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FILE LOCATION

Meeting Notes File, Box 2

DCH 10/81

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GENERAL SERVICES ADMINISTRATION GSA FORM 7122 (7-72)

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~

Sunday, November 19, 1967

NOTES ON THE PRESIDENT'S MEETING WITH THE LEADERSHIP

SUBJECT: Sterling Devaluation and the Need for Tax Increase -- November 18, 4:30 to 7:00 P. M.

PRESENT:

The President	Senator Mansfield	Speaker McCormack
Secretary Fowler	Senator Long	Representative Boggs
Chairman Martin	Senator Anderson	Representative Ullman
Under Secretary Barr		
Under Secretary Deming		
Budget Director Schultze		
Walt Rostow		
Joe Califano		
Ernest Goldstein		
Art Okun		
Ed Fried		

Secretary Fowler -- Discussed actions to be taken in defense of the dollar during present crisis.

-- The President's statement -- designed to remove any uncertainty regarding U.S. intention to stand firm.

-- Financial diplomacy -- getting all other major countries to hold their rates with us and prevent a chain reaction.

-- Building confidence in the dollar through demonstrating fiscal responsibility and other constructive measures to improve the balance-of-payments position. Read concluding portion of statement he made at November 16 press conference announcing programs to strengthen U.S. balance of payments. Stressed that enactment of President's tax increase program at this Session of the Congress was the single most important and indispensable step the nation can take now to protect the dollar, safeguard the international monetary system, and stop the interest rate escalation that threatened our domestic and international position. The devaluation of the pound now brought the requirements for fiscal action and the tax increase into even sharper and more critical focus.

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Chairman Martin -- Stressed the great uncertainty that currently plagues the securities market and the cost it is exacting in higher interest rates. He cited recent examples: a Nova Scotia bond that required a 7 1/4% yield; postponement of the U.S. steel issue when financing was not obtainable at 6 3/8%; a Treasury 5 3/4% that sold below par.

Essential to stop and reverse the trend of accelerating deficits or inflation would get out of hand. Sterling devaluation complicated the situation and made it all the more important to restore a position of confidence -- which required evidence of fiscal responsibility.

Under Secretary Deming (The President said Deming had been sent to meetings in Paris during the week in an effort to mobilize a multilateral support operation to save the pound.)

Deming noted two points:

1. Situation in London was black; nobody wanted to see the pound go, but in the end they could not see any feasible alternative.

2. U.S. last year, in its financing operations, paid back $11 billion to the market in the second half of the year. This year, we would only be able to put back 2 1/2 billion -- even with a tax increase. This tremendous swing from last year would greatly tighten credit conditions.

Under Secretary Barr -- In the credit crunch, the big fellows would manage to meet their requirements but the smaller borrowers, the institutions, and housing will get squeezed and suffer.

Director Schultze -- Discussed possible expenditure reductions totalling $4 billion:

-- $1 3/4 billion Congress had already made or would make in the 14 appropriation bills (of which 12 already completed);

-- $2 1/4 billion Administration could make in withholding expenditures if Congress prepared to stand the pressure.

The President -- Prepared to cut actual expenditures by one dollar for each dollar of tax increase. Secretary Fowler had been ready to offer 4 different proposals to achieve this end to the Ways and Means Committee, but the Committee acted without giving him the opportunity to put these proposals before it.

We will rue the day if we fail to face up to these critical responsibilities. If we don't act now it will not be possible to undo the harm that will result. Every day's delay is costly.

He had had nine discussions with Chairman Mills.

He was trying to convince those members of the leadership he could -- but the President cannot act for the Congress. He was prepared to accommodate his views to theirs and to this end advance proposals for a cut of $4 billion in expenditures.

Secretary Fowler -- Senator Williams had written him a letter on November 7, which he has not yet answered. The letter is essentially a campaign document designed to hurt the Democrats if it were answered under present circumstances. (Fowler read letter which made two central points.)

