would bring inventory building more into line with our expectations.

- After an unusually long 3-year uptrend, residential construction has shown a gradual tapering off through most of 1964. Housing starts (private nonfarm seasonally adjusted) in August were almost 25% below their very high peak of last October and have generally been running below corresponding 1963 levels since March (though they are still high by historical standards).

5. The tax cut, supported by continued credit ease, has given a major boost to economic activity this year:

   - By cutting income taxes, we are already adding $9 billion a year directly to take-home pay and $1-3/4 billion to corporate after-tax profits. Yet, through economic growth, total Federal receipts for this fiscal year are expected to exceed last year's level -- in fact, cash receipts for this July topped those of a year earlier.

   - Credit has continued to expand a bit more rapidly than GNP, and interest rates have remained relatively stable in 1964.

6. Nevertheless, too much slack still remains in labor markets. Too much plant and equipment are still idle. At 4% unemployment the economy could produce $20 to $25 billion a year more than currently. Events have refuted the forecasts of overheating. Preliminary estimates suggest that GNP expansion may have slowed down a little in the third quarter.

7. Stability of prices to date also points to further room for expansion:

   - The last reading on the consumer price index (July) was 1.1% above a year earlier -- in line with the trend since 1958.

   - The wholesale price index in August was 0.1% below a year earlier and still below its level at the start of this expansion and at the time of the tax cut.

   - The auto settlement and a flurry of price increase announcements give cause for some concern, but not alarm, about continued price stability.

8. In summary, the economic expansion is strong and sound. Consumption and fixed investment should continue to advance, and inventory investment is likely to rebound. Prospects are excellent for a continued advance into 1965.

Walter W. Heller

September 30, 1964

Economics

TO: THE PRESIDENT

1. Here's an appraisal of the economic impact of the GM strike.

2. We checked this material with Bill Wirtz.

3. He is optimistic that the strike will not become bitter and drawn-out, and that the 17,000 local grievances can be settled more quickly with this strike than with a lot of separate local strikes.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

September 30, 1964

MEMORANDUM FOR THE PRESIDENT

Subject: Impact of the General Motors strike

1. For the time being, the impact of the GM strike will be limited:

   - Only about 3/4 of the union's 345,000 members in GM and 70% of the company's plants are involved.

   - GM parts plants remain in production to supply Chrysler, Ford, truck building, and the farm equipment industry.

   - Most suppliers to GM will continue to produce parts for inventory for the next week or two.

   - Dealers' stocks will enable them to continue sales of 1965 cars for about 10-12 days, though even a few days' strike takes the edge off the new-model campaign.

2. The immediate losses in income and production (some of which would have been incurred through local strikes if there hadn't been a national strike) appear to be:

   -- about $50 to $75 million per week in compensation to GM employees;

   -- loss of profits to the company and of taxes to governments;

   -- against which there would be some offset from catch-up production and sales later on.

3. When dealers run out of stock and suppliers stop producing for GM toward the end of two weeks, additional losses would mount rapidly:

   -- payments to suppliers of about $135 million per week would stop, affecting textiles, rubber, plastics, steel, machinery, glass, and other industries.

-- GM dealer sales would drop off rapidly. However some of these losses might be offset by increased sales of other companies and deferred sales by GM dealers.

4. The impact of a prolonged strike on 3rd Quarters GNP will be slight because of the few days remaining in this quarter.

   -- But such a strike could reduce GNP by as much as $200 to $300 million for each week that the strike lasts.

5. While a strike in a company as large as General Motors is serious, it would not create a national emergency situation.

   -- Over half of the auto industry's operating capacity would still be in production.

   -- Defense and parts operations within GM are still operating.

   -- Unlike a steel or railroad strike, an auto strike will not create bottlenecks that would shut down other entire industries.

Walter W. Heller

From the desk of . . .

*WALTER W. HELLER, Chairman*
*Council of Economic Advisers*

October 6, 1964



To: Senator Humphrey

Attached is some draft material on economic rights and freedom which we supplied to Richard Harris in connection with the President's scheduled speech at Louisville.

W.

Economics

CEA
October 3, 1964

DRAFT MATERIAL ON ECONOMIC RIGHTS AND FREEDOM

Our economy must encourage each individual to make his full productive contribution and allow all to share in the resulting wealth. The economics of the Great Society demand that:

1. Any American who wants to work must have the opportunity to find a job.

To insure this right, we must follow the mandate of the Employment Act of 1946, which pledges the Federal Government "to use all practicable means ... with the assistance and cooperation of industry, agriculture, labor, and State and local governments ... to promote maximum employment, production, and purchasing power."

As a Representative from Texas I was happy to commit our government to this noble purpose 18 years ago; as your President now I am working diligently for the fulfillment of that commitment, through tax and credit policies that nourish steady and sustained prosperity, while maintaining a stable and sound dollar.

2. Every American must have the opportunity to rise as high as his capabilities and efforts will carry him in our economic and civic life without regard to race, sex, creed, or social position.

This requires full compliance with the letter and the spirit of both Federal and State civil rights legislation; it requires action to break the vicious circle of poverty and open doors to prosperity for the sons and daughters of the disadvantaged.

3. <u>Every youth must have access to the best education and training for which he is qualified.</u>

This calls for expansion and higher quality in American education, and for improved private and public financing of our schools and colleges.

4. <u>Every American must receive appropriate rewards for his labor, investment, and enterprise.</u>

To enhance these opportunities, we encourage mutually strong and responsible collective bargaining. We need programs to stabilize agriculture and stimulate business investment, and an equitable tax system that supports initiative and effort.

5. <u>All must have the right to spend and save their money as they see fit, with wide opportunities to buy sound products sold in competitive markets, and to invest in honest securities and safe banks.</u>

This requires government action to insure effective competition; and to maintain high standards and safety in many items ranging from food and drugs to common stocks. The basic decisions within the framework of public rules must be left to private enterprise and individual consumers.

6. <u>Every American must be able to plan for comfort and dignity in his elderly years.</u>

Having shared what they produced during their working lives, our elder citizens should share society's production in their years of retirement. This requires a comprehensive and broad system of social security which provides benefits that meet the needs of the retired -- including their need for medical services.

7. All must be able to live in a decent, healthful, and attractive environment, with good housing, pure air and water, and access to recreation and natural beauty.

To this end, we must work for better housing; the rehabilitation of slums and the renewal of our cities; the development of parks and playgrounds; and we must fight to stem pollution.

8. Every American must have the right to the compassion and aid of society when he falls prey to unavoidable misfortune.

This requires a responsible program of public assistance and an adequate and comprehensive system of unemployment insurance. It is also furthered by improved job information, placement, and retraining that can ease the burdens that a dynamic economy may impose on a few unfortunate individuals.

* * *

These are the rights and freedoms that we should strive for in our economic life. We have made great advances in the United States toward economic freedom; indeed, our record of economic progress is a history of release from bondage.

We have made the awesome forces of nature our servants rather than our masters. By providing his family with adequate food, clothing, and shelter, man can break the shackles of cold, famine and storm. By providing adequate medical attention he can become free from the ravages of disease. The greater freedom to live today is best seen in the way we have lengthened life. Average life expectancies have risen from 60 years in 1935 to 70 years today. And we have more time to enjoy life as well as more time to live. Increased leisure has opened broad new opportunities to our citizens -- opportunities to cultivate rewarding hobbies, to participate both as spectators and amateur contributors in art and music, to experience first-hand through travel the sights and sounds of the world and to participate with their children at play and at learning.

Our scientific and technical genius gives us the know-how for progress. But know-how alone would not generate widely-shared gains without the mass production, mass distribution, and mass high-incomes that come from a competitive market system. In combination, brilliant engineering and sound economics makes for progress and freedom.

At the same time, this very progress makes society more complicated and more interdependent. To take full advantage of the opportunities for progress, we sometimes need new rules. The automobile has given us freedom to reach our destinations, but we are no longer free to cross the street in the middle of a block. The freedom to buy safe food and drugs is insured only when we forego the right to mislabel and adulterate. Social security gives Americans freedom to enjoy their later years in comfort, dignity, and security; in return, they willingly accept the mandatory aspects of the program.

Americans want honest securities that finance our economic growth and they support the rules established under the Securities and Exchange

Commission. Americans cherish the freedom to earn a decent wage under decent working conditions, and they happily forego the false right to run or work in a sweat shop. The American people have shown again and again that they know the true meaning of economic freedom.

File SD
Economy

From the desk of . . .

*WALTER W. HELLER, Chairman*
*Council of Economic Advisers*

October 15, 1964

To: Bill Moyers

1. Here are some TV spot ideas which we wrote on the "you never had it so good" theme.

2. In 4 of them, we have given vent to our imaginations and included video as well as audio, but the other 2 are more of the raw material type.

