Senator Symington. No doubt you have read a book by the French economist, Servan Schreiber, in which he predicted that by 1980 the third largest "power" in the world would be the United States economic investment in Europe. This in itself is food for thought.

What is going on is unprecedented in our economic history; that is, highest interest rates plus continuing inflation and growing unemployment. Based on the steadily growing amount of business we are losing to other countries, countries which concentrate on economic development instead of military development, we are in trouble, deep trouble. They are taking, to my certain knowledge, a great deal of our steel business, a great deal of our textile business, a great deal of our electronics and electrical business, much of our shoe business, and so forth. If we continue to promote these financial and industrial setups outside the country, isn't that in effect exporting employment, exporting jobs?

Mr. Lundborg. Of course it is.

Senator Symington. My problem now is what to do about the fact that in many of the basic industries in our State we can no longer compete, primarily because of the far lower standard of living in these foreign countries than in ours. You have mentioned two of the countries that make it very difficult for us to compete.

Mr. Lundborg. Right.

Senator Symington. Isn't this an economic situation that we must face up to?

Mr. Lundborg. Yes, indeed it is.

Senator Symington. Thank you, Mr. Lundborg.

**IMPORTANCE OF DECISION ON VIETNAM WAR**

Now, as to your personal statement I was impressed with your concept of the importance of facing up to an issue. We used to have an expression in business, "putting good money after bad." Is that what you are getting at?

Mr. Lundborg. Precisely.

Senator Symington. Except in this case of Vietnam we are putting good lives after good lives. I can remember several years ago when the war was much more popular than it is today. I talked about my growing apprehensions about what we were doing, or trying to do, in Vietnam. Somebody at a meeting then got up and asked, "Are you saying that these 20,000"—that was the figure then—"young Americans have died in vain?" I replied, "Would you rather kill 20,000 more than admit you have made a mistake?" Is that the way—

Mr. Lundborg. You are stating my case.

Senator Symington. Well, we have now killed over 20,000 more, some 47,000, counting accidents, and over 40,000 actually killed in combat.

Mr. Lundborg. Yes.

Senator Symington. From the standpoint of the security of the United States, we must be sure it is the right thing to do. If it isn't right, it should give us all much food for thought, shouldn't it?

Mr. Lundborg. Precisely.
Senator Symington. I would object to just one thought contained in your two statements. You say, "I want us to have military strength." So do I. But then you add, "I just don't want the use of it to be dictated entirely by the military."

The military hasn't been running this war.

Mr. Lundborg. No.

Senator Symington. This war has been run by inexperienced civilians, who took over even the most detailed tactical field operations from the military; and this has cost us thousands of American lives.

Mr. Lundborg. I want to make it clear that in that sentence I realized as I have reread it this morning that it could be possibly misinterpreted. I did not mean to look backward but forward, and elsewhere in that testimony you will recall I say I was prompted by what I had read about 12 days ago, the report of the fact that the President, the Administration are under pressure to expand further our role in Asia and the pressure is coming from the military. I simply want the nonmilitary civilian to have a voice in how far we are going in any of these directions and I would not—you are certainly right that as far as the Vietnam war is concerned, it was not the military alone that dictated that, and I am glad you raised the question so I can clarify that.

Senator Symington. I am glad because after all, when you go out into a war with your young ones you want to pursue it especially if you are an American, on a qualitative basis, not on the basis of strange and ignorant rules laid down by the State Department and White House, by people who think they know all about military action even though they were never trained to handle it.

Perhaps the best illustration I heard came from General Van Fleet who, after he was relieved in Korea, came before a Senate committee and observed in testimony that his greatest love in life had probably been football. It taught him, in the years he first played and then coached, never to put an American boy in any game you don't want him to win. Do you think that would be a fair explanation of part of our problem today?

Mr. Lundborg. I think it is true and applying that to my statement I would say the choice of what games we are going into is, I think, one we should have a voice in.

Senator Symington. Right, as a people, in a democracy.

Mr. Lundborg. Yes.

Senator Symington. You mentioned the fact that many of the young people in the country are frustrated. I know that from personal experience, and believe one of the reasons they are frustrated is that so many of their relatives or friends came back and continue to come back with deep resentment at the way this Vietnam war is being handled as well as at the war itself.

One of the first real jars I got was when having dinner in Saigon one night in late 1965, with an outstanding Major General in the Air Force. I said, "You seem depressed tonight." He was a friend of mine and a great airman, an ace. He replied, "You would be depressed, too, if you were sending these kids out to fight and die for you when you
knew that they knew you knew the targets you were asking them to hit were worthless."

This superb American proved his point by, within a few weeks, quietly resigning from the Air Force. That enters into the problem.

Mr. Lundborg. It is completely consistent with what I was saying.

Senator Symington. The approach of youth in this matter to much of the whole picture?

Mr. Lundborg. Yes.

Senator Symington. So much for that. I am glad you cleared up that point about the military. They are brave and very fine, and they were shackled.

LACK OF SUPPORT FOR U.S. POSITION

Now as to this question of the United States having the right, the unilateral right, to be the policeman of the world. It is my recollection this country was founded by people who didn't want to be told what to think, what to worship, how to dress, what form of government they must have. They came over here to get free. Is that your understanding of it?

Mr. Lundborg. That is my recollection. My parents came on that basis themselves.

Senator Symington. Well, so did my ancestors. Why do you believe this Government feels it has the self-appointed right to tell all the other people of the world what is what. We are spending over a hundred million dollars a day to defend them. But they say, in effect, "We don't want any part of all this fighting. All we want to do is fix it with you so we can sell you a lot of goods. You handle the war problem and we will handle the profits problem." Isn't that a fair analysis? You must have banking relationships, as the head of the greatest banking institution of its kind in the world, with foreign countries. Why, if this is right for us, do they not come in and pitch with us and give us at least a little help?

Mr. Lundborg. Basically they do not agree with us that what is being done should be done. They are not in support of all we are doing.

Senator Symington. Doesn't it give you some apprehension that not only obviously a vast majority of the American people are getting restless about what is going on, but also the friends and we hope allies of this country, including those we built up after World War II? They believe what we are doing is wrong, economically wrong, and morally wrong.

Mr. Lundborg. This is what I have tried to imply.

Senator Symington. Mr. Lundborg, considering your position of leadership in the banking and business world of the United States, I have respect for your coming up here and presenting your position this way as you see it. We are worried, plenty also, just like you are. We don't really know any more, here in the Congress, just where we are or where this Administration is taking us.

SOUND DOLLAR REQUIRED FOR PRESERVATION OF UNITED STATES

I would ask one more question: If we don't preserve, in our way of life, a sound dollar, regardless of how victorious we are in physical battle, we can't preserve the United States as you and I know and love it. Is that a fair statement?
Mr. LUNDBORG. I think that is true and it is not going to be easy. There are many things that enter into doing that. You are right. Thank you, Senator, for your comment.

Senator SYMINGTON. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Javits.

Senator JAVITS. Mr. Chairman, I would like to join with my colleagues in expressing our appreciation for the high level of the information and ideas which you have conveyed to us here by so distinguished a banking leader as Mr. Lundborg.

ECONOMIC AGGRESSION FOR SECURITY AND WORLD STABILITY

Mr. Lundborg, I would like to concentrate on one aspect of your testimony and that relates to a matter in your statement and only one paragraph in which you say:

But even that kind of war, that purpose for war, has been so outmoded by the experience of this century that I would like to be able to say to potential aggressors all over the world, "If you want to profit, if you want to own the world, don't dissipate your energies in wasteful warfare—follow the example of Japan and Germany since World War II and be economically aggressive."

Now, I think that perhaps you stretched the example too far in saying:

We do know that aggressive war has been waged, all through history, to gain territory. Certainly that was war for economic gain.

It is also desirable and essential for a great country like this to gain security, is it not?

Mr. LUNDBORG. Yes, sir.

Senator JAVITS. And also desirable to gain conditions in the world in which peace is the likely alternative for the destiny of peoples and nations, isn't that true?

Mr. LUNDBORG. Right.

Senator JAVITS. Now that is true as to the United States in Asia, is it not?

Mr. LUNDBORG. Right.

Senator JAVITS. Would you consider, as the head of a great bank, that it is worth doing something, spending something, perhaps a lot to have peace in Asia, and prosperity in Asia, and justice and stability in Asia, is that correct?

Mr. LUNDBORG. Yes, I would agree with that.

Senator JAVITS. Even though it is 6,000 miles from the United States?

Mr. LUNDBORG. It is worth the expenditure. I would want to be sure that the expenditure was going to produce those results.

Senator JAVITS. I am coming to that. So that it is not necessary to be aggressive economically only out of cupidity. You can be aggressive economically also because it is essential to your security.