1. A tax increase bill has not been introduced in either House.

2. Uncertainty is causing financial disruption with serious consequences for the economy and our international position.

Senator Mansfield -- Williams' argument is spurious. There is no indecision on the part of the Administration -- it had constantly advanced its tax increase proposals.

Rep. Boggs -- Normal to work from proposals. Was willing, ready, able and happy to introduce bill.

Speaker McCormack -- Need for tax increase. In his view President not asking for big enough tax increase.

Secretary Fowler -- Read his proposed answer to Senator Williams with stress on concluding portion outlining Administration's new proposal to break deadlock between spending and tax powers of the Congress.

Package would:

-- reduce administrative budget deficit by $11 billion in Fiscal '68, and relieve credit market to this extent;

-- increase income taxes of individuals by $3.9 billion;

-- reduce actual expenditures (counting actions taken by Congress on appropriation bills) by about $4 billion;

-- increase corporate tax receipts by $3.1 billion ($2.3 billion surtax -- $.8 tax collection speedup).

Extending excise taxes could add \$.3 billion.

Stressed again that expert opinion overwhelmingly supported need for tax increase. Same with major organizations -- the Chamber of Commerce has now come around in support.

The President -- He had Sec Fowler review~~ed~~ the answer to Williams and the new proposal yesterday with Mills in light of the pending sterling devaluation and its serious potential consequences. He told Mills he wanted to review it with other members of the leadership. (He noted other members who had been invited to today's meeting, but were not available.) Mills had been unable to stay in Washington over the weekend.

The President summarized the situation. He said the President cannot impose reductions on the Congress. He is prepared to act and to share responsibility with the Congress if the Congress is prepared to accept its share. He does not want to cut expenditures, but each day of inaction brings increased costs and makes the situation worse. It will lead to some slippage in revenues and to automatic increases in expenditures (higher interest costs, more farm loans, etc.).

The Mills-Ford line is hard to break. Of course the public does not favor tax increases. Nobody likes them. But the leadership must accept its responsibilities or face far more serious difficulties. If reductions in appropriations are not adequate and there is no tax increase, then it will be necessary to impound expenditures -- notably for highways, public works and other areas where the Congress will immediately feel repercussions. (He noted highway expenditures now were a billion dollars over any previous figure and were feeding inflation.)

But do we start or not? The President doesn't want to make the decision alone. Last year the leadership accepted the responsibility of impounding expenditures. If we have to make reductions they will be drastic and they will have to be made soon. This should be done with the full knowledge and approval of the leadership.

If we don't act soon, we will wreck the Republic. The President can't spend what the Congress does not appropriate. The Congress has now acted on appropriations, and now the President must act. He then reiterated the need for the proposed package of expenditure reductions and tax increases.

Rep. Ullman -- Said he favors a tax increase, but a tax increase could not solve the situation alone. When Schultze testified before the Ways and Means there were ambiguities in expenditure reduction proposals.

The President -- Cited instances where he had made clear the Administration was prepared to match tax increases and expenditure reductions dollar for dollar. He referred again to the Committee's unwillingness to hear Fowler's four alternative proposals to achieve this objective. He set the record straight on Schultze's testimony.

Rep. Ullman -- Sterling devaluation made this a new ball game. There is no point in recriminations. Said he believed there would be widespread repercussions on Monday throughout the economy. Repeated that he did not believe expenditure reductions had been adequately spelled out. But we should now try the new formula.

Secretary Fowler -- Reviewed formula again, together with proposal for President to set up special group to go over programs and prospective expenditure cuts.

The President -- Pointed to need for clearance from Government Operations Committee on $4 billion expenditure reductions.

Rep. Ullman -- Important to try to put package together in next few days -- before Thanksgiving. The sterling crisis should be a vehicle for getting it done.

The President -- Asked for the views of the leadership on the proposal and on any alternatives they had to deal with the situation.

