REPORT TO THE PRESIDENT

FROM THE CABINET COORDINATING COMMITTEE ON ECONOMIC PLANNING FOR THE END OF VIETNAM HOSTILITIES

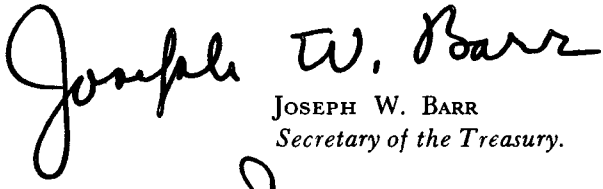
LETTER OF TRANSMITTAL

WASHINGTON, D.C.,
December 31, 1968.

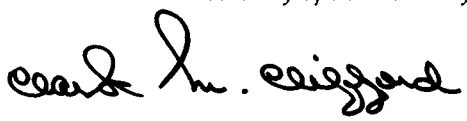
THE PRESIDENT:

SIR: The Cabinet Coordinating Committee on Economic Planning for the End of Vietnam Hostilities herewith submits its report on the studies you requested in your memorandum of March 1, 1967.

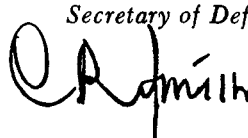
Respectfully,



JOSEPH W. BARR
Secretary of the Treasury.



CLARK M. CLIFFORD
Secretary of Defense.



C. R. SMITH
Secretary of Commerce.

WILLARD WIRTZ
Secretary of Labor.

CHARLES J. ZWICK
Director, Bureau of the Budget.

ARTHUR M. OKUN
Chairman, Council of Economic Advisers.

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FROM THE CABINET COORDINATING COMMITTEE ON ECONOMIC PLANNING FOR THE END OF VIETNAM HOSTILITIES

IN MARCH 1967 you asked the Secretaries of Treasury, Defense, Commerce, and Labor; the Director of the Bureau of the Budget; and the Chairman of the Council of Economic Advisers to form a committee to coordinate the economic planning for the end of hostilities in Vietnam.

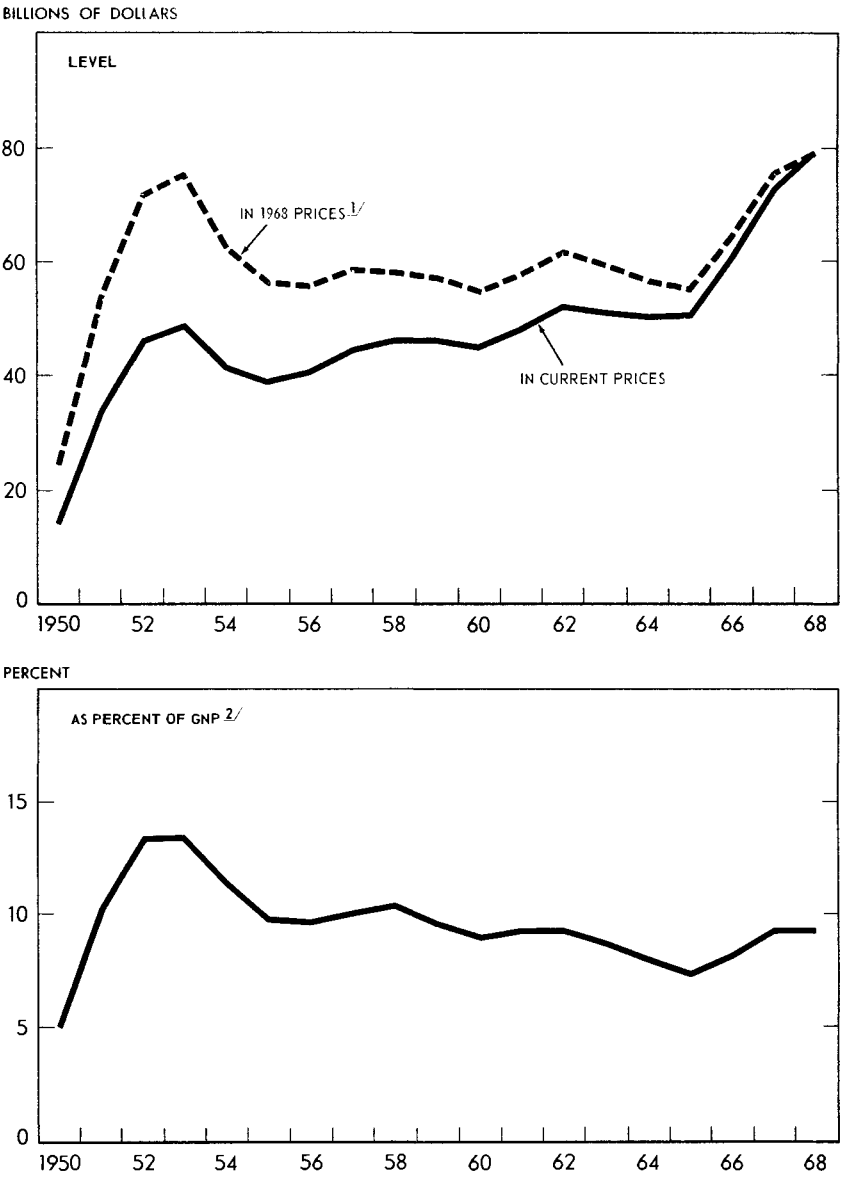
As initial terms of reference, you instructed the Committee to

—*consider possibilities and priorities for tax adjustment*
—*prepare, with the Federal Reserve Board, plans for quick adjustments of monetary and financial policies*
—*determine which high priority programs can be quickly expanded*
—*determine priorities for the longer range expansion of programs to meet the needs of the American people, both through new and existing programs*
—*study and evaluate the future direction of Federal financial support to our States and local governments*
—*examine ways in which the transition to peace can be smoothed for the workers, companies, and communities now engaged in supplying our defense needs, and for the men released from our armed forces.*

Vietnam hostilities first became a significant economic influence in the summer of 1965, at a time when the economy was remarkably well-balanced and was in the midst of the longest peacetime expansion in history. The increase in the military budget required for Vietnam (evident in Chart 1) complicated the tasks of fiscal-monetary policies. The economy was subjected to inflationary strains. Although the American economic system demonstrated the strength and adaptability necessary to carry the extra load without major disruption and without jeopardizing its fundamental health, the cost of war has been a load for the economy to carry—*not* a supporting "prop." Prosperity has not depended on the defense buildup and will not need high military spending to support it in peacetime. On the contrary, peace will provide the Nation with welcome opportunities to channel into civilian use manpower and material resources now being devoted to war.

Chart 1

Federal Purchases for National Defense



1/CURRENT PRICES DIVIDED BY IMPLICIT PRICE DEFLATOR FOR TOTAL FEDERAL PURCHASES.
2/BASED ON CURRENT PRICES.
NOTE: DATA RELATE TO PURCHASES OF GOODS AND SERVICES.
SOURCES: DEPARTMENT OF COMMERCE AND COUNCIL OF ECONOMIC ADVISERS.

SUMMARY OF FINDINGS

A self-contained summary of the findings of the Committee is presented initially under three major headings. It is followed by more detailed discussion of each major section.