Mr. LUNDBORG. Oh, yes.

Senator JAVITS. To your well-being, that is correct, is it not?

Mr. LUNDBORG. Yes, I hope that was implied.

Senator JAVITS. And also there is the beneficial kind of economic gain. For example, the continent of Asia has a population of 3 billion and a half people, maybe more, if you de-
clude the Far East of Russia. Their income is very low. An infinitesimal increase in their standard of living would be of enormous benefit to our country, would it not in economic terms, quite legitimately?

Mr. LUNDBORG. Yes.

ECONOMIC AGGRESSION AS NATIONAL POLICY INSTRUMENT

Senator JAVITs. Now, as you have counseled, and I agree with you, against war as an instrument of national policy, because it is outmoded, can you enlighten us a little bit more, because this is right in your line, as to how you would handle economics aggressively to make it an instrument of national policy, which is in our case the national policy of peace.

Mr. LUNDBORG. May I give you an example—

Senator JAVITs. Please.

Mr. LUNDBORG. ——out of our own experience and within our own bank. We are involved several places in the world, but one is most pertinent here, I think, in India. We are involved with some other American and Indian and European business interests in developing the fertilizer industry in India, knowing that the problem of India has been—it is now, happily, decreasing as a problem—but it has been the problem of feeding the people of India before they could become more productive in other ways. This has been economic aggression of a very positive and, we think, beneficial sort.

This requires a great deal of cooperation from governments at both ends. It needs cooperation from this end because there are political risks in going into a country of that kind. There are some almost negative kinds of cooperation needed, at least not putting barriers in the way of that kind of investment and activity, and in general it needs the understanding of this country and of the host country.

We are doing this in Latin America now, we are and others. What I am talking about in our own bank's activity is duplicated I know in a great many other cases.

There are efforts to raise the standard of living of the developing countries, as they are now called; we used to call them the underdeveloped countries. They are still relatively underdeveloped and, as you say, the tiniest improvement in the standard of living in a large country can have tremendous effect which is certainly enlightened self-interest because it will now produce a market for others of our industries here, and this is just one type of example. It can be multiplied.

I think the multinational route is one of the hopeful ways. We have recognized again that it can be presumptuous at best and hazardous at worst for us to all by ourselves go into a country and try to dictate to that country how what should be done even economically, let alone militarily or politically.

We have known that we had to have cooperation so we can join with people in the host country as well as from some other countries. This can be the direction of some tremendous not only peace keeping, peace building, but also standard-of-living building.

Senator JAVITs. Now, there was a long time when the policy of the United States was directed toward containing communism. Then there was a time, which perhaps can be roughly bracketed with Presidents Kennedy and Lyndon Johnson, in which the thread of national policy was to prevent the so-called war of national liberation techniques for Communist take-over.
Would you tell us as a businessman whether you now think the policy of our country ought to be revised so that we are no longer projecting our policy in either containment or frustration of the Communists, but rather directing our policy in an affirmative way. Our goals would be improving standards of living, raising the moral tone of the world, engaging in population control. Give us any objective you want, but different from those of the past. Has the time now come when we must have a different national motivation than we had, say up to and including the Vietnam war?

Mr. LUNDBORG. I think so. You used two words that are to me the key to the whole thing. You said no longer. I think instead of just being critical, I think we must recognize policies that may be appropriate for one period are no longer appropriate for another one, and while you might question whether they ever were appropriate certainly what is appropriate from here on out I think is certainly different from what has been appropriate in the past.

It is very easy, whether in military or other policies, to fight the last war and I think to some extent we have been perhaps fighting a past war even diplomatically and militarily and in other ways, and certainly we must recognize that from here on out I think our policy should be as you have suggested.

RECOMMENDATION FOR PRESENT U.S. POLICY OBJECTIVE

Senator JAVITS. Well, now, what do you suggest, put it in your own words, should be our motivation?

Mr. LUNDBORG. In general it is to combine the soundness of our own economy in our own local self-interest with the economic development of the rest of the world starting with those parts that are presently disposed to be friendly toward us but also extended to others that can be attracted to us. Recognizing that a hungry country and a country in want is likely to be a restless country, that we should in our self-interest be pursuing a pattern of the economic development of the world and again not forcing it upon anyone.

I think inherent in my own view, whether it be in military or economic matters, that these things not be forced down any other country, but to those who are willing, to those who are receptive to it and hospitable to it, to aid in an economic development that is a true economic development of that country and not an exploiting of that country.

I think we must also include in our basic national policy that if real exploitation ever could have been tolerated it should no longer be. You can debate whatever exploitation was or was not, but it can certainly be relatively more or less so. But we should point toward economic development that really does improve the standards of living and the way of life and the viability of people and structures in those countries and not simply take resources out of the countries. I think if this is pursued, and if our——

Senator JAVITS. Agreeable.

Mr. LUNDBORG. This incidentally is not as simple as it might sound. As you know, it requires a great deal of support, legislative and admin-
istrative and other support, in the policies of many of our agencies of Government.

If it is pursued I am satisfied that it will do several things: It will tend to keep down the possibility of restlessness that can lead to the possibility of either revolt or being receptive to any kind of infiltration from outside. It can help make those countries strong. It can also set examples; we have seen some evidence of this already, that what we refer to as the private enterprise, capitalistic economy or the Western mode of economic life, has had some impact on the countries behind the Iron Curtain, and again pursuing that kind of policy can help to weaken even the threat of military involvement.

In other words, in general, I suppose, what I am saying in one sentence is that our national policy should be more economically oriented rather than militarily oriented, while still recognizing that we are in an imperfect world. We must see our military plant is adequate for the real threats that proper evaluation would dictate are necessary.

Senator JAVITS. Our positive policy should be heavily economic?

Mr. LUNDBORG. Yes.

Senator JAVITS. You would do this by multinational means so far as possible?

Mr. LUNDBORG. Right.

PUBLIC AND PRIVATE PARTICIPATION IN NEW POLICY

Senator JAVITS. How much difference does it make whether it is public or private?

Mr. LUNDBORG. It makes some difference, but again I think that we may have exaggerated in our country because we have been so oriented toward private enterprise here. We have felt that it must always be entirely private enterprise everywhere in the world. There are real reasons why it is preferable to be private, that the public be limited to those things that have to be public, the providing of the governmental base and in some cases credit guarantees and those things that are essential. They vary from country to country, but realistically I would expect that the pattern of the future is going to be a healthy partnership between the private and the public.

Senator JAVITS. So that it is not only going to be multinational but it is also going to be public and private and public and private joining together very often?

Mr. LUNDBORG. Right.

Senator JAVITS. Do you find among your recruitment of younger executives that one of the things that they want, which will induce them to go into a bank instead of going into a university, or a foundation or a welfare organization or a Government job, is that you are going to offer them this kind of an opportunity for service?

Mr. LUNDBORG. Oh, yes indeed, very much so.

Senator JAVITS. This is very strong?

Mr. LUNDBORG. Oh, yes; yes indeed.

Senator JAVITS. To get really gifted people you have got to give them this prospect, is that right?

Mr. LUNDBORG. Oh, yes; yes, very much so. Really there has been a tremendous change. I must not dwell on this too long but banking
has become quite exciting to some of these young people who 20, 25 years ago wouldn’t consider banking as a career. They consider it an avenue of involvement quite exciting worldwide, an affirmative development.

CREDIT AND CAPITAL FORMATION

Senator Javits. Of course, the whole concept of credit, is it not, is probably the most unique strength and weapon of our system, which the Communists don’t have; correct?

Mr. Lundborg. That is right.

Senator Javits. They don’t trust themselves.

Mr. Lundborg. Credit and capital formation, which is related but different, are two basic building blocks of our system that do not exist there.

Senator Javits. They are just not available to them?

Mr. Lundborg. Right.

Senator Javits. They may have other things. I am not trying to decry that but what we are talking about they don’t have.

Mr. Lundborg. Right.

MAGNITUDE OF CREDIT REQUIRED FOR NEW U.S. POLICY

Senator Javits. Coming back now to the money issue, which intrigues me enormously, isn’t it true that the tremendous risk taking in war in terms of risk money, mortgaging the future, is characteristic of war? Isn’t that true?

Mr. Lundborg. Oh, yes.

Senator Javits. And, of course, the figures on our public debt demonstrate that as contracted during World War II, correct?

Mr. Lundborg. Yes.