Senator Long -- Asked Rep. Ullman whether the Committee would report favorably on the tax bill without Mills' support. Answer -- probably not. Senator Long then said that Senator Talmadge doubted that the bill could be passed either in the House or the Senate. Said it would be even more difficult in the House, because the members had to run next year.

The President -- Said any action taken would be unpopular but it would have to be done.

Rep. Ullman -- The situation would be worse if we don't pass the tax bill. Unable to know the outcome beforehand.

Secretary Fowler -- Said it is essential to report out the bill and put it in the glare of domestic and international publicity. Then vote it up or down so everyone would know where each stood.

Rep. Ullman -- Said he would give every support he could.

The Speaker -- Made following points:

1. No tax bill is popular.

2. We are faced with desperate situation and the Congress is on trial.

3. He had personally taken public position in favor of tax bill.

4. It should be possible to get bipartisan support and to begin through action by Mills and Mahon.

Senator Long -- Reserved judgment on his own position but suggested following procedure to break impasse:

1. Sit down with as few people as possible.

2. Heart-to-heart talk between the President and Mills.

3. If the House sent the tax bill over, the Senate would take a look but he was not in favor of the expenditure reductions part of the package.

The President -- Said this was not facing facts and pointed again to the consequences of sterling devaluation.

Senator Long -- Repeated that it was important to get together with Mills, but said Mills could not lay down conditions on which he can't deliver.

Director Schultze -- Pointed out that the tax increase bill provided for $7 billion during the remainder of this fiscal year, and $12 billion over the next fiscal year. It was essential to keep the latter in mind.

The President -- Pointed out that the Defense budget for Fiscal '69 that had now been received came to $98 billion. If Congress did not act on a tax increase, then it would be necessary to start thinking not about a $4 billion expenditure cuts, but about cuts of many billions of dollars.

Rep. Boggs -- He had given thoughtful consideration to the possibilities of the bill. He pointed out that the Poverty Program had come out much better than anyone had guessed three weeks ago. His judgment is that if the Chairman supports the bill, it would be passed in the House.

Rep. Ullman -- It was necessary to talk to Mills not only about the situation this year, but next year as well, and the consequences of a $98 billion Defense budget. Also said that Ways and Means cannot originate action on the bill where other Committees have jurisdiction. It's different when the President proposes the bill, and next year's situation is clearly critical. In his view, if the bill gets to the Floor, it will have bipartisan support, but Mills' approval is essential. Mills is critical of a tax increase and his speech on Monday is in that vein but the speech does not close the door on action on a tax bill.

The President -- Asked when can we get the Committee to act.

Rep. Mahon -- The House voted by continuing resolution to cut expenditures by $7 billion which was equivalent to a cut of $14 billion in appropriations. In his view, expenditure cuts were worse than a tax increase.

The way to get a tax increase was for the President to stick his neck out and cut expenditures by $4 billion -- even without a tax bill. The cuts should include programs which he considers among his best programs, e.g., Federal Aid to Education.

Mahon would then try to get his Committee to endorse those specific cuts.

He recognized the risk -- that the President would make cuts on his own and then end up without a tax bill.

Secretary Fowler -- Reviewed the formula proposal for making cuts under which responsibility would in fact be shared. (Use of either of the following, whichever is lower: (a) a cut of 2% in personnel and 10% in program; or (b) the difference between the original appropriation request for each program and what Congress appropriated.)

The President -- Stressed the need to work from the package proposal: the tax bill, the expenditure cuts (with the formula) and a review group. The need was to get the Committee to move now.

The consensus that emerged was to organize a meeting with the President Tuesday morning -- which was the earliest it would be possible to get Chairman Mills back to Washington. Speaker McCormack and Secretary Fowler would try to get in touch with Mills. Others at the meeting might include the Speaker, Representative Mahon, Senator Mansfield and Senator Long.

W. W. Rostow

INFORMATION

THE WHITE HOUSE

WASHINGTON

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Tuesday, November 28, 1967
5:45 p.m.