FISCAL-MONETARY POLICIES DURING DEMOBILIZATION

Sustaining prosperity during the demobilization and seizing the welcome opportunities of peacetime will depend upon the careful and forward-looking management of fiscal and monetary policies. If demobilization should produce a major and rapid decline in defense spending, and if policies were not adjusted, the Federal budget would have an excessively restrictive effect on the economy.

An illustrative pattern of demobilization was developed on the assumption that, within 6 months after cessation of hostilities, a genuine peace would be secured and a full withdrawal of troops could be initiated. In such a rapid demobilization, the use of real resources for defense purposes would drop by $16 billion (annual rate in 1968 prices) below the previously planned path over a period of six quarters following the truce and, ultimately, by $19 billion at the end of 10 quarters. If there were no compensating fiscal-monetary policy actions, the Nation could be threatened with a recession similar to that at the end of Korean hostilities.

The magnitude and the timing of the policy adjustment best suited to promote steady and healthy economic growth will depend on the strength of private demand at the time peace arrives and on the specific profile of the defense cutback. The best possible projections of these elements will be needed in order to guide fiscal-monetary policy.

A number of possible compensating measures can be foreseen now. If the current 10 percent income tax surcharge is still in effect when hostilities end, its early expiration (or phasing out) could provide a major offsetting element. A detailed plan to speed up expenditures on established high priority projects should be available for the President's consideration. If further stimulus is appropriate, new program initiatives could be launched. The objectives of the compensating fiscal action should receive the support of monetary policy, but credit conditions probably should not be pushed into a posture of aggressive ease. Meanwhile, the objectives of an improved price-cost performance and balance-of-payments equilibrium should be pursued intensively.

RESOURCES AND PRIORITIES

The choices among alternative fiscal adjustments during the demobilization period should be guided by longer run priorities. Such priorities should be weighed in advance so that the Nation will be ready to take full advantage of any opportunities to launch important new programs, to strengthen high-priority existing programs, or to reduce taxes.

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As revenues expand in a growing peacetime economy, the elbow room in the budget increases. But about one-half of the growth in revenues is preempted by essentially built-in commitments of existing expenditure programs to meet the needs of a growing population and an expanding economy. These commitments are reflected in the estimated "baseline" budget for both defense and nondefense expenditures in fiscal 1972. These estimates assume that the transition to peace is essentially completed by 1972, and that the current 10 percent income tax surcharge and certain excise taxes have expired by that time.

According to the illustrative calculations, the "peace-and-growth dividend"—available for Federal programs above the baseline or for tax reduction—would amount to $22 billion by fiscal 1972, and would increase $7 to $8 billion a year thereafter. The peace-and-growth dividend must be used in order to maintain healthy economic growth, and it can be used constructively.

Some possible uses of the dividend are set forth to illustrate the considerable pressures, demands, and opportunities for Federal efforts in the years ahead. Some liberalization of social insurance and other cash benefits—in part, to keep up with the cost of living—is viewed as a significant claim on the dividend. In addition, the full funding of existing civilian programs to authorized levels would cost $6 billion a year.

Beyond that, a variety of major expansions in existing programs and of new programs are highly eligible claimants. A selection of such items, based largely on proposals which have been made by experts or study groups, adds up to $40 billion a year. And other more ambitious, new proposals, which are currently receiving widespread public discussion must also be recognized. Furthermore, tax reduction merits consideration as an effective way to share part of the dividend broadly among Americans.

It is clear that the Nation cannot carry out all these activities—funding existing programs, undertaking new program initiatives, and reducing taxes—in the next few years from the peace-and-growth dividend; difficult choices based on a careful determination of priorities will be necessary. But for those objectives placed at the top of society's priority list, progress can be made in a peaceful environment of prosperity and reasonable price stability.

As noted above, our calculations allow for expiration of temporary taxes now in effect. In view of the urgent needs of the public sector, the Committee would not recommend further large-scale Federal tax reductions in the years immediately following the end of Vietnam hostilities.

POLICIES TO ASSIST PARTICULAR COMMUNITIES AND INDIVIDUALS

The economic impact of the war has been broadly diffused among all States and most industries. Only a relatively small number of areas and industries are likely to be specially affected by the demobilization or to encounter significant transitional problems. The Committee recommends

certain measures to aid people in those areas and industries, including: community redevelopment assistance, homeowner assistance, and—most importantly—the strengthening of job placement and training.

We also recommend the early establishment of a coordinating group, which might be called the Readjustment Operations Committee, to assume responsibility for detailed planning of Federal readjustment assistance, to work with State and local authorities responsible for demobilization planning, and to coordinate Federal readjustment programs during demobilization.

The steps we propose for readjustment assistance are limited and relatively inexpensive, reflecting our conviction that the maintenance of general prosperity is far and away the major part of the economic problem of the transition. In our dynamic and flexible free market economy, most areas and industries should be able to make a prompt and healthy adjustment so long as the Federal Government promotes noninflationary prosperity.

LOOKING FORWARD TO PEACE

We also wish to stress the importance of a responsible and responsive fiscal policy during the remaining period of hostilities. Only in recent months, through the enactment of the 1968 program of fiscal restraint, have our Nation's finances become adequately adjusted to the defense emergency situation. Maintenance of appropriate fiscal and monetary policy is absolutely essential both to preserve prosperity and to minimize the problem of transition at the end of hostilities.

FISCAL-MONETARY POLICIES DURING DEMOBILIZATION

Peace may "break out" in any number of ways. For example, hostilities may decline gradually, accompanied by reduced expenditures on armament and manpower. Alternatively, there could be a lengthy armed truce which would permit no significant reduction in our forces in Southeast Asia.

DEMOBILIZATION SCENARIO

In the calculations underlying this report, defense activities in Vietnam are assumed to continue at essentially present levels until hostilities cease. It is furthermore assumed that, within 6 months after a truce, there will be a genuine assurance of peace and hence the beginnings of a full withdrawal of troops from Vietnam with accompanying cutbacks in other outlays.

An illustrative demobilization scenario developed by the Department of Defense points to the reductions in manpower, materials, and outlays described below. These are the amounts by which defense activities would fall short of the path that they would have followed had hostilities continued.

1. The armed services would decline by about 800,000 persons, averaging 200,000 a quarter starting in the third quarter following the truce and terminating after the sixth quarter.

2. Civilian personnel in the Department of Defense would be reduced by 170,000, also declining smoothly between the third and sixth quarters.

3. As a result of the manpower reduction, military and civilian compensation would be reduced by $7 billion (annual rate) at 1968 pay rates by the end of the sixth quarter.