Senator Javits. Now, what would you say, Mr. Lundborg, to this possibility? I know it is way out, but you haven’t hesitated to stick your neck out and I hope you won’t now. What would be the order of magnitude of credit that would be justified and required—equaling that contracted in war—in order to pursue this very aggressive economic policy you are talking about? In answering the question we should, just as you are going to disenthral yourself from containment of communism, the war against communism, also disenthral yourself as a banker from the idea that the only source of capital resources is from savings? Shouldn’t we be willing to be very realistic to borrow $50 billion to $100 billion a year in order to pursue the positive foreign policy of the economic development of the world in association with other countries, with the same boldness that you borrow $100 billion and you wouldn’t think twice about it to prosecute a war.

Mr. Lundborg. Until you added the overseas part of that I had thought perhaps you were addressing yourself only to the domestic needs and projects that, I picture the possibility of that being a potentially terribly inflationary thing. My only concern about that at all would be just as war—one of the reasons that war is inflationary is the very reason that we do borrow with courage or recklessness that we know in wartime it is a matter of desperation, there is very little choice, you pay whatever is the price. Now, there is a price. There could be an inflationary price to be paid in setting up that kind of credit beyond the rate of capital formation.
Senator Javits. But, Mr. Lundborg, didn't you tell us this morning that we have no alternative now, that we have got to fight for peace just as vigorously and just as daringly.

Mr. Lundborg. Right.

Senator Javits. And just as excitingly as we fight war. You said that yourself, correct?

Mr. Lundborg. I did; I did.

Senator Javits. That is your conclusion?

Mr. Lundborg. Right.

Senator Javits. And we have got to be just as bold and just as risk-taking.

Establishment of Priorities to Reduce Inflation Impact

Mr. Lundborg. Right. I would go back to one other thing I said this morning also and that is it is a matter of priority. I think we can accomplish what you are talking about without the inflationary danger. I say this is inflationary danger and I would recognize that. I think we should recognize it. I think if we will put first things first we may find that this can be done without the inflationary impact, and that it should be done without any question at all.

We have needs at home, as I tried to say also, we have some tremendous domestic needs. There are the overseas things. If we can put them in proper scale and proper priority, and if we can eliminate the completely wasteful—I think it was Senator Symington earlier who referred to our having put so much of our money into Europe. The difference between what we put into Europe in the last quarter century and what we have been putting into Vietnam is what we put into Europe was helping to build something, helping to create a base for a viable economy and what is going into Vietnam is totally destructive and destroyed and producing nothing.

If we can scale down our completely self-destroying, wasting military expenditure, what you are talking about can be completely financed without the inflationary impact, and it should be done.

Senator Javits. Especially as so much of it would go abroad where it would not have a buildup of demand against limited productive capacity.

Mr. Lundborg. Right.

Business Leadership for New U.S. Policy Recommended

Senator Javits. Just one last point: Don't you think more business leaders ought to espouse this cause, that this is uniquely the function of business leadership in this country?

Mr. Lundborg. Very much so.

Senator Javits. And I would hope very much that your example would inspire—there are some who do already—but I would hope that your example would inspire more to do it.

Mr. Lundborg. I would hope so. I hope they don't all run for cover because they see the inadequacy of my own testimony here.
NEW U.S. POLICY WOULD PROMOTE WORLD INVOLVEMENT

Senator Javits. Well, Mr. Lundborg, what appeals to me so strongly is this: There has been much sentiment, much feeling, that those of us—as I think you have already suspected—that there is some form of neo-isolationism, some form of retirement from the world, some renunciation of the role of high moral conviction and human care for one’s brother on the part of our country which we are counseling. What I had hoped to bring out through you and, perhaps we have gotten certainly some indications of, is that, on the contrary, that this is a summons to a very different kind of struggle but one just as exciting, just as dramatic, and far more likely to produce results than our engagement in war.

Mr. Lundborg. Very much so. I would certainly say amen to that, and say we should do it, although as a member of the commonwealth of nations and not as a self-appointed Messiah or policeman or anything of the kind, but recognize we should be working in partnership with other people and not as a dictator to them,

URGENCY OF U.S. POLICY SHIFT

Senator Javits. Won’t you agree also, because I won’t take the committee’s time to go into special drawing rights and national, Federal reserves and trade and many other things that we could discuss—but would you agree also that we are under a tremendous time urgency. If we are going to make a major shift in policy of this character that the time bomb of revolution, overturn, dissatisfaction, destruction in the world is running against us very fast, and that if we are going to move our policy on a different level—as present policy has failed—we have to do it under very forced draft.

Mr. Lundborg. I agree completely.

Senator Javits. Thank you, Mr. Chairman.

The Chairman. Thank you, Senator Javits.

U.S. FINANCIAL DATA

I have a table of bond yields and interest rates, among others, Mr. Reporter. I want to put them all into the record.

(The tables follow.)

(FROM MARCH 1970 ECONOMIC INDICATORS)

BOND YIELDS AND INTEREST RATES

Most interest rates, after reaching new highs in January, declined somewhat in February and early March.
<table>
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<tr>
<th>Period</th>
<th>3-month Treasury bills</th>
<th>3 to 5 year issues</th>
<th>Taxable bonds (Standard)</th>
<th>Corporate bonds (Moody's)</th>
<th>Prime commercial paper</th>
<th>FHA new home mortgage yields</th>
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<td>7.57</td>
<td>6.52</td>
<td>6.37</td>
<td>7.35</td>
<td>8.25</td>
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<td>December</td>
<td>7.720</td>
<td>7.98</td>
<td>6.81</td>
<td>6.91</td>
<td>7.72</td>
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</tr>
<tr>
<td>1970</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>January</td>
<td>7.914</td>
<td>8.14</td>
<td>8.86</td>
<td>6.80</td>
<td>7.91</td>
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</tr>
<tr>
<td>February</td>
<td>7.184</td>
<td>7.80</td>
<td>6.44</td>
<td>6.57</td>
<td>7.93</td>
<td>8.78</td>
</tr>
</tbody>
</table>

1 Rate on new issues within.
2 Selected note and bond issues.
3 April 1953 to date, bonds due or callable 10 years and after.
4 Weekly data are Wednesday figures.
5 Data for first of the month, based on the maximum permissible interest rate (6 percent beginning Jan. 5, 1970) and 30-year mortgages paid in 15 years.
6 Not charted.

Sources: Treasury Department, Board of Governors of the Federal Reserve System, Federal Housing Administration Standard & Poor's Corp., and Moody's Investors Service.

**FEDERAL BUDGET RECEIPTS, EXPENDITURES, AND NET LENDING**

For fiscal 1970 and 1971, there are projected surpluses of $1.5 billion and $1.3 billion respectively. In the first 7 months of fiscal 1970 there was a deficit of $8.2 billion; a year earlier, the deficit was $10.2 billion.
### Budget Receipts, Expenditures, and Net Lending

<table>
<thead>
<tr>
<th>Period</th>
<th>Receipts</th>
<th>Expenditures</th>
<th>Surplus or Deficit</th>
<th>Loan Account, Net Surplus or Deficit</th>
<th>Gross Federal Debt (End of Period)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td>Total Held by the Public</td>
</tr>
<tr>
<td>Fiscal year</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
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<td>1966</td>
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<td>130.9</td>
<td>(2)</td>
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<td>1967</td>
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<td>1968</td>
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<td>-19.1</td>
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<tr>
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<td>4.7</td>
<td>1.5</td>
<td>3.2</td>
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<tr>
<td>1970f</td>
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<td>195.5</td>
<td>3.9</td>
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<tr>
<td>1971f</td>
<td>202.1</td>
<td>200.1</td>
<td>2.0</td>
<td>-1.7</td>
<td>1.3</td>
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</table>

* Cumulative totals for first 7 months:
  - Fiscal year 1969: 98.7
  - Fiscal year 1970f: 107.1

1 Excludes non-interest-bearing public debt securities held by IMF.
2 Surplus of $36,000,000.
3 Estimates.

Sources: Treasury Department and Bureau of the Budget.

### Federal Budget Receipts by Source and Outlays by Function

In fiscal year 1970, receipts are estimated to be $11.6 billion over a year earlier while outlays are expected to be $13.2 billion higher. In fiscal year 1971, the estimated increases are $2.7 billion for receipts and $2.9 billion for outlays. In the first 7 months of fiscal 1970, receipts were up $8.4 billion over a year earlier and outlays were up $6.4 billion.
<table>
<thead>
<tr>
<th>Period</th>
<th>Receipts</th>
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<th>Outlays</th>
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<tr>
<td></td>
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<td>Individual income taxes</td>
<td>Corporation income taxes Other</td>
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<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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</tr>
<tr>
<td>Cumulative totals</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Fiscal year 1969.</td>
<td></td>
<td>98.7</td>
<td>49.0</td>
</tr>
<tr>
<td>Fiscal year 1970.</td>
<td></td>
<td>107.1</td>
<td>54.7</td>
</tr>
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</table>

1. Expenditure account.
2. Estimates.

Sources: Treasury Department and Bureau of the Budget.
CONSUMER PRICES

Consumer prices advanced again in February, with a rise of 0.6 percent. Food prices were up 0.6 percent. Nonfood commodities increased slightly because of higher prices for nondurables. Services prices rose 0.7 percent.