Mr. President:

Herewith Ed Fried's summary of a Leadership meeting for the President's diary.

Walt Rostow

Determined to be an administrative marking
By DCH On 10-23-81

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MEMORANDUM

THE WHITE HOUSE

WASHINGTON

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Monday, November 20, 1967

NOTES ON THE PRESIDENT'S MEETING WITH BIPARTISAN LEADERSHIP

SUBJECT: Devaluation of the Pound and its Implications for U.S. Fiscal Policy -- Monday, November 20.

PRESENT:

The President	Senator Mansfield	Speaker McCormack
Secretary Fowler	Senator Dirksen	Representative Ford
Chairman Martin	Senator Robert Byrd	Representative Boggs
Under Secretary Barr	Senator Hayden	Representative Bow
Under Secretary Deming	Senator Kuchel	Representative Byrnes
Chairman Ackley	Senator Russell	Representative Laird
Director Schultze	Senator Smathers	
Walt Rostow	Senator Williams	
Art Okun	Senator Young	
Ed Fried		

The President -- Opened meeting by saying that he asked to meet with the leadership of both parties to review the developments surrounding the devaluation of the pound, the implications it carried for the U.S., and the choices with which we were now faced. He asked Secretary Fowler, Chairman Martin, and Chairman Ackley to review the situation.

Secretary Fowler -- The need to meet the deficit out of borrowed funds will unbalance the economy and undermine our international position. The dimension of the problem is clear from the following: in the first six months of this calendar year, Treasury operations had put $11 billion into the monetary system. The prospect now is that without a tax increase the Treasury in the first six months of next year will take out $5 billion from the system. This swing of $16 billion represents approximately one-fourth of the total credit market and will have a tremendous impact on interest rates.

The devaluation of the pound now intensified the situation and the problem. In a sense, we have a new ball game. At stake are:

a. The gold exchange standard and the system of stable exchange rates that have enabled international trade to expand.

b. The U.S. external position in the world -- political, diplomatic, military and commercial. (What was now happening to the U.K. should serve as a lesson to us.)

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c. Confidence in financial markets which was at the basis of prosperity at home and abroad.

We have two basic means of dealing with this new financial crisis:

1. <u>Through multilateral cooperation and financial diplomacy</u>

-- To make sure that the British devaluation does not cause a chain reaction such as the competitive exchange depreciation scramble of the 30's. So far the results look good. The major financial and trading countries are sticking together and not following the British.

-- To protect the dollar against speculative raids. We are doing this through an extensive system of swap arrangements, through the IMF facilities, and through close consultation.

-- To maintain the price of gold through operating on gold markets and through the cooperation of our partners in the London gold pool.

2. <u>Maintain confidence in the stability of the dollar</u>

-- What we do about our deficit is in itself an important element of the confidence that foreigners have in the dollar. So far, we don't look very good. With 12 out of 14 appropriations bills passed, the actions taken by the Congress will reduce expenditures by only $1.5 billion this fiscal year and the tax increase is stalled.

-- It is essential that we concert ourselves on a package that would make deficit finance manageable and provide concrete evidence that we will be able to deal with inflation and avoid a boom and bust cycle. This could be the most important factor for removing uncertainty and restoring confidence in financial markets.

Increase in taxes alone won't do it. Reducing expenditures on the scale on which the Congress has acted won't do it. We must work together and combine both approaches into a package that will do the job.

<u>Chairman Martin</u> -- Fully support Secretary Fowler's analysis. Said officials and the entire Federal Reserve system were almost unanimous in believing we have a major problem in protecting confidence in the dollar. He had

spoken that day to five governors of European central banks. Three made a major point of asking what we were going to do to deal with our deficit.

He believes there is a critical need to demonstrate that we will get our finances in order. Whether we keep the dollar strong is entirely up to us. It depends on, and will require, a combination of expenditure reductions and tax increases.

