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June 22, 1968

X  
Mr. Joseph A. Pechman  
Director of Economic Studies  
The Brookings Institution  
1775 Massachusetts Avenue, NW.  
Washington, D. C. 20036

Dear Joe:

Many thanks for your note of June 21. I found it fascinating and the next time I see Charlie Schultze I will press him for his rejoinder.

Sincerely,

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

JUN 26 1968  
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The Brookings Institution



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*Economic Studies Program*

June 21, 1968

Mr. Joseph A. Califano, Jr.  
Special Assistant to the President  
The White House Office  
Washington, D. C. 20500

Dear Joe:

Since my "rebuttal" to Charlie Schultze was mentioned a couple of times last night, I thought you might be interested in seeing it. I prepared this memorandum for the Vice President so that he would be able to put our future fiscal situation in proper perspective, and to urge him -- as Bob McNamara and other defense experts believe -- that the key is to put the lid on military expenditures.

I enjoyed the dinner last night very much and hope you got some good ideas.

Sincerely,

Joseph A. Pechman  
Director of Economic Studies

Enclosure

MEMORANDUM

June 14, 1968

TO: The Vice President

FROM: Joe Pechman

SUBJECT: Elbow Room for Social Programs in the Post-Vietnam Economy

It is becoming fashionable to argue that there will be very little fiscal elbow room in the post-Vietnam economy to finance urgently needed social programs even if peace is restored. The argument is based on three assumptions: (1) defense expenditures will not decline very much, because depleted stockpiles will need to be rebuilt and expensive long-range military programs have been deferred; (2) expenditures on programs already underway will increase automatically in response to population growth and other built-in features; and (3) part of the future rise in tax receipts will need to be allocated to reduction of the deficit. These assumptions need to be examined carefully -- and qualified -- before the bearish fiscal forecast is accepted.

Military Requirements

It is true that the military already have a shopping list of needs that would be sufficient to maintain defense expenditures at current or even higher levels. It is also true that, taken individually, the arguments for specific military programs and stockpiling always seem to be compelling. However, restocking the defense establishment should occur during the post-Vietnam transition and should not affect the permanent level of defense spending to be achieved when the transition has been completed. It would be unwise to accede to demands for a permanently higher level of defense spending to finance expensive new projects without evaluating the consequences in relation to our foreign and domestic policy goals. The question that should be asked is: Would the security of the nation be measurably improved in the foreseeable circumstances by an additional \$10 or \$20 billion of military expenditures annually? Based on past performance, it is doubtful that this question can be answered affirmatively.

National defense expenditures are now expected to reach \$82.5 billion in fiscal 1969, compared with roughly \$50 billion immediately prior to the Vietnam escalation. A post-Vietnam level of \$60 billion annually would be ample to correct for price changes since mid-1965 (10 percent so far, with another 2-5 percent in the offing) and leave a margin for additional programs. This would leave \$22.5 billion a year for expenditures on non-defense programs. It should be emphasized that this objective can be realized only if some decisions already taken will be reversed.

The pressures for maintaining military expenditures at high levels will be very great, but these pressures should be resisted by a President who is determined to improve East-West relations and solve our urgent domestic problems. You have already called attention to the need for scaling down the U.S. military-industrial complex in the interest of peace. This is sound policy for the nation and it is also good politics for 1968.

#### Nondefense Expenditures

Nondefense expenditures are expected to use up a substantial portion of our fiscal growth for two reasons: first, population growth will automatically increase the costs of many federal programs; second, many recently enacted programs, which have been funded at low levels during the Vietnam War, will absorb large amounts of revenue after the war is over.

The portion of the federal budget which is responsive directly to population growth is small. Rising workloads in the Treasury, Post Office, Passport Office, Forest Service, and other agencies will hardly require large reservoirs of funds. However, there are built-in increases in some programs (civilian and military retirement, veterans benefits, social security, and interest on the debt plus increased pay for federal employees) which will almost certainly keep expenditures rising. Some estimate the built-in increase at \$6 billion annually, but such a figure probably abstracts from the possible savings that can be expected with aggressive program evaluation. During the four years prior to mid-1965, the increase in all nondefense administrative budget expenditures -- new programs as well as built-in increases -- averaged \$3 billion, and never exceeded

\$3.6 billion in any one year. Allowing for differences in the budget concept, \$4.5 billion a year should be ample to cover the built-in increases on the new budget basis. Assuming automatic revenue growth of \$12 billion in a noninflationary year, this would leave \$7.5 billion annually for new budgetary decisions after Vietnam.