[1957-59=100]

<table>
<thead>
<tr>
<th>Commodity</th>
<th>All items</th>
<th>Commodities</th>
<th>Food</th>
<th>Durable</th>
<th>Non-durable</th>
<th>All services</th>
<th>Rent</th>
<th>Services less rent</th>
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<tbody>
<tr>
<td>-----------</td>
<td>-----------</td>
<td>-------------</td>
<td>------</td>
<td>---------</td>
<td>------------</td>
<td>-------------</td>
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<tr>
<td>1960</td>
<td>103.4</td>
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<td>110.1</td>
<td>112.2</td>
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<td>142.8</td>
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<tr>
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<td>122.6</td>
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<td>136.0</td>
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<td>160.0</td>
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<td>1967</td>
<td>121.2</td>
<td>125.3</td>
<td>131.2</td>
<td>138.2</td>
<td>147.3</td>
<td>155.7</td>
<td>164.7</td>
<td>174.7</td>
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<tr>
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<td>127.7</td>
<td>133.5</td>
<td>141.5</td>
<td>150.8</td>
<td>159.8</td>
<td>169.8</td>
<td>180.0</td>
<td>191.2</td>
</tr>
</tbody>
</table>

Source: Department of Labor.

U.S. EXPORTS AND IMPORTS OF GOODS AND SERVICES

The balance on goods and services increased slightly in the fourth quarter to $2.9 billion (seasonally adjusted annual rate). Merchandise exports rose more than merchandise imports.

[Millions of dollars]

<table>
<thead>
<tr>
<th>Experts of goods and services</th>
<th>Income on Investments</th>
<th>Imports of goods and services</th>
<th>Balance on goods and services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period</td>
<td>Total</td>
<td>Military</td>
<td>Private</td>
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<tr>
<td></td>
<td>Total</td>
<td>sales</td>
<td>investments</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>37,271</td>
<td>25,478</td>
<td>747</td>
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<tr>
<td>1965</td>
<td>38,599</td>
<td>28,447</td>
<td>830</td>
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<tr>
<td>1966</td>
<td>43,960</td>
<td>30,589</td>
<td>829</td>
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<tr>
<td>1967</td>
<td>46,183</td>
<td>30,681</td>
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<td>64,392</td>
<td>40,988</td>
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<tr>
<td>1969</td>
<td>55,387</td>
<td>26,467</td>
<td>1,204</td>
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</table>

SEASONALLY ADJUSTED ANNUAL RATES

1968:
1. 50,672 33,580 1,412 7,072 820 7,788 47,308 32,924 4,484 10,320 3,364
2. 59,370 33,556 1,624 7,312 848 8,076 49,740 34,264 4,572 10,634 3,636
3. 50,612 33,932 1,456 7,108 560 7,956 46,406 33,824 4,676 10,900 1,204

1969:
1. 47,676 29,672 1,256 6,640 928 7,640 48,284 39,316 4,816 11,152 1,392
2. 67,016 38,596 1,324 6,768 924 8,074 55,856 36,396 4,932 12,628 1,180
3. 68,212 38,324 1,648 6,648 960 8,772 55,588 36,972 4,980 13,588 2,624
4. 59,444 35,316 1,364 6,184 900 8,084 55,728 37,504 4,956 12,228 2,816

1. Adjusted from customs data for differences in timing and coverage.

Source: Department of Commerce.
GROSS NATIONAL PRODUCT OR EXPENDITURE

Gross national product (seasonally adjusted) increased at a somewhat slower pace in the fourth quarter than in the third quarter—an annual rate of about 4 percent compared with an 8 percent rate. There was a slight decline in physical output in the fourth quarter.

QUARTERLY DATA AT SEASONALLY ADJUSTED ANNUAL RATES

<table>
<thead>
<tr>
<th>Period</th>
<th>Total gross national product in 1958 prices</th>
<th>Total gross national product</th>
<th>Personal consumption expenditures</th>
<th>Gross private domestic investment services</th>
<th>Net exports of goods and services</th>
<th>Government purchases of goods and services</th>
<th>Implicit price deflator for total GNP</th>
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<td>1959</td>
<td>$475.9</td>
<td>$483.7</td>
<td>$311.2</td>
<td>$75.3</td>
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<td>503.7</td>
<td>325.2</td>
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<td>4.0</td>
<td>99.6</td>
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<td>497.2</td>
<td>509.3</td>
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<td>6.6</td>
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<td>122.5</td>
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<td>528.8</td>
<td>369.8</td>
<td>75.3</td>
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<td>138.3</td>
<td>76.9</td>
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<td>749.9</td>
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<td>156.8</td>
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<td>793.5</td>
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<td>876.4</td>
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<td>202.5</td>
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<tr>
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<td>716.5</td>
<td>882.5</td>
<td>551.7</td>
<td>133.9</td>
<td>1.2</td>
<td>206.7</td>
<td>78.3</td>
</tr>
</tbody>
</table>

1 This category corresponds closely with budget expenditures for national defense, shown on p. 36.
2 Gross national product in current prices divided by gross national product in 1958 prices.

Note.—Data for Alaska and Hawaii included beginning 1960.

Source: Department of Commerce.

STATISTICS ON MORTGAGE YIELDS AND COMMERCIAL PAPER

The Chairman. I want to call attention to one or two items for the record so we will have a reference. In 1964 the FHA new home mortgage yields were 5.45 percent, and in December of 1969 they were 8.48.

Prime commercial paper in 1964 was 3.97, and in December of 1969, 8.84. Those are just simply statistics bearing out previous testimony.

PRESENT AND FUTURE AVAILABILITY OF MONEY

To try to bring this down home, there is one thing on which it may be worthwhile to ask your views. I noticed Monday the American Telephone & Telegraph Co., which is one of the few companies, I think, as large as your own, had decided to pay an interest rate of 8 1/4 percent on an issue of $1.6 billion in debentures. There were ads in the papers to this effect.

What do you think this signifies as to the current state of the availability of money and what the outlook may be for easing of the situation in the near future?

Mr. Lundborg. It probably indicates several things. For one thing, a utility like the telephone company has very little choice but to provide facilities. Unlike a company making automobiles, let us say, or shirts or whatever that might wait until the market might be more
propitious, a utility simply has to provide service, and you do not
have to spend much time in a place like New York City to learn that
some telephone facilities there have broken down only partially be-
cause of lack of equipment.

The Chairman. I did not know that. Has the telephone system
also broken down in New York? [Laughter.] I knew about the other
things. I did not know about the telephone system.

Senator Jarvis. The reason for that, Mr. Chairman, is we do not
have this new United Nations Building. [Laughter.]

Mr. Lundborg. Seriously, to go back to your question, they must
provide the facilities and whatever the current costs might be they
have very little choice but to go ahead, and I am sure that is basic
to their decision.

I think implicit though in their move is also the recognition that
while rates may vary somewhat up and down, and I think we are all
hoping that they will come down, Senator Sparkman paid us a com­
pliment in saying we had lowered the prime rate, but what we did
was simply to recognize that the market forces had moved down.

Banks do not really determine interest rates. They are the victims
of the economic forces that determine the rates, and we hope that those
market forces, including the very thing we are talking about today,
would take some of the pressure off of the monetary system and could
make it possible for the rates to come down lower.

I think we have to recognize though, looking at all of those forces,
putting them together, that probably rates are going to be relatively
high, relative to even the history you are reciting there, for as far ahead
as we can see.

They will be lower than they are now, hopefully, but not as low as
we have known them. The market forces again, demand for money
as against the creation of funds through savings simply will dictate
a fairly high plateau of rates.

INFLUENCE OF MILITARY EXPENDITURES ON INTEREST RATES

The Chairman. I do not want to lose sight of the fact, and I want
you to say if it is a fact, that the major influence on this problem is
the enormous expenditure for military affairs. Is that not correct?

Mr. Lundborg. I think so.

The Chairman. That is the major single influence. These are the
circumstances which you have just said influence the market, that
determine the interest rate.

Mr. Lundborg. That is right.

The Chairman. This is not always clear to a great many people, as
you well know. This 83 1/3 percent is much the highest that A.T. & T.
has ever paid for money, is it not?

Mr. Lundborg. Yes, sir.

The Chairman. That will be reflected in higher rates. It has to be,
does it not?

Mr. Lundborg. It has to be.

