

NATIONAL ARCHIVES AND RECORDS SERVICE
WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Memo	McPherson to Moyers (cross reference) <i>open per JW 7-21-00</i>	9/12/66	c
M Ltr	Califano to Henry Owen w/attached memo from Owen on post Vietnam planning [Confidential] <i>open 7-29-91 NLS 91-151</i>	5/22/67	a

FILE LOCATION

C. F. BE 5-7

RESTRICTION CODES

- (A) Closed by Executive Order 11652 governing access to national security information.
- (B) Closed by statute or by the agency which originated the document.
- (C) Closed in accordance with restrictions contained in the donor's deed of gift.

FILE MEMO
ELM
1/10/69

C. F.

29
1
FG 11-8-1/Califano, Joseph

PL 2

~~BE 5-7~~

PR 18

LA 8

BE 3

ND 19/CO 312

HU 2/ST 5

HU 2/ST 22

LG/Detroit

PU 2-2

LE

FG 1

Box No. #1758 sent to Central Files by Mr. Joseph Califano's Office on the above date contains the following folders.

1. Political Process
2. Post Vietnam Planning
3. Press Contacts
4. Wage-Price Guideposts
5. Vietnam
6. Watts
7. Detroit - Chronology - Aug. 1.
8. Detroit - Chronology - July 23 - 31
9. Notebook - Favorable Editorials for President Johnson's Legislative Program
10. Notebook - Programs of the Administration

FILE MEMO:

DG/dg

October 19, 1968

FG 11-8-1/Nimetz, Matt

WE 9	LE/FI 2	PU 2-4
LG/Pasadena	LG/Chicago	FG 1
HU 4	PL 6-3	FG 100
ND 19/CO 312	FA	LE
FO 3-1	FG 604	HS 2
FG 105	WE 6	LG
SP/FG 440	<u>BE5-7</u>	ED
LE/VA	JL 3	LA 2
HS	FG 11-8-1/Bohen, Fred	FG 170
FI 11	FG 11-8-1/Califano, Joe	FG 804

Box # 1594 sent to Central Files, above date from Matt Nimetz's Office containing the following folder material:

1. Westside Study Center, 1967 (Community Action Program)
2. Weekend of Oct. 21, 1967 (three folders) (secret) re: National Defense Mobilization Committee
3. Water for Peace (President's Memo to Sec. of State) 5/22/67
4. Vice Presiden, Speeches (To Oil Chemical and Atomic Workers re: slums(1967)
5. VA Legislation Program (Recommended Legislative Proposals)
6. Urban Economics (Booklets) 1966-67
7. Taxation, 1967
8. S. 1306, 1968
9. Fifth City: The Ecumenical Institute - Chicago, 1968
10. Romney, George
11. Population
12. Post Viet Nam Planning Committee: Crime Control and Education
13. Program Reporting Data and Statistics (background for Fred Bohem on Federal Aid to Urban Areas)
14. Program Information for Detroit (drafts)
15. New York Times Article, 6/8/67 "Johnson will Use Cabinet to court States' Official
16. Legislative Program Development Procedures
17. Housing for the Poor (Confidential Included)
18. Big Cities - Genral (Booklets and Drafts)
19. Big Cities - Education (Article)
20. Big Cities - Manpower / on-Job Training and Unemployment
21. Committee on Economic Development

oah/
From the desk of . . .

August 7, 1968 3

ARTHUR M. OKUN, Chairman
Council of Economic Advisers

Joe:

Enclosed is a staff paper which discusses some of the issues raised recently in the press regarding claims on the so-called "Peace Dividend." Please give Warren Smith or me a call if something is unclear.

Put in my
Chamfer
—

RECEIVED
JOE CALIFANO, JR.

1968 AUG 7 PM 4 22

C. F. ^U
BE 5-7
76 11-3

~~ADMINISTRATIVELY CONFIDENTIAL~~

CEA
8-5-68

Post-Vietnam Fiscal Policy Choices

A number of "outside" economists -- notably Charles L. Schultze and Joseph A. Pechman of the Brookings Institution and Otto Eckstein of Harvard University -- have recently expressed a variety of opinions about the Federal budgetary situation after the war in Vietnam ends. This has generated widespread public discussion.