Walter

CEA 10/14/64

# PROSPERITY THROUGH THE TAX CUT

| AUDIO | VIDEO |
| --- | --- |
| Prosperity is the never-ending concern of Democratic Presidents. When too many of our workers and our machines stood idle for lack of markets, both President Kennedy and President Johnson urged the Congress to reduce the tax burden that was stifling our economic progress. | LBJ and JFK together<br>idle workers<br>idle machines |
| After long and careful review, the Congress passed the tax cut, lowering the tax bill of the typical family by 20%. | Signing ceremony (last February) |
| This extra purchasing power has quickened our prosperity. | |
| . Since a year ago, 1,200,000 more men and women have jobs | People working |
| . 220,000 of the unemployed have found work | |
| . Consumers spending has increased by \$27 billion, the greatest increase in our history. | Housewife in supermarket<br>Man buying car |

| | |
|---|---|
| . Business is investing $5 billion more this year, and is planning further increases for 1965. | Giant machines put in place |
| The opposition candidate was one of only 19 Senators who voted against the great tax cut of 1964. | No picture -- just a hand X-ing NO. |
| In the coming years, Lyndon Johnson will do what needs to be done to keep this country prosperous. | LBJ looking at charts. |

Reading time: 75 seconds

CEA 10/14/64

# TV SPOT: STRENGTH OF EXPANSION

| AUDIO | VIDEO |
|---|---|
| The take-home pay of the average American with a family of four is $900 more this year than it was four years ago. | Pay envelope |
| That's $900 of today's purchasing power -- with no inflationary padding. | |
| So he lives better -- he can improve his home, afford a longer and more interesting vacation, can find room in the budget for something for the wife -- maybe a dryer, dishwasher, or a second car. | Family at play, also shopping |
| He has also added $2,500 to his savings in the past four years and the dividends and interest on his savings have gone up one-third. | Man going into bank |
| His job is more stable and far more secure. | Man at work |
| He worked hard for these gains. But it took a great prosperity to reward his work -- a prosperity built on a constructive partnership of business, labor, and government. | |
| The average American wants to preserve that partnership. | |

| | |
|---|---|
| He doesn't want to gamble with his hard-earned gains. | Show (loaded) dice coming up snake-eyes in the form of Goldwater empty-glasses frames reading perhaps, "Less jobs" and "less pay." |
| He'll vote for Johnson and Humphrey. | Picture |

# TV SPOT: BALANCE OF PAYMENTS

| AUDIO | VIDEO |
| --- | --- |
| Our economy can remain strong and growing only if other countries have confidence in the value of the dollar. | (picture of a bank or the Treasury building) |
| Our dollar is strong when we export American goods and when we hold down the amount of dollars going overseas. | |
| During our record-breaking prosperity of the last three and a half years, we have had the most stable prices of any major industrialized country in the world. As a result, our goods were able to compete abroad and more jobs were provided here at home. Our surplus of American goods exported over foreign-made goods imported into this country is about 40 percent above its level in 1960. | (men loading a ship with goods) |
| Our balance of payments deficit -- which includes movement of goods and money between the United States and other countries -- is only about one-half as large as it was from 1958 to 1960. | (picture of bank vault with door opened and men carting away gold bars) |

And our gold losses to other countries -- which averaged almost \$2 billion from 1958 to 1960 -- were cut in half in 1961 and 1962 and have been stopped completely in the last 12 months.

(picture of the vault door closing)

Don't gamble away your job or your business.

Reading time: 75 seconds

CEA 10/14/64

# TV SPOT: JOBS

| AUDIO | VIDEO |
| --- | --- |
| When the present Administration entered office in 1961, the American economy was stalled on dead center. Five million Americans -- nearly 7 percent of our workers -- were without jobs. We were in the depths of our third costly recession in six years. | (unemployed workers collecting compensation at unemployment office.) |
| But this did not last long. Unemployment compensation was extended. Food went to families of the unemployed. Areas of distress and labor surplus were given new life blood. The minimum wage was increased. The tax cut was passed. | (distribution of food to families, ARA project underway with machines in background and ARA sign being erected) |
| And, most important, America's workers are at their jobs and our machines are humming, providing the country with more and better products. | (workers entering gates -- production line at work) |

First, 68 million people were employed; then 69 million; and now over 70 million Americans are at work.

Our employment rate is down to about 5 percent.

(simple chart "Percent Unemployed" with line moving downward as text is read)

President Johnson has said that he will not be satisfied until even this great record is surpassed -- until all Americans who want to work and who can work have jobs.

(picture of the President, reading an actual quote, if possible)

Don't risk your job or your business.

Reading time: 70 sec.

CEA: 10/15/64

# MATERIAL FOR TV SPOT
# ON
# BROAD AND BALANCED SHARING OF PROSPERITY'S GAINS

America's great prosperity today is not just for the favored few. Nor is it for one group at the expense of others.

In history's longest and strongest peacetime prosperity, each major group in the economy has marched shoulder to shoulder with the others to new records in income and production:

- Total output is up by 1/5.
- Nearly 5 million added jobs have been created.
- Personal income is up nearly $90 billion.
- The average family of 4 now enjoys $1,200 more of personal income, after taxes, than it did 3-1/2 years ago.

These over-all gains have been fully shared by labor, by industry, and by agriculture:

- Take-home pay (wages and salaries after taxes) has risen nearly $60 billion.
- Corporate profits after taxes have risen more than 60%.
- Net income per farm is up 17% from 1962-1963.

CEA: 10/15/64

MATERIAL FOR TV SPOT
ON
UNPARALLELED DURATION OF EXPANSION

Business seldom keeps improving for more than a couple of years without a set back.

In the last century there have been only 2 peacetime expansions of business that lasted more than 3 years. The average expansion lasted barely over 2 years.

But for 44 straight months of the Kennedy-Johnson Administration business has been steadily expanding, employment has been steadily rising, incomes have been steadily growing.

And the gains are far from over. Indeed, the pace of expansion has picked up in 1964, and even the most pessimistic forecasters are unable to see any end to it in the first half of 1965. By that time all records will have been broken -- peacetime or wartime -- except for the continuous expansion during World War II.

The Kennedy-Johnson Administration of 1960-64 will be the first peacetime Administration in history unmarred by recession or depression. By contrast, the last Administration helplessly watched recessions develop in 1953-54, 1957-58, and 1960.

People used to think that recessions and depressions were inevitable -- uncontrollable. They thought that, too, about smallpox and tuberculosis.

An Administration that is not afraid to use Government as a tool of human progress can sustain prosperity, can help business and labor create new jobs, can help keep sales and profits rising on a smooth curve of progress, instead of perpetuating the roller-coaster of boom and recession, good times and bad.

An Administration that can unite labor and business, can get Republicans and Democrats in Congress to support an affirmative program of constructive legislation, offers our best hope to sustain prosperity and create jobs for all.

From the desk of . . .

*WALTER W. HELLER, Chairman*
*Council of Economic Advisers*

October 8, 1964

To: Senator Humphrey

1. Attached is a memo in which we size up, in a preliminary way, our outlook for maintaining price stability.

2. In a word, it's not bad, but not very good either.

Walter

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

File Economy

CONFIDENTIAL

October 8, 1964

MEMORANDUM FOR THE PRESIDENT

Subject: "The Outlook for Price Stability in 1964" -- A Second Look

With the auto settlement behind us, and a new wave of inflation talk, we are taking a new look at the evidence on prices and wages. As we did last spring with our study, "The Outlook for Price Stability in 1964," we are circulating our findings to other agencies to develop a new consensus.

Here is a preliminary and summary report of our findings:

1. The high auto settlement lessens the chances for maintaining our near-perfect price record, but we do not expect a repeat of the 3%-a-year crawling inflation of 1956 and 1957, much less the trotting inflations of the Korean War or 1945-48.

2. Luckily, the wage negotiations calendar is not as crowded as it was in 1955, when autos led a big-settlement parade that included nearly every major industry.

3. But the auto settlement will set the pattern for some of its traditional followers -- farm equipment and some other machinery industries -- and will influence, a bit less strongly, such other followers as auto parts and rubber.

4. The big question is the influence of the auto settlement on steel. Steel wages can be reopened January 1, and they may be under active consideration by steel's Human Relations Committee before then. Steel wage demands will be high after the lean settlement of 1961. To be sure, Dave McDonald's bargaining power won't match Walter Reuther's:

   - Unemployment has been higher in most steel centers than in auto areas.

   - Steel profits -- while greatly improved -- are lower than auto profits, so company resistance will be stronger.

   - Workers may be reluctant to strike after their bitter experience of 1959.