The Chairman. It has to be reflected so everyone can now expect
to pay higher telephone rates. Again this is connected and goes back
to the pursuance of the war and the extreme military expenditures.
CRITICISM OF MILITARY EXPENDITURES AND VIETNAM WAR

I want to make it clear it is not just the war. The war is the major thing, but the fact that the war is going on creates a psychological atmosphere in the Congress, at least, and I think in the country that makes it also easy to get more money for other military activities that would not normally be provided. There is an atmosphere in the Senate and in the Congress that you should not criticize the military establishment even in these fields of social science research which we had before us last year.

There is an atmosphere in some way that you are not being very patriotic if you question other activities that are not directly related to the war. It has been almost impossible to get any substantial reduction in non-Vietnam military expenditures because of the psychological atmosphere.

We have all said here, and we have before, that we are not criticizing the military for this. These are political decisions, and yet I have seen in recent statements that the military itself has interpreted opposition to the war by me and others as opposition to the military as such.

You do not know this, Mr. Lundborg, but the Naval Institute awarded a prize to an Admiral Hanks who wrote an article in which the thrust was that these dissenters against the war are opposed to the military establishment as such, and in order to protect themselves they must take countermeasures to be sure that people like myself do not destroy the United States from within.

Their oath of office requires them to protect the United States from foreign and domestic enemies, and the clear implication in the article is that domestic enemies are those who are dissenters as to the war.

They get confused as to what this is all about. None of us are really criticizing the military as an establishment. We are criticizing political decisions which have resulted in this situation. This is not clear, and I think one of the most impressive things that your statement contains is the confusion that has arisen.

You did not mention it, but I am reminded of the fact that a misguided and confused group of people in California burned one of your banks. Obviously, there is confusion because your bank had nothing to do with the creation of the situation against which they are protesting. It is an extreme example of this kind of confusion.

You get the same kind of confusion about the Senator from New York and me, that we are out to destroy the military establishment, which is the last thing we have in mind, but there is that confusion in many circles.

A.T. & T. INTEREST RATE ON DEBENTURES

I want, Mr. Reporter, to put in the record this article about the debentures because it is a significant matter.
New York, April 13.—American Telephone and Telegraph Co. launched the biggest financing in American corporate history today, offering its shareholders $1.6 billion in debentures which will pay interest at a rate of 8% per cent a year.

Debentures are a type of bond backed by the general credit rating of the company issuing them. They are not guaranteed by specific assets or earnings. With each $100 worth of AT&T bonds, the buyer will also receive two warrants, each entitling him to buy one share of AT&T common stock for $52 any time between Nov. 15, 1970 and May 15, 1975. If all the warrants are exercised the company will issue 31.4 million new shares of stock and receive an additional $1.632 billion, putting the potential value of the offering at $3.1 billion.

The 8% per cent interest rate is slightly higher than Wall Street observers had been expecting. When the financing plan was announced in February, AT&T said the rate would be comparable to rates on bond issues of subsidiary telephone companies. On March 31, Pacific Telephone sold $150 million in debentures, with an interest rate of 8.65 per cent. Company spokesmen had no explanation for the higher rate, which was set at a directors' meeting this morning. AT&T stockholder offerings have traditionally carried very attractive provisions.

The offering is expected to have a depressing effect on the stock market. Analysts said investors may take money from other issues to buy the new bond. Savings bank officials also expect depositors to withdraw money, since the interest rate on the debenture is considerably higher than the return now available at banks. Since the bonds can not be called for redemption until after May 15, 1975, investors are guaranteed the 8% per cent return at least until then. The bonds mature in the year 2000.

In one way, the issue has already had an effect. The warrants to buy new shares have been listed for trading on the New York Stock Exchange, the first time in more than forty years that the big board has agreed to list warrants.

Telephone's 3.1 million shareholders will receive one right for each share they own. For each 35 rights, they may buy $100 worth of bonds, including the warrants.

The warrants are detachable from the bonds. In other words, a bond holder may exercise the warrants to buy the new shares and still retain the bonds. In that sense, they are different from convertible bonds, which must be surrendered in exchange for stock.

INDIRECT COSTS OF VIETNAM WAR

The CHAIRMAN. There are a few odds and ends if we have time. I want to take advantage of you to the fullest. We may not get you back here. You are a busy man. This is about the direct costs of the war. The official estimates have been $105 billion, but there are indirect costs that are not included in this, such as interest on the national debt attributable to borrowing on veterans' benefits.

In a current article, Dr. James Clayton, an economist, estimates that under present laws veterans' pensions as a result of the war will be about $20 billion. That is a very sizable sum, is it not? The article states that interest costs on the war debt attributable to Vietnam will be $35 billion.
I know you have not calculated it, but does this sound reasonable to you and to Mr. Ross? Maybe as an economist Mr. Ross should answer it. Does this sound reasonable to you? Have you made any such estimates?

Mr. Ross. We have not made any such studies. Where was the article by Mr. Clayton published?

The CHAIRMAN. This is Dr. James Clayton, an economist, in an article in the April issue of Playboy.

Mr. Ross. The article was brought to my attention and I read it.

The CHAIRMAN. You did read it?

Mr. Ross. I did read it. I suspect his statistics are reasonable.

The CHAIRMAN. Do you know who Dr. Clayton is?

Mr. Ross. I do not know him personally; no.

The CHAIRMAN. He is at the University of Utah, which is a very reputable institution. Is it not?

Mr. LUNDBOG. Very much so; yes.

The CHAIRMAN. The fact that it appears in Playboy should not throw you off. I mean they—

Senator JAVITS. It might distract them, Mr. Chairman.

The CHAIRMAN. What is that?

Senator JAVITS. It might distract them, not throw them off.

Mr. LUNDBOG. Maybe we should be impressed by the fact that you read the economic articles in the magazine.

The CHAIRMAN. I did not read it in the magazine, although I do not object to reading it. It is an excerpt sent to the staff. It is a reprint of "Our Mortgaged Future" by James Clayton. I will put the entire article in the record. He has made some very perceptive calculations about the cost of the war, which supplement the testimony you and Dr. Ross have given.

The point I am making is that in order to get a full view of the cost we have to take into account not only the lives lost, but that very sad and very large number of now about 250,000 or 300,000 of severely injured soldiers plus, of course, that very large number, running into the millions, of veterans who are not injured. All of this together would, I think, cost in the neighborhood of what Mr. Clayton has estimated. He says:

Viewed another way, the Vietnam war has produced more casualties than all British casualties in all the wars Great Britain has waged since William I conquered England in 1066.

That is a rather dramatic statement.

He gives all the various categories of casualties. He says:

Veterans' benefits for our first five major wars are now virtually paid out. They have increased the cost of those wars an average of almost four times the original cost, primarily because it takes such a long time to pay out funds to veterans and their dependents.

He says:

Assuming no change in present laws, the total cost of Vietnam veterans' pensions will be about $220 billion. Since costs always increase with time, the final bill will undoubtedly be much higher.

This has proved to be true in all of our wars. I want to put that in the record, not as a reflection, as we always have to say around here, of criticism of the programs for veterans' benefits, but simply to
enable us to understand the impact of the war and whether or not the possible benefits which one might achieve by pursuance of the war outweigh the costs.

(The article follows.)

From the Playboy magazine, April 1970

OUR MORTGAGED FUTURE

(By James Clayton)

The enormous cost of actual warfare distracts us from the far greater postwar burden—win or lose—bequeathed to generations yet unborn.

In the second half of 1968, a new mood of realism about the financial impact of the Vietnam war began to emerge in high-level government conferences and in the national press. The most notable example was a report delivered by Daniel Patrick Moynihan that said the budgetary savings from the war's end would be totally consumed through the early 1970s by current and proposed military and domestic programs, given projected population growth. Little money would be left over for social reform. The effect of the report was to dash the hopes of many socially conscious Americans that the billions of dollars being spent in Vietnam could be turned to urgent and exciting new projects as soon as the war is over.

This new mood of financial realism may be the signal that the United States is now fully into phase two of the Vietnam war. Historically, phase one in almost any modern war is typified by a widespread mood of optimism, of viewing the war as a venture of honor or high moral purpose. Virtually no thought is given to costs or casualties. But as time passes and casualty lists grow longer, false hopes of a brief war and complete victory fade. If the war is indecisive, phase two's disillusionment and lassitude set in. The war is seen as either a monumental error or an unavoidable calamity due to the allegedly inherent evil in man.

Phase three—the aftermath of war—is rarely discussed. It is time we had such a discussion about the Vietnam war, as more discerning observers realize that the greatest anguish—and the greatest financial burdens—are yet to come. Like Yahweh, the gods of war visit the sins of the fathers upon the children unto the third and fourth generation—and beyond.