In some ways, it is a rather unusual discussion. It is not focused on the question of whether the Federal Government should be aiming at a surplus, deficit, or balance in its peacetime budget, or on other aspects of the problems of managing fiscal policy to promote noninflationary growth at high employment. There are important issues in this area, which we are working on with explicit economic projections. But the post-Vietnam budget discussion is largely centered on differing appraisals of the outlook for the post-Vietnam defense budget and for the levels of nondefense spending that will be generated by programs already on the books, that is, the differences may be said to relate to the politics rather than the economics of the post-Vietnam budget. This staff paper is an effort to appraise the situation, rather than to discuss the views of any of these experts.

~~ADMINISTRATIVELY CONFIDENTIAL~~

Post-Vietnam Defense Spending

Vietnam spending in FY 1969 is currently estimated at about \$30 billion per year out of total defense spending of \$80 billion. Nevertheless, it is generally agreed that defense spending could not conceivably be cut back by as much as \$30 billion when the war ends. Non-Vietnam defense spending has been squeezed to make room for additional spending connected with Vietnam. Defense inventories have been drawn down as much as they can safely be while the production line is going full blast. A bulge, presumably temporary, in defense spending will be needed to restore these inventories to normal levels. In addition, some spending now attributed to the war would have to continue in peacetime. Thus, barring a disarmament agreement, we could not maintain an adequate defense posture by spending \$50 billion per year.

One way to get a more realistic base line for defense spending is to go back to the situation that existed in FY 1965 before the big buildup in Vietnam began. In that year, defense spending was about \$50 billion and had been at roughly that level for several years. Prices of defense equipment and pay of both military and civilian personnel in the Department of Defense have increased since then and will continue to increase. Thus, it would cost about \$60 billion today -- due to price and pay increases -- to achieve the defense posture of FY 1965.

If we assume a scenario in which a truce goes into effect on January 1, 1969, withdrawal of troops begins six months later and takes one year to

complete, military spending in Vietnam might be phased out by July 1, 1970. By FY 1971, it is estimated that further price and pay increases will have raised the cost of maintaining the FY 1965 defense posture to about \$65 billion, allowing for substantial further rises in military pay. Assuming this time sequence, if a decision were made to aim for a defense position at the "real" level of FY 1965, we should be able to reduce defense spending from \$80 billion in FY 1969 to about \$65 billion in FY 1971. Thus, on these assumptions, we would realize a "peace dividend" of about \$15 billion. In the initial stages this would accrue in gradual installments as the demobilization proceeded.

A reduction of this magnitude in defense spending is probably the most we can hope for. It is easy to imagine major new defense programs, such as a full-scale ABM system, which would eat up most of the peace dividend referred to above. Whether it would be sound policy to restore the defense posture to its real level of FY 1965 is, of course, a decision that would have to be made by the President in consultation with his defense and foreign policy advisers. CEA has no particular qualifications to offer advice on this issue, apart from urging that it be kept in mind that every dollar's worth of resources squeezed out of the defense establishment is a dollar that can be applied toward the solution of urgent social problems.

Divergent views on the outlook for military spending are one of the major sources of differences among the various post-Vietnam-budget projections that have been presented. At one end of the spectrum are those

who contend that it would be possible to restore the FY 1965 defense posture, although it would require a President prepared to resist tremendous pressures to expand our defense establishment. At the other end, is the more pessimistic view that it will not be possible to cut the defense budget much and that defense spending will remain at a level of \$70 billion or even \$75 billion after the war ends. None of the papers contains any real analysis of the Nation's defense needs in relation to its foreign policy commitments. The discussion is generally couched in terms of the military and political pressures for expanded defense programs and the President's ability to resist these pressures.

Growing Tax Revenues

Excluding the effects of the 10 percent surtax that is scheduled to expire on June 30, 1969, our tax system currently generates about \$12 billion a year of additional revenue under conditions of full employment as a by-product of economic growth. (That \$12 billion figure itself grows nearly \$1 billion a year through the workings of compound interest.) In principle, these additional revenues generally should be offset by increased expenditures or distributed through reductions in tax rates in order to avoid a "fiscal drag" on the economy. When that was not done in the late 1950's and early 1960's, the economy was pulled below full employment. At a time when we are looking for ways to finance major new initiatives for dealing with social problems, the additional revenues generated by the

tax system may be looked upon as a "fiscal dividend" that automatically becomes available each year.