CONFIDENTIAL

Nevertheless, left to itself, the steel settlement may come out not too far below autos, and the steel companies are less able to absorb rising labor charges.

5. So far the over-all price stability record is intact:

- The wholesale price index in August was 1/10th of a point below the figure a year ago and the same as five years ago.

- Though nonferrous metals have gone up sharply in the past year and show no signs of stopping (copper is up 10%, zinc, 8%, lead, 16%, tin, 68%), these increases have so far been offset by declines of nondurable materials such as fuel and lumber.

- Consumer prices this August showed a year-to-year rise of only 1.0% -- at the low end of the range achieved in "noninflationary periods."

- The average of wage settlements this year has remained near guidepost levels.

- Productivity continued its rapid advance in the first half of this year -- in contrast to '56 - '57 when profits were squeezed by big wage increases combined with small productivity gains.

6. Industrial capacity still has some room to spare for increased production. Operating rates are right on target with our earlier estimates, with most industries still operating below their preferred rates:

- Some older plants are coming back into production, but there are no reports of major bottlenecks.

- Even in machine tools, where orders are up sharply, industry leaders assure us that the buildup is "normal and manageable."

- Stepped-up investment is adding new capacity.

7. Labor is still in good supply:

- Despite considerable talk, there seem to be few real labor bottlenecks or shortages.

- It is true that employers are now hiring more of the unskilled and inexperienced (but better educated) young workers. But that is part -- in fact, a key part -- of getting unemployment down to 5% or below in 1964, in line with our winter and spring forecasts.

- The flow of new workers into the labor force is at record levels -- the net growth of the labor force in 1965 will be 1.3 million.

8. Summing up: as we look ahead to the rest of 1964 and into 1965:

   - There is little prospect of demand inflation, of too many dollars chasing too few goods.

   - But in the wake of the auto settlement, there is a hazard of some cost-push pressure on prices as heavy industry grants large wage increases, and industries with market-power get the scent of soaring sales in their nostrils.

   - Our brisk productivity gains -- which keep costs down -- are a buffer against a wage-price spiral. But if these gains slow down -- either because technology lags or because the economy's expansion slows down -- unit labor costs would rise, and we would be in trouble.

   - Apart from cost-price calculations, the possibility of an "inflationary psychology" which provides a cloak of respectability for price boosts must also be taken into account. Here's where firm and responsible statements of public officials can be most helpful, as they were last spring.

   - On balance, U.S. price and cost stability faces its toughest test of the 44-months-old expansion. But rising productivity, growing plant and manpower capacity, sharp competition -- and an Administration that keeps business and labor keenly aware of their responsibilities -- add up to a prospect for maintaining a good, though not perfect, record on the price and cost front.

Walter

Walter W. Heller

File: SD - Economy

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 2, 1964

E

MEMORANDUM FOR MR. HORACE BUSBY

Subject: More on 30 Years of Prosperity.

In accordance with your request, here is a more comprehensive memorandum on 30 years of economic progress which supersedes Walter's memo to you of October 1. In addition to some new items, this material gives actual money values for 1935 and today, where appropriate, as well as the extent of the real increase after allowing for price changes.

1. Gross national Product rose from $72.5 billion in 1935 to $618.6 billion in the second quarter of 1964.

   - After accounting for changes in prices, Gross National Product is nearly 3-1/2 times its 1935 level.

2. Disposable income per capita rose from $458 in 1935 to $2,249 in the second quarter of 1964.

   - After accounting for changes in prices, disposable income per capita is more than twice its 1935 level.

3. Personal saving per capita rose from $16 per year in 1935 to $183 per year in the second quarter of 1964.

   - After accounting for changes in prices, personal saving per capita is over 4-1/2 times its 1935 level.

4. Income of a family of 4 rose from $1,832 in 1935 to $8,996 in the second quarter of 1964.

   - After accounting for changes in prices, income of a family of 4 is more than twice its 1935 level.

5. The income of families headed by older workers has risen substantially.

- From 1939 to 1963 the median wage and salary income of families with a male head over 55 rose from $1,242 to $5,366.

  -- After accounting for changes in prices, this income has nearly doubled.

6. The median income for families where the head of the family is 65 or over rose from $1,828 in 1947 to $3,352 in 1963.

   - After accounting for changes in prices, income is 1-1/3 times its 1947 level. (There are no earlier figures.)

7. Net income per farm rose from $778 in 1935 to $3,630 in 1963.

   - After accounting for changes in prices, net income per farm is almost twice its 1935 level.

8. Hourly earnings in manufacturing rose from $0.54 in 1935 to $2.52 by August 1964.

   - After accounting for changes in prices, hourly earnings are more than twice their 1935 level.

9. Weekly earnings in manufacturing rose from $19.91 in 1935 to $103.07 in August 1964.

   - After accounting for changes in prices, weekly earnings are 2-1/4 times their 1935 level.

10. Employment rose from 42 million in 1935 to over 70 million in August 1964.

    - Employment is 1-2/3 times its 1935 level.

11. The unemployment rate fell from 20.1% in 1935 to about 5% in the summer of 1964.

    - The unemployment rate was 24.9 in the year that the economy was turned over to a Democratic administration. 1933.

- When the Republicans again came into office in 1953 the unemployment rate had been reduced to 2.9%.

- When the Republicans left office in 1961 the unemployment rate was back up to 6.7% and rising.

- Under Democrats the unemployment rate is back down to about 5% in the summer of 1964.

12. The index of industrial production rose from 30.7 in 1935 to 133.5 in August 1964.

    - The index of industrial production is 4-1/3 times its 1935 level.

13. Business fixed investment rose from $4.4 billion in 1935 to $57.3 billion in the second quarter of 1964.

    - After accounting for changes in prices, business fixed investment is nearly 4-1/2 times its 1935 level.

14. Corporate profits before taxes rose from $3.1 billion in 1935 to $57.9 billion in the second quarter of 1964. This increase is not price corrected and was earned on a much larger capital stock.

    - For corporations, the return per dollar of investment before taxes rose from about 2% in 1935 to over 10% in 1963.

15. Corporate profits after taxes rose from $2.2 billion in 1935 to $31.9 billion in the second quarter of 1964. This increase is not price corrected and was earned on a much larger capital stock.

    - For corporations, the return per dollar of investment after taxes rose from about 1-1/2% in 1935 to over 5% in 1963.

16. Life expectancy has increased over 10 years from 1930 to 1962, from 59.7 to 70.0 years.

17. The median number of school years completed has risen from 8.6

to 11.7 from 1940 to 1964.

- School expenditures on public elementary and secondary schools have increased from $1.7 billion in 1934 to $18.2 billion in 1962.

- The number of school teachers has not quite doubled from 850,000 in 1934 to slightly more than 1.5 million in 1964.

18. The number of hospital beds rose from slightly over a million in 1935 to almost 1.7 million in 1962, an increase of 56%.

    - The average length of stay in a hospital fell from 15 days in 1946 to slightly over 9 days in 1963.

19. Auto registrations increased from 26 million in 1935 to almost 82 million in 1963.

20. Owner occupied housing rose from 48% of the total number of occupied housing units to 62% in 1960.

    - For nonwhites the percentage rose from 25% to 38%.

Otto Eckstein
Acting Chairman

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 1, 1964

MEMORANDUM FOR THE PRESIDENT

Subject: Your "Best Seller" first Economic Report

1. Sales of your January Economic Report are way ahead of last year's record-breaking sales.

   - As of yesterday, GPO had sold 42,265 copies of your Report.

   - This compares with 1963 Report sales of 35,364 over the entire year.

2. The last Eisenhower Economic Report sold 19,086 copies; thus we have more than doubled sales and have increased gross receipts -- to the government, not to CEA! -- from $19,086 to $52,831.

3. And, more important, we have received numerous favorable comments on both content and style of your Report.

Walter

Walter W. Heller

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

File
Economy

October 1, 1964

MEMORANDUM FOR MR. HORACE BUSBY

Subject: Draft Material on 30 Years of Economic Progress

1. Real gross national product is 3-1/2 times its 1935 level. It rose from $179.9 billion in 1935 to $608.5 billion in the second quarter of 1964 (1963 prices).

2. Real disposable income per capita is more than twice its 1935 level. It rose from $1,070 in 1935 to $2,220 in the second quarter of 1964 (1963 prices).

3. Real hourly earnings in manufacturing are more than twice their 1935 level. They rose from $1.21 in 1935 to $2.49 by August 1964 (1963 prices).

4. The index of industrial production is 4-1/3 times its 1935 level. It rose from 30.7 in 1935 to 133.5 in August 1964.

5. Corporate profits before taxes are nearly 19 times their 1935 level. They rose from $3.1 billion in 1935 to $57.9 billion in the second quarter of 1964 (not price corrected).

