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#25a notes	President's Meeting with National Alliance of Businessmen, page 1-3 possible classified information - sanitized open 1-6-89 NLS 86-157	1/27/68	A
#25c transcript	President's Meeting with NAB, pages 1-7 possible classified information - sanitized open 1-6-89 NLS 86-157	1/27/68	A

FILE LOCATION

Tom Johnson's Notes of Meetings, Box 2

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JANUARY 27, 1968 - 1:25 p.m.

NATIONAL ALLIANCE OF BUSINESSMEN

J. Paul Austin	Secretary Wirtz
Charles F. Myers, Jr.	James Cook
Walter A. Haas, Jr.	James Gaither
Joseph Califano	Clyde Skeen
John Sengstacke	Howard Samuels
Clark Clifford	Albert Nickerson
James S. McDonnell, Jr.	Quentin Reynolds
Roger P. Sonnabend	Harold Geneen
John D. Harper	Henry Ford II
Leo C. Beebe	

SERVICE SET

XERO

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

January 27, 1968

7:00 p.m.

rec'd 1:20p

MEMORANDUM FOR THE PRESIDENT

FROM: ^{*Tom*} Tom Johnson

Attached are the notes of the President's meeting with the National Alliance of Businessmen, on January 27, 1968, in the Mansion. Those attending the meeting were:

The President	Leo C. Beebe
J. Paul Austin	Secretary of Labor Wirtz
Charles F. Myers, Jr.	James Cook
Walter A. Haas, Jr.	James C. Gaither
Joseph Califano	Clyde Skeen
John Sengstacke	Howard Samuels
Clark Clifford	Albert L. Nickerson
James S. McDonnell, Jr.	Quentin Reynolds
Roger P. Sonnabend	Harold S. Geneen
John D. Harper	Henry Ford II

The meeting began at 1:25 p.m. The meeting ended at 3:45 p.m.

Attachment

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Holder: W. Thomas Johnson

MEETING NOTES
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Meeting Began: 1:25 p.m.
Meeting Ended:

25

NOTES OF THE PRESIDENT'S MEETING
WITH THE
NATIONAL ALLIANCE OF BUSINESSMEN

In the Mansion
January 27, 1968

The President: I know what is on your mind is the crisis in Korea. I know you are also concerned about prices and the state of the economy and the state of our nation. We have with us today the new Secretary of Defense, Mr. Clark Clifford, and I will ask Gardner Ackley, Chairman of the Council of Economic Advisors, to join us.

Clark, will you give these gentlemen a rundown on the situation in reference to the Pueblo?

Clark Clifford: We have found it very difficult to get penetration into totalitarian states around the world. They are organized on state, county, city and block levels. It is almost impossible to get humans in.

So we turn to electronic means as an alternative. We used some other more sophisticated equipment, including satellite photography. Of course, this is used by both the Soviets and ourselves. Some 100 miles in the air you can see a tennis ball on a tennis court.

It is absolutely vital. We must know the state of preparedness of the Soviets.

We also have communications intercept devices. We have communication ships and very sophisticated electronic equipment to intercept their communications.

The Soviets have a number of ships. And so do we. The Soviets have twice the number as we. They have one spy ship trailing the Enterprise. We only hope they are not breaking our code.

The public has a bad idea about spying. However, we must do it.

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NIJ 86-157

By 128, NARA, Date 12-20-88

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For some weeks the Pueblo has been stationed off North Korea. There have been incidents over the DMZ. In 1966 the number of incidents were 57. In 1968 they were 590. This is a ten-times increase in one year. This is a planned campaign obviously.

We think this is a result of a high level decision (the Pueblo seizure). We must know what this means. It may be the start of a major military engagement.

We were able to learn of the assassination team's plot to kill President Pak. Because of this, we were able to alert the South Koreans to it.

The Pueblo incident may be linked to Hanoi's effort to start a major offensive along the 17th parallel. They may be trying to get us to withdraw units from Vietnam. We are not going to do that. We are sending units from the United States.

The Pueblo was outside the 12 mile limit. It was protected by North Korean Naval vessels and North Korean jets.

Before the Captain of the Pueblo knew what had happened, he was captured. He could have been smashed to bits if he had tried to fight. He had no other alternative. We know the ship was taken at Wonsan, and the men taken somewhere else. Now the question becomes what do we do?

We do have enormous power. We could destroy any one of a number of their cities.

But that would not get the men back alive.

North Korea has a treaty with Red China and the Soviet Union that if North Korea is attacked, they would come to defend North Korea. We do not want another war.

We are engaged in careful, diplomatic efforts. We are for getting our ship and men out.

We may give the North Koreans the psychological advantage of pulling the U. S. 's beard.