Actually, in any long-term view of the budget, the fiscal dividend generated by the tax system is much more important than the peace dividend resulting from the end of the war. The peace dividend is a "one-shot" phenomenon whereas the fiscal dividend is something we reap anew each year. Thus, in the course of a few years, the peace dividend will be dwarfed in significance by the fiscal dividend.

Unfortunately, however, the entire fiscal dividend will not become available for financing new programs each year. Some increases in expenditures occur automatically or virtually automatically, and these increases will eat up part of the fiscal dividend. Some increase in the prices of the things the Government buys can be assumed under conditions of full employment, and the pay of civilian Government employees must be raised more or less in pace with wages and salaries in the private sector. Social security benefits rise, even with an unchanged benefit formula, as more persons become eligible for benefits and the average past income of applicants increases. More veterans will become eligible for pensions; more Government employees qualify for retirement benefits with the passage of time; a growing population increases the workloads of many Government agencies; interest on the public debt may increase; and so on.

An allowance of perhaps \$5 billion a year should be made over the next few years for these increases in expenditures generated by increases in prices, pay, and workloads. This would reduce the "net fiscal dividend" available for other purposes to about \$7 billion per year.

Adding it up

Neglecting the temporary effects of the surcharge, and assuming Vietnam spending is completely phased out by mid-1970 and the defense posture restored to its FY 1965 level, the peace and fiscal dividends, on the above assumptions, would be roughly equivalent to \$29 billion of additional budgetary resources in FY 1971. This sum would be made up of the peace dividend of \$15 billion and two annual increments of fiscal dividend of \$7 billion each, one accruing in FY 1970 and an additional one in FY 1971.

However, expiration of the temporary tax surcharge will cost about \$10 billion of revenues, bringing the total down to \$19 billion. Thus, if we can maintain full employment after the war with the full-employment budget surplus at roughly its FY 1969 level -- approximately zero -- we will have about \$19 billion of additional budgetary resources available in FY 1971 to expand existing Government programs and to undertake new initiatives. One cannot be sure whether we can maintain full employment after the war ends with a budget that is approximately in balance, but

at the moment this seems like a good guess, provided monetary policy is sufficiently accommodative to permit private housing expenditures to proceed at levels justified by the underlying trend in household formation. Of course, there is no need to commit ourselves to any particular post-Vietnam budget stance now; indeed, we must remain prepared to adjust fiscal policy to the needs of full-employment noninflationary growth as the situation unfolds.

Nondefense Spending Options

Existing civilian and new defense programs would compete for the \$19 billion of budgetary resources along with new civilian programs. There are many existing civilian programs for which spending scheduled in FY 1969 is far below authorized levels, and there are several recently initiated programs -- such as Model Cities -- for which expenditures could readily be increased very substantially in the next few years. Indeed, even if the defense posture could be held at the FY 1965 level, it is easy to imagine that expansion of existing civilian programs might absorb a major portion of the budgetary resources made available by the ending of the war and the expansion of the tax base over the next several years.

Of course, many of the programs that have been put into operation in the last few years were designed to deal with pressing social and urban problems -- such as improving primary and secondary education, providing better health facilities, controlling air pollution, and countering the effects of urban decay. Full implementation of these programs should be given

a high priority claim against any additional budgetary resources becoming available in the near future. However, if room is to be made in the budget for any substantial new initiatives to deal with the poverty problem without the necessity for an increase in tax rates, every effort will need to be made to hold down expenditures under existing programs that do not have the highest priorities and to avoid the introduction of additional less-than-top priority programs. There is likely to be political pressure for tax reduction (beyond the expiration of the surcharge), but it is difficult to see how such a policy can be reconciled with the urgency of undertaking new social programs.

It seems clear that the end of the war is not going to create a fiscal bonanza in which a vast increase in Federal expenditures will be possible without a tax increase. Undoubtedly there will be some opportunities for new initiatives. But if there is to be room in the budget for such major new programs as a comprehensive income maintenance scheme or new grant arrangements with State and local governments (such as block grants or revenue sharing), it is clear that we will have to (a) do our very best to hold down the post-Vietnam defense budget, (b) avoid increases in spending under low-priority civilian programs, and (c) forego, for the next few years at least, the dissipation through tax reduction of such peace and fiscal dividends as accrue to us.