6. Corporate profits after taxes are almost 15 times their 1935 level. They rose from $2.2 billion in 1935 to $57.9 billion in the second quarter of 1964 (not price corrected).

7. Personal saving per capita is over 4-1/2 times its 1935 level. It rose from $39 per year in 1935 to $181 per year in the second quarter of 1964 (1963 prices).

8. Employment is 1-2/3 times its 1935 level. It grew from 42 million in 1935 to over 70 million in August 1964.

9. The unemployment rate was 23.6% when the economy was turned over to a Democratic administration in 1932.

   - When the Republicans again came into office in 1953 the unemployment rate had been reduced to 2.9%.

- When the Republicans left office in 1961 the unemployment rate was back up to 6.7% and rising.

- Under Democrats the unemployment rate is back down to about 5% in the summer of 1964.

10. Business fixed investment is nearly 4-1/2 times its 1935 level. It grew from $12.8 billion in 1935 to $56.7 billion in the second quarter of 1964 (1963 prices).

11. Real net farm income per farm is almost twice its 1935 level. It rose from $1,898 in 1935 to $3,643 in 1963 (1963 prices).

12. Life expectancy has increased over 10 years from 1930 to 1962, from 59.7 to 70.0 years.

13. The median number of school years completed has risen from 8.6 to 10.6 years from 1940 to 1960.

    - School expenditures on public elementary and secondary schools have increased from $1.7 billion in 1934 to $18.2 billion in 1962.

    - The number of school teachers has not quite doubled from 850,000 in 1934 to slightly more than 1.5 million in 1964.

14. The number of hospital beds has increased 56% from slightly over a million in 1935 to almost 1.7 million in 1962.

    - The average length of stay in a hospital has fallen from 15 days in 1946 to slightly over 9 days in 1963.

15. Auto registration has increased from 26 million in 1935 to almost 82 million in 1963.

16. Owner occupied housing has risen from 48% of the total number of occupied housing units to 62% in 1960.

    - For nonwhites the percentage has risen from 25% to 38%.

17. The income of families headed by older workers has risen substantially.

- From 1939 to 1963 the median wage and salary income of families with a male head over 55 has nearly doubled, from $2,736 to $5,366 (in 1963 prices).

18. The median income for families where the head of the family is 65 or over rose more than 1/3, from $2,508 in 1947 to $3,352 in 1963 (1963 prices). (There are no earlier figures.)

Walter

Walter W. Heller

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 1, 1964

MEMORANDUM FOR THE PRESIDENT

Subject: Further soundings on the price outlook

1. Our own soundings and a number of items appearing in the press or in Washington news letters are again raising this specter of steel increases.

2. The following is a UPI dispatch that refers to what Joe Block of Inland Steel said yesterday:

> Block said that while steel profits are up sharply this year and new production record will be set, the improvement will not be enough to bring the industry's return on investment up to the average for all industry.
>
> In May of this year, the Inland executive indicated a preference for letting profits go up on the strength of higher sales and reduced costs, rather than an outright price hike.
>
> Today Block amended this sentiment somewhat by saying that price increases when supported by the demands of the market "are no less a legitimate method of improving profits than are increased volume and lower costs." (My underscoring)

3. Today's National Research Bureau "Report for the Business Executive" says:

> The big labor cost increase coming in autos is not the sole reason for Washington's rising interest in the level of industrial prices.
>
> Strong and rising demand for goods of all types presents producers with a favorable setting for raising prices. And a number of businessmen have told us that if they can't get long-needed price adjustments now, at a time when business is booming, they'll never be able to get them.
>
> Price increases already are beginning to show up in several lines, mainly in the important nonferrous metals industries.

Steel prices, though, are viewed in Washington as the real test of inflation .... even more so than prices for new cars.

Even if auto prices were to move up, they still wouldn't have the impact throughout industry that a general steel price rise would bring. Steel is so widely used that a substantial price hike would cause higher tags for many items.... machinery, appliances, and perhaps autos, too.

4. As a bonus for November 3, NRB's report says

The latest forecasts of economists in government and industry see U.S. voters enjoying the best times in history in November. They will be able to make these points:

- The vast majority of workers will have jobs at peak income.
- The level of jobless may be under 5% - the lowest since 1957.
- The total employed will be 2.25 million more than last fall.
- The average weekly wage will have risen $4 in manufacturing.
- Take-home pay will be up more, as a result of the tax cut.
- Business will be enjoying record sales and high profits.

Walter

Walter W. Heller

Speech material
SD- Economics

COPY

October 6, 1964

Professor Mancur Olson, Jr.
Department of Economics
Princeton University
Princeton, New Jersey

Dear Professor Olson:

Please excuse the belated nature of this reply to your letter of September 18.

We would, of course, be indeed pleased to have whatever contributions you might wish to make to the Senator's speechwriting and research operation in the campaign.

I believe a draft of a speech on how Goldwater's economic policy would contribute to a major depression would be most helpful. My suggestion is that you get to work on this speech, if that is agreeable, and forward it to me in Room S-301, U. S. Capitol, Washington 25, D. C.

Any questions or information you might need, do not hesitate to call me collect, Area Code 202, 225-2245.

Many thanks for your kind offer of assistance and help.

Best wishes.

Sincerely,

John G. Stewart
Research Director

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

*Department of Economics*



September 18, 1964

Mr. William Connell
Administrative Assistant to Senator Hubert Humphrey
U. S. Senate Office Building
Washington, D. C.

Dear Mr. Connell:

Perhaps I should have written you directly about the matter I raised in my letter to Senator Humphrey, but I don't know who handles such things for the Senator, so wrote the letter to him on the assumption it would reach the appropriate member of his staff. But I enclose a copy of the letter for you.

I regret that I haven't had the opportunity to talk with you since the 1960 Presidential primary (except for a brief moment at the Norwegian-American independence day celebration in Brooklyn on May 17th). But I presume, in view of the good news about Senator Humphrey's nomination, that you are very pleased.

Best wishes.

Yours sincerely

Mancur Olson

Mancur Olson, Jr.
Assistant Professor

MO: ss
Enc.

September 16, 1964

Senator Hubert Humphrey
Washington, D. C.

Dear Senator Humphrey:

During the Presidential primary in Wisconsin in 1960 you asked me to prepare some speech materials for you. If, as the gracious letters you and your assistants sent me indicated, these materials were of some use, it is conceivable that I might be able to make some contribution to your present campaign. If so, please feel free to call on me for any further help.

Such of my time as you might need is available to you without cost, as part of my campaign contribution, but if any extensive travel is required, I am afraid I would need to be reimbursed for travel expenses.

As an economist, I could perhaps help most by writing speeches or reports on economic issues. In particular, I have some specialized knowledge of the farm problem, and have done some detailed thinking about how Goldwater's economic policies, if generally adopted (admittedly not very likely, even if he were elected) would tend to cause a major depression. Probably what I would have to say on these two subjects would have the most political value, but I could prepare speeches or reports on a number of other subjects as well.

Best of luck in this profoundly important election.

Sincerely yours,

Mancur Olson, Jr.
Assistant Professor
(On leave, fall term, 1964)

MO:ss
cc: Mr. William Connell
Mr. John Rielly

From the desk of . . .

*WALTER W. HELLER, Chairman*
*Council of Economic Advisers*

October 14, 1964

To: Senator Humphrey

1. We have revised and tightened the attached materials.

2. We now have general clearance from the President for broader distribution -- especially to other campaign speechmakers.

3. The President gave explicit clearance on the State-local finances statement -- this might well be made a major point in one of his early speeches.

Walter

RECEIVED
OCT 15 1964

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
Office of the Chairman

File Economy

Q&As on Economic Issues

1. Attached are 17 Q&As on Economic Issues, as follows:

   1. Sustained prosperity
   2. "Artificial prosperity"
   3. Full employment
   4. Fiscal policy
   5. State-local finances
   6. Taxes
   7. Monetary policy
   8. Balance of payments
   9. Guideposts: wages and prices
   10. Business-government relations
   11. Federal spending
   12. Foreign aid
   13. Trade expansion
   14. Regulatory agencies
   15. Tax reform
   16. Tax credits for education
   17. Depreciation guidelines

2. These materials were worked out by CEA in close collaboration with the Treasury, Labor, and Commerce Departments, Budget Bureau, STR, and AID.

3. They have been cleared by the President in general terms for use in preparation of speeches and campaign material. He has specifically cleared the statement on State-local finances as it stands.

4. If you have any questions about the attached material, please call my office. My assistant, Joseph Walka, will serve as CEA's "clearing house" for this purpose.

Walter W. Heller

Note: This set of Q&As supplants an earlier draft which some of you received.