We will, of course, wish to increase the allocation of funds to many new programs enacted in the 89th and 90th Congresses. But, these are the very programs -- education, welfare, health, housing, etc. -- which need to be improved to help achieve the aims of our post-Vietnam society. Each should be scrutinized carefully to see whether it should be pruned. They will be deserving of additional support only if such outlays will have higher priorities than outlays on new government programs or private consumption. Thus, the programs already on the books are subject to new policy decisions, just as new programs will be. In this very real sense, there are few "automatic" or built-in" increases in the federal budget.

#### Reduction of the Deficit

The federal budget is now running a deficit of \$20 billion a year on the new budget basis (\$10 billion on the national accounts basis). The deficit would be cut \$10 billion temporarily by the pending tax bill, but it would be restored to approximately the old level after the expiration of the surcharge. It is argued that a continuing deficit of \$20 billion cannot be tolerated, so that a major portion -- say, \$10 billion -- of the saving from Vietnam expenditures will have to be sacrificed in the interest of permanently reducing the deficit. The objective of the deficit reduction would be to prevent inflation.

The crucial question in this decision is whether the economy will need to be cooled down by a large deficit reduction after the Vietnam War. Current projections suggest that unemployment will rise to 4.5 percent or higher by mid-1969 if the surcharge is enacted. This would be an intolerably high level, and any attempt in these conditions to reduce the size of the deficit to be generated by the termination of the surcharge may be economically unwise. At this stage, it is impossible to predict whether a \$10, \$15, or \$20 billion deficit will be appropriate for the post-Vietnam economy. (A \$10 billion deficit in the new budget, which is equivalent to a small deficit or rough balance on the national accounts basis, is probably the best we can do given the objective of full employment.)

Summary

Defense expenditures are expected to be \$32.5 billion higher in fiscal year 1969 than they were in mid-1965. Even allowing for price increases since then, the post-Vietnam level should be no more than \$10 billion above the pre-Vietnam level, which would leave at least \$22.5 billion for needed domestic programs.

The annual growth in tax receipts in the post-Vietnam economy can be reckoned to be about \$12 billion under noninflationary conditions. Of this total, \$7.5 billion should be available for expanding old programs or for starting new ones.

This would leave \$30 billion of fiscal elbow room in the first year after the transition to the post-Vietnam economy has been completed, \$37.5 billion in the second year, \$45 billion in the third year, and so on. Even if we allocate as much as \$10 billion to reduction of the deficit -- a high figure -- \$35 billion would be available in the third year for additional federal expenditures.

However, most of this elbow room would be dissipated if military and other defense-related expenditures are not strictly controlled and if tax reduction goes beyond mere termination of the pending surcharge.

cc: Bob Nathan  
Walter Heller

dg  
/mem

GENERAL

BE 5-7 (3)

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FG 11-3

March 6, 1968

Dear Mr. Benjamin:

Many thanks for your letter of February 21, enclosing your article on the "Program For Plenty".

As you undoubtedly know, the President last year asked the Chairman of the Council of Economic Advisers, to take the lead in post-Vietnam planning. I have passed your article along to Arthur Okun, the present Chairman of the Council for his study.

Sincerely,

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

\*  
X  
Mr. Edward B. Benjamin  
Suite 825 Whitney Building  
New Orleans, Louisiana 70130

ncc: Honorable Arthur Okun *sent*  
(with copy of incoming letter)

RECEIVED  
MAR 7 1968  
CENTRAL FILES

JAC:JCG:nlc

EDWARD B. BENJAMIN  
SUITE 825 WHITNEY BUILDING  
NEW ORLEANS 70130

February 21, 1968

*Further  
give me  
a copy*

Mr. Joseph A. Califano, Jr.,  
Special Assistant to the President,  
The White House,  
WASHINGTON, D.C.