The most enduring consequence of the Vietnam war, of course, is to be found in the casualty lists, for nothing is more permanent than death. As of January 24, 1970, the number of American battle deaths stood at 40,301, the number of wounded at 265,254. Only World Wars One and Two and the Civil War have produced more dead. If the present rate of conflict continues until the Congressional elections next autumn, American Vietnam-war dead may surpass the battle deaths from World War One. The number wounded in Vietnam has already exceeded those wounded in World War One. In short, the Vietnam war will go down in American history as our fourth and possibly our third major war. It is already our longest war.

The Vietnam civil war will also be recorded as one of the major wars in world history. From its inception in 1945 until the French withdrawal in 1954, the French suffered 172,000 casualties and the Vietnamese an estimated 500,000. Since 1954, according to the Defense Department, approximately 750,000 persons have been killed in South Vietnam, including an estimated 505,000 enemy dead. If those wounded since 1954 are included and both the South and North Vietnamese wounded are estimated at only twice the number of our own—an admittedly conservative calculation, since enemy dead are officially counted at 12 times our dead—the total military casualties in the Vietnam war to date are over 2,000,000. If we also count North and South Vietnamese civilians who have been killed or wounded, especially by our bombs (the total tonnage of which now amounts to almost one-third more than that of all the bombs dropped by the U.S. during World War Two), this figure would be well over 8,000,000. This is also a conservative estimate, because in virtually every war during this century, there have been more civilian casualties than military casualties.

Historically, 3,000,000 casualties is a staggering number. According to comparative figures gathered by historian Quincy Wright and the late economist
Lewis Richardson, the best authorities on this issue, the total killed or injured in all European wars from the 11th through the 16th centuries was 1,421,000. The Vietnam-war casualties to date have already doubled that number. Viewed another way, the Vietnam war has produced more casualties than all British casualties in all the wars Great Britain has waged since William I conquered England in 1066.

The long-range effect of the Vietnam casualties will not be substantial insofar as the genetic make-up of the race or the birth rate in Vietnam or America is concerned. More young men are killed in this country in automobile accidents each year than are killed in Vietnam. Even major wars—such as World Wars One and Two, in which 40,000,000 and 60,000,000 people were killed, respectively—have little measurable permanent effect. What is lost, and lost forever, is the possibility that these dead and their children could have been employed in worthy activities and could have contributed to the progress of civilization. Who can say whether one might not have been another Michelangelo, or another might not have found a cure for cancer? Greatness aside, any death in a mistaken cause is a tragedy of immeasurable proportions.

Distribution of the war dead also is worth noting. For the first time in American history, we may soon know who in our society actually pays the ultimate price of war. To emphasize the unpopularity of the Vietnam conflict, Congressman Paul Findley recently read into the Congressional Record the names of all the American Vietnam-war dead, state by state. Newsday magazine for August 2, 1969, analyzed the war dead of Long Island. With the assistance of a graduate student, Jerry Smith, I made a similar study for the state of Utah. Both studies agree in their essentials; and if these two areas are typical, when the casualty data are analyzed fully, it seems probable that the following patterns will emerge: (1) Most of the survivors of the dead (interviewed in Long Island) believe that the sacrifice of our fighting men has been in vain. (2) The great majority of those who died (again, according to the Long Island study) either believed in the war or believed it was not their business to question the war aims of the Government. (3) The overwhelming majority of the dead were from blue-collar families or families of clerical workers. (4) Those who died were typically white, aged 20, athletically inclined and had never attended college. (5) The dead tended to be Catholic, rather than Protestant, and Low Protestant rather than High Protestant.

The consequences of these facts, once they become widely known, are difficult to measure; but one suspects that future generations—and especially working-class families—will abominate the memory of Vietnam, though the working class will also receive more aid from pensions and educational benefits than other classes.

Next to the loss of life, the most permanent consequence of war in our history has been the veteran’s pension. Although some economists would not include these pensions as a war cost, because over the years they have become more like welfare payments, nothing in the history of U.S. public expenditures has been more costly than veterans’ benefits. The original direct cost—major national-security expenditures—of all America’s wars prior to Vietnam was approximately 372 billion dollars. This figure is about ten times higher than our second most expensive purchase—public education. Veterans’ benefits for these same wars—when finally paid—will amount to nearly 500 billion dollars, even if the rates and extent of coverage were frozen as of today, which, of course, they won’t be.

Veterans’ benefits for our first five major wars are now virtually paid out. They have increased the cost of those wars an average of almost four times the original cost, primarily because it takes such a long time to pay out funds to veterans and their dependents. In the case of the War of 1812, veterans’ benefits rose for 68 years after the war was over and were not fully paid out until 1940, 131 years after the fighting stopped. In no case have veterans’ benefits from past wars lasted less than 113 years.

The main reason these benefits are so long-lived is that most are paid out to dependents, rather than to ex-soldiers, and most have nothing to do with a Service-connected injury but, rather, are a form of welfare assistance. Moreover, benefit rolls tend to become more inclusive and payments tend to increase with time. More than 90 percent of Spanish-American War and 50 percent of World War One veterans are now receiving some kind of compensation. Also rising rapidly is the percentage of those using their GI Bill education benefits. In 1954, 84,000 men were using their GI benefits; today, more than 500,000.
If veterans' benefits for the Vietnam war are anything like those for previous wars, we may expect them to increase annually (after a small initial spurt and decline immediately following the war) until about the year 2020. Then they will fall gradually until near the end of the 21st Century, when they will cease altogether. Assuming no change in present laws, the total cost of Vietnam veterans' pensions will be about 220 billion dollars. Since costs always increase with time, the final bill will undoubtedly be much higher.

After veterans' benefits, the interest on war loans is probably the most significant long-range financial cost of war. It is difficult to measure interest costs, because the interest on war loans is not separated from other interest costs in the national accounts. Interest costs for war debts prior to the Civil War were probably less than 20 percent of original war costs. During the Civil War era, however, interest on the public debt jumped from less than $4,000,000 in 1861 to $144,000,000 in 1867. For the next 25 years, interest payments gradually fell, until they finally leveled off at about $30,000,000. These payments, which are attributable to the Civil War, raised the cost of that conflict by about one third.

The rate of interest costs of recent wars is comparable. The noted economist John M. Clark, using Treasury Department data, once calculated the interest costs of World War One to 1929 at 9.5 billion dollars, or about 37 percent of the original cost of that war to that date. Henry C. Murphy, in his book National Debt in War and Transition, has shown that the Government borrowed 215 billion dollars to finance World War Two. That debt is still on the books and has cost us about 200 billion dollars in interest to date. This interest cost is now 70 percent of the original cost of World War Two.

Although we have reduced our debt after every war prior to 1945, no serious effort has ever been made to reduce the debt from World War Two or from subsequent wars. The Korean War probably added an additional ten billion dollars to the already swollen war-debt ledger. If the principal for the Korean War is not paid off any faster than that for World War Two, the additional interest by 1978 will be about 20 percent of the original cost. If interest costs continue to climb and attitudes toward public debt do not change substantially, it is conceivable that interest costs for World War Two and the Korean War eventually may actually exceed the original cost of those wars.

The amount of indebtedness for the Vietnam war is unknown. Since the war escalation of 1965, however, the public debt has risen almost 70 billion dollars. If this debt is treated like the Korean War debt—i.e., if no more than half of it is attributed directly to the war in Vietnam—then, by 1990, the interest costs on the Vietnam-war debt will be 35 billion dollars (at four percent per annum—a conservative estimated rate), with the entire principal still outstanding.

Increased taxes have been an enduring consequence of war because of increased Federal borrowing. Income taxes began in this country as emergency war taxes. The Civil War made them a permanent feature of our Government system. By 1911, the high costs of financing the Spanish-American War, which required doubling tax receipts, pushed income from internal revenue above receipts from Customs duties. World War One increased internal-revenue receipts more than fourteenfold, from $380,000,000 in 1914 to $5.4 billion dollars in 1920. Per-capita taxes increased nine times during that war. World War Two increased per-capita taxes an additional seven times. If neither of these wars occurred, our per-capita tax rate would have been about one tenth of what it actually was in 1946, assuming no inflation—which is primarily caused by war, as we shall see.

For this reason, it is misleading to view the present surtax either as temporary (as former President Johnson promised and as President Nixon still promises) or as the ultimate tax cost of the Vietnam war. From 1945 to 1967, the most recent date of available data, our per-capita taxes increased 27 percent. This is partly the result of an increase in military-retirement pay, which is now increasing $200,000,000 per year independently of other Department of Defense activities. Obviously, our taxes must go higher yet. The long-range taxation consequences of the Vietnam war are more likely to be an additional and permanent burden on top of an already large tax structure (itself mostly the result of past wars) rather than anything unique or presently unforeseen.