## 1. Sustained Prosperity

Question:

Do you believe that it will be possible to go another four years without a recession? What measures might you take to deal with a threat of recession?

Answer:

1. Our unprecedented 44-month peacetime prosperity has already broken the historical rhythm of recessions after every 2 or 3 years of expansion; to go another 4 years without recession would completely change the character of American economic history. No one can promise that such an achievement is "in the bag."

2. But we are convinced that recessions are not inevitable, and sustained prosperity is our realistic objective. Many of the free economies of Western Europe have gone more than a decade without a business decline.

3. Our prospects for continuing prosperity start from the solid base of a healthy and balanced expansion that shows no signs of faltering:

   . Nearly 5 million new nonfarm jobs have been created since early 1961.

   . Our total production is now expanding at a good 5% annual rate.

   . Profits after taxes are up more than 60% since early 1961.

   . Wages and salaries after taxes are up nearly $60 billion.

   . Prices and costs have been more stable than in any other industrial country in the world.

4. The best way to avoid slipping backward is to maintain strong and steady forward momentum. A continued partnership of government and private enterprise can supply that momentum:

   -- by continued restraint in costs and prices, combined with steady progress in modernization, improved management, and cost-cutting investments;

-- by further tax reduction, with excises first in line, carefully timed and tailored to maintain continued growth and to head off recession;

-- by monetary policies to provide the credit needed for steady expansion without inflation;

-- and, finally, by a spirit of constructive cooperation, not angry antagonism, between government and private enterprise.

5. A good offense -- a vigorous program for sustaining prosperity -- is our best defense against recession. But _if_ recession were to threaten, a well-timed tax cut would be one of our most effective measures. And within the bounds of efficient government expenditures, a speed-up of public works and other Federal outlays could also help take up economic slack.

## 2. "Artificial Prosperity"

Question:

The opposition has labeled our economic performance this year an "artificial prosperity." What is your reaction?

Answer:

1. Our 44-month economic expansion rests on a solid and broad base of consumer and business spending. The dollars that are raising living standards, adding to savings, filling corporate treasuries, and financing business expansion are real dollars -- not artificial ones. Prices have not wavered from their remarkably stable course. Excesses and speculation have been avoided:

   . Inventories have been rising very modestly, far less rapidly than sales.

   . Credit expansion has been moderate, and the money supply has risen less than the Nation's output.

   . Expansion of plant capacity has been closely geared to developing markets.

2. In 4 years of this Democratic Administration, our great prosperity has boosted total output more than in the preceding 8 Republican years. This is real output, after all price changes have been eliminated. There is nothing artificial about this 2-to-1 ratio of economic performance.

3. The economic news also shows full business confidence in sound and sustained prosperity:

   -- business economists foresee continued advances in 1965;

   -- purchasing agents anticipate good gains in orders and production for the next two quarters;

   -- businessmen are currently spending 13% more on plant and equipment this year than last -- this expansion of capacity testifies eloquently to their expectations for sales and orders in the future.

4. We fully admit the charge that we have been working to promote prosperity this year. We are not sorry that the American people are enjoying prosperity this election year (unlike 1960) or that we have had an economic upswing right through 1961, 1962, 1963, and 1964. Every year is a good time for prosperity, in our opinion, and this Administration will continue to work to sustain and broaden prosperity every day that we are in office.

## 3. Full Employment

Question:

After a 3-1/2 year expansion, unemployment today remains excessive by your own standards. What is a feasible target for full employment?

Answer:

1. Our employment objective must be to provide job opportunities for all individuals willing and able to work.

2. We have already made considerable progress: unemployment has fallen from over 6-1/2% in January 1961 to about 5% today. In the previous four-year period -- 1957-1960 -- unemployment rose from 4% to over 6-1/2%. The reason for this encouraging reversal of direction is that we have had continued expansion in the economy for the past 44 months, whereas there were two economic recessions during the period 1957-1960.

3. More than 1,000,000 new jobs a year have been created in nonfarm employment during the past four years. This contrasts with about 500,000 jobs a year in the previous four years -- 1957-1960.

4. In 9 months of 1964 alone:

   - Unemployment has fallen from about 5-1/2% to 5%.

   - The number of civilian jobs has risen 1.2 million.

   - The unemployment rate for married men has fallen below 3%.

   - The rate for all men over 20 years of age has fallen below 4%.

5. But the task is far from complete. Despite recent gains, jobless rates for the unskilled, the young, the Negro worker are far too high.

6. We are now beginning to feel the impact of the postwar baby boom in the labor market. There are now one million more 17 year olds than 18 year olds. The labor force is expected to rise by about 1-1/2 million next year. These young people, on balance, are better trained

than new entrants to the labor force have been in the past and they afford a reservoir of talent for the continuing improvement of our standard of living. To use this talent effectively we must accelerate the growth of new jobs.

7. We must foster continued expansion of total demand, and, at the same time, devise special programs to deal with youth, the long-term unemployed, and the disadvantaged groups in our population. New programs are needed to extend the economic advances of the past four years. Our ultimate employment goal -- job opportunities for all persons willing and able to work -- can and will be achieved in the years to come.

## 4. Fiscal Policy

Question:

What are the basic principles for responsible and effective fiscal policy?

Answer:

Responsible and effective fiscal policy requires:

1. Comprehensive budgetary controls

   -- to insure maximum efficiency in operations;

   -- to weed out low priority and outmoded programs;

   -- to get a full dollar of value for every dollar spent.

2. Strong and innovating government programs that meet fully and efficiently our responsibilities at home and abroad.

3. A tax system which distributes the burdens equitably and raises revenue without blunting the incentive and efficiency of the private economy.

4. Careful appraisal of the budget's impact on our economic performance in pursuit of the goal of a balanced budget in anyeconomy balanced at full potential. At times when men and machines are idle, measures to raise production and create jobs may find the budget in deficit; at times when total demand would otherwise outrun our capacity to produce, a surplus is called for. This means the continuous pursuit of policies to promote steady and sustained prosperity without inflation -- not merely actions to counter recessions after they begin.

5. Flexibility in meeting the changing needs of the economy and the world situation. We cannot lay down rigid and mechanical rules for tax reduction, years in advance, without any possible knowledge of the budgetary needs and economic conditions that the future may bring.

## 5. State-Local Finances

Question:

The opposition has endorsed a program of unconditional fiscal grants to the States out of Federal revenues. Do you consider this an effective method of relieving the financial burdens on the States?

Answer:

1. Long before the opposition announced its plan, we were acting -- in line with the Democratic platform -- to consider "development of fiscal policies which would provide revenue sources to hard-pressed State and local governments to assist them with their responsibilities."

2. At the State and local level, we see responsibilities rising faster than revenues, while at the Federal level an average annual revenue growth of some $6 billion provides a comfortable margin for Federal tax reduction and more generous help to State and local units.

3. The opposition offers aid to States and localities with one hand, but, with the other, it would destroy existing programs of Federal-State-local cooperation in such vital areas as highways, public assistance, public health, urban renewal, and education. We want to strengthen these programs.

4. The national government, as a constructive partner in a creative federalism, should help restore fiscal balance and strengthen State and local governments by making available for their use some part of our great and growing Federal tax revenues -- over and above existing aids.

5. For the past four months, a task force appointed by the President has been studying intensively the various ways to strengthen the Federal-State-local partnership. One of the proposals they are weighing most seriously is unconditional grants to the States. They will report their findings to the President on November 15 -- in time to help the Administration formulate its program for the next Congress.

## 6. Taxes

Question:

You have announced that you will propose excise tax reductions next year. Can you say any more about these proposals now? What are the prospects and priorities for further tax cuts in the years ahead?

Answer:

1. Currently, the Treasury Department is intensively studying each of the 75 excise taxes to design a rational program of excise tax reduction.

2. The size and timing of excise tax reduction, as of any tax reduction, must be tailored most carefully to fit

   -- the budget program as a whole, and

   -- business conditions, so that it works to sustain prosperity without inflationary excesses.

   These needs can be assessed more clearly at the end of the year.

3. As long as the economy remains prosperous, rising incomes will increase the revenues of the Federal Government by roughly $6 billion a year at current tax rates. Unless a major increase in defense was required by unanticipated international developments, revenues would therefore tend to rise relative to expenditures. Fiscal policy must be constantly alert to the danger that such a growth in revenues could choke off our economic expansion, as it did in the late 1950's.

4. There are many ways by which this "fiscal drag" can be countered. The possibilities include: further tax reductions, increases in top-priority Federal programs, and an increased flow of funds to State and local authorities.

5. Thus far, we have cut both individual and corporate income tax liabilities by nearly one-fifth by

   -- revising depreciation guidelines, thus adding $1-1/2 billion a year to corporate "cash flow,"

   -- enacting the investment tax credit, thus reducing tax liabilities by more than $1 billion a year,

   -- cutting personal and corporate income tax rates, thus raising private after-tax incomes directly by $11-1/2 billion.

6. Excise taxes will have priority for the year 1965. Later, we will again focus on income taxation -- both personal and corporate -- as the major areas for future tax cuts. We fully anticipate that taxes will be cut further in the years ahead, barring any major unanticipated need for increased defense spending.

7. The exact combination of measures cannot be laid out in advance in any arbitrary, automatic fashion. Tax proposals should be examined most thoroughly and timed carefully with full consideration of the state of the economy and the priorities in the Budget.

## 7. Monetary Policy

Question:

Now -- as always -- the Federal Reserve isn't pleasing everyone: some say credit is too easy; others find it too tight. How would you evaluate the performance and prospects of monetary policy? In light of your experience as President, how do you feel about the independence of the Federal Reserve?

Answer:

1. The job of the money managers is never easy. But the results over the past four years have been remarkable:

   - Ample but not excessive credit has been available to businesses, homebuyers, and State and local governments.

   - At the same time, short-term interest rates have been pushed up to reduce capital outflows and help correct our balance of payments deficit.

   - Yet long-term interest rates, which are so important to domestic borrowers, have remained moderate -- in fact, home mortgage rates and the rates paid by State and local governments are lower today than in early 1961.

2. All this has been made possible by close ties between our monetary and our fiscal and debt management policies, and close harmony among the men responsible for these policies:

   - We have maintained the Federal Reserve's traditional independence within the Government.

   - Yet the Federal Reserve and the Administration agree entirely on the practical need for informal coordination among the various economic programs of the Government.

   - To do this the President meets periodically with Secretary Dillon, Budget Director Gordon, Chairman Martin, and Chairman Heller of the Council of Economic Advisers, and they in turn are in close and continuous contact.

   - In our view, these informal arrangements have worked very well.

Monetary Policy (cont'd.)

3. In the future as in the past, our monetary system must remain flexible, and not be bound by any rigid, mechanical rules:

   - In an atmosphere of private and public moderation, monetary policy has been steadily expansionary for 4 years.

   - With continued moderation, there can be continued monetary expansion.

   - But if inflation develops, or if excessive outflows of funds occur, the Federal Reserve System is in a position to do what is necessary.

## 8. Balance of Payments

Question:

Do you feel we are making satisfactory progress in reducing our balance of payments deficit?

Answer:

1. We have made much progress:

   - Our surplus of merchandise exports over imports is 40% above 1960.

   - Our balance of payments deficit (on regular transactions) has been cut by more than half -- from an average level of $3.9 billion in 1958-60 to $1.7 billion during the last fiscal year.

   - Confidence in the dollar has been restored.

   - As a result, the gold outflow -- which averaged an alarming $1.7 billion a year from the end of 1957 through 1960 -- was cut in half in 1961 and 1962, and has ceased entirely over the past 12 months.

2. This progress has not come at the expense of our other vital responsibilities

   -- for maintaining and improving our defenses abroad,

   -- for providing needed assistance to developing nations,

   -- and for sustained and rapid growth at home.

3. Moreover, we have refused to seek "easy" and fast solutions to our balance of payments problem through controls and restrictions that would have curbed economic freedom, hurt our domestic prosperity, or damaged other countries' trade.

4. Instead, we have chosen the slower but surer path of progress through a more competitive, efficient, and prosperous domestic economy -- an economy fully equipped to maintain and expand its share of rapidly growing world markets.

5. During the past year, we have cut back hard on the U.S. Government flow of dollars abroad; we have passed the Interest Equalization Tax and raised short-term interest rates at home to cut off an excessive flow of capital abroad; we have given fair assistance to our exporters while our policies have helped to maintain the price stability that has advanced our trade; we have made investment at home more attractive by stimulating healthy economic growth.

6. But the task of restoring balance in our external payments has not been completed. To maintain our forward momentum and capitalize on the very real gains of the past four years will require further efforts to expand our exports and to create conditions that will keep more of our American capital at home.

## 9. Guideposts: wages and prices

Question:

The opposition has called your price and wage guideposts "irresponsible and dangerous," and has said, "They offer a serious threat to a free economy." How do you view the guideposts?

Answer:

1. The price-wage guideposts were developed under President Kennedy and reaffirmed by this Administration to facilitate decisions by business and labor that help us preserve price stability.

2. The guideposts provide the public with a means of judging whether the price and wage decisions made by business and labor are noninflationary and therefore consistent with the public interest.

3. The guideposts reflect the fact that over-all stability of prices can be assured if wage increases do not exceed the economy-wide rate of gain in productivity and if industries with exceptionally high productivity gains reduce their prices.

4. The guideposts are not compulsory and do not fix prices or wages. In our economy, those are matters properly left to free markets and free collective bargaining. The term "guideposts" conveys exactly what was intended -- not hard and fast prescriptions for every wage settlement or price-decision -- but criteria for responsible action by both labor and business.

5. With few exceptions, business and labor have generally followed the guideposts in the 1961-64 period:

   -- Price increases in industries with below-average productivity gains have been offset by price decreases elsewhere.

   -- Average wage and benefit increases have not exceeded the long-run rise in the productivity of our workers, so that labor cost per unit of output has been stable since the beginning of 1961. In fact, it has fallen by 3.4% in manufacturing.

6. Our remarkable record of price stability has (a) protected consumers at home by maintaining the purchasing power of the dollar and (b) enabled us to strengthen the competitive position of our goods abroad and improve our balance of payments:

-- Wholesale prices are, on the average, no higher now than a year ago, and are 1/10 of 1% below 5 years ago.

-- Industrial wholesale prices have fallen 3/10 of 1% over the same period.

-- Since 1961, the wholesale price record in the United States is the best of any major country in the world. For example, while wholesale prices here were falling a bit, they rose in all the major European countries, from about 3-1/2% for Germany to 11-1/2% for Italy.

-- Consumer prices have also been more stable than in any other industrial country in the world. As compared to our consumer price increase of slightly less than 4% since the 1st quarter of 1961, major European countries experienced increases of 10% to 19%.

7. The guideposts are a sound basis for continued price stability and are increasingly important as our economy rises closer and closer to its full potential. They have made all of us -- in business, in labor, and in government -- more keenly aware of the importance of our own actions for price stability and sustained prosperity. This increased understanding and sense of responsibility will strengthen our economy in the years ahead.

## 10. Business-Government Relations

Question:

Do you share the opinion that attitudes and relations between business and government have shown marked improvement of late? If so, how do you explain this development?

Answer:

1. Relations between business and government have improved. An unusually large number of outstanding businessmen have spoken out in support of the general economic policies of this Administration. Businessmen have been very cooperative and constructive in discussing the problems of this Nation and considering possible solutions. The Administration, in turn, has been receptive and responsive to their views and suggestions.

2. There is a growing recognition by businessmen that:

   -- this Administration's policies make for a strong and growing economy; and

   -- a strong and growing economy means good business.

3. Through a strong and growing economy, profits after taxes in the second quarter of 1964 were:

   -- 64% above the first quarter of 1961;

   -- 20% above the old peak in the second quarter of 1959.

   And these profits have been earned in dollars of remarkably stable purchasing power.

4. Businessmen know their efforts have been supported by

   -- this year's tax reduction;

   -- the investment tax credit;

   -- the new depreciation guidelines;

   -- our efforts to maintain the ready availability of credit at stable interest rates;

-- our effective efforts to maintain stable prices;

-- our new programs to assist in the development of export markets;

-- our success in restoring world confidence in the dollar.

5. Businessmen approve of this Administration's business-like approach to the conduct of the Nation's affairs,

   -- applying sound management practices and cost-consciousness to eliminate waste and raise productivity in Federal programs;

   -- making well-planned investments in our human resources where the investments can yield a high return to the whole Nation.

6. Businessmen respect our efforts to promote competitive market performance by such activities as

   -- improving the dissemination of technical information generated by Federal R and D programs;

   -- assisting private industry in establishing voluntary marketing standards for U.S. commodities at home and abroad;

   -- broadening the area for private initiative and market decisions in transportation industries;

   -- reshaping Federal credit programs to assure that they stimulate and supplement -- but do not substitute for and displace -- private lending;

   -- enforcing and updating our laws to prevent abusive and unfair use of the market.

## 11. Federal Spending

Question:

In the eyes of the opposition, you are a reckless spender. Meanwhile, your emphasis on frugality has concerned some liberals who see large unmet public needs. How would you summarize your position on Federal spending?

Answer:

The record of the past 10 months clearly refutes the charge of reckless spending. The Administration has had significant accomplishments in controlling expenditures, holding down Government employment, and effecting numerous economies in the management and operation of Government programs.