Dear Mr. Califano,

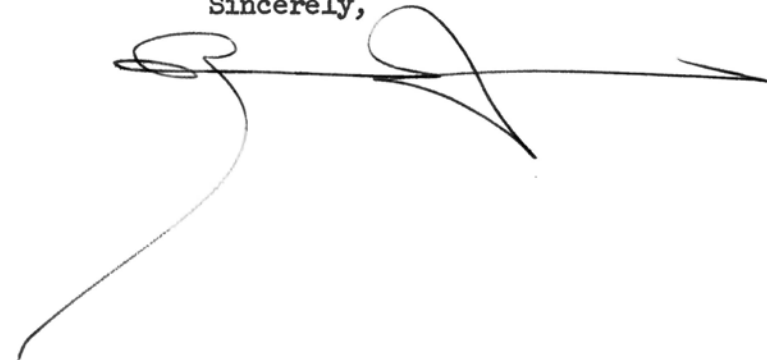
It occurs to me that twenty-five years ago I wrote up in SURVEY GRAPHIC, the leading socio-economic journal of its day, an article "Program For Plenty", detailing a plan for full employment of employables and radical reduction of poverty.

Enclosed is reprint of the article.

I have sent letters similar to this and reprints to the Council of Economic Advisers, but I enclose another just in case the President or you should be interested in it.

Every good wish.

Sincerely,

A large, stylized handwritten signature, likely of Edward B. Benjamin, written in dark ink. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EBB/jwe



RECEIVED  
JOE CALIFANO, JR.

1968 FEB 23 AM 10 21



# Program for Plenty

by EDWARD B. BENJAMIN

The paradox of a global war—and its significance, as interpreted by a ranking southern industrialist. How “the most destructive disaster of all time short-circuited us into an all-out productivity at whose approaches we had been stumbling for a dozen years.”—And gave clues to a “permanent self-regenerative prosperity.”

DOES THE OVERNIGHT “MIRACLE” OF WAR PRODUCTION, WITH full employment and fantastic output, spell anything for our country after the war?

Just this: that it may be possible to organize our nation for permanent peacetime prosperity and plenty.

For the moment let us overlook the handicap of a huge national debt at war's end—what this debt is going to be, we shall consider later—and come to grips with more crucial questions:

*Can our nation consume what it would produce in an all-out production program for peacetime plenty?*

*Can our people afford to pay for the superabundance of commodities resulting from full time employment on civilian needs?*

A few figures will throw surprising light on this. In 1929, with our national income at \$85,000,000,000 we had 3,000,000 unemployed, about 6 percent of our workers. In 1943, with our people almost fully employed, the national income is estimated at \$135,000,000,000—an increase of about 62 percent. Although it seems strange, the average of commodity prices is supposed to have advanced only 5 percent between 1929 and 1942. Thus the producing and consuming power of the American people increased enormously in little more than a decade.

Specific figures show that the real income of our wage earners—what pay envelopes will buy—had gradually advanced about 50 percent in the same period. The real income of the farmer was up even more. Wage-hour and farm-aid legislation, trade union gains, social and technological progress had all contributed to these benefits for the mass of our people. Ought we, then, to worry too much about our ability to consume? Do we not have a green light to go ahead, not only to produce for our needs when the time comes, but to produce ourselves into a state of full employment and lasting plenty, with some comforts for all in addition to the simple necessities? The answer looks obvious. Certainly we ought to try.\*

Bear in mind that our war production program has been carried out by industry and agriculture in private hands, with some governmental financial aid and planning. Couldn't the same arrangements hold for the peacetime production program-for-plenty? Bear in mind, moreover, that whereas our war production program has called for limitation of civilian consumer demands in many directions, the program for plenty would work exactly the other way—a comforting thought.

My proposal is simply one for continued evolution in a direction in which we were already headed before Pearl Harbor. War production has taught us what an enormous

economic potential resides in the U.S.A., if we but harness it in full for the satisfaction of our peacetime needs.

## The Sights of Our Postwar Aiming

THERE ARE SIGNS THAT CONSIDERABLE PLANNING IS ALREADY under way toward this end. The President and other government officials have more than hinted at it. Industrial leaders are sensing the idea as exemplified by the Committee for Economic Development which, on the initiative of Secretary of Commerce Jesse H. Jones, has set out to stimulate advance planning of programs for the swift conversion of war industry to civilian production in order to maintain maximum employment. But what seems still to be needed above all, has been a comprehensive survey of our nation's economic requirements for proper, peacetime living. Consider the problem on this basis: Our War Production Board has estimated our wartime needs. In the years following the war, why not do the same for proper peacetime requirements? How many shoes, shirts and topcoats, how many prefabricated cottage-with-garage units, bathtubs, refrigerators, and other “hard goods” should be produced—and consumed—to assure everyone in all the land possession of the basic essentials of health and comfort?

