

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

8:00 p.m., Tuesday
July 19, 1966

MEMORANDUM TO THE PRESIDENT

FROM: ^{Tom} Tom Johnson

Attached are the minutes of the meeting with the members of the Senate and House Appropriations Committee.

Are they appropriate?

Yes ☒

No ☐

Excellent —

MEMORANDUM

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MEMORANDUM FOR THE PRESIDENT

FROM: Tom Johnson

SUBJECT: Minutes of Meeting with the Members of the Senate and
House Appropriations Committees

THE PRESIDENT:

I met yesterday with the bipartisan leaders on the fiscal problems that we face and how to minimize them. I called you today to give you the problem as we see it and to seek your advice and counsel.

Wednesday or Thursday the final figures of the 1966 Fiscal Year will be coming in. Our first deficit estimate was \$6.4 billion. It now appears it will be less than half of that. But that is for 1966.

Today's meeting I want to talk about the 1967 Fiscal Year. Congress has already added on \$250 million above my request.

My budget advisors have reviewed the actions of the various committees. It appears the add-on could be \$5 to \$6 billion exclusive of Vietnam supplemental.

The Leadership said we should give you a complete picture and discuss the best approach we could take.

To date there has been a \$241 million add-on. Yesterday's pay bill adds \$530 million more for a total of \$741 million add-on. It appears there will be these other add-ons: HEW, \$500 million; Agriculture, \$300 million; Water Pollution, \$300 million; Military Medical benefits, \$225 million; Elementary and Secondary Education, \$1.941 billion; interest on the public debt, \$150 million and HUD - export-import bank increases of \$1 billion.

There have been an additional \$921 million dollars authorized for Defense. So you can see the potential add-ons could be as high as \$5 to \$6 billion.

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by DCH On 11-17-81

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SERVICE SET

The war in Vietnam may go on past June. By March, we will probably need an additional supplemental there.

We have three alternatives facing us:

1. Have a heavy deficit.
2. Cut expenditures.
3. Have a tax bill.

We have tried to cut out what we can in non-defense expenditures. I have tried to minimize my request in new programs. But there are some that we think are worthwhile. You know about the problems of cities. We need rent supplements and the teacher corps.

In any case, these two items ran only \$40 million. When you compare that with the budget of \$112 billion you see that is a very small amount.

I don't think there is very much that we can cut out of that \$112 billion. Only about \$23 and one half billion is controllable.

You have all of these bills in which add-ons have been in excess of what I have requested: The GI Bill, the Coast Guard Bill, the Library Bill, the Pay Raise Bill, Elementary and Secondary Education Bill, the HEW appropriation, Agriculture appropriation, and the Military Medical benefits.

If we can't reduce expenditures then we are going to have to go the tax or deficit route. I would like to keep the appropriations within the budget rather than have a \$5 or \$6 billion addition before the Vietnam add-on.

I want your suggestions.

SPEAKER MCCORMACK:

You have presented the case very well, Mr. President. If these increases continue we will be faced with a big tax bill.

CONGRESSMAN FORD:

We have tried to be helpful, Mr. President. We'll try to hold expenditures down. As I see it you have three problems:

1. Cut back expenditures;
2. Tax bill;
3. Continued inflation.

I would like to ask Gardner Ackley to give his suggestions about the situation.

THE PRESIDENT:

We all know that what happens depends on the next three months. House bills are running in the billions of dollars. Gardner has told me that for each governmental dollar added on there will be \$2 or \$3 added on in the economy.

GARDNER ACKLEY:

The impact of Federal spending puts pressure on the economy at a time when it's fully employed. It puts force on new plant and equipment inventories. It probably will generate new price increases. We will face a renewed speed-up in the growth of the economy. Inflationary pressures may be stronger than anything we have seen up to now.

SENATOR MANSFIELD:

Mr. President, Congress is just as responsible for these increases as anybody else. If anything must be done, we must assume our share of responsibility. We must bare down on all these authorizations and expenditures which we are voting.

THE PRESIDENT:

I have hear arguments back and forth. I want you to hear parts of Gardner Ackley's memo.

(Gardner Ackley's memo, in part:

1. States the economic situation will get worse in 1967 if Congress forces the government to spend more than has been requested in the budget.
2. On top of the surge in business spending, these add-ons could be very serious.)

I have asked business leaders to hold back expenditures. Even so they are still up 17 percent. It looks like everybody wants to invest. GNP is up 11 percent. State and local spending is up 10 percent. Only housing has held down its expenditures. Each dollar of government spending creates an extra \$2 of private spending. Consumer and industrial prices have risen. Voluntary appeals can't do it. They only create unnecessary antagonism.

During the first half of 1966 farm income rose higher than anticipated. Both gross and net farm income went up. As farm income went up, so did farm prices. Although government income went up this year more than had been expected it will not be enough to cover expenditures if these add-ons continue. We will have a deficit too high to live with.

SENATOR PASTORE: Mr. President, we need specifics. When Congress attempts to cut one of your programs there is considerable pressure for restoration. I think all requests for restoration should be cleared by the White House. I would welcome the Budget Director to sit down and advise me on which programs to cut.