1. The first budget for which President Johnson is responsible is the 1965 Budget, for the fiscal year which began July 1, 1964.

   - Instead of increasing expenditures, this budget calls for a decrease -- and it is only the second budget in 9 years to do so.

   - Budget expenditures this year are smaller in relation to Gross National Product than at any time since 1951. They are running 15-1/2% of GNP -- no Republican budget from 1955 to 1961 was below 16%.

   - Instead of increasing Government civilian employment, this budget calls for a reduction -- and it is the first budget to do so in the last 8 years.

   - The President has requested $450 million less in 1965 appropriations than he said he would when he transmitted the 1965 budget.

   - During the first 2 months of this fiscal year (the only period for which figures are now available) -- July and August -- budget expenditures were $676 million below the same period last year.

Federal Spending (Cont'd.)

- Civilian employment in the executive branch in September, 1964 was down 21,000 from the beginning of the Johnson Administration and at the lowest level in nearly 2-1/2 years.

- During July and August many further steps to initiate management improvements and cost reduction actions were reported by Federal nondefense agencies; these steps are expected to produce savings of more than $178 million on an annual basis.

- Present rates of spending indicate that we will actually be able to reduce 1965 expenditures by $600 million below the budget estimates -- a reduction of $400 million below actual expenditures in fiscal 1964.

- The Federal debt at the end of this year will be smaller in relation to Gross National Product than at any time since 1941. It will be less than 50% of GNP, down from 133% of GNP in 1946 and from 58% of GNP in 1960.

2. Efforts to achieve economies in expenditures and employment already bore considerable fruit in fiscal 1964.

   - Actual expenditures in that fiscal year were down more than $1 billion from the original 1964 budget estimate of January 1963 and were $700 million below the estimates made in January 1964.

   - Civilian employment in the executive branch on June 30, 1964, was down more than 101,800 from the number in the original 1964 budget estimate, 43,000 from the revised estimate in last January's budget, and 21,000 from the actual number on the rolls one year earlier.

   - Cost reduction was made a continuing high priority concern of every department and agency. The following are a few major examples of results achieved in fiscal year 1964:

     -- Secretary McNamara's cost reduction program in the Department of Defense actually realized savings of $2.8 billion, compared with the initial forecast of $1.5 billion. This was accomplished at the same time that our military strength and combat readiness were being vastly improved.

Federal Spending (Cont'd.)

-- In the National Aeronautics and Space Administration, a cost reduction goal of $81.7 million was established for fiscal year 1964. Results far surpassed these expectations, and savings are conservatively estimated in NASA at $128 million.

-- In the Post Office Department, employment in June 1964 was 3,164 less than in June 1962, while mail volume was 3.7 billion pieces more than in 1962. If output per postal worker today were the same as in 1961, the cost of operating the Post Office would be $140 million more than it is.

-- The Treasury's Division of Disbursement improved employee output by more than 14% over 1963, due to electronic data processing improvements, consolidation of field offices, and streamlined procedures. This is equivalent to the work of nearly 200 employees.

-- The Veterans Administration's insurance program increased the productivity of its manpower by 24% over the preceding year, through reorganizations and the use of automatic data processing. This is the equivalent to the work of about 600 employees.

-- The Federal Aviation Agency's Systems Maintenance Service achieved a 6% increase over 1963 in the amount of maintenance of air navigation and air traffic control facilities per man-hour. This gain represents a saving of about 600 man-years.

3. This Administration's emphasis on frugality does not mean a do-nothing policy. On the contrary, it is our policy to reduce costs, curtail less urgent activities, and find other savings which will permit the Government to expand essential services or start needed new services without a wasteful burden on the taxpayer. Frugality is most meaningful when its fruits are used to contribute to human compassion and national progress.

. From 1961 to 1964, the bulk of the increase in expenditures (over 70%) went for strengthening our defense and space programs and for uncontrollable interest charges. These investments in military readiness now make it possible to reduce military spending without sacrificing military strength.

Federal Spending (Cont'd.)

- The cut in defense expenditures plus numerous economy measures enable us to turn to other unmet national needs.

- The austerity policy followed in the 1965 budget permitted the inclusion of a number of legislative proposals of great importance to the Nation's citizens. Almost all of the measures proposed were accepted by the Congress.

In addition to the reduction in income taxes -- which is the single most important step taken since World War II to strengthen the economy -- the following are a few of the proposals included in the 1965 budget to improve the Nation's well-being, promote better education, and provide better use of natural resources.

-- Economic Opportunity Act begins a war on poverty -- through measures to stimulate employment, better health, job training, education, rehabilitation, and other services to help the poor help themselves. This landmark legislation relies for its main success on the efforts of local communities.

-- Urban mass transportation. The new law provides for grants and loans to States and local public bodies to help them finance mass transit facilities. This Act will exert a major constructive influence on the sound development of our expanding urban communities, where 7 out of 10 of our citizens live.

-- Housing Act of 1964 carries forward efforts to eradicate slums, to assure decent housing to those least able to afford it, and to promote orderly growth in our communities. It is another substantial step toward the goal of assuring every American an opportunity to live in a decent home in a safe and decent neighborhood.

-- Education. Various acts were passed by the 88th Congress to improve education, among them laws expanding and improving vocational education, extending and expanding the National Defense Education Act, extending the impacted areas programs, providing better library services, and authorizing new programs of aid to medical education and grants and loans for construction of facilities at institutions of higher education. There is ample reason for designating the 88th Congress as the Educational Congress.

Federal Spending (Cont'd.)

-- Land and Water Conservation Fund Act of 1964 provides for acquisition of land and development of facilities to meet the urgent recreational needs of our rapidly expanding population. The Wilderness Act provides for preserving wilderness areas in their natural state for the enjoyment of all Americans.

-- Appalachian program was proposed to help this area of our country emerge from its depressed condition and achieve a better share in the prosperity being enjoyed throughout most of the Nation.

. These and various other proposals advanced by the President and included in the budget indicate better than words or slogans the concern of this Administration with the improvement of the lives of our Nation's citizens.

4. In summary, the President's position on Federal spending remains as he outlined it in his Budget Message to the Congress last January, as follows:

"In formulating my budget, I have been guided by two principles:

. I have been guided by the principle that spending by the Federal Government, in and of itself, is neither bad nor good. It can be bad when it involves overstaffing of Government agencies, or needless duplication of functions, or poor management, or public services which cost more than they are worth, or the intrusion of government into areas where it does not belong. It can be good when it is put to work efficiently in the interests of our national strength, economic progress, and human compassion.

. I have been guided by the principle that an austere budget need not be and should not be a standstill budget. When budgetary restraint leads the Government to turn its back on new needs and new problems, economy becomes but another word for stagnation. But when vigorous pruning of old programs and procedures releases the funds to meet new challenges and opportunities, economy becomes the companion of progress."

## 12. Foreign Aid

Question:

According to the Republican candidate, "Foreign aid has been a great failure . . . and we must reduce it drastically." How would you appraise the success of our foreign aid program and its prospects for the future?

Answer:

1. Foreign aid has been a success -- which is the reason for the broad bipartisan support it has received throughout its history. It has been a major contributor to the growing strength of the free world: a strength essential to our own security, to our own economic progress, and to the kind of world in which free institutions can survive and flourish.

2. Past aid efforts were clearly successful in helping Europe and Japan to recover and become strong, free and prosperous nations. This prosperity permitted a vast increase in trade -- U.S. exports to Europe doubled between 1950 and 1962 and exports to Japan tripled over the last decade.

3. Europe and Japan have now joined with the United States in providing aid to the underdeveloped countries. Since 1956, the other developed free-world countries have provided more than $13 billion in aid to the less-developed world -- about what the United States invested in the recovery of Western Europe through the Marshall Plan between 1948 and 1952.

4. Experience has proved that, despite obstacles, economic and social progress can be achieved in the poorer nations, through a combination of their own efforts and outside help. And this experience again shows that trade can follow aid, just as has happened in Europe. Over the past five years, U.S. exports not financed by aid rose by 14% to Taiwan, 28% to Colombia, and 76% to Israel. We can now identify a dozen or more countries which have made good headway and are approaching the point where their development can go ahead without soft loans and grants.

5. But there are still many countries which need support from the advanced nations to develop a solid base for economic growth. And there are other countries, such as Vietnam, where economic progress must await the establishment of basic security conditions, and where U.S. military and economic aid is crucial to security.

6. This year's aid request was the lowest ever made. It was:

   -- far less than 1% of GNP;

   -- less than 5% of the Federal Budget;

   -- and less than half as much of a burden on U.S. resources as was the aid program of 15 years ago.