A step in this direction is the study “Markets After the War” by S. Morris Livingston, brought out by the Department of Commerce. This summarizes the annual consumer demands for the years 1929 through 1941. However, the 1941 national income (the largest of the years covered by the report) ran only a little over \$90,000,000,000, as against the expectation that the national income will reach over 50 percent more than that this present year.

It appears that a detailed comprehensive postwar consumer demand survey should be undertaken, by income groups and covering both abnormal and normal demands, based upon our anticipated national income of \$135,000,000,000 in 1943. If we could ascertain the requirements of our population for commodities and services in normal times based on such an all-time high, conceivably we might employ our population in the satisfaction of these wants.

Obviously an increase in national income level from \$90,000,000,000 to \$135,000,000,000 does not mean a proportionate increase in demand for some commodities and services. The point is to find out in advance the direction that demand would take and to prepare ahead of time, properly and systematically, to meet it, thus setting up both the goals of production and of employment.

In recent years, the polling technique has proved excellent in gauging opinions and preferences. This method,

\* It should be borne in mind that our national income always tends to equal our national output of commodities and services, a clincher.



plus assistance to consumers in developing budgets, could be brought to bear in working up our picture of postwar consumption based upon sustained high national income.

### Implementing These Aims

SUCH THEN ARE THE SIGHTS FOR OUR POSTWAR AIMING, THE goal being presented in terms of shelter and sanitation, food and clothing, personal hygiene and education, and all the other manifold commodities and services entering into reasonably secure daily living that embodies freedom from want and freedom from fear. Assuredly, if we can survey our needs for war production plus wartime living, we should be capable of estimating our requirements for proper peacetime living standards.

Once we ascertain our essential production goals in our program for postwar plenty, we can begin to figure on augmenting the framework for their attainment. Wartime economic supervision on the part of the federal government has built up an enormous mass of statistical data on the earning power of our people, on their economic skills and aptitudes. We should be able to estimate how much of our program for plenty is attainable at the start, and the directions in which to extend plant investment. Over a finite period of time, with government aid in financing and in planning, and with economic activity in private, competitive hands as today, should we not continue to accomplish wonders?

It would probably mark a forward step, therefore, in our economic development to maintain in peacetime a production board somewhat analogous in its scope and function to the present War Production Board. Even if the normal work of this suggested agency were confined merely to the collection and rapid dissemination of figures on the production and purveying of commodities and services, this would be extremely helpful. At present similar statistical data are a year or two old as they emanate from the Bureau of Census, the Bureau of Mines, and other agencies. They represent ancient history as far as producers are concerned.

### From "Expendables" to Permanent Investment

THIS BRINGS US SQUARELY TO OUR FINANCIAL SITUATION—to the present and prospective national debt, and our ability to finance any postwar economic program.

Happily, unlike that for the war effort, the financing involved in this peacetime program should prove self-liquidating. Most war production plants are built for temporary operation; their product is "expendable." It is shot away, or destroyed, or relegated to the warehouse or the junk heap on war's termination. But any expansion of agriculture and industry to satisfy peacetime needs creates facilities which are—or can and should be—permanently required. Their products can be and ordinarily are marketed at prices covering all costs of production, including that of financing. Instead of flinging our money into the maw of destruction, we would get it back with interest to be used in new directions later.

Moreover, the amount of financing required for a program of peacetime plenty in this country should not be anything like the financial outlay for war production. To begin with, prior to the war our production facilities for the satisfaction of our normal civilian needs were already very considerable. As previously stated, we were headed in the right direction. In a program for plenty, we do not need to pioneer new fields of production. We need only to expand and amplify. Let it be noted that while our

new plant investment for war runs into nearly \$20,000,000,000 it is a drop in the bucket of our total war budget.

As a matter of sober fact, even under the grave stresses of war production our nation's financial outlook is not too discouraging. Our debt may run to \$180,000,000,000 by the end of 1943—with our national income already estimated at \$135,000,000,000. Many a successful corporation has outstanding funded debt amounting to several times its annual income. The federal government's situation in this respect is neither unusual nor alarming.