Chairman Ackley -- The U. S. is not like the U. K. -- we are in an incomparably stronger position. Nevertheless, we cannot escape the impact of the British devaluation, and we have had a long series of balance of payments deficits. Recently our prices have been rising while prices in Europe were stabilizing. The Europeans are becoming more pessimistic than we regarding our situation, and, as a consequence, they are becoming more cautious. Uncertainties in the U.S., notably the effects of strikes, the tax situation, and our deficits undermine confidence. It is essential that we move now to bring our house in order as a concrete demonstration to the world of our will and capacity to keep our economy and the dollar strong.

Secretary Fowler -- No single act could more effectively restore and maintain confidence in the dollar, and shore up our balance of payments position -- both short and long term -- than the passage of an expenditure reduction and tax increase package at this Session of Congress. Markets don't wait.

He said there were three groups: those who believed in a big tax increase and a small expenditure reduction; those who believed in a big expenditure reduction and small tax increase; and those who wanted to do nothing. He believes the third group predominates today and, if they have their way, the consequences will be very serious.

The President -- Said he wanted to summarize and review the record as we see it from our standpoint. Said it would be helpful because the Chairman of the Ways and Means Committee was going to begin hearings next week. In his message on January 10, he had proposed a 6% surtax which would have amounted to 1/2 cent on the dollar. He repeated this request in his budget message of January 24, and in his economic report of January 26. In July, it had become apparent that war costs were going up and revenues would be down. He consulted with the best brains in the Administration, with leaders of business firms, labor organizations, farm groups, and other outside experts.

The choices were:

1. To finance the deficit through increased taxes which would have required a 40% increase in taxes.

2. To borrow it all, which would be clearly irresponsible.

3. A combination of:

   a. 25% of the deficit through increased taxes, or $7.4 billion, or one cent on the dollar. (This would take back only 1/2 of the tax reduction.)

   b. 50% borrowing.

   c. 25% savings through a review of all programs.

Given these choices, he met with the leadership and with the Ways and Means Committee. In an Executive Session of the Ways and Means on September 22, the Administration proposed to match a tax increase with savings -- dollar for dollar. All major organizations supported a tax increase. On October 3, Ways and Means tabled the proposal until further notice.

He said that delay hurts us all. He cited the pressure of government financing on financial markets, the effects of interest rate escalation, the hardship this will impose on state and local governments, on housing, and on consumers.

Inflation hurts consumers twice. Its incidence is as hard as a tax, and it hurts low-income families disproportionately. They would pay an inflation tax, but they would not pay a surtax. It will increase our imports and undermine our international monetary position.

In light of the devaluation, it was more essential than ever to take action. With sterling devalued, the world depends even more on the dollar. It should also be possible to move forward now that the Congress has passed 12 out of 14 appropriation bills and we know the results.

His proposal was:

1. A 10% surtax which would bring in $6 or $7 billion.

2. Expenditure reductions of $4 billion, including the $1 1/2 to $2 billion that Congress would have cut. He would put a separate title in the bill with a formula that would bring these cuts to $4 billion.

3. The PC authority passed by Congress would come to $2 billion and saving on the Pay Bill to $1 billion.

Reductions would be painful and hard, but they have to be done. None of these figures are inflexible. Chairman Mills feels that the House has expressed itself in favor of a $5 billion reduction in expenditures. Other figures agreed upon could be made effective through a formula that would be part of the tax bill. Chairman Mills has announced a meeting of the Committee next Tuesday. It is essential that we act to avoid high interest rates and to maintain confidence in the dollar. Only in this way would it be possible to see that those people for whom the programs were designed would not be robbed by inflation.

He said he asked the leadership here for their cooperation and suggestions.

It was essential to avoid his challenge to our fiscal strength. He cited his telegram to the Australians and his discussions with Japanese Prime Minister Sato to keep other major powers firm with us following the British devaluation. Nothing was more important than a legislative proposal of this sort. He pointed to the fact that every item in the budget was going up, e.g., Medicare, Medicaid, Agriculture, and he asked Director Schultze to comment.