4. Other operating expenditures (annual rate in 1968 prices) would decline by $4 billion over a slightly longer period.

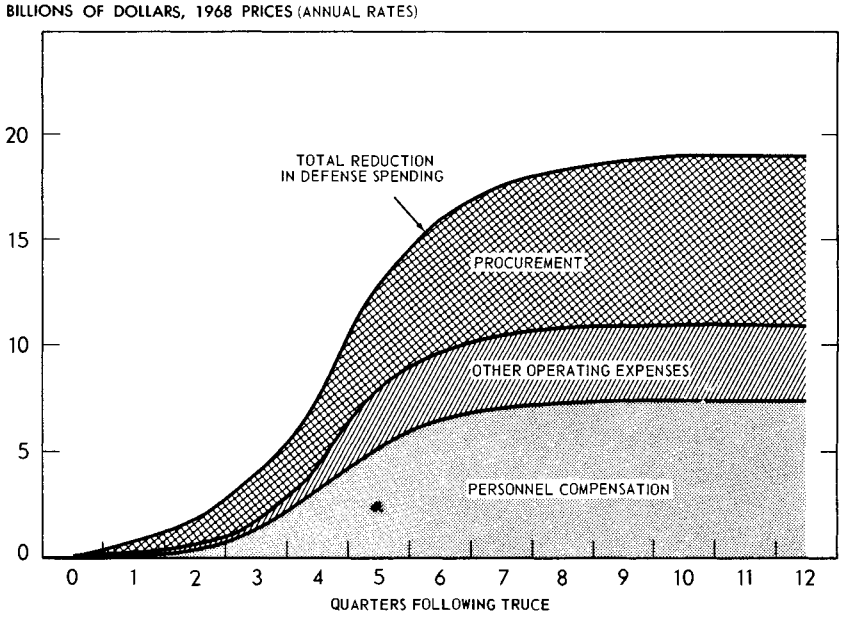
5. Expenditures for procurement would be reduced by $8 billion over an interval of 10 quarters. This reduction would take longer in order to rebuild inventories held by the Department of Defense.

6. Total real defense spending (annual rate in 1968 prices) would thus be reduced by $8 billion at the end of four quarters, $16 billion at the end of six quarters, and $19 billion at the end of 10 quarters.

The time profile of the assumed reduction in real expenditures is shown in Chart 2.

Chart 2

Illustrative Reduction in Defense Spending With a Vietnam Demobilization



NOTE.—DATA RELATE TO FEDERAL PURCHASES OF GOODS AND SERVICES FOR NATIONAL DEFENSE.

SOURCE: COUNCIL OF ECONOMIC ADVISERS BASED ON ESTIMATES OF DEPARTMENT OF DEFENSE.

This is a rapid demobilization—probably the most rapid that could realistically be assumed. Demobilization may in fact turn out to be smaller or more gradual as a result of any one of at least three developments:

1. A gradual decline in military activity prior to the truce,
2. A long period of uncertainty between the attainment of the truce and the decision for redeployment, or
3. The need to maintain significant residual forces in Vietnam, even in peacetime.

The rapid pattern of demobilization is assumed because it represents the sharpest test of the Nation's ability to adapt to peace—not because it appears most probable. If the Nation is ready to meet the challenge of rapid demobilization, the lesser challenge of a more gradual transition can surely be handled.

The estimated decline in defense expenditures is significantly less than the $29 billion a year currently estimated as the cost of the war. Of resources currently used for Vietnam, $10 billion would be required in other military uses in peacetime.

The reduction in Vietnam outlays during the demobilization will appear as a shortfall from an otherwise increasing path of defense spending. If hostilities were to continue with undiminished intensity, the total defense budget would probably continue to rise at least enough to cover increases in military pay scales and gradual advances in prices paid for defense goods.

A *hypothetical* example is presented in Chart 3 to illustrate the relationship between the paths of defense spending with and without the demobilization. In this illustration, defense purchases are assumed to be $80 billion initially and to be rising at the rate of $1 billion a quarter to cover price and pay increases and to provide for a very modest real growth. In the absence of peace, defense purchases would reach $86 billion after six quarters and $90 billion after 10 quarters. The demobilization scenario above implies that defense purchases would be pulled below this rising path by about $16 billion six quarters after the cessation of hostilities, and by about $19 billion after 10 quarters. The absolute decline from the initial level of $80 billion would be considerably less, reaching $10 billion at the end of six quarters.

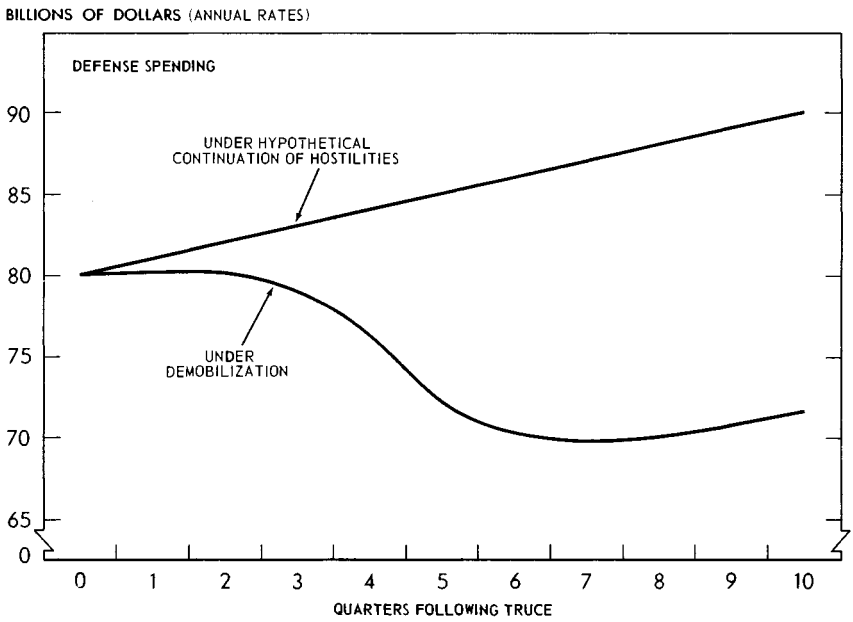
ECONOMIC IMPACT

The economic impact of the demobilization (and the required fiscal-monetary adjustment) can be most readily appraised by supposing that the fiscal program had been appropriately designed initially, under the assumption of continuing hostilities, to promote a balance between aggregate demand and the economy's supply capabilities. In this situation, a major policy adjustment would be required to offset the shortfall resulting from demobilization.

The impact of demobilization on the balance between aggregate demand and the economy's productive capacity has three aspects.

Chart 3

Illustrative Paths of Defense Spending With and Without a Vietnam Demobilization



NOTE.—DATA RELATE TO FEDERAL PURCHASES OF GOODS AND SERVICES FOR NATIONAL DEFENSE.

SOURCE: COUNCIL OF ECONOMIC ADVISERS BASED ON ESTIMATES OF DEPARTMENT OF DEFENSE.

1. The reduced use of resources by the Federal Government, reflected in the decline of defense spending described above.

2. The short-run downward adjustments of inventories by defense suppliers as their production is adjusted to declining orders and falls below deliveries to the Government. The economic impact would occur even before Federal expenditures declined, and would remain significant for only about four quarters after the truce.

3. An increase in the Nation's potential output resulting from the potential additional employment of released military personnel in civilian jobs, where productivity is substantially greater. Some women will withdraw from the labor force when their husbands return to civilian life, and some veterans will return to school before entering the civilian labor force. After allowing for these elements, the cumulative net induced increase in the private labor force is estimated at about 600,000 after six quarters.

This shift toward higher productivity would add about $4 or $5 billion to potential GNP. To absorb this increment, action would be required to add nearly $2 billion directly to total demand. The resulting additional

incomes could be expected to generate the necessary additional $2 to $3 billion increment in demand.

With no policy offset whatsoever, the direct shortfall of demand by the sixth quarter following the truce could amount to $18 billion: $16 billion for the real decline in military spending and $2 billion for the direct increment in demand needed to make use of the addition to potential output.

Shifts in the strength of private demand might either reduce or add to this gap, but they would be unlikely to change the picture dramatically. Without compensatory stabilization action, the gap would be multiplied through induced further cutbacks in demand that spread through the private sector. Eight quarters after the truce, the total multiplied shortfall below the potential output of the economy could reach $40 billion. Inaction would thus threaten a recession similar to the 1953–54 experience following the Korean hostilities.

FISCAL-MONETARY ADJUSTMENT

The instruments of fiscal and monetary policy must be available for prompt and decisive use to promote noninflationary prosperity and economic growth. These instruments are clearly capable, in principle, of offsetting the restrictive fiscal impact of demobilization. Indeed, an excessive or premature stimulative fiscal-monetary program could overdo the job and generate an inflationary boom. A major challenge will be to determine and carry out a policy adjustment of proper size and timing.

Determining the Magnitude

The above projections merely suggest the general magnitude of the policy requirements during a rapid demobilization. The specific dimensions can only be appraised when peace comes and much more is known about the prospects for private demand, the budget, and the time-path of the military cutback. Nevertheless, some important guides can be provided to the problems and procedures involved in determining the magnitude of the compensating actions.

1. When peace comes, the President and the Congress will need advice based on detailed projections of the GNP, prices, unemployment, and the balance of international payments. Despite the inherent limitations of projections, prudent reliance on quantitative forecasts—carefully weighed and interpreted—is preferable to a policy of wait-and-see, a resort to predetermined rules of policy adjustment, or a simple extrapolation of existing economic conditions.

2. Efforts should begin now to strengthen the quality of statistical information about the economy's performance—such as those improvements recommended in the budget program for fiscal 1969. Information of this type may be critical in determining the appropriateness of policy during the demobilization.

3. For the same reasons, the Department of Defense should continue intensive efforts to improve projections of military orders and outlays so as to aid economic policy during demobilization. Assessing the time-path of the military cutback will be subject to uncertainties similar to those that were encountered in appraising the initial defense buildup in Vietnam.

4. Flexibility of fiscal and monetary policy decisions will be important to the success of adjustment. Even with the best efforts, gauging private demand and defense outlays will be difficult. During the demobilization, prediction of private spending will be complicated by the substantial psychological impacts of peace on private decisionmakers. It is a safe judgment that Americans will be delighted by peace, but it does not follow that they will therefore spend more, or alternatively that they will save more. Hence a successful transition program—marked by steadiness and stability in the growth, employment, and price performance of the Nation—may require continuing adjustments in the budgetary balance and in the behavior of monetary and credit flows.

5. Fiscal-monetary policies for the transition should take into account the initial economic situation. If the economy is advancing too rapidly when peace comes, the restrictive effect of demobilization should not be entirely offset. If the economy is initially sluggish, the adjustment of stabilization policies should more than compensate for the impact of demobilization.

Types of Compensatory Action

In the event of a rapid demobilization, the required policy adjustment may be large. This extraordinary "dividend" would be fully available to provide for "controllable" expenditures or tax reductions, unlike the normal fiscal dividend from growing tax revenues which must, in part, finance the built-in growth of Federal expenditures. The various types of action which might be undertaken should be considered in advance.

1. If the cessation of hostilities occurs while the income tax surcharge is still in effect, its early expiration (or phasing out) could provide a major element in the required fiscal offset. Acceleration of the currently scheduled reductions in excise taxes on automobiles and telephone service could serve as another element in the fiscal adjustment.

2. There should be available, for the President's consideration, a program of accelerated expenditures that could be initiated on short notice following the cessation of hostilities. These should be confined to high-priority public expenditures which, in any event, would be made in the near future. It is currently estimated that such a program could add to Federal expenditures (at annual rates) by as much as $3 billion in 6 months and $7.5 billion in 12 months following its activation.

3. Decisions on Federal expenditures, as part of the program of fiscal adjustment, should be made in light of the promptness with which various types of outlays will add to total demand. For example, according to our staff studies, some—although not all—Federal grant programs to States

and localities involve a significant lag between the expenditure of the funds by the Federal Government and their translation into *additional* purchases by the recipients. Programs with long lags are not ideal for supporting demand during the transition. In contrast, other Federal programs generate orders or contracts to the private sector which would increase employment and economic activity promptly even before expenditures are incurred by the Federal Government.

4. While the precise assignment of responsibilities between fiscal and monetary policies should be made in full light of the circumstances associated with peace, monetary policy should be expected to play a supportive role to the fiscal program. Credit policies can undoubtedly help significantly to ensure an adequate supply of mortgage credit to meet the needs for additional housing. But placing a heavy readjustment burden on monetary policy would be inadvisable; it probably should not shift toward extreme ease to provide a maximum economic stimulant. For one thing, balance-of-payments considerations are likely to limit, to some degree, the easing of credit. Also, the flexibility inherent in monetary policy makes it a useful instrument to hold in reserve as a means of compensating for deficiencies or excesses that might develop in the fiscal program or for unforeseen developments in private demand.

5. In general, fiscal policy adjustments during the transition should advance longer range national objectives. One basic choice will concern the relative importance in the fiscal program of tax reduction and of increased Federal expenditures. This decision should not be governed by considerations of economic stabilization; various mixes of increased spending and reduced taxes can be equally satisfactory from that standpoint. Rather the choice should depend upon the extent to which the Nation wishes to channel resources from defense uses into the other areas of the public sector. Given the allocation between tax cuts and increased civilian programs, further choices will be required to set priorities among various existing programs and possible new programs. These priorities should be established in advance.

6. In the event that the Administration plans to initiate, during the transition, any new programs which would require major legislation, such legislation might be submitted to the Congress in the near future for discussion and debate and perhaps even for enactment on a standby basis. Thus these programs could be ready when needed.

Other Objectives

In addition to the objective of steady and sustainable growth at high employment, policies during the transition should be directed at the price performance of the economy and the balance of payments.

1. During the transition period, efforts should be redoubled to combat the troublesome inflationary tendencies of a high-employment economy. The efforts could include various measures which have been explored recently by

the Cabinet Committee on Price Stability: to strengthen manpower programs, to improve the price performance of particularly troublesome sectors such as construction and medical care, to increase the efficiency of the private economy generally, to minimize any inflationary effects of the Federal Government's own activities, and to achieve, through cooperative efforts, patterns of collective bargaining and of business price determination that are consistent with over-all price stability.

2. Intensive efforts should be made to take full advantage of the opportunities that peace may bring for improvement in the U.S. balance of payments. The direct foreign exchange cost of our military presence in Southeast Asia is now about $1.6 billion a year higher than in 1965. Reduction in this outflow could be reinforced by other measures to yield a more comprehensive solution to our lingering international payments problem.

RESOURCES AND PRIORITIES

Many of the choices that will have to be made during transition should be guided by a longer range view. To build the best bridge to peacetime prosperity, we should know in advance where we want to go when we cross that bridge. The following projections are intended to provide an indication of the resources that will become available in the next few years, and to serve as an aid in making critical choices about the uses of these resources.

The projections are focused on fiscal 1972. They are based on the assumption that the transition will be essentially completed by that time, an assumption that is reasonably consistent with the demobilization scenario if a truce occurs during calendar 1969.

PROJECTIONS OF THE PRIVATE ECONOMY

Underlying the post-demobilization outlook are some fairly detailed economic projections prepared by our staff. While these projections are surely not to be regarded as precise forecasts of economic conditions, they provide useful rough indications, on the basis of reasonable assumptions, of what the economic situation might be.

