

AUGUST 10, 1967 - 1:25 p.m.

Luncheon meeting with business  
leaders

MEMORANDUM


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THE WHITE HOUSE

WASHINGTON

August 15, 1967

FOR THE PRESIDENT

FROM: George Christian 

Attached are the notes of your luncheon meeting with business leaders on August 10, 1967, in the Mansion.

Those who attended were:

The President  
Honorable C. Douglas Dillon  
Mr. Henry Ford, II  
Secretary Fowler  
Honorable Thomas S. Gates Jr.  
Mr. Werner P. Gullander  
Mr. Frederick R. Kappel  
Mr. William B. Murphy  
Mr. Albert L. Nickerson  
Mr. Rudolph A. Peterson  
Mr. David Rockefeller  
Mr. Stuart T. Saunders  
Honorable Allan Shivers  
Secretary Trowbridge  
Mr. J. Harris Ward  
Mr. Sidney J. Weinberg  
Mr. Frazar B. Wilde  
Mr. Walter B. Wriston

The meeting began at 1:25 p.m. The meeting ended at 3:40 p.m.

Attachment

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NOTES OF THE LUNCHEON MEETING  
OF THE PRESIDENT  
WITH  
BUSINESS LEADERS

In the Mansion  
August 10, 1967

THE PRESIDENT: Thanks for being here. Secretary Fowler suggested you come down and talk with us about fiscal problems.

It now appears that our expenditures which were estimated in January at \$135 billion could reach \$143 billion for fiscal 1968. Our income will be about \$127 billion, down \$7 billion plus. Expenditures are up \$8 1/2 billion. So, with revenues down \$7 billion, expenditures up \$8 1/2 billion, and not getting the tax bill we recommended, and therefore are having to pay interest on that delay -- and since we started with a deficit of \$8.1 billion -- it now looks like the deficit will be \$29 billion to \$30 billion.

We could try to borrow all of that. We could tax it all. We didn't think either would be wise.

Of a total of \$61 billion non-defense, less than \$12 billion is controllable. Out of that \$61 billion, we have such things as \$14 billion for interest on the debt, \$5 billion for veterans, \$4 billion for crop supports, \$8 billion for salaries and \$15 billion for contracts we have made.

So if we eliminate all of that \$12 billion in controllable funds, we couldn't reduce the full deficit. And if we raised the surtax to 50 percent, we couldn't get enough revenue to offset the deficit. If we borrow it all, God knows what would happen to interest rates when we went into the market for that much money.

We have had our fiscal experts evaluate and recheck all of this, and go over it as you do in your business. The situation is this: \$8.1 billion deficit, \$8.5 billion increased expenditures, \$7 billion loss of revenue and \$5.4 billion on the 6 percent surcharge that wasn't enacted by July 1, bringing a total of \$29 billion for fiscal 1968.

I have recommended 4.5 percent pay raise for federal employees; that is \$1 billion. The bill now pending adds another billion dollars. This is part of the \$8.5 billion increased expenditures we are figuring on. Participation certificates are another \$2 billion, defense is \$4 billion,

and there is \$1 1/2 billion that we impounded last year and have since released. That adds up to \$8.5 billion.

How do we plan to deal with this deficit? The best way, we think, is to cut 25 percent from appropriations, which would include the \$2 billion in participation certificates and \$1 billion off the pay bill. We could get some from Space, and maybe \$400 million from Agriculture. The problem is, there are fifteen appropriation bills, and the Congress has passed only two. We can't do any trimming until we get those bills. Just as we cut 25 percent, we hope to tax 25 percent, and then borrow 50 percent.

These objectives are perhaps more than I can reach, but this method is the consensus of all our experts. This means we must have a 10 percent surtax on corporations, effective July 1, and a 10 percent surtax on individuals, effective October 1, plus extensions of the telephone and auto excise taxes.

With a GNP of nearly \$800 billion -- and recognizing that we have reduced taxes by \$24 billion in the 3 1/2 years since I became President, this seems reasonable.