THE PRESIDENT:

We have already lowered to 23 billion the amount that you can play with. It is difficult to cut any out of that particularly in the Corps of Engineers Project and the Public Works Project.

The Administration has requested and Congress has exceeded those requests already. On the Library, Coast Guard and the GI Bill we would like to get back down to our budget request -- not to exceed them.

CONGRESSMAN CEDERBERG: (Mich):

Mr. President, I suggest you veto a few of these bills to us.

THE PRESIDENT:

I don't want to be arbitrary or to force my will upon you. I want to get your advice on what should be done now. I want you to understand what could happen before the bills are passed.

CONGRESSMAN FLYNT (Ga.):

Mr. President, we want to work with you. When we try to cut money from a bill we get personal calls from the White House staff trying to get us to restore it.

THE PRESIDENT:

Nobody on my staff asked you to raise anything above what we had requested in the budget.

What I am worried about is that now you have a quarter of a billion dollars add-on. Before it is over it looks like you have a \$5 to \$6 billion add-on.

CHAIRMAN MAHON (Tex.):

You can't control this by veto, Mr. President. If you had vetoed the pay raise or delayed, we perhaps could have sustained. Maybe we couldn't. I guess the leadership advised you that we could not. There is nothing we can do about defense. You and members of Congress just will not refuse to give them anything they need. I know we are appropriating billions less than you may need for defense prior to March, and I am sure there will be a request for a supplemental. On Labor and HEW bills I wanted to hold the line. The leadership and committees just must stand fast. Now we can all vote against foreign aid with impunity. I would like to vote below the budget but I know we can't. In any case, I will do my part to stand with you to lower these expenditures.

THE PRESIDENT:

We have submitted the lowest foreign aid bill possible.

CHAIRMAN MAHON:

I will call all my subcommittee chairmen and see what we can do. I know Frank Bow will call the minority members. I think all of this is important to our war effort. In any case, Mr. President, you can be sure that George Mahon is on your team.

THE PRESIDENT:

I want to point out just exactly what we are up against.

CONGRESSMAN FORD:

Mr. President, I believe George Mahon speaks for the majority of the House Appropriation Committee. If your efforts to get the Congress to reduce expenditures doesn't work, I hope you will do one of two things. The first would be to veto an appropriations bill; the second would be to withhold the authorizations to the departments.

THE PRESIDENT:

(Read minutes of yesterday's meeting quoting Senator Dirksen that the President just cannot veto a bill in an election year)

I don't want to withhold projects in your districts. That would be rough on you and rough on me. I know demands are too high for some individuals.

CONGRESSMAN FORD:

Mr. President, could we get Charles Schultze to tell what the deficits will be in fiscal 1967?

THE PRESIDENT:

I don't think we should be guessing. McNamara made a bad guess on bringing the troops home. I don't want to be caught like that.

We are reducing in some places, cutting back in some places, but there ^{are} additions in defense as there was this week in petroleum requirements.

If we could get this war over by June 30 we would not have a budget problem. We see a slackening off. Our intelligence is encouraging but we dare not be too optimistic. We are putting on all the pressure that we can put on. General Westmoreland will get all he needs. If things keep up the deficit could be \$8 or \$9 or \$10 billion.

In 1966 we could have had a balanced budget. The deficit will be over 3 billion.

DIRECTOR SCHULTZE:

The national income account will show a \$1 billion surplus.

THE PRESIDENT:

Both budgets could have been balanced.

(The President then read a report from General Westmoreland and Ambassador Lodge on the Vietnam situation.)

SENATOR SALTONSTALL:

Mr. President, we are dealing with too many uncertainties on the Appropriations Committee. We all agree on Vietnam what should be done there. I would like to know what you will be asked for the Poverty Program and the amount submitted for secondary education. We must consider what is coming forward.

(The President said poverty would run about 1.75 billion after considerable reductions. The Education Bill would run 1.3 billion.)

SENATOR HILL:

Our subcommittee put in more than recommended. We are trying to get that down.

THE PRESIDENT:

I have talked with private and business economists. They have their individual views. All agree there are three alternatives to avoid inflation.

1. Control of prices and wages.
2. Reduce expenditures. You are adding 6 billion dollars to what I have requested. If you do this, you have voted a tax increase or a mighty big deficit or both.
3. The third alternative is a tax bill. Not one of 150 businessmen that I met with recently thought there should be a tax increase.

I'll appeal once more to business and labor to try to keep wages in line with productivity. I'll ask business not to raise prices unless it is an absolute must. I have even asked for a price reduction among those businesses that are making good profits. Controls are out of the picture. Now if you had \$6 billion you have voted yourself a big deficit or you have voted a tax bill.

I would like to avoid saying to the enemy that the Congress and the President are divided. So I hope we can get together on this and show some fiscal responsibility.

CHAIRMAN MAHON:

Mr. President, you can be assured that we will make every effort to do as you have asked.