Traditionally, much of the cost of war has been met through inflation. We have had four periods of extreme inflation and deflation since 1800—all produced by war. The Civil War and World War One each doubled prices. World War Two increased prices by 50 percent. The Korean War further increased the cost of living by about ten percent.
Following the Napoleonic Wars, the previous upward surge of inflation tapered off during the 19th Century—a century of relative peace in Europe. Prices generally fell for 100 years. But the 20th Century has been a century of war and the price trend is sharply up. Prices are now five times higher than they were in 1900. If wars continue in the coming decades, the upward trend will continue and prices could be four times higher in the year 2000 than they are now.

Despite the extreme steps being taken by the Nixon Administration, the inflationary effect of Vietnam will probably result ultimately in a ten percent reduction in the standard of living of the average American. Since 1964, the consumer price index has increased 16 percent. If only half of that increase is attributable to the Vietnam war—a conservative estimate—then the inflationary cost of the Vietnam war to our G.N.P. to the first quarter of 1969 has been about 17 billion dollars in only four years. In the past, it has taken 10 to 20 years of peace to erase this war-caused inflation. If peace were to come this year, therefore, we could expect the inflationary effects of the Vietnam war to last at least until 1980 and cost a minimum of 30 billion dollars.

Rapid price fluctuations in time of war have historically created a crop of newly rich, which has aroused widespread contemporary condemnation. Politicians and merchants—or, more recently, industrialists—have been the targets of this condemnation since the beginning of time. The widespread criticism of our present-day military-industrial complex is simply history repeating itself on schedule. This complex is the source of our newly rich. Although the lower income brackets gained most from the full employment accompanying World War Two, the major increases in income from the Vietnam war have clearly gone to the upper-income occupations. Within those income classes, the most noticeable benefits have gone to management and scientists in the ordinance, aircraft and electronics industries. These industries are concentrated in California, Texas, New York, Massachusetts, Connecticut, Pennsylvania, Ohio, New Jersey and Missouri. Moreover, the war has strengthened already existing trends of large corporations toward conglomeration and already existing tendencies in science toward applied rather than basic research.

In the long run, we may expect the Vietnam war to further widen the economic gulf between classes.

The newly created poor caused by war are often overlooked. Who today mourns the Tories of the American Revolution, the slaveholding planters of the Civil War or the farmers who, at the request of the Government, over-expanded during World War One? It is too soon to say who the newly poor of the Vietnam conflict will be, but those who have been left out of the war-generated prosperity are clearly recognized. By state, they are found chiefly in Wyoming, Idaho, Oregon, Montana, North and South Dakota, Kentucky, West Virginia, Arkansas and Oklahoma. Individuals on fixed salaries and pensioners with fixed incomes have been hurt by war-generated inflation and the unskilled have been left out of the 1,000,000 new but sophisticated jobs that have been generated by the war in Vietnam.

The major research universities of this country also have paid a price by surrendering some of their independence and by neglecting teaching. Most others have suffered financially as funds that might have been used for education have gone for war.

The more enduring political and social consequences of the Vietnam conflict are the most difficult to define and the worst served by the evidence of past wars. There are no landmark studies on the social or psychological consequences of war. Indeed, there is an absence of objective standards of measurement. Observers are, therefore, largely left to impressionistic insights full of paradox and ambiguity. Yet informed judgments—even if imperfect—are better than wholly objective silence.

Over the centuries, war has tended to centralize Government: and during all major American wars, the power of the Federal Government has markedly increased. As economist Herman Krooss has shown, each of our three major wars has cost ten and a half times more than the previous one. With new financial obligations and new powers brought on by the war emergency, the Federal Government more than doubled in size during each of the last two major wars. The Vietnam war will continue, if not accelerate, this trend.

One can expect no heroes to emerge from the Vietnam conflict, but political scapegoats will be sought by some to explain away the war's indecisive results and unfortunate consequences. Already, Professors Galbraith and Schlesinger
are blaming the military; others are blaming civilian advisors to past Presidents. Postmaster General Winton Blount blames the student dissenters. Nor should we expect those political leaders who were responsible for getting us into Vietnam to be punished. As poet William Ellery Channing observed long ago, “The wrongdoing of public men on a large scale has never drawn upon them that sincere, hearty abhorrence which visits private vice.” The deaths of over 40,000 Americans will pass without indictment. But Senator Edward Kennedy’s indiscretions at Chappaquiddick Pond—whatever they were—have already resulted in an indictment, a suspended sentence and widespread condemnation. Such is the nature of public opinion.

When the war ends, America’s flagging international prestige can be expected to increase noticeably, as did France’s prestige following her withdrawal from Vietnam and Algeria. Civil liberties have suffered less in this war than in all wars of recent memory, although it is too soon to say whether or not another era of McCarthyism is already looming. It is also often said that war promotes crime, but there are no reliable crime indexes extending backward in time; so this is, and possibly always will be, a moot question. Educational training has been arrested for those drafted or forced by the draft to volunteer for the Armed Services; but the GI Bill will probably more than make up for this delay.

Another positive legacy of Vietnam—perhaps the major one—may be a diminution in the power of anti-communism as a crusading ideal. The charge that this war was started by Communist aggression from the north has not been convincing. Perhaps we have cried wolf once too often. In any event, if Communist countries continue to go their own individual ways, and particularly if tension among the great Communist powers increases over the years, the raison d’être for our anti-Communist stance—which was so justifiably prominent in the early years of the Cold War—will be considerably vitiated. Yet we should not expect a major shift in public ideology to occur in less than a decade, for basic assumptions of evil change slowly.

It is widely assumed, especially among economists, that the generation that fights the war is the generation upon which the burden of the wars falls. For those who are killed and maimed, this is absolutely true. But, as we have seen, many burdens, such as veterans’ pensions, last for several generations. These pensions irrevocably commit future funds that might have been used for other, more pressing purposes. Over several decades, these pensions, along with our war-generated graduated-income-tax system, also have tended somewhat to improve the social status of veterans. Partly because of a generous educational subsidy, veterans are better educated than nonveterans; their income is higher, their job security tighter and their rate of unemployment lower. The incidence of poverty among veterans, moreover, is less than half that of nonveterans.

The burden of national debt, contrary to the views of some economists, may also have lasting influence. It can, for example, reduce the lifetime income of future generations if they decide, unlike this generation, to pay off the national war debt. In any event, we have been frustrated by the unwillingness of past generations to pay for their own wars, which has led to current inflation and the devaluation of the dollar. May not a future generation also be frustrated by our unwillingness to pay the full costs of the Vietnam war? Millions of people today are living on relatively fixed sources of income. As the cost of living continues to rise because of the war, not only do these individuals suffer decreased purchasing power but their children may fall to the next lower economic class unless the inflationary cycle is broken.

The Vietnam war has unquestionably lowered the standard of living of this generation. It has also lessened our willingness and that of future generations to take enterprising risks, because taxes remain high. It has materially lessened the supply of natural resources available to our children and shifted even further the balance of military vs. civilian priorities—a shift that is now going into its second generation.

Contrary to popular opinion, the Vietnam war will also probably decrease the G.N.P. in the long run. It is true that we have solved the problem of unemployment only in time of war, but this fact has misled many into believing that war means economic progress. Even with the enormous expenditures of the Cold War, our annual rate of increase in the G.N.P. has been less than three percent for the past generation. Historian John Nef, in his book War and Human Progress, looking back to the 15th Century, found that economic progress was faster in times of peace than in times of war and greater in countries less inclined than
in those more inclined to war. John J. Clark, in his recent book The New Economics of National Defense, which focuses on the Cold War era, agrees with Net. In the long run, decisions to continue the Cold War or to delay getting out of Vietnam, based on the alleged necessity of keeping people working and keeping the economy healthy, are at odds with historical experience.

The main reason many people feel that a war economy enhances the G.N.P. rate of growth is an excessive belief in the problem-solving powers of technology and in the generative force of research. Syllogistically, their reasoning runs something like this:

1. Modern war requires enormous amounts of research.
2. Research leads to new technological knowledge.
3. Technological knowledge leads to innovations and makes our economy run more efficiently.
4. Hence, war accelerates economic growth and brings prosperity.

For many, this now seems self-evident truth. But, as economist Robert A. Solo has shown in the Harvard Business Review for November and December, 1962, rising expenditures on research and development may actually be reducing the rate of economic growth in the United States. There is a negative relationship, he shows, between Cold War research expenditures and output per man-hour, inventive activity and the rate of increase of the G.N.P. Nor is the spin-off from defense projects substantial. We must realize that money spent for war is largely lost to other purposes. War—including research for war—depletes society's ability to solve nonwar problems. One can either fight, which is essentially destructive, or one can build. At no time in the past has a nation been able to do both.