If we didn't get a tax bill, there would undoubtedly be an inflationary spiral. Interest rates would go up, and we would have a recession in housing.

The most difficult problem a President has -- except for getting out of Vietnam -- is estimating the budget. We have had four budgets, with a total deficit of \$24 billion, and our estimates when you add those four years are only \$100 million off.

I am asking for your help and suggestions.

QUESTION: How deep is the cut into the Space program?

THE PRESIDENT: It would put the moon into the 1970's. By cancelling a billion dollars in contracts we could save \$400 million in expenditures.

Let me point out that to make our target, we would have to reduce Space, HUD, HEW, Agriculture, and Veterans Administration. There aren't many other places to cut.

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FRED KAPPEL: I have the feeling you are in a position where you can't do anything else. What is the prospect for the future on spending?

THE PRESIDENT: We have a built-in increase of \$3 to \$4 billion, assuming Vietnam holds steady.

QUESTION: To get solid support for a tax increase, a cut in the budget is a terribly important element.

THE PRESIDENT: I agree. Last year I told the Congress we ought to impound and defer expenditures, but they gave us more than we asked for. After we tried everything, we locked up \$5 billion in programs to get \$3 billion in expenditures. It caused all kinds of hell. When you stop a man's dam or his federal building, you are going to hear from him.

I would also guess that we are more likely to get the participation certificates than the cut in the pay bill. Last year I thought we had everybody lined up to hold down the pay bill, but when it was voted on I had exactly one vote. I told somebody that the only man I could get to go with me was one lone Republican. Then I got a letter from Bob Poage, and he said I might think he was a Republican from some of his votes, but it was he who voted against the bill.

ALLAN SHIVERS: You have outlined a realistic program. I do think you have to be more realistic about the politics in Congress. It would surprise me if they don't vote the pay bill and raise these other appropriations. I think your estimate of a \$7.5 billion is a little high. I don't think the Congress is going to cut school milk or many of these other things. You might have more luck on public works.

TOM GATES: I think the people are ahead of Congress. The people will buy this as a war tax. Couple the tax with some cuts and it will help psychologically. The little man can understand.

THE PRESIDENT: That is the approach I intend to follow.

TOM GATES: The people are conservatively minded. They want some cuts.

THE PRESIDENT: If the appropriations bills come, we'll put the scissors to them.

STUART SAUNDERS: The people need to know you will cut these things. Then they will be willing to support the tax bill.

THE PRESIDENT: Secretary Fowler, do you have anything to say?

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SECRETARY FOWLER: Unlike the Tax Reduction Bill, this has to be voted up or down by October. Uncertainty is the worst thing of all for business. We have a close time table. The last of the public witnesses will be on August 18, and around Labor Day or after the recess, they will decide when to vote it out. I have no doubt that every member is getting a reaction from the average tax payer. Unless we can mobilize business leadership, we have a real problem. The men who know how business and finance operate must get the message over that the alternative of borrowing influences a risk to the economic balance of this country for years to come. The principal problem is how to get this opinion over. It's not a question of raising taxes; it's the lady or the tiger.

(Secretary Fowler commented that the economy is on the way up. There was some differences of opinion on this from the businessmen present. The President said he had doubts himself; "I've got a gut Johnson City feeling . . . I'm scared.")

Secretary Fowler expressed the wish that the business and financial interests can be marshalled quickly. The President suggested that the businessmen form a group to take the position that a reasonable course would be to raise 25 percent by taxes, 25 percent by reduced expenditures, and 50 percent by borrowing. On a show of hands, all of those present supported the President's position in general. One or two expressed reservations about the size of the proposed surcharge.

Governor Shivers suggested again that the President should come out strong on cutting expenditures. He said the man in the street will support the President on spending for Vietnam, but they want to see a cut in domestic spending.

The meeting concluded with a brief discussion on how to set up an executive organization.

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