BB/mc

C. F. 4
BE5-7
PR18-1
FG105/P*

May 22, 1967

Mr. Henry D. Owen^X
Chairman
*Policy Planning Council
Department of State
Washington, D. C.

Dear Henry:

The President wanted me to thank you for your memorandum on long-term planning meetings.

He appreciated your taking the time to lay out your proposals and wants you to know that your ideas are always most welcome over here.

Sincerely,

Joseph A. Califano, Jr.
Special Assistant to the President

RECEIVED
MAY 22 1967
CENTRAL FILES

(32)

46

*Joe
Inform Jeters
& thank him
for his suggestions*

THE WHITE HOUSE
WASHINGTON

May 16, 1967
Tuesday, 4:45 p. m.

FOR THE PRESIDENT

FROM Joe Califano *J.C.*

This is in response to your request for comments on Henry Owen's proposal for long-term Presidential planning meetings for post-Vietnam planning.

As far as post-Vietnam planning is concerned, I think you have already done the right thing. On March 5, you set up a post-Vietnam planning committee, under Gardner Ackley, on which your key Cabinet officers are represented full time. Other members of the Cabinet participate when problems in their color are discussed. Attached is the memorandum in which you set up that group. I think this takes care of the post-Vietnam planning and you have already done what Owen's proposes.

As far as Bartlett's criticism is concerned, I think it is directed almost entirely to the foreign areas. To the extent he is concerned about Vietnam planning, either Gardner Ackley or I could sit down with him and explain in detail what is going on so that he understands the extensive nature of the work now under way.

As far wide as publicity is concerned, I think it cuts both ways. While it is good for the country to know that post-Vietnam planning is going on, at the same time those who are most interested in it (intellectuals and liberals) will only have their appetites whetted further for the end of the Vietnam war.

Insofar as Presidential discussions on nationwide TV with agency task forces are concerned, I do not believe that would be in any way fruitful. I do believe, however, that it would be very good for you to do another "Conversation with The President", along the lines of the one you did a couple of years ago. I think you are most effective in ordinary conversation and would get a tremendous plus out of such

Orig. to Mrs Servis

a show, especially if by pre-arrangement such a show could be split equally between domestic and foreign areas.

In this regard, it might be a good idea to break out a tape of your first "Conversation with the President" and take a look at it.

THE WHITE HOUSE
WASHINGTON

~~CONFIDENTIAL~~

Friday, May 12, 1967 -- 8:15 a.m.

4C

*Rec'd
5-12-67
10*

Mr. President

Herewith Henry Owen comes up with a planning idea of some interest.

I would emphasize not merely what we might do post-Viet Nam but the extent to which your policy is already at grips with key issues of the 1970's -- at home and abroad -- as in the Leeds speech.

Nevertheless, a memo worth your reading.

Walt Rostow

*To
Calvin
for comment
L*

~~CONFIDENTIAL~~

DECLASSIFIED
E.O. 12356, Sec. 3.4(b)
White House Guidelines, Feb. 24, 1983
By *per DCH* NARA, Date 4-4-91

Orig. not set to file. 5/20 '67

4d

May 11, 1967

~~CONFIDENTIAL~~

MEMORANDUM

SUBJECT: Presidential Long-Term Planning Meetings

1. Problem: We need to take actions which will both:

(a) identify the administration with long-term goals that lie beyond the war in Vietnam; and

(b) pave the way for later effective action to achieve these goals.

This memorandum proposes actions to this end which are intended to complement, not substitute for, the appointment of a National Commission suggested in my April 18 memo.

2. Proposal:

(a) The President should announce that he is asking key agencies to establish small high level task forces (including both officials and outside experts) specifically to develop plans for long-range (post-Vietnam) programs on cities, welfare, the war on poverty, tax sharing with states and cities, and the war on hunger and underdevelopment abroad, etc.

(b) After these task forces have gotten deep into their work, the President should meet with each of them before they have reached hard and fast conclusions - to hear what they have to say and give them guidance about further work. The fact of these meetings would be made public.

(c) Some part of each of these meetings might be on nationwide TV. For example, assuming that the meetings occupied dinner and the early evening, the last half hour or so might be televised. Alternatively, the President might, soon after the meeting with each task force, discuss the long range needs which had been covered in that meeting on TV with one or two thoughtful press types (e.g., Reston, Severeid, Howard K. Smith).

~~CONFIDENTIAL~~

DECLASSIFIED
E.O. 12356, Sec. 3.4
NJ 91-151
By isp, NARA, Date 7-19-91

3. Rationale: Messrs. Bartlett and Weintal have lately been beating us about the ears for not devoting enough high level time to forward planning; their remedy is to return to the NSC format of the Eisenhower administration. We should do better; we should experiment with new techniques which will:

- encompass domestic, as well as foreign issues, since the two are increasingly closely related;

- blend governmental and private insights, in view of widening expertise in universities, research centers, etc.;

- serve to educate the country, as well as to provide a basis for decisions in the executive branch.

The proposal in para 2 is directed to these ends. It was triggered by a suggestion which James Reston made recently to the Policy Planning Council that the President hold a series of informal TV discussions of major policy issues with outside experts. He said that the President appears to good advantage in such informal discussions, and that they would be a more effective way of educating the country about upcoming issues than pre-set speeches.

4. Problems:

(a) Would the meetings turn out to be great bores? There would be something wrong with the participants if they did. These are subjects of great interest, on which a lot of hard and important issues remain to be thought through.

(b) Would people dismiss the whole thing as a public relations gimmick? This would depend on our intent. If the meetings were serious in purpose, this would show.

(c) Would the President be compelled to commit himself prematurely on the issues in question? No more than he needs to in NSC or any other type of planning meeting. His role would be to pose the issues, listen to the task

force's thinking and single out certain issues and ideas for further study. On TV, he would also emphasize the importance of the needs which the Task Force is addressing, and find occasion to dwell on how much the administration is already doing in these areas.

(d) Would the outside members of the task forces feel that they were being "used" to help improve the administration's image? On the contrary; if they were serious people, they would be anxious to see the needs which they were studying aired before the President - and also before a large audience on TV. This would clearly enhance the chances of success for whatever proposals the Task Force finally comes up with.

5. Conclusion: This exercise would:

(a) help the executive branch to plan effectively and at a high level for post-Vietnam needs;

(b) dramatize the President's interest in these longer range issues;

(c) educate the Congress and public about them (in anticipation of eventual larger post-Vietnam expenditures in these fields);

(d) get the American press and public to thinking about something besides their short-term miseries;

(e) help to build bridges at the highest level between the administration and the academic community (which would be represented on the panels).

^{bo}
Henry Owen

MARCH 5, 1967

ye

Office of the White House Press Secretary
(San Antonio, Texas)

THE WHITE HOUSE

MEMORANDUM FROM THE PRESIDENT

FOR: The Secretary of the Treasury
 The Secretary of Defense
 The Secretary of Labor
 The Acting Secretary of Commerce
 The Director, Bureau of the Budget
 The Chairman, Council of Economic

SUBJECT: Economic Planning for the End of Vietnam Hostilities

As I indicated in my Economic Report, I am directing the relevant agencies in the Executive Branch to begin at once a major and coordinated effort to review our readiness to make the economic adjustments which a termination of hostilities in Vietnam might require. As suggested in the Economic Report, we must:

- consider possibilities and priorities for tax adjustment
- prepare, with the Federal Reserve Board, plans for quick adjustments of monetary and financial policies
- determine which high priority programs can be quickly expanded
- determine priorities for the longer range expansion of programs to meet the needs of the American people, both through new and existing programs
- study and evaluate the future direction of Federal financial support to our States and local governments
- examine ways in which the transition to peace can be smoothed for the workers, companies, and communities now engaged in supplying our defense needs, and for the men released from our armed forces.

I am asking those to whom this memorandum is addressed to serve as a coordinating committee for the necessary studies. It will be necessary, of course, to draw on the resources of many other departments and agencies.

I have asked Gardner Ackley, the Chairman of the President's Council of Economic Advisers, to organize and chair this effort.

###

4a

galy

29

EXECUTIVE

THE WHITE HOUSE
WASHINGTON
May 18, 1967
2:30 p.m.

J

*file
K*

Mr. President:

Reference is made to a memorandum from Walt Rostow to you dated May 12, 1967, relating to Henry Owen's planning idea post-Vietnam.

While obviously the Administration has made plans, I personally would not publicize them because I would believe it would give a false impression to the public as to the possible end of the war.

K
Robert E. Kintner

Nothing else sent to
Central Files as of *5/24/67*

RECEIVED
MAY 19 1967
CENTRAL FILES