Taxes netted the federal government around \$20,000,000,000 for 1942—sufficient, after allowing \$5,000,000,000 to \$6,000,000,000 for ordinary governmental expenditures, to have retired considerably more than \$200,000,000,000 of debt on a safe and sane amortization basis. And tax rates enacted in 1943, although high, are after all not crushing.

Far from being broke, our nation under all-out wartime production has built up an enormous earning power. The amount of government debt outstanding, huge as it is, is owed not to some vaguely sinister centralized agency in Washington, but to you and me and others like us, or to our banks, our insurance companies, and other financial institutions in which we all have an interest. It is almost wholly a domestic debt, which represents the savings of our people. These savings can continue to be siphoned off through our government to finance our economic productivity, either for war or peacetime needs. Such financing is safest for the lenders and cheapest of all for the debtors.

### Nothing to Intimidate Us

IN SHORT, THERE IS NOTHING IN OUR FINANCIAL OUTLOOK TO intimidate us in going ahead with our legitimate national aims. We have every right and every reason to begin now to define our economic goals for proper, comfortable, peacetime living and to plan now for peacetime plenty after victory is won.

There are those, of course, who will regard any attempt at postwar economic planning as a handicap to our system of free private enterprise. But such planning need neither be restrictive nor obstructive. In spite of occasional frictions, various signs indicate that American government, business, industry, and agriculture, are all progressing in economic understanding, and progressing rapidly.

A paradox that will furnish texts for untold future generations of economists and historians is the fact that the most destructive disaster of all time—a global war—short-circuited us into an all-out productivity at whose approaches we had been stumbling for a dozen years.

Organization overnight for all-out war effort necessarily resulted in a certain amount of bungling which, in the accomplishment of remarkable objectives, may be forgiven. Organization and planning begun now for postwar production can avoid the mistakes of haste and amateurism.

Summarizing, two essentials are required:

1. An immediate comprehensive survey (by income groups) to define postwar consumer demands, abnormal and normal, based on present high national income levels.
2. Continuation in peacetime of a production planning board to collate performance and assist in any necessary government aid to producers.

Unless the lessons furnished by our nation's history are in error, we will succeed in whatever we set out to accomplish. It is for us to awaken to our opportunity and to attain permanent self-regenerative prosperity in a properly planned and organized postwar production for plenty.



BROUGHT FORWARD

**GENERAL**

BE 5-7  
Previously filed

5/18/67  
Date

NAME

Jacob K. Janits

ORGANIZATION

**GENERAL**

BE 4-4  
New File Symbol

5/18/68  
Date

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GENERAL

⑨

May 12, 1967

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BE5-7?

Honorable William Gaud  
Administrator  
Agency for International Development  
21st and Virginia Avenue  
Washington, D.C. 20523

Dear Mr. Gaud:

Daniel P. Moynihan

I am sorry to have to trouble you, knowing from my brother's experience how enormously busy you are, but a matter has arisen concerning the relationship between Agency for International Development and the Joint Center for Urban Studies which suggests that some communication from me is in order. You may yourself have read an article in the Washington Post of April 28th, 1967, concerning a reported White House "veto" of a proposal from A.I.D. that the Joint Center become associated with development work in Saigon. The news story suggested that the White House decision may have been based on domestic political concerns and quoted "one administration source" to the effect that the affair reflects "the great difficulty in getting first-rate academic institutions to cooperate on Viet Nam projects." It was later suggested in the news story that A.I.D. might now look elsewhere, to Chicago or Columbia, to see whether the project could be carried forward.

I am sure you will recognize that this is an allegation we would have to regard in a most serious light. In this case all the more so as the record will show that the Center was entirely cooperative and in each particular responded to the Government initiative with complete openness. Let me set forth the record simply that there might be no future misunderstanding.

Early in March I was contacted by representatives from A.I.D. to ask, would I arrange a meeting to talk about a matter of interest concerning Viet Nam. I was happy to do this, and on Monday, March 27th, we were visited by Messrs. Culbertson and Ladenheim. Professor Lloyd Rodwin, Chairman of the Faculty Committee of the Joint Center, and Professor Lisa Peattie were also present at the meeting. Our talks were entirely cordial and left off with our undertaking to think closely about the matter and possibly for representatives of the Joint Center to fly out to Saigon to get a better sense of the task under consideration. Two days later, on March 29th, I wrote Harry C. McPherson as follows: