

Discusses views of members of  
policy and the ~~so~~ tax hike

From [unclear]  
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May 7, 1966

FOR THE PRESIDENT

FROM Joe Califano

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Fowler, Schultze, Ackley, McNamara and I met to discuss the general economic situation and what action should be taken at this time.

Bill Martin was in New Haven, Connecticut, and I was unable to get him at the meeting. I talked to him on the phone and he will drop by. He volunteered that he was "misinterpreted" in the papers this past week on the tax increase. At the same time he reiterated his view that one was necessary.

Stock Market. Fowler believes the activity of the stock market resulted from uncertainty about whether there will be tax proposals, the general economic situation, the Congressional actions in appropriating additional money and the mixed economic indicators.

The wholesale price index is up one-tenth of one percent for April, with industrials up three-tenth of one percent. Decline in food prices was the key factor in holding the wholesale price index to such a small increase. With no tax increase, Ackley believes it will increase at an even higher rate during the rest of the year.

Consumer price index. Ackley believes the consumer price index for April will hold or rise only slightly. He believes this index will increase more rapidly during the rest of the year.

Unemployment. Ackley believes the current rate of unemployment (3.7%) will get to 3% to 3.25% by the end of the year.

The fiscal 67 budgetary situation. Schultze believes that the increases in Congressional authorizations and appropriations will result in an increase of \$1.5 to \$2 billion in expenditures during fiscal 1967. He expects to fall short in obtaining his \$4.7 billion assets sales goal by \$400 to \$500 million. On the other hand revenues, which were originally estimated at about \$111 billion, are now estimated at \$114 to \$115 billion. Under present projections, expenditures and lost receipts would increase at most by \$2.5 billion and receipts would increase by \$3 billion. This means a net decrease in the budget deficit projected for fiscal 67 in January.

Credit situation. Fowler believes we are on the threshold of a credit crisis which will be quite serious in July and August in the housing and Savings and Loan Association areas. Money is extremely tight and we are beginning to get reports that some members of the Fed are considering another increase in the discount rate, another increase in the regulation Q and/or further increasing the reserve requirements.

Ackley and Schultze strongly believe the economic situation requires a tax increase as soon as possible. I believe Fowler shares their views, but does not feel as strongly about it. Fowler considers it difficult to make a decision at this time.

McNamara says that he will not know until June the answer to two key questions:

- (1) Whether he can get by without a supplemental until January 67, and
- (2) By what amount his expected expenditures for fiscal 67 are likely to increase.

McNamara does not want to begin a detailed staff study in the Pentagon until you have made (at least in your own mind) a decision to go forward for a tax increase. He believes that any detailed Pentagon study of how much of a supplemental would be needed will inevitably leak out because so many people must become involved. McNamara can give you a good estimate without such a study. From the time you make a decision and give him a go-ahead to prepare detailed information on a supplemental, he will need four weeks to get ready.

McNamara would withhold making a decision until June 15. Fowler notes this will mean nothing would go to Congress until July 15. Fowler believes that this may be too late to present a tax bill to the Congress for passage in this session and that Congress might

be quite annoyed at receiving a tax bill at that time.

We all agreed that there are economic studies that should be undertaken, as soon as possible. It is essential to have these studies completed to give you the information you need before making a decision. These studies are:

(1) Program for future decision making designed to reduce our non-Viet Nam budget expenditures -- Bureau of the Budget.

(2) A memorandum from the Secretary of Defense giving his best judgment on the magnitude and time pattern of FY 1967 defense expenditures and orders for purposes of internal planning and decision making.

(3) An analysis of outlook for business fixed investment, housing, consumer spending, state and local government expenditures in the light of April and May developments -- together with the material in items (1) and (2) this would constitute a supplement to the Troika memorandum of April 8.

(4) An analysis of outlook for financial institutions assuming tax increase and no tax increase.

Joint study by Troika plus Federal Reserve Board and Federal Home Loan Bank Board.

(5) Study by Federal Reserve Board of implication for monetary policy assuming tax increase and no tax increase.

(6) Balance of payments outlook and its bearing on tax increase issue.

(7) Economic consequences of tax increase - short-term and long-term.

(8) Various alternatives for increasing taxes.

(9) Outlook for prices and voluntary restraint on wage-price decisions assuming tax increase and no tax increase.

(10) Combinations of fiscal, monetary and debt management policies assuming tax increase and no tax increase.

We request approval to start these studies with a target completion date of early June.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

All agreed that it was very important for you to establish a credible and tough image of trying to hold the Congress in line.

We recommend you give us approval to prepare for your consideration a campaign toward this end. The campaign would include:

(1) A meeting of the leadership with you urging them in the strongest terms to hold back unnecessary increases and give you necessary programs.

(2) Cabinet meeting.

(3) A major Congressional push on specific items, such as the HEW budget increases, the DoD budget increases (of the one billion dollars, less than \$20 million is for Viet Nam), the effective date of the civilian and military pay bills.

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(4) A Presidential public statement, covering Congressional increases in your budget, the fact that you are deferring all deferable programs, to the tune of \$1.6 billion, the issuance of strong instructions to your Cabinet Officers and agency heads to cut everything possible and avoid June spending, etc.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

Speeches. Everyone agrees that there should be no more talk about the economic situation, unless it is by you. We have nothing more to say until a decision is made and I am confident that there will be no more speeches as there were during the past two weeks by the people at our meeting. I will call Connor and Wirtz and mention this to them on Monday.

If you decide to go for a tax increase, Fowler thinks we should make a deal with Martin to roll back to 5% on Regulation Q and ease the money situation.

Consumer Credit Authority to control consumer credit would be a desirable tool to have available, although no one is sure it would be appropriate to use it at this time. Such controls would give you an opportunity to slow down appliance and auto purchases. The House Banking and Currency Subcommittee has reported a bill to the full Committee which would give you the authority to invoke consumer credit controls. We request permission to ask Larry O'Brien to check on the status of this bill and quietly move it along without any indication that the Administration is interested in it.

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_