We will send units quietly. There will be no advertisement of this. But it will get out to the North Koreans, and they will know we mean business.

SERVICE SET

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We hope to get assistance from the Soviet Union. We do not think they want a major confrontation with the U. S. at this time. The President is following a careful, cautious, diplomatic course.

If that does not work, we may have to look at some other military alternatives that are open to us.

The President: I have had communications with Chairman Kosygin. In our communication I have used virtually the same language he used in his message to me during the Middle East crisis.

I have just received a message from Ambassador Thompson on Ambassador Gromyko's views.

We know at the moment the Pueblo was seized and boarded exactly where the ship was located. In their communications, the North Koreans located the ship one mile further out when capturing the Pueblo. We have a taped recording of their communications, and would be willing to make that tape available to the Soviets if they have any questions about accuracy of this information.

We are going to take all necessary military precautions.

I ask all of you to analyze all the statements that you see and hear. In an election year, there will be something wrong in almost everything we do.

But each of you should remember that we are better off than most of the world leaders.

Now Gardner Ackley is going to Italy as our Ambassador. He will be a good bridge between our country and Italy. I will ask him to give you a rundown on the economy.

Gardner Ackley: The economy in the second half of last year was as strong as we wanted it to be. There was a \$32 1/2 billion advance in the second half compared with a \$13 billion advance in the first half. Manufacturing production has gone up 8 1/2%. Payroll employment is up \$1.2 million. In the last 5 months from 1967, construction contracts

were higher than ever before.

Personal income went up 25 1/2 billion dollars. It was a strong year and we believe next year will be a strong year.

The price index was unsatisfactory. It was 74%. The industrial wholesale price index was up 3%. Our balance of payments situation deteriorated, as did our trade balances.

We foresee a GNP next year of \$846 billion. This is a \$61 billion gain over last year. That is up 7 3/4%. This is 4% real gain and 3% price gain.

The year was not one of consumer boom. The saving rate went up to 7 1/2%. We foresee no boom in plant and equipment expenditures. Last year there was no real problem. But private demand plus a high defense expenditure will give us a bit too much pressure.

We need a tax increase and a chance for progress in reducing prices and the rate of increase in prices. Attitude surveys point to no consumer boom.

The President: The budget will go up to the Congress on Monday. It will show an increase of \$10.4 billion over last year. Of the 10 1/2 billion dollars, \$1 1/2 is for civilian and military pay; \$1 billion is for increased interest; \$4.7 billion is for the social security increase. Doctors' fees went up 8%. Hospital rates went up 16%. \$3 billion of the \$10 1/2 billion will be for defense.

To get new programs, we have cut out old programs. For health care for children, we eliminated some old HEW programs. For this job program you are about to undertake we cut out money from the Job Corps and the Neighborhood Youth Corps and Headstart.

If we get a tax increase, the deficit will be \$8 billion. If we get no tax increase the deficit will be \$20 billion.

If there is no tax increase we will have inflation, fewer houses build and higher interest rates. We have got to convince that man from Arkansas and a few others.

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We have Secretary Wirtz and the Deputy Secretary of Commerce here with you today. I doubt there has ever been a period when labor and business have been as understanding with the President as they are now.

No President could have ever asked for better cooperation from business. I have made a number of mistakes, but they have been mistakes of the head and not the heart. I have, since becoming President, sent out a number of SOS's to you. You have answered each of them.

I ask you to head up a group of very great importance to your country. We face a very serious crisis in our cities. I want you to look over the 50 top businessmen in the 50 largest cities to get this job done.

Don't tell me how you can't do it. All I want to know is how you can do it.

(The President then went with the group for a walk around the South grounds and returned at 3:06.)

The President: This has been an involved week. We have a very great concentration of power against us. There has been a great deal of political pressure placed on us in this country concerning Vietnam. We have 700,000 people tied down by our bombing in Vietnam.

We believe the Hanoi government and the Viet Cong are hurting.

The President then read the John Stuart Mills quote: "War is an ugly thing, but not the ugliest thing: the decayed and degraded state of moral and patriotic feeling which thinks nothing worth a war is worse.. A man who has nothing which he cares about more than his personal safety is a miserable creature who has no chance of being free, unless made and kept so by the exertions of better men than himself."

We know what would happen if we did not stand firm in Vietnam. We have told Hanoi we will stop the bombing immediately if they will talk promptly and will not take advantage of the talks.

In Korea, they killed more of our men after the talks started than before. I do not want that to happen again.

We are seeking any way we can for an honorable peace.

So, this has been a bad week. We had an intrusion into Cambodia. We had a bomber go down with nuclear weapons aboard. We had a major offensive planned against us in Vietnam. The North Koreans tried to assassinate President Pak and then the North Koreans took the Pueblo.

Now I would like to turn to the program before us.

ATTACHMENT A

FOR IMMEDIATE RELEASE

JANUARY 27, 1968

Office of the White House Press Secretary

THE WHITE HOUSE

TALKING POINTS OF THE PRESIDENT
AT THE LUNCHEON FOR THE NATIONAL
ALLIANCE OF BUSINESSMEN

1. A Vital Task

-- Hard-core unemployment

. Destroys families.

. Deprives children of a decent house, a decent meal, a decent life.

. Is one of the major causes of civil disorders.

-- Your task is to help find jobs for the 500,000 hard-core unemployed in the 50 largest cities.

2. Background

-- This program is an outgrowth of two things: (1) the recommendations made to me by a Task Force last summer. Two members of that Task Force are here today: Mr. Miller and Mr. Sonnabend. (2) the Test Program which we launched last October to find jobs in private industry for the hard-core in 5 large cities.

-- From these two efforts we learned that:

. Business is willing to help.

. The job will not be easy, the hard-core will be difficult to motivate, to train, to keep on the job.

. The Government has a long way to go: to simplify its procedures, to cut red tape.

3. Why Private Industry

-- We turn to private industry for three reasons:

. 6 out of every 7 jobs are in private enterprise.

. On the job training is the most effective program we have; 9 out of 10 people who go through those programs get jobs.

. American industry can do the job: it knows how to train people for the jobs on which its profits depend.

We also turn to private industry because the alternative, "make work" programs, will cost far more and do far less for the individual and his family.

- MORE -

-- And the situation is not like the 30's when "make work" programs were necessary.

. In 1935, 42 million Americans were employed, 10.6 million were unemployed and no jobs were being created by the economy.

. Today, 75 million Americans are at work, less than 3 million are unemployed and the economy is creating more than a million and a half jobs each year. It has created 7-1/2 million jobs in the last 4 years.

4. The Program

-- Our target is to put 100,000 men and women on the job by June 1969 and 500,000 by June 1971.

-- For the first 18 months, we will devote \$350 million to this program, \$106 for the next 6 months, and \$244 million for fiscal 1969.

5. How the Program Will Work

-- The Government will identify the unemployed.

-- The company will train them and offer them jobs.

-- The company will bear the normal cost of training as it would for any new employee.

-- But the hard-core will need more. They will need additional training. Some will have to be taught to read and write, others will have health problems. They will need counseling.

-- Where the private company agrees to provide these services, the Government will pay the extra costs. If the company does not wish to provide the services, the Government will.

6. Your Task: The Role of the National Alliance of Businessmen

-- Your job will be

. To sell this program.

. To get private companies to agree to train and hire the hard-core.

. To advise me and the Secretaries of Labor and Commerce as to how this program can be improved, how we can cut Government red tape.

-- The structure for the Alliance was outlined briefly in my Message.

. You will serve as the Executive Committee, determining policy and developing guidelines for action.

. Eight of you will be Regional Representatives, responsible for the effective operation of the programs in each of the major cities in your regions.

. Fifty City Representatives will be responsible for promoting the program in their cities. They will work through existing business councils or devise new mechanisms for involving the business sector in this urgent work.

-- I want each of you who has agreed to be a Regional Representative to help in selecting the City Representatives. They must be people whom you can work with and really get the job done.

. I want you to suggest some names to Henry Ford as soon as possible.

-- I want each of you to designate a top official in your company who can work full-time on this program.

Conclusion

-- I am deeply grateful for your willingness to accept this tremendous responsibility.

-- I am deeply grateful that we have a man as able as Leo Beebe to work full-time on this program.

-- I can assure you that you will receive the full support of this Government. The Departments of Labor and Commerce will give you all the help you need -- including the people you will need to carry out this task.

-- I know you are busy and that it will be hard for you to devote a great deal of time to this effort. But this is a working group and as I said in the State of the Union Message "I know of no task before us of more importance to the country or to the future."

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*Clark Clifford
& Gardner Ackley*

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REMARKS OF THE PRESIDENT, LUNCHEON FOR BUSINESSMEN,
JANUARY 27, 1968.

THE PRESIDENT: (Inaudible) I want your help on. But I thought before we got down and started getting the meat from the coconut -- I have warned my friends that I was going to ask you to do this. I know what is on everybody's mind and that is our country and our crisis and what it looks like this last hour on the board.

I had Gardner Ackley come over to give us his viewpoints on the nature of the months ahead because the state of our economy will largely determine the state of the nation and the state of your ability to get the job done that we are going to lay out for you. But the state of the economy and the nation and everything else depends on today's world.