The economic framework was based on an unemployment rate of 3.8 percent and an over-all rate of price increase which gradually declines to about 2 percent a year by 1972. These assumptions represent neither a forecast nor a judgment that these rates will necessarily be feasible or appropriate. Lower unemployment would result in a higher GNP and increased budgetary resources. Greater price stability would also be highly desirable. What combination of price stability and high employment will prove feasible depends upon the success of measures to help reconcile these two objectives.

The time-path of real GNP was estimated, using labor force, employment, and productivity projections supplied by the Bureau of Labor Statistics. On the basis of the projected path of the over-all price index of GNP, the estimated GNP (in current dollars) for fiscal 1972 is $1,100 billion (Table 1).

TABLE 1.—*Illustrative projections for fiscal year 1972 and recent experience*

[Billions of dollars]

Item	Calendar year 1968, second half [1]	Fiscal year 1972 projected
Gross national product	879	1,100
Federal receipts	185	226
Federal expenditures and dividend	186	222
Baseline expenditures	186	200
Defense purchases	80	73
Other expenditures	106	127
Peace-and-growth dividend	----------	22
Federal surplus or deficit (—)	—1	4

[1] Seasonally adjusted annual rates; preliminary.

Note.—Federal receipts, expenditures, and surplus or deficit are the concepts used in the Federal Government sector of the national income and product accounts.
Detail will not necessarily add to totals because of rounding.

Sources: Department of Commerce and Council of Economic Advisers.

This GNP estimate served as the basis for projecting anticipated Federal revenue in 1972, in line with the assumed growth of incomes. Projected revenues are augmented by scheduled increases in social security taxes, and reduced by the assumed expiration of the current 10 percent income tax surcharge and of excise taxes on telephone service and automobiles. The net result of these calculations is an estimate of Federal receipts in fiscal 1972 of $226 billion.

Next the various components of private demand were projected, allowing for the effect of tax payments on private incomes and assuming that the indicated GNP was in fact achieved. Specific allowances for the impact of the Housing Act of 1968 were incorporated into the projection of residential construction activity. Additional estimates were also made for anticipated State and local government expenditures.

BASELINE FEDERAL EXPENDITURES

A baseline level of Federal expenditures was then projected.

Defense

Baseline defense expenditures for fiscal 1972 are calculated on the assumption that non-Vietnam programs now funded or approved will be carried out on schedule with no stretchout or cancellation. No allowance is made for possible *new* defense programs. These baseline defense expenditures are consistent with the demobilization scenario outlined earlier. The estimate for defense purchases is $73 billion in fiscal 1972, compared to $80 billion in the second half of calendar 1968. The $7 billion decline is the result of the reduction in spending associated with Vietnam (which amounts to $19 bil-

lion at 1968 prices, as shown in Chart 2), offset in part by allowances for higher pay scales, some upcreep in prices paid for defense items, and program adjustments following the end of the war.

In constant prices, the baseline estimate for fiscal 1972 is nearly 20 percent below current *real* defense outlays. Compared with the pre-Vietnam average level of 1960–64, *real* baseline expenditures for fiscal year 1972 are roughly 15 percent higher. The calculations of cost increases are necessarily imprecise because the character of defense equipment and programs changes markedly over time. After 1972, baseline defense expenditures would move up slowly, mainly to keep pace with rising costs.

Nondefense

Baseline Federal nondefense expenditures rise over time for several reasons. Some gradual increases must be expected in the prices of the things the Government buys, and the pay of civilian Government employees must be raised about in pace with wages and salaries elsewhere. More veterans become eligible for pensions; more Government employees qualify for retirement benefits; a growing population increases the workload of many Government agencies, such as the Post Office Department and the National Park Service; and so on. Social security benefits rise even with an unchanged benefit formula, as more persons become eligible for benefits and as the average past income of applicants rises. As a result, baseline nondefense expenditures will rise nearly $7 billion per year to reach $127 billion in fiscal 1972.

THE PEACE-AND-GROWTH DIVIDEND

The peace-and-growth dividend may be defined as the additional total demand—over and above normal private demand and baseline Federal expenditures—needed to achieve the specified GNP target. Estimated total demand for goods and services—including that in the baseline Federal budget—adds up to $1,078 billion for fiscal 1972. The difference of $22 billion between the target GNP of $1,100 billion and estimated total demand is the peace-and-growth dividend. It represents the additional total demand that would have to be forthcoming to achieve the GNP target.

For the years following 1972, the annual peace-and-growth dividend may be expected to grow $7 or $8 billion a year, as annual Federal revenues expand by roughly $15 billion and baseline expenditures absorb about half of that growth.

The peace-and-growth dividend can be viewed in another way. Between now and fiscal 1972, the $19 billion decline in defense expenditures resulting from peace in combination with normal revenue growth provides sufficient Federal budgetary resources to cover built-in defense and nondefense commitments, to permit removal of the surcharge, and to allow for a further $22 billion addition to total demand through expansionary policy actions.

The peace-and-growth dividend is thus a rough measure of the resources available for expansionary action. A dollar of this dividend may be "used up" either by a dollar of increased Federal purchases or by a dollar of additional private purchases. The latter could be induced by a reduction in taxes, an increase in Federal transfer payments, or an easing of monetary policy.

An increase in transfer payments or a reduction in taxes of one dollar will generally not increase private spending by a full dollar; to the extent that these instruments are used, the total of expansionary fiscal action can be somewhat greater than the peace-and-growth dividend.

The projections implicitly assume certain monetary conditions and interest rates. The appropriate Federal Reserve policy may be either more restrictive or more stimulative than assumed, thus affecting fiscal policy requirements.

The appropriate budget deficit or surplus in any given year is determined by the fiscal action needed to support private demand in light of monetary conditions. The above calculations imply a $4 billion surplus (national income accounts basis) in fiscal 1972. Private demand may be either weaker or stronger than assumed, thereby calling for a different budgetary policy. If private demand is weaker, smaller surpluses (or possibly deficits) will be needed, and the peace-and-growth dividend in fiscal 1972 will be larger than $22 billion. Conversely, if private demand is stronger, larger surpluses will be needed and the dividend will be smaller.

ALTERNATIVE USES OF THE DIVIDEND

The peace-and-growth dividend *must* be used in some fashion if the growth and employment targets are to be achieved. And it surely can be used productively by strengthening valuable Federal programs, enacting tax reductions, and easing monetary policy. Indeed, the problem will be to choose among many worthy alternatives.

There is no limit to the portion of the peace-and-growth dividend that could, in principle, take the form of a lighter tax burden on individuals and businesses. This use of the dividend would contribute effectively to achieving the growth and employment targets. Our national experience from 1962 to 1965 demonstrates the effectiveness of the stimulus from a markedly lightened Federal tax burden. But the use of the dividend to reduce Federal taxes must compete with compelling needs for strengthened and new public expenditure programs. The ultimate national decisions on priorities must focus on the allocation of the dividend between these two basic routes.

Some of the possible increases in Federal expenditures are spelled out below. Two areas of expenditure that would appear to have a significant claim are: increases in benefits needed to maintain standards under social security and related Federal programs, and the full funding of existing programs which are currently operating below authorized levels.

Maintaining Standards Under Cash Benefit Programs

The baseline expenditure projections allow for growth in social security and other transfer benefits resulting from an increased *number* of recipients and an increase in the *lifetime earnings* of recipients under the present benefit formula. But they make no allowance for statutory liberalization of benefit formulas under Old Age and Survivor's Insurance, unemployment insurance, Federal retirement, railroad retirement, veterans benefits, and public assistance programs. If, in fact, there were no legislative liberalization, social insurance trust funds would accumulate a substantial surplus, while benefits would shrink in terms of purchasing power. A legislated increase of $4 billion by fiscal 1972 in these benefit formulas would ensure that benefits at least keep pace with assumed increases in the cost of living.

Full Funding of Existing Programs

Several Federal programs, particularly ones adopted recently, are operating below levels authorized by the Congress. To fund these programs fully, thus making appropriations match authorizations, would cost about $6 billion a year as distributed in Table 2. These programs are already making important contributions to the solution of major social and environmental problems, and increasing their appropriations to authorized levels would probably command high priority. Nevertheless, in establishing priorities, the relative value of each of these programs should be weighed against those of new or expanded programs and of tax reduction.

TABLE 2.—*Estimated gap between amounts currently authorized and funded*

Program	Billions of dollars per year
Total full cost	6.0
Elementary and secondary education	2.0
Higher education	1.3
Housing and community development	.6
Water and air pollution control	.5
Crime control and prevention	.2
Area redevelopment	.5
Health training and research, etc	.4
Agricultural conservation and adjustment	.5

Source: Bureau of the Budget.

New Efforts in Civilian Programs

A variety of new efforts—entirely new programs or major expansions of existing civilian programs—are also eligible claimants for a share of the peace-and-growth dividend. A review of recent recommendations by task forces or study groups indicates the possible desirability of new domestic programs in the fields of education, health, job and manpower training, social insurance, welfare, urban development, crime prevention,

air and water pollution control, natural resource development, transportation, space technology, and science.

Table 3 contains a list of programs that have been prominently and generally discussed recently as desirable to meet the needs of the Nation during the next several years. The table is presented for illustrative purposes only and does not indicate any program priorities. It sets forth quantitative estimates of the expenditures that might take place in each of these programs during fiscal 1972. In many instances, the dollar amounts shown in the table are considerably below the recommendations of recent task forces or study groups. By many standards, the list is incomplete and inadequate. Yet, it totals $40 billion—nearly double the entire estimated peace-and-growth dividend for that year. The clear lesson emerging from this table—and the reason for its inclusion in this report—is that some very difficult choices will have to be made.

New Defense Programs

Depending upon international developments affecting our national security and upon technological changes in weapon systems, added expenditures on new defense programs may be needed. If these are essential to our national security, they must be given a top priority claim on the peace-and-growth dividend. At the same time, it is clear that the possibilities for expansion in the defense area are virtually unlimited, and that utmost efficiency will continue to be needed in budgeting for defense. For illustrative purposes, the staff of the Department of Defense has assembled a package of $6½ billion (annual rate) of expenditures on new DOD programs which may come up for consideration in the next few years. The major elements in the package are expenditures of $2 billion for aircraft development and modernization in connection with major new programs, $0.8 billion for the construction of defense installations and family housing projects, $0.7 billion for shipbuilding and modernization of naval forces, and $2 billion for advanced strategic and general purpose weapon systems.

Major New Initiatives

The proposals listed in Table 3 essentially expand or build upon existing programs. More elaborate proposals have also been advanced as alternatives to this piecemeal approach.

A comprehensive income maintenance plan, such as the "negative income tax," has been widely discussed as a simple and equitable device to assist the poor. A negative income tax that succeeded in making major inroads on poverty while preserving work incentives might cost as much as $15 to $20 billion a year. Such a program would protect people against the ravages of poverty, but it would still need to be reinforced by efforts in housing, health, education, and job training aimed at the long-run sources and causes of poverty.

TABLE 3.—*Illustrative new programs or major expansions of existing Federal civilian programs, fiscal year 1972 (derived from proposals of task forces and study groups)*

Program	Hypothetical expenditures (billions of dollars)
Total expenditures	39.7
Education	7.0
Preschool	1.0
Elementary and secondary	2.5
Higher	3.0
Vocational	.5
Health	3.8
Kiddie-care	.5
Medicare for disabled	1.8
Comprehensive health centers	1.0
Hospital construction and modernization	.5
Nutrition	1.0
Community service programs	.8
Jobs and manpower	2.5
Public jobs	1.8
Manpower Development Training Act	.5
Employment service	.2
Social security and income support	9.5
Unemployment insurance	2.0
Public assistance	4.0
Social security improvements	3.5
Veterans	.3
Economic, area, and other special development programs	2.2
Entrepreneurial aid	.5
Area redevelopment	.5
Rural development	1.0
Indian assistance	.2
Crime, delinquency, and riots	1.0
Violence and riot prevention	.1
Safe streets programs	.3
Rehabilitation of offenders and delinquents	.3
Prevention of delinquency and crime by special measures for delinquency-prone youth	.3
Quality of environment	1.7
Air pollution prevention and control	.1
Public water supply construction programs	.3
Water pollution control and sewage treatment	1.0
Solid waste disposal	.1
Natural beautification, environmental protection, and recreational development	.2
Natural resource development and utilization	1.4
Land and forest conservation	.2
Water resources and related programs	.5
Mineral and energy (excluding hydroelectric) development	.2
Natural environmental development	.5
Urban development	5.5
New cities	.5
Land acquisition and financial planning (suburban)	.5
Urban mass transportation	.5
Model cities	2.0
Other urban facilities and renewal	2.0
Transportation	1.0
Airway and airport modernization	.4
Rapid interurban ground transit	.1
Modernization of merchant marine	.2
Motor vehicle and transportation safety research and safety grants	.3
Science and space exploration	1.0
Post-Apollo space program	.5
Scientific research in oceanography, communications, social and behavioral sciences, and natural sciences	.5
Foreign economic aid	1.0

See Notes at end of table.

TABLE 3.—*Illustrative new programs or major expansions of existing Federal civilian programs, fiscal year 1972 (derived from proposals of task forces and study groups)*—Continued

NOTES

Education. The preschool program, an extension of Head Start, would provide full-time preschool education for about 500,000 children. The elementary and secondary education funds would about double the Federal support in that area. The funds proposed for higher education would more than double current Federal support. The vocational education funds would raise Federal support about halfway toward the recommendation of the 1968 Advisory Council on Vocational Education.

Health. The "kiddie-care" proposal would provide health care for needy mothers and infants. Medicare offered to beneficiaries of social security disability insurance on a contributory basis would potentially reach 2.2 million persons in 1972. About 350 additional comprehensive neighborhood health care centers a year could be established for the amount shown. The added funds for health facilities would enable the Federal Government to double the rate of output of such facilities, in line with estimates of national needs.

Nutrition. Nutritional supplements for needy pregnant women, nursing mothers, and small infants account for about $200 million, while the remainder would allow a doubling of existing food assistance programs.

Community service programs. This would provide for expanded daycare centers for children of needy working mothers and for expansion of coordinated services through neighborhood centers.

Jobs and manpower. The funds for jobs in the public sector would permit expansion of about 500,000 jobs to provide public service employment for the chronically disadvantaged; this program would reinforce expansion in education, health services, and urban and area redevelopment. The increase in MDTA training would support expansion of the JOBS program and would reinforce efforts to lower unemployment while improving the Nation's price performance. It would also provide trained manpower for construction. The growth in employment service operations envisions strengthening, decentralizing, and computerizing manpower activities; developing a rural manpower service; and enlarging services to the disadvantaged.

Social security and income support. The unemployment insurance funds would provide for higher benefits, extended benefits during recessions, and aid to the unemployed through retraining and mobility assistance. The public assistance funds could permit revision of benefit standards and extended coverage, or the adoption of a modest new program of income aid with objective standards. The added expenditure could fill as much as 40 percent of the current poverty income gap. Expansion of the WIN program would provide more job and training opportunities for welfare recipients. The social security expenditure could provide a higher minimum benefit for those dependent on social insurance benefits as the main source of income, and liberalization of eligibility requirements for disability insurance, as well as some general improvement in benefit levels.

Veterans. The higher priority recommendations made by the Veterans' Advisory Commission in March 1968 could be instituted with these funds.

Economic, area, and other special development programs. The entrepreneurial assistance program could help minority groups—so-called "black capitalism." Area redevelopment programs would assist growth centers in less populated areas, while rural redevelopment programs would concentrate on small communities, providing community facility development, special housing, and family farm assistance.

Crime, delinquency, and riots. Federal aid to State and local governments could be provided to help prevent violence and riots and permit a higher degree of Federal readiness to cope with such emergencies. The safe streets program funds would be used to work towards the objectives of the National Crime Commission with respect to strengthening the police and courts. Rehabilitation of offenders and delinquents would be pursued by intensive retraining and other services.

Quality of environment. Federal funds for pollution abatement may be required to enforce standards, investigate claims, or abate pollution caused by government or not readily attributable to particular private individuals. Assistance in expanding the Nation's water supply system would provide a small fraction of the $2.5 billion annual requirement over the next 10 years. Provision of more recreational areas near population centers would be made possible.

Natural resource development and utilization. Department of the Interior, Corps of Engineers, and Department of Agriculture programs relating to land, mineral, energy, forest, recreational, and other fields have large backlogs of useful projects, many already planned and authorized but held back for budgetary reasons.

Urban development. Metropolitan development assistance would support improved planning and coordinated advance land acquisition. Each of these programs emphasizes these requirements, whether in new communities, suburbs, or older central cities. The allowances represent only a fractional contribution to the reconstruction and development of the cities.

Transportation. Such expanded investments in the improvement of the principal elements of the Nation's transportation system would serve the objectives of economic development, safety, and national defense.

Science and space exploration. The allowances would permit the science and space agenices to fund some of the research opportunities not covered in the stringent budgets of recent years.

Foreign economic aid. This additional amount would help to meet growth targets in Southeast Asia and under the Alliance for Progress as well as to cover other aid requirements. Even this increase would leave our foreign assistance program below levels of a few years back.

Source: Bureau of the Budget.

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An alternative major program initiative would provide guaranteed employment opportunities for persons willing and able to work but unable to find jobs. Depending on eligibility criteria and the techniques of implementation, such a program might cost $2 to $10 billion a year.

Another area of mounting public concern is the financial pressure on State and local governments. As a means of reducing the relative importance of the more onerous State and local taxes, the Federal Government might adopt some general scheme of revenue sharing—such as a return of some personal tax revenues to the States (or localities) or a Federal tax credit for State income taxes. Some suggested plans would cost $5 to $10 billion a year. A specific but more limited proposal along these lines would be the establishment of a trust fund to finance a generalized Model Cities program.

Another major proposal that has much support is the establishment of an Urban Development Bank, which would raise its funds in the private capital market. This institution would lend to State and local governments at reduced cost, thereby relieving the pressure on the market for tax-exempt securities. It would place only a minimal burden on the Federal budget since the interest subsidies would be offset, at least in part, by increased Treasury receipts from reduced use of the tax exemption. But the charge against national resources—and therefore against the peace-and-growth dividend—would be substantial, depending upon the extent to which the Bank finances projects that would not otherwise have been undertaken.

There have also been proposals for replacing the present military draft with a more equitable and efficient method of obtaining the manpower needed for national defense. One such proposal, which might cost $5 to $10 billion a year, would be the adoption of a fully volunteer army. Another would be the establishment of a National Service Corps, in which every young person would be expected to give at least 2 years of service to the Nation either as a member of the Armed Forces or in a civilian assignment that would contribute to the solution of important national problems.

Conclusion

The problems of poverty, human resource development, and the pressing need to improve our physical environment will impose very heavy demands on the Federal budget in the years ahead. The end of the struggle in Vietnam, together with increased tax revenues resulting from economic growth, will make a sizable volume of real resources available to deal with these problems. But, for years and years ahead, the peace-and-growth dividend is dwarfed by the magnitude of the needs. Difficult choices must be made—choices between increased expenditures and tax reductions, between defense spending and nondefense programs, and among competing civilian programs. The above calculations allow for tax reduction from present rate levels through the expiration of the 10 percent surcharge and certain excise taxes. These funds would permit the private sector to engage in extra private

consumption or investment above the normal growth of private demand. But in view of the vast and urgent needs for services that can best be supplied through the public sector, we would not recommend further large-scale Federal tax reductions in the years immediately following the end of Vietnam hostilities.

POLICIES TO ASSIST PARTICULAR COMMUNITIES AND INDIVIDUALS

Demobilization will require some shifts in employment patterns—from the Armed Forces to civilian jobs, from defense industries to those producing civilian goods and services, and from one community or area to another. Shifts in the composition of activity will not be new or unusual. They are a regular feature of the highly mobile and dynamic U.S. economy. As technology and the pattern of demand evolve, the free choices of businesses, workers, and consumers operate through markets to shift resources among industries and geographic areas. These movements are largely self-adjusting and do not usually pose major problems either to workers or communities. When support is needed, various Federal agencies stand ready to assist through community development activities, job information, and manpower training. The Office of Economic Adjustment in the Department of Defense has been dealing since 1961 with the specific economic impact associated with closings of defense installations and other major changes in military outlays.

The experience of these activities provides a guide for policies to assist in the adjustment problems of those communities and individuals likely to be severely affected by demobilization. Measures to assist in specific adjustments can complement fiscal-monetary policy in producing a smooth, noninflationary transition.

THE MAGNITUDE OF THE READJUSTMENT

Under the particularly rapid demobilization scenario assumed above, an estimated 600,000 persons would be added to the private labor force during the six quarters following the truce. In addition, as many as 750,000 civilian employees could be required to shift jobs as defense purchases from private businesses decline. Altogether, an additional 1.3 million workers may seek new civilian employment over a period of six quarters—an average of about 75,000 job shifts a month over and above those normally taking place. The shifts would be unevenly spaced during the period and might exceed 100,000 in some months.

This is a significant—but not enormous—addition to the normal amount of job shifting. To provide perspective, in 1966–67 the average number of layoffs per month in manufacturing alone was about 250,000, and voluntary

separations averaged about 470,000 a month, while manufacturing workers were hired at an average monthly rate of 730,000 in 1966 and 640,000 in 1967. While no comparable data exist for nonmanufacturing sectors, layoffs and hirings for the total economy must be far larger.