Director Schultze -- Said that carrying out the legislative provisions for Medicare, Medicaid, and public assistance would increase expenditures by $1 billion over the January budget estimates. CCC expenditures would be up by $.5 billion. Higher interest rates, larger Ex-Im loans, increased veteran loans, would add another $.8 billion. Postal pay increase adds $.2 to $.3 billion. These expenditure increases were not subject to administrative control but they had to be offset.

The President -- It was necessary to act first in the House Appropriations and Ways and Means Committees. He had tried to avoid the sterling crisis and sent Deming to Europe with this objective. But as it turned out, the UK had no choice and the pressure was now primarily on the U.S.

Senator Mansfield -- Didn't think we were asking for enough. We should seriously consider price and wage controls in addition to the tax increase and expenditure reductions proposal.

Speaker McCormack -- Said, as he understood it, the U.S. is now the key to the international monetary situation. Asked Chairman Martin's comments. Martin agreed.

The President -- Said we had been prepared for this contingency and had been in touch with all the major countries to make sure of cooperation and united action. He was pleased with developments up to now, but this was only the beginning and we were under fire.

Senator Russell -- Asked Secretary Fowler whether he was surprised at the British action. Secretary Fowler said no. He had hoped the British would be able to weather the storm. They had made a great deal of progress since last year, but then ran into bad luck as a result of Suez, depression in their export markets, the dock strike, and rising interest rates in the U.S.

Senator Russell -- Said he had been apprehensive for some time. He himself had never been opposed to a tax increase.

The President -- Asked the others to comment but made clear that they were under no obligation to take a position. Said he had asked them to the meeting to get their views.

Senator Smathers -- Said he had been surprised during his recent trip to Europe at the concern over our situation. He supported the combination proposal. He suggested that the tax increase should be directly related to the cost of the Vietnam War. We had, after all, raised taxes during the Korean War. He hoped the House acts soon.

Senator Dirksen -- Said the principle was good. It was based on faith on both sides. He said that in fiscal matters there was always a lot of political pulling and hauling to gain partisan advantage. This was natural but we should never let it get to the point where the country and the economy suffers. He cited the 1929 depression, and said we must never let that happen again. We cannot let the country down during a period of danger. Both sides must work together -- Executive and Legislative. He suggested that perhaps the House and Senate could get together on a bi-partisan basis and work out where the cuts would be made and who would make them, and whose favorite projects would go down the drain. Thought perhaps it could work out.

The President -- Said he was willing to take responsibility for an expenditure reduction formula but wanted the approval of the Congress. He would prefer that the formula be in the bill; otherwise, he would review reductions with the leadership to obtain their approval.

Senator Russell -- Said he thought that the Congress had cut $5 billion in appropriations.

The President -- Not talking about appropriations, but the effect of the appropriations bills on expenditures this year. The bills would cut expenditures through the balance of this fiscal year by only $1 1/2 billion. He believed there should be a $4 billion cut in expenditures, which probably would require a cut in programs of something more than $9 billion.

Representative Mahon -- Said that Congress had cut about $1.5 billion in expenditures in 1968 with the rest of the impact coming later. Believed the cut had been as much as could be done, with the President saying that he stood on his budget. The Appropriations Committee will not cut programs by $9 billion unless the Administration says that it is imperative that it be done. Not everyone is as keyed up for expenditure reductions as Mills and Ford, so it was essential for the Executive to come out strongly for it. It will hurt, but if it is pictured as essential for the country's fiscal position, the Committee will do it even though it will not like it.

The President -- Said he told the Cabinet to be prepared to make the reductions and to be in a position to discuss their impact with the appropriate Committee Chairmen.

Representative Mahon -- The Congress prefers that you do it rather than we.

Secretary Fowler -- The point is that both should cooperate and join together; that this demonstration of cooperation would contribute to confidence.