7. Nevertheless, today's aid program is accomplishing more, dollar for dollar, than ever before, because aid today

   -- is based on what recipient countries are doing to help themselves;

   -- is concentrated in the most important countries;

   -- places more emphasis on the role of private enterprise; and

   -- is being administered in a tight-fisted and realistic fashion.

8. It is simply romantic nonsense to believe that Free World strength can be increased without spending money. Military strength takes equipment and money. Roads, schools, and factories -- the most effective weapons in the fight for economic progress -- cost money. Those who believe in peace and freedom are willing to pay that price.

## 13. Trade Expansion

Question:

How do you view the problems and prospects for trade liberalization?

Answer:

1. The policy of trade liberalization -- pursued ever since the Trade Agreements Act of 1934, by both Democratic and Republican Administrations -- has served this country well. Our foreign trade, which amounted to only $3.8 billion in 1934, is now running at an annual rate of $42.5 billion -- $24.5 billion in exports and $18 billion in imports.

2. Our exports provide jobs for about 3.6 million American workers and outlets for the crops of one out of every four acres of our farms. Our imports provide essential raw materials for our industries, maintain a healthy pressure on our own producers and workers to step up their efficiency, and offer our consumers a wider choice of goods at competitive prices.

3. On the basis of the Trade Expansion Act of 1962, we are currently able to engage in the sixth round of international negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT). The Trade Expansion Act is one of the great legislative monuments to President Kennedy's leadership, and this Administration is fully committed to its vigorous implementation.

4. The current negotiations will not impose burdens on some nations to provide gains for others. They are being conducted on a basis of reciprocity, and their success will be advantageous to all participating nations. The negotiations may be lengthy, complex, and at times difficult, but we are prudently confident of fruitful results.

5. Special import difficulties confronting particular sections of our economy may at times require remedial action. This Administration has taken action to meet the problems of meat producers and of cotton textile and apparel manufacturers. Currently, we are seeking to work out with other woolen textile-producing nations orderly marketing arrangements which would be in the mutual interests of all.

Trade Expansion (Cont'd.)

6. However necessary, such remedial actions are the exception rather than the rule. The main thrust of this Administration -- as of Democratic and Republican Administrations for the past 30 years -- will be toward trade liberalization.

## 14. Regulatory Agencies

Question:

Our regulatory agencies (SEC, FCC, ICC, FTC, etc.) are under fire from the opposition. How would you appraise their effectiveness? Do you plan any major changes in government regulation of business?

Answer:

1. Ours is a competitive, free enterprise system. Government policies toward business should increase the effectiveness of competition. Among the many ways in which government encourages competition is the vigorous enforcement of our anti-trust laws; these rules of the game enhance the opportunities of American businessmen to develop new markets in an atmosphere of economic freedom and fairness.

2. Direct Federal regulation is necessary in only a few areas in which resources of a public nature are involved and in which the problems are interstate or international in character. Each of the independent regulatory agencies was set up to meet an urgent national need of this kind. Their activities have been important in insuring that major national resources be used for the benefit of all and not just a privileged few.

3. The regulatory agencies are independent of the Executive Branch -- Congress carefully specified this status so that they would not be altered significantly with changes in the Presidency. The independent commissions are often referred to as the fourth branch of government just for this reason.

4. In our dynamic society, regulatory agencies and policies should be flexible and alert to new needs and conditions. We must be careful that regulation does not survive after the need for it has disappeared. In view of rapid changes in the area of transportation, this Administration will continue to urge legislative changes which will reduce the scope of regulation and provide a larger role for competition in this industry.

## 15. Tax Reform

Question:

Few of the tax reforms recommended by President Kennedy in 1963 were, in fact, enacted in the Revenue Act of 1964. Do you plan renewed efforts to achieve further tax reform?

Answer:

1. The Administration did not get everything it sought in the area of tax reform; but many significant reforms were enacted.

2. The Revenue Act of 1964 contained $835 million per year of revenue-increasing reforms. In addition, the Revenue Act of 1962 picked up another $855 million through revenue-raising reforms. The total of these is three times more than all of the revenue-increasing reforms enacted during the previous 20 years.

3. Important and much needed reforms involving revenue losses were also enacted. The major reforms of this nature included:

   -- the minimum standard deduction -- which eliminated over 1.2 million low-income taxpayers from any tax liability;

   -- the introduction of a moving expense deduction;

   -- a badly needed averaging device providing tax relief for individuals with widely fluctuating incomes.

4. Prior to the 1964 Revenue Act there were extreme differences in the way the tax system treated different kinds of income: personal income was taxed as high as 91%, corporate income at 52%, capital gains at 25%, and dividend income enjoyed a preferential treatment through the dividend credit. These wide discrepancies created enormous incentives for people to alter their business operations in order to minimize tax liabilities. The extent of this differential treatment has now been markedly reduced: starting in 1965 personal income will be taxed at a top rate of 70%, corporate income at 48%, capital gains still at 25%, and the dividend credit will have been eliminated. These reduced disparities are in themselves a major reform -- improving the equity of tax treatment and, thereby, the efficiency of the economic system.

5. This Administration certainly intends to continue to seek further tax reform. A better excise tax system is next on our agenda. After that, we will turn again to the income tax. The Revenue Act of 1964, because it sharply reduced the unequal treatment of different types of income, effectively sets the stage for future tax reform. Moreover, our experience with the operation of the Revenue Act of 1964 will guide us in designing new tax reform measures.

## 16. Tax Credits for Education

Question:

The Republican candidate has said, "Tax credits for educational taxes, tuition, and donations would . . . pose no threat of federal control. They would maintain diversity and freedom of education while improving its support." Apparently, you do not consider tax credits an effective means to support higher education. Would you explain your position on this issue?

Answer:

1. The Administration opposes tax credits for education because they are an inefficient and inequitable way of broadening educational opportunities.

2. The inefficiency and inequity of the approach is made obvious by the facts regarding college attendance relative to family income:

   . In October 1960, only 9.2% of all persons aged 16 to 24 from families with incomes under $5,000 were currently enrolled in college. These families pay little or no income tax and hence would gain little or nothing from the tax credit.

   . But 44.1% of those with family incomes over $10,000 were enrolled in college. This upper income group, many of whom can comfortably afford college bills, would get a big windfall from a tax credit, while thereby reducing the opportunity for general tax reductions that would benefit everyone.

3. To the extent that a tax credit encouraged colleges to raise tuition fees, it might actually hurt the children of low-income families.

4. The most effective way to support higher education is through a program of scholarships, guaranteed loans, and work-study programs to students, and aids to colleges and universities to help keep tuition down. This Administration has advanced and supported such measures. Recently passed were:

   -- the Higher Education Facilities Act of 1963 -- to provide more "bricks and mortar" for an expanding college-age population, and

-- amendments to the National Defense Education Act -- to increase loan funds and scholarships for needy college students.

5. We will continue to propose effective measures to achieve the promise of the Democratic Platform of 1964:

"New methods of financial aid [to education] must be explored, including the channeling of federally collected revenues to all levels of education . . ."

# 17. Depreciation Guidelines

Question:

The Republican candidate has said, "We must make sure that a sensible and uncomplicated policy is established toward depreciation allowances. I am definitely opposed to the so-called reserve-ratio system about to be put into effect by administrative order." In 1962, depreciation guidelines were revised; do you feel that tax treatment of depreciation is now sensible and satisfactory?

Answer:

1. The tax treatment of depreciation is a highly complex technical subject. In 1962 the Administration made a major step forward, and broke with past practices, by permitting business more freedom in their choice of the life period of assets they wished to use for depreciation purposes.

2. As part of the new "guideline approach," however, the Administration also required a test (the reserve ratio test) which was designed to ensure that the depreciation lives would, in fact, at least roughly correspond with the actual lives of their assets.

3. The Administration is interested in a workable and fair depreciation policy. It is aware of the problems that have arisen under the existing reserve ratio test and is studying the matter carefully to find the best way of alleviating these problems. It is certainly not irrevocably committed to the details of its present form. We do need some way to insure that depreciation for tax purposes bears a reasonable relation to actual business practice. Recently, at the request of the Treasury, the National Industrial Conference Board has undertaken a survey of 1,000 manufacturing firms in order to provide data on how the new depreciation procedures are operating. The results of this survey will soon supply an objective basis for review of the reserve ratio test.

4. The tax treatment of depreciation is only one aspect of the over-all taxation of business income. Since 1962 the Administration has afforded business not only the new liberalized depreciation guidelines, but also the investment credit, a much lower tax rate for small corporations, and an over-all 4-point reduction in the corporate tax rate becoming fully effective in 1965. In combination, all of these provisions operate to increase the rate of return on investment by about 35 percent for most classes of assets. Investment incentives have been greatly strengthened, which helps account for the recent sizeable increases of business investment spending.