The figures indicate the dynamism and the normal adaptations of the labor market. While specific problems of dislocation in certain areas will occur, the figures do indicate that the magnitude of the demobilization problem should be manageable if fiscal-monetary policies ensure that overall demand remains strong.

Particular measures to facilitate the structural transitions of demobilization should include community redevelopment assistance, homeowner assistance, and, most importantly, the strengthening of job placement and job training. Efficient planning and implementation of these measures will require the establishment of a coordinating committee.

READJUSTMENT OPERATIONS COMMITTEE

A Readjustment Operations Committee should be established in the near future to assume responsibility for detailed planning of Federal readjustment assistance and to work closely with State and local authorities. The Committee should include the Secretaries of Defense, Commerce, and Labor; the Director of the Bureau of the Budget; the Chairman of the Council of Economic Advisers; and the Director of the Office of Emergency Preparedness.

Prior to demobilization, the Committee should be responsible for:

1. Planning for demobilization, including frequent updating of the estimated expenditures required for adjustment assistance,

2. Undertaking and supporting research on characteristics of individual communities likely to require special readjustment assistance and in particular developing a system of "early warning,"

3. Providing technical advice and information for State and local government demobilization planning authorities, and

4. Coordinating an inventory by the Departments of Defense, Commerce, and Labor of the skills and training of defense industry workers and armed services personnel, and of the skill requirements of potential sources of employment in defense-dependent areas.

During the demobilization period, the Readjustment Operations Committee should be responsible for: (1) Coordinating Federal assistance programs to communities and individuals with severe readjustment problems, (2) Identifying areas experiencing, or likely to experience, high unemployment during demobilization, through advance notification by the Department of Defense of impending contract cancellations and military base closings, and through a careful monitoring of economic developments in key areas by the Departments of Labor and Commerce, and (3) De-

termining, in cooperation with State and local governments, the appropriate size and mix of Federal assistance programs, and recommending specific programs and budget allocations for dealing with the problems of severely disrupted areas.

FUNDING READJUSTMENT PROGRAMS

The activities to assist a smooth transition will rely mainly on existing programs designed to aid communities faced with structural adjustments or to help workers gain new skills. How much these programs must be expanded will depend upon many factors which cannot be estimated precisely, but the approximate initial size of the programs is shown in Table 4.

TABLE 4.—*Estimated first year cost of readjustment programs*

[Millions of dollars]

Program	Estimated first year cost	
	Low	High
Total cost	120	288
EDA community development assistance	20	50
SBA loans	5	10
HUD homeowner emergency loans	1	3
MDTA training	53	140
Employment service	7	20
Relocation assistance	4	15
Veterans assistance	30	50

Note.—Abbreviations used in this table represent the following: EDA (Economic Development Administration), SBA (Small Business Administration), HUD (Department of Housing and Urban Development), and MDTA (Manpower Development and Training Act).

Source: Bureau of the Budget.

Once hostilities cease or prospects for demobilization appear, supplemental appropriations for readjustment purposes should be sought promptly. All expenditures from special appropriations should be coordinated by the Readjustment Operations Committee.

When demobilization plans are definitely known, more exact program expenditures should be determined by the Readjustment Operations Committee. Initial appropriations should be at the low end of the estimated range with the understanding that additional funds may be needed. These program supplements should be reserved for uses directly related to the post-Vietnam transition. In addition, funds should be requested to provide returning servicemen with veterans benefits under existing programs and to assist State unemployment insurance programs in cases of high localized unemployment.

Even before demobilization, important permanent improvements should be made in some existing institutions to make them more effective both in the transition to peace and in the long run. The Unemployment Insurance program should be strengthened by increasing coverage, raising benefits, lengthening the possible duration of payments, and improving the

financial base of the system. And minimum standards of vesting of private pension plans should be established, so that as the economy shifts to a peacetime footing, workers can change jobs without losing their benefits.

ASSISTING DEFENSE-DEPENDENT AREAS

One major measure to be coordinated by the Readjustment Operations Committee is Federal assistance for communities that will experience a major decline in employment opportunities due to the closing or curtailment of a defense plant or military base. The possible scope of this task is suggested by the growth in defense employment during the buildup for Vietnam. From 1965 to 1967, 38 local areas experienced increases in defense employment exceeding 5 percent of their total work force. A few of these localities are moderately large metropolitan areas, but some are predominantly rural counties with no urban center exceeding 12,000 population; these rural areas may be especially vulnerable to defense cutbacks during demobilization.

The Federal Government can assist severely affected communities with redevelopment potential to reorient their economies through programs of the Economic Development Administration and the Small Business Administration. Initial-year funds required for these specific purposes might range from $20 to $50 million for the Economic Development Administration and from $5 to $10 million for the Small Business Administration.

These agencies would help defense-dependent communities modernize public facilities, develop industrial sites, convert defense installations to other uses, and otherwise make themselves attractive to new industry.

ASSISTING DISPLACED INDIVIDUALS

While most of the individuals who lose defense jobs or who are released from military service will be readily employable, some will not possess the required skills, while others will be geographically isolated from job opportunities. Federal programs should be undertaken to ease the impact of demobilization upon the most seriously affected individuals.

Strengthening the Federal Employment Service

Demobilization will greatly enlarge demands on the resources of the Federal-State Employment Service. Prior to demobilization, plans should be made for expanding the staff of the Employment Service offices: to ensure their capacity for handling veterans and laid-off defense workers, to improve the flow of information about job opportunities outside the local labor market, and to station staff temporarily at locations convenient to military personnel about to be discharged. The Employment Service may require $7 to $20 million in the first year to provide these activities.

Expanding Manpower Training

Some individuals dislocated from defense employment will need retraining. The preliminary estimate is that $53 million will be needed to prepare about 26,000 servicemen for civilian employment through Project Transition and to train about 20,000 enrollees in other MDTA programs. Further appropriations of up to $140 million may be required for the two programs.

Providing Relocation Assistance

A relocation assistance fund should be established to help low- and middle-income workers move out of defense-dependent communities with inadequate reemployment opportunities. The program should be administered by the Department of Labor, which should develop general policy on relocation assistance—including eligibility criteria—in cooperation with the Readjustment Operations Committee. The program should provide full grant assistance for workers taking low-income jobs, and a mix of loans and grants for those obtaining higher paying jobs.

Relocation assistance should be available only to individuals directly affected by cutbacks in specified defense-dependent communities. The number assisted could range between 10,000 and 30,000 families, requiring expenditures between $4 and $15 million.

Funding Veterans Assistance

Current programs available to veterans are generally adequate to cover the needs of returning servicemen; however, the accelerated separations associated with demobilization will require additional appropriations for these programs—especially employment consultation services and the educational assistance program. Adequate financing of veterans programs may cost $30 to $50 million a year during demobilization.

Providing Homeowner Assistance

The Federal Government should undertake to prevent a widespread loss of homes in areas suffering temporary unemployment during demobilization. The Department of Housing and Urban Development should establish a program to encourage private lenders to declare moratoria on mortgage payments on homes owned and occupied by individuals dislocated by a defense cutback. When an extension of mortgage payments cannot be obtained, the Department of Housing and Urban Development should be authorized to lend the homeowner funds at a reasonable interest rate to cover mortgage payments. Expenditures of about $2 million should be ample for this program.