Representative Laird -- Cited his proposal for a 5% reduction in appropriations. Said that some expenditures could be postponed and noted in particular the bill for electrical equipment in educational facilities. Said that Executive had not cooperated.

Representative Ford -- Said he was encouraged to see that the Administration was coming around to the view that expenditure reductions should be made a matter of law.

The President -- Said we had been saying this since August.

Secretary Fowler -- Read statements he had made advocating this on September 21.

Representative Ford -- Said he never heard anyone in the Executive saying that he would accept cuts as a matter of law. It is important to know from what level of expenditures such cuts would be made. From $135 billion - $136.5 - $144 billion? But he was encouraged by this start.

The President -- Said that Secretary Fowler had been prepared to offer four alternative proposals to achieve dollar for dollar matching of cuts and tax increases before the Ways and Means Committee. The fact is that there is only $38 billion in controllable items in the budget. We would be effecting $10 billion of that total to get a cut of $4 billion in expenditures. He was not wedded to any one figure or any one combination. Our best judgment was a bill with:

the first title providing for tax increase of $7.4 billion;

the second title providing for expenditure reductions on the basis of a stated formula; and

the third title setting up a commission to study and review the programs.

Director Schultze -- Said the proposal referred to cuts from the budgeted figures.

Representative Ford -- Questioned again the level of expenditures and said that including PC's would not help Chairman Martin's problem of excalating interest rates.

The President -- Said PC's would not help on interest rates, but his figures of withdrawing $11 billion from the money market would help interest rates and did not include PC's. PC's entered the picture in reducing the deficit.

Representative Ford -- Asked about the possibility of a commitment that there would be no request for supplementary appropriations, except for Defense.

The President -- Said he would not want to tie his hands against the possibility of dealing with emergencies that might arise. What would happen, for example, if there were a disaster in Representative Ford's district?

Secretary Fowler and Representative Ford exchanged views as to the record whether in fact the Executive Branch had or had not proposed expenditure reductions as a matter of law.

The President -- Said that Secretary Fowler and the Budget Director had been ready to explore alternative means of breaking the impasse. But he suggested that there was no point now in going over the past; it was the future that counted.

What he would like now would be to reduce the deficit and the need for borrowing $11 billion through the combination of tax increases and expenditure cuts. He did not know how much we could get through the Committees. With cooperation, he would favor putting it all in one bill with no discretion. If that was not possible, he could carry it out through the approval of the leadership.

Speaker McCormack -- Suggested that the President ask for a $10 billion tax increase, rather than $7.4 billion.

The President -- Said the situation was now up to the leadership. Congress had exercised its will and cut expenditures by less than $2 billion. He would be prepared to try to double that.

Representative Mahon -- We should not be under any confusion on the proposal. As he understood it, it did not call for a ceiling on expenditures.

Director Schultze -- Said the proposal would reduce obligations for Federal programs as set forth in the budget by a specified percentage. The formula of a 2% cut in payrolls and 10% cut in programs would work out to a $4 billion reduction in expenditures for Fiscal '68.

Representative Bow -- Said the reductions would add up to $3.4 billion.

The President -- Said we are not spending anything you have not appropriated. Some things can't be cut, e.g., interest rates, crop loans, Medicare. We are prepared to cut from what you have already appropriated.

Senator Williams -- Said we had to face up to the situation and pointed to the Medicare Bill now before the Senate. Said these costs could be brought under control if the Administration supported reductions.

Senator Williams and Secretary Fowler then discussed a number of technical aspects related to this question.

The President -- Suggested that they talk it over separately, rather than take the time of the group as a whole.

Representative Boggs -- Said he believed in the tax bill for over a year. His mail was largely in support of it; almost unanimously so from business firms in his district.

Representative Laird -- He was for the tax bill, even though his mail didn't support it.

The President -- Asked if there were any other comments or any general views about the possibilities of having three titles to the bill and thus putting the three parts under one roof. Since there were none, he closed the meeting by suggesting that the effort be made to move in that direction.

Walt Rostow