We have a new Secretary of Defense who has been called in. (Inaudible.) He has been sitting in on a meeting this morning that I have not been able to attend. Since this North Korean thing came up I think all of you know there have been great sacrifices for the Government and particularly in the last few days.

I thought I would ask Clark Clifford to take five or ten minutes while you are eating to just relate to you this latest Korean incident as we know it. He will speak to you quite confidentially so that you could keep this in prospective and then get a picture (Inaudible.)

I think you ought to know that we have been troubled by North Korea since I was there last year when they killed some of our soldiers and the capture of the (Inaudible) The documents show that they had a plan to kill our Ambassador, kill the Korean President and they did pick up an intelligence ship -- of which we have several in all parts of the world all the time trying to find out what is going on, so we know what it is all about.

We believe that ship was 25 miles from the harbor. It was towed in from at least 15 to 16 miles from the nearest land and certainly far beyond the three miles or even the 12 miles limit that they claim.

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We believe that because of his communication with us and the fix he had when he communicated. We also believe that because they confirmed it in their communications which we had access to.

It is unlikely that I would say that Al Nickerson was in front of the Mayflower Hotel when I had a fight with him if we were out at the stadium and that is what did happen.

Clark will review some of this for you.

Go ahead and eat; listen to what you want to, if you can.

MR. CLIFFORD: I believe at one time under similar circumstances (Inaudible) a fellow was called on who had not been warned that he was to speak. This fellow stood up and said, "I stand here (inaudible) unhonored, unsung, and unprepared."

In the world today we cannot exist or endure without having absolutely necessary information about what is going on in the world. In the old days this used to be maintained through traditional means by agents. That is all different now since in many parts of the world we have the types of Government that we have.

It is almost impossible to gain a penetration into a totalitarian government. I suggest to you that it is almost impossible to get the penetration even in Cuba that is 90 miles off our shore.

The reason that it is practically impossible is that a country is organized, a city is organized, a block is organized and the block is even broken down into inspecting areas so that any new person who comes into that area is watched with the most meticulous care.

Because of this country's inability to get this information, which it must have, through human means we turn to electronic means and we have some of our best scientists (Inaudible) in finding the most sophisticated means of getting information.

As you all know we get a good deal of information from satellite photography. That has been in the paper. We have made enormous progress in that regard. These satellites are flying all the time around the globe. So are the Soviet satellites.

One interesting bit in that regard is that we have made developments now so that from 100 miles in the air we are now taking pictures. I saw one sometime ago of a tennis court and you could see the tennis ball on the court and that picture was taken from 100 miles up.

This is absolutely vital to us because we cannot sleep nights unless we know the state of preparedness and the state of progress that the Soviet Union is making, particularly in the field which, of course, is so dangerous -- the nuclear and thermonuclear field.

In addition to that type of means we also have made a great deal of progress in what is known as the intercepting of communications intelligence. The airways are full, all the time, of communications going back and forth between different countries and those countries and their military units.

Again, we have some of our most dedicated men giving their lives to finding ways and means by which we can read this traffic that goes on.

THE PRESIDENT: If you will excuse me a minute -- you gentlemen keep your seats. This is Mr. Gardner Ackley, the Chairman of the President's Council on Economic Affairs. I have asked him to come over and he will follow Clark by giving you the (inaudible) viewpoints on this..

MR. CLIFFORD: In addition to the satellite type interception which is necessary, in the different parts of the world we have communications ships. We have to have the information that they produce. They have the most sophisticated electronic equipment on them so that they intercept all the messages in that particular area. We have a certain number in different parts of the world. It so happens that the Soviets have about twice the number that we do.

So whenever you read about the shocks of surprise that the Soviets are issuing about our so-called ships, keep in mind that for every one that we have out they have two. The fact is that they are so interested in what is going on out there, they had one of their spy ships trailing the ENTERPRISE. They are in international waters and have a perfect right to be there. We know they are intercepting every message that goes out of the ENTERPRISE. It is just our hope that they are not breaking our code.

I mention that because the general public has joined this view, I believe, at the suggestion "spy" when you say "spy" there is an element of a program attached to spying.

We must do it. The Soviets do it; other nations do it. We cannot exist without this kind of information.

Now for some weeks the PUEBLO had been stationed in the general area off of North Korea; there is a reason for it. In 1966 there were some 57 (inaudible) by the North Koreans over the DMZ. That was a bearable number. The South Koreans were able to turn them back.

We have a number of troops there as you know. That has been going on all the time. In 1967, in just one year, the number of incidents along the DMZ increased from 57 to 590. It was obviously a planned campaign and effort on the part of the North Koreans.

THE PRESIDENT: Did you say '67?

MR. CLIFFORD: Between '67 it was up 10 times. So it obviously was the result of a high level decision on the part of the North Koreans to make as much trouble as they could. Our military authorities who report to the President must know what this portends.

This could mean possibly the beginning of an effort on the part of North Korea to start a major military engagement again. Oftentimes the communists do that -- probing, probing all the time, looking for possible positions of weakness. When they find it you find all of a sudden a campaign has been built up.

SERVICE SET

So it has been necessary for us to monitor this traffic so that we know what the North Koreans are up to. We were very helpful sometime ago in warning the South Koreans that a group of North Koreans were coming over, an assassination group, to blow up the home in which the President of South Korea lives, President Park.

We sent over a 32-man team. They have apprehended all but 5. This is part of the program. We do not know, although there is some speculation, that this may be linked with Hanoi's effort now to start a major offensive along the 17th Parallel in Vietnam. It is possibly too coincidental. We think that there is possibly some planning behind it so that the North Koreans are going to cause enough difficulty in Korea to force us to withdraw Naval and ground units from Vietnam to come over and face the new threat that will exist in North Korea.

I may assure you we will not do that. Forces will be sent to Korea but they will be sent from the United States and they will not deplete the forces that we have in South Vietnam.

Now, this ship was in international waters. It had a perfect right to be there. They have a 12-mile limit and it was outside the 12-mile limit of North Korea. It was intercepting messages as the Russians to do us.

The North Korean naval vessels came out. They were protected from their planes and they have some modern jets which they got from the Soviets. Before the Captain of the PUEBLO really knew what was happening he was surrounded by these ships and the air covering above was so much that upon any demonstrable defense on his part he would have been smashed to pieces.

He had three 50 calibre machine guns. Overhead MIGS flying around to see if he was going to fight. I think we will ultimately learn that he had no alternative at the time than to permit the boarding of the ship. The ship has been taken to Wonsan. The men have been taken some place else. There are 83 of them and now the problem -- can the United States do about it? The United States has enormous power. We could go in by air and take out one city after another in North Korea and destroy it.

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There are two problems about that. One is it would not get our men back. Second, North Korea has a treaty with the Soviet Union and with Red China that if North Korea is attacked the Soviet Union and Red China will come to its defense. So this creates a very, very serious problem for this country.

We would all agree that the last development that we want at this time in view of our other problems in that part of the world is another war in addition to what we are fighting now.

The President is engaged in a carefully measured and planned diplomatic approach to permit the North Koreans benefits of tweaking Uncle Sam's beard. But what we are after is to get our ship and our men back. That is our first goal. We can do that and make some other plans later on.

In the process of doing that, you will find, I am sure, from the press, that there is a right steady military buildup going on. It is not being advertised. The reason it is not being advertised is because it is better for the North Koreans to find it out by themselves. They will be finding it out. There will be messages that they can intercept, purposefully, which will show the buildup that is going on. The last point is we would hope to get some assistance from the Soviet Union.

From time to time the Soviet Union has indicated that it is not interested at this time in history in becoming involved in a major confrontation with the United States. This instance in North Korea has the seeds of the greatest kind of development. If the Soviet Union wishes to it can be helpful. There are some indications that it might. So the President is going to pursue a careful, cautious, diplomatic course to see if the matter could not be determined by the return of our ship and our men

If that is not up to solving the problem then he will have to view what his alternatives are and that is some time in the future.

That, I think, constitutes a brief report as to where we stand today with reference to North Korea.

THE PRESIDENT: I have communicated with Chairman Kosygin more than once in the last few days since this incident. In effect, he used substantially the same language that he used with his first communication with me in connection with the Middle East crisis; namely, that this involved the responsibility of both of us to keep the peace and required the best efforts of both of us.

Since Clark has been talking we received from Mr. Thompson who just visited with Gromyko, the Foreign Minister, a rather detailed account of their viewpoint. They seem to (inaudible) in territorial waters and within territorial limits of North Korea. We know as best we can know, unless our captain is taking his fixes that at the moment he was seized and boarded where that ship was located.

Then the first Korean patrol that arrived, when he told his people, in effect, was one mile above the (inaudible) and both are several miles.

Now, we have a taperecording of that and we can furnish the Soviet Union with that. We will get back to it then and try to show them (inaudible) and they will say we are wrong. Then they will say we notified North Korea of your position and they are moving along that direction as a result of the United Nations(?),

In the meantime we are taking steps, we have taken and are taking steps, to have the necessary precautions and in order to permit our (Inaudible) calling up the planes and the Guard and things of that nature and all of it is very serious business.

The only thing I would ask of you in that connection above and beyond what all of you are doing is to try to analyze all the statements that you see and hear, including the leaders in our system and weigh them and be sure that if you are inclined to follow them that there be no partisanship or politics in them. It is pretty hard for anybody to do anything without somebody finding something wrong with it.

If you find a man who finds something wrong with everything you do there is a reason for finding that wrong.

So we have to beware. Outside of that I think you will be pretty much aware of the present situation. I hope we will come out of this like we did in the Middle East thing a few months ago and like we did in NATO a year or so ago. We want the capacity for finding our way through this difficult situation.

Our Nation is (inaudible) a good many problems these days and I think generally speaking most of them are more serious than our own. There hasn't been a time in the last year that I haven't wanted to (inaudible) one of us came in here together and I am sure that anyone that started off this thing with me, change Kosygin and de Gaulle(?).

I will outdo them but I don't know if I will outlast them.

Gardner Ackley found when we had substantial (Inaudible) Now we find ourselves on the short end of the stick and we have found it necessary to call the Germans and others to follow the policy we followed and they have certainly done that and we help those (inaudible)

So Mr. Ackley is going to go to Italy. Like he said, he speaks Italian. He has lived there and tried to build a big bridge between our country and their country. He is finishing his economic measures for the President and it will be presented to the Congress next week.

We have 70 people working (Inaudible). It looks like if you really shoot an air rifle or popgun when you add the captains of industry and the great all-American stars to try to employ 500,000 hard core unemployed (inaudible) whether you are able to keep those employed and add 500,000 uneducated, some with criminal records, terrible attitudes, bring them in and train them and equip them to add to this list and not depend on whether our economy is going up or down. If it is going down we can't hold on to what we have.

Mr. Ford just talked to me about some of the

despondence that he has observed in the work and some of the (inaudible) at the University of Michigan from time to time has observations in this field(?). I asked Mr. ACKley to come over and he had no notice but I thought he could take five or 10 minutes and talk to you about his efforts.

Both he and Mr. Clifford will be glad to take any questions that you might want to ask.

Thank you.

CHAIRMAN ACKLEY: Gentlemen, the economy in the second half of last year was just about as strong as we expected it to be and about as strong in terms of advances as we would want it to be.

You recall in the second half of the year the Gross National Product increased at a rate of 32 and a half billion. A \$65 billion annual rate which is a pretty hefty increase.

THE PRESIDENT: What was the first half?

CHAIRMAN ACKLEY: An increase of 13 million.

THE PRESIDENT: From 13 to 32-1/2, okay.

CHAIRMAN ACKLEY: The increase in the real Gross National Product was only 2-1/2 percent. In the second half it is raising by 4-1/2 percent. The second half was pretty strong. Manufacturing production was up 8-1/2 percent. The industrial capacity turned up in the last quarter and December particularly, over the second half the payroll employment gained 1,200,000, which is probably not a sustainable rate of advance.

(Inaudible) of 1967 construction contracts in each of those five months was higher than any time in the past prior to those months. Personal income increased 25-1/2 billion dollars in the second half. The highest annual is 46 billion. So you can see that in terms of the advance, it was as strong as almost any past period and was, of course, a very high level in terms of use of labor resources.

It did have that very peculiar bump in the unemployment rate in September and October which was more than wiped out in November and December.

In fact, November and December taken by themselves looked almost feverish in the rate of advance. You had (inaudible) increases in the payroll employed in those two months.

I think you had the second largest increase in industrial production in those two months than we ever had. A lot of this is bouncing back from the softness observed in September and October and came at a miserable time for our efforts to get the tax bill because when the Secretary of Treasury and Budget were at Ways and Means in November they had staring them in the face the level off and so on. That was certainly wiped out in the very fast spiral we have had in November and December.

But the second half of the year, also because partly of the more rapid advance, a pretty unsatisfactory price performance, both the consumer price index and GNP indicator went up at the four percent rate in the second half and undustrial wholesale prices went up about three percent in the second half.

As you know our balance of payments deteriorated badly in the second half and including in that, as the December figures show, is a pretty serious deterioration in our trade balance with the imports jumping up and exports really going nowhere.

Looking to next year, our economic report which will be out next week will suggest gross national product for the year of \$846 billion which is a gain of \$61 billion over 1967, plus or minus a margin of error, obviously.

This is with the tax increase enacted, effective April 1 for individuals and January 1 for corporations. (Inaudible) The \$61 billion gain would be a percentage gain of about 7-3/4 percent which we would break down into something over 4 percent real and three percent crisis. That is about as far as we would like to leave the "something" over to.

We don't see the year as being a year of boom in any particular sector. Certainly we are not looking for a consumer boom. We are figuring on the savings rate which was abnormally high in 1967 -- to be about where it has been. The savings rate in the fourth quarter of 1967 jumped up to seven and one-half percent.

I think this can be almost entirely explained by the lack of auto sales in the fourth quarter; by the fact that you had a big Federal pay increase on almost the last day of the year which entered into income but not much spent.

We are not counting on a boom in employment, a boom in consumption, but it is a high level production across the border.

We are operating on a base of Federal expenditures which will not be increasing pretty rapidly, but which is now pretty darn high.

In the first half of last year the private demand was weak and there was no problem. But with the private demand getting back to normal, piling that on top of the already very high defense expenditures, it just gives us a little too much pressure if we don't have that tax increase.

We think with the tax increase we will get through the year without development of any new strains on our labor supplies and maybe get the chance to make a little progress on the slowing down of the increasing prices and maybe get some increase on our balance of payments if the balance of payments program is effective.(?)

The President mentioned the consumer picture and consumer surveys. The last one, both from the University of Michigan and the Commerce Department surveys, did show some deterioration of consumers buying index or attitudes from the summer to the fall. They had risen in mid-summer and then slipped back, but not nearly to the level of a year earlier.

One never knows how much importance to attach to this attitude survey. Certainly the big bump in them that we had last summer wasn't followed by any great brilliance in consumer buying but, as I said, we are certainly not looking for a consumer boom.

If we had one build up on top of the other spendings in the economy, I think we would feel that the tax increase would not be enough and we would be back under some pressure.

THE PRESIDENT: Our budget is going up the 27th, Monday. We have an increase of \$10.4 billion over last year. We did everything we could to avoid any increase. I guess all of you do that every year with your budget -- personal and business. I have gone through four or five of them. Our budget was increased in 1966 by \$22 billion. Last year it increased by \$17 billion. This year, with more demands in Vietnam than I had last year it is down to \$10.5 billion.

The population is going up. Our needs are going up and our requirements are going up. We have had more babies, more kids, more services, more water, more playgrounds, more schools and more everything.

Of that \$10.4 billion; \$1 billion is pay increases for the Army, Navy and Civil Service which was appropriated by the Congress. They wanted to vote an extra \$1 billion and I had every Democrat down here and they pledged not to, but they could have unanimously. If they called a roll I would have had five votes against me.

Last year I fought it and I got one in the House, one loyal farmer from my State voted against it. Every Republican and every Democrat voted for it. So, \$1.5 billion of the \$10.4 billion is a pay increase. The other is an interest increase. All of you know you can't control that interest increase. We have to go into the market and pay our treasuries so that is what the \$ billion is for. That is \$2.5 billion.

Then \$4.7 billion of it is Social Security increases. Out of the \$4.7 a part of it is Medicaide. We figured that the doctors would go up 4 percent on their rates. We hope we can keep labor around that area or close. We figured the doctors would do (inaudible). They went up 8 percent. I can't tell them what to charge because I don't have that kind of Hitler power in this country.

We figured the hospitals to go up 8 percent and they went up 16 percent.

The Congress did vote the Social Security bill and the veterans did get wounded and they had statutory provisions

that really runs \$4.7 billion.

The Defense went up \$3 billion. \$3 billion plus \$4.7 is \$7.7, plus \$1.6 is \$9.6 billion and \$9.3 plus \$1 billion interest is \$10 billion.

Now, we have about \$3 billion of the \$186 billion that is new expenditures for new programs. It is programmed to try and get the infant child from the time it is conceived to a year old to detect any dread diseases and correct it while we can so they won't be in a hospital for the rest of their lives. That is a new program.

We have \$57 million in there for it, but took away from an older program that had a lower priority to get that in. The new money goes to the places I have told you about.

Before we let any cabinet officer have a new program we say "Show me where you have saved enough money to take this one."

Our job program which you will be handling, we have taken money away from the Job Corps. that they anticipated they would have a need appropriated and a lot of this is where we would train these people, hard-core unemployment for these jobs. We have taken some away from the neighborhood Youth Corps program and from the Head Start program. So we have put it in Job Program.

We are not asking for new money. We have been cutting down an old program. We are firing the man standing at the gate in order to put the man in the kitchen to serve the food, because that is more important than watching the gate out there.

That is about the way we are going into this \$186 billion budget that we have.

If we get a tax increase we will have a deficit of about \$10 billion. If we don't have the tax increase it will be a little over \$20 billion.

In 1964 when I came in I repealed (inaudible) taxes. In 1965 I repealed taxes. (Inaudible) My economic advisors and businessmen's committee -- a good many of you served on that -- and an administration I succeeded was committed to cutting taxes (?)

If I had known how damn hard it was to get them back I am not sure I would have approached it with the enthusiasm I did. If I had the money we had on the books we would have \$23 billion more this year than the \$12 billion we are praying for. We think that if we are going to get the tax increase we will get the increase anyway in inflation and extra interest charges, high money, tight money, lower housing, and a good many other things.

We think this is the least expensive of the two.

One of the great difficulties of democracy is that we are slow to start and hard to stop, but we have to convince the fellow from Arkansas and the fellow from Wisconsin and the fellow from New York City.

When they go back home and ask the average man, "Do you need and are you in heat for a good tax increase?" The average one will say no. When they tell me "If you want a tax increase it is pretty persuasive business for the fellow in the Primary this May or June." (?) That is my problem.

So much for that. This one thing and I think we will go to the bathroom. I am older than some you fellows. I thought we would walk around the grounds and wind up in the Cabinet Room where we could really get to the hub of the meeting.

We have Secretary Wirtz, a distinguished public servant for the last seven years of this administration and the preceding one. The Secretary of Labor (inaudible). We still have our problems with Labor -- a good many of them. But we have reasonable cooperation from them and I doubt that there has ever been a period when labor and business have been as understanding as they are now, although they always have different viewpoints.

But Secretary Wirtz of Labor, Secretary of the Treasury, a little bit from the President, I know that you progressive business men who have come to the top of great (inaudible) and who have an understanding of your fellow man.

I must say in complete candor that no President could ask for better cooperation in this community in this

for four years than I have received. (INaudible) because you contributed to them. There have been mistakes of mine and they have been of the head and not of the heart. I have sent a number of SOS's in the first week I took office and everybody answered. Everyone of my advisors is here today, not because they wanted to come on Saturday, but because they wanted to come.

The only one who is not here is not because of the weather downing his plane. So I am going to ask you to head up a group in this country to work with Secretary Wirtz and he will have several men. Secretary Samuels is representing the businessman's (inaudible) He is representing Secretary Trowbridge who is in disposed today. He had a little difficulty and he is in the hospital.

He is going to have several men working fulltime as am I. We have Republicans and Democrats all working together here and trying to save this country and make it stronger. One of the big problems we have is the crisis we have in the cities. We are trying to wipe out the problems of three centuries; the hate, discrimination and the bigots -- short of civil war and anarchy.

I have Mr. Califano on my staff. He and Mr. Gaither down there have been working on this program with Secretary Wirtz and Samuels. We will go into that in a little more detail. Mr. Califano has been getting involved (Inaudible).

In any event. We want you 15 men to look over 50 top cities and pick the top businessmen in those cities to get with it and get this job done and don't come back and tell us why you can't do it or how difficult it was.

One of the most inspirational businessmen I ever saw -- he helped me work on my campaign. He dictated a 1,000 word wire and said "Send it to 1,000 newspapers."

The man he gave that to said, "Mr. March, I can't send that. That will cost over \$10,000 and we have a deficit."

He said, "Son, why don't you let Western Union worry about that? We are worrying about the election."

He said, "I would, but we owe them \$600 and haven't been able to pay it and they won't accept any more Lyndon Johnson wires unless they are accompanied by cash."

This President of 15 or 20 big newspapers got a little irritated by this young man and he questioned him: "Gordon, how long have you worked for the March Newspapers, Incorporated?"

Gordon was a little insecure. He said, "God damn it, won't you ever learn not to bother me with details?"

So, I don't know how long you will be, but I want you to assign a good man to this; assign yourself to it and don't bother me with details.

I want to try to save this thing before we have some more Detroit's and Newark's and other places. I think this is the cheapest and easiest way to do it and I think you have the horsepower and capacity to do it.

The Good Lord has been better to you than this poor devil you have to save, in spite of himself. You can't go away and turn your back on it because he could be in your backyard tomorrow.

Clark, Show them the chart about the ship. This is Tom Johnson, a young member of my staff from Macon, Georgia, the Deputy Press Secretary. I asked him to make up this map. Can everybody see it?

MR. TOM JOHNSON: There are the words PUEBLO in red where it was at noon (Inaudible).

MR. CLIFFORD: There is where we ended up. There is the harbor, Wonson. We are outside of the point where their territorial waters exist.

Now, it was at that point that we were surrounded by the ships and the planes, also. It was there that apparently the captain made the decision that rather than come to the decision that he would try to defend his ship, recognizing the impossibility and knowing that he would lose most of his men if he tried to defend the ship, decided to let them come aboard.

On the other hand, they have a different set of facts. We are attempting at the moment through an exchange of cables with the Soviets to persuade them that we were outside the territorial waters. I think we can make quite a good case and if we can we would expect the Soviets to help us with the North Koreans.

THE PRESIDENT: Now, let us go on out here in the hall and go to the bathroom.

I think I will take Mr. Ford, the Chairman and Mr. Austin and three or four or five that may be free in the elevator with me and I will ask Mr. Clifford and Wirtz to take a group, so we can walk around to the office and you can explain the (Inaudible)

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