When future historians mold the Vietnam war into its final image—sometime toward the end of the 21st Century, perhaps—they will more clearly perceive what beasts were loosed by that conflict. Today, the most we can do is try to understand what we have wrought. But that understanding should be limited to the moral enormity or the immediate results of our actions. It should include the firm realization that most of the major consequences of our decision to intervene in Vietnam will continue not for years but for centuries. As William Cowper, in one of his most perceptive moments, once said:

War lays a burden on the reeling state,
And peace does nothing to relieve the weight.

VIETNAM WAR IS CAUSE OF CURRENT U.S. INFLATION

The CHAIRMAN. Another along this line is by Mr. Edwin Dale in The New York Times, who had this to say:

Unless both economic theory and economic history are wrong, the explanation for the current inflation in the United States lies mainly in the actions of the government not of business or labor or any other private force.

Would you agree with that? He goes on to say that the cause of inflation:

* * * It is almost universally agreed is the war in Vietnam, and the early decision of the government on financing it or not financing it.

That would be consistent.

Mr. LUNDBORG. I would have to agree with that. Other elements of the economy have taken advantage of or capitalized on it, but there is no question——

The CHAIRMAN. We had this argument just recently in considering the pay bill for the postal employees.

Mr. LUNDBORG. Yes.

The CHAIRMAN. One of the principal reasons for its coming at this time has been the inflation which has reduced the purchasing power of those relatively low salaries.

Mr. LUNDBORG. That is right, yes.
The CHAIRMAN. There is no doubt about that in your mind, is there? Mr. LUNDBORG. No, none at all really.

The CHAIRMAN. I am sure the people in New York or elsewhere would not connect the strike of the postal employees with the war in Vietnam. As a matter of economics, it is directly related if we accept your basic thesis, which I do, that the major influence in the inflation is the war.

Mr. LUNDBORG. Yes, completely, that is right.

The CHAIRMAN. That is what Mr. Dale is saying. I think that is the thrust of it. I will put the entire article in, because it simply develops the points in a little different way than you did.

Mr. LUNDBORG. Yes.

(The article follows.)

[From the New York Times, June 25, 1969]

INFLATION AND VIETNAM

MOST OBSERVERS BELIEVE U.S. POLICIES ON FINANCING CONFLICT CAUSED UPTURN

(BY EDWIN L. DALE JR.)

WASHINGTON, June 24.—Unless both economic theory and economic history are wrong, the explanation for the current inflation in the United States lies mainly in the actions of government, not of business or labor or any other private force.

Only the Government can create money. Only the Government can run mammoth deficits in its budget. Too much of each since late 1965, shortly after the heavy involvement in Vietnam began, started the current inflationary trend—the fourth inflationary spurt in the United States in the post-World War II era.

Though many citizens are apparently not aware of the fact, the nation can have, and has had, long stretches of relatively stable prices in the modern era, as in the period 1958-65, when consumer prices were rising on the average only 1.3 per cent a year. This contrasts with a sharp rise since 1965, soared to an annual rate of 7.2 per cent in the last three months.

WHAT WENT WRONG?

What went wrong? The answer, it is almost universally agreed, is the war in Vietnam and the early decisions of the Government on financing, or not financing, it.

These decisions greatly affected the Government's fiscal policy (the budget: taxing and spending; the deficit or surplus) and indirectly affected its monetary policy (money and credit). These two major weapons, fiscal policy and monetary policy, have a powerful influence on total spending, or demand, in the economy.

When the Government allows spending to grow too rapidly through overexpansionary fiscal and monetary policy, prices start rising—whether in the United States or in Brazil. Some prices rise more than others, but the averages go up.

When there is plenty of spending money around, sellers find it easier to raise prices. When jobs are plentiful, thanks to heavy spending and robust production, labor finds it easier to push up wages.

The process started in the winter of 1965-66 with the decisions being made in Washington.

In the budget he submitted to Congress in January, 1966, former President Johnson estimated the cost of the war at $10-billion for fiscal year 1967. On that basis, he recommended no tax increase because the general growth of revenues would nearly cover the cost.

The $10-billion figure had been worked out by former Defense Secretary Robert S. McNamara on the assumption that the war would end by mid-1967.
By the spring of 1966, Mr. McNamara had changed his assumptions and informed the President that the war would cost between $5-billion and $10-billion more than estimated. Yet the President still declined to ask for a tax increase, though his Council of Economic Advisers recommended it.

The President concluded that Congress would not support such a request. But in testing Congressional sentiment, it has since become known, he failed to point out that the war was costing much more than estimated, with the result of throwing the budget into a deficit.

As it turned out, the war in that fiscal year cost $20-billion, instead of the estimated $10-billion, and the budget for the fiscal year wound up in a deficit of $9-billion. Then, when a tax increase was finally requested in August, 1967, Congress delayed it for nearly a year and the deficit in the fiscal year was $25-billion.

A big budget deficit means the Government is pumping more spending power into the economy than it is taking out. But equally important, the deficit greatly complicates matters for monetary policy.

When there is a big budget deficit, the Treasury must borrow to make up the difference between receipts and expenditures. It floats loans from time to time. When it does so, the Federal Reserve, the nation's central bank, generally tries to "stabilize" the money markets by buying Government securities—creating bank reserves—in larger quantities than it would ordinarily consider wise, partly to enable the banks to buy up a portion of the treasury security issue.

This process of Federal Reserve purchases of Government securities, through a complex chain of events, adds to the amount and credit available in the economy. Total borrowing and spending increase.

That is how an inflationary fiscal policy contributes to an inflationary monetary policy.

$12-BILLION A QUARTER

There is a widespread belief that in the period since late 1965, monetary policy most of the time has been too expansionary—permitting a too rapid increase in money and credit, and hence spending—partly because of the problem created by the budget deficit and partly because of some bad judgment by the Federal Reserve itself, which has since been admitted.

Total spending in the American economy was growing by about $12-billion a quarter in the period before Vietnam. By the first half of 1968, it was growing by more than $20-billion a quarter. That is why there is inflation.

The rise in prices began to be noticeable at the consumer level toward the end of 1965. It got worse through 1966, slowed in the first half of 1967 and accelerated again in late 1967, through 1968 and early 1969.

Once the inflation "broke out," private forces came into play, in the process known as the "wage-price spiral." Unions demanded and won larger wage increases, partly on the basis of the need to cover rising prices; business costs of all kinds began to rise.

These private cost forces will continue to operate now that Government fiscal and monetary policy are both pulling together in the direction of restraint. So no one expects the rate of inflation to slow rapidly—even though total demand is now again under control.
INFLATION FACTORS: The economy enjoyed growth with relatively low inflation until 1965. Vietnam war costs then began to push up demand, leading to a sharp rise in output of goods and services (1) and helping to increase the percentage of the labor force employed (2). Wages rose (3) as labor supply tightened, and the labor cost required to make each unit of goods soared (4). Businessmen, lured by strong sales and rising labor costs, raised prices and helped to produce a rapid climb in consumer price levels (5). The average production worker made no gain in "real" spendable earnings (6) because rising prices and higher taxes have slightly outpaced rising wages.
The CHAIRMAN. There are people who are inclined to say, “Well, the labor unions are responsible for all these increases.” It is true, as some have alleged, in some instances they perhaps take advantage of it and go beyond what would be reasonable. On the other hand, the inflation itself is a cause, and a legitimate cause, for revision of the pay rate, the same as interest rates. It would not be different in that respect.

EFFECT OF VIETNAM WAR ON U.S. ECONOMY

I will put in the record an article in the Saturday Review by Mr. Murray J. Weidenbaum, who is now Assistant Secretary of the Treasury, where he stated:

More basic than all this (the economic problems caused by the war), the public’s confidence in the ability to “fine tune” domestic economic stabilization policies has been undermined. The basic information and analysis released by the Federal Government to justify its policies has created more suspicion than trust.

It is a very interesting article entitled “Our Vietnamized Economy,” which is quite consistent with your own statement.

(The article follows.)

[From the Saturday Review, May 24, 1969]

AFTER VIETNAM: OUR VIETNAMIZED ECONOMY

(By Murray L. Weidenbaum)

Although American troops have been stationed in South Vietnam since 1954, the major buildup occurred between the middle of 1965 and the middle of 1967. This substantial and rapid expansion in U.S. military spending from $50 billion before the buildup to $80 billion now—has had many important effects. Fundamentally, it has altered the allocation of the nation’s resources between the private and the public sectors. At the end of 1964, 20 per cent of the Gross National Product was purchased by government agencies and the remaining 80 per cent was available to the private economy. By early 1968, the government portion had risen to 27 per cent and the private share had fallen to 73 per cent.

The Johnson Administration consistently underestimated military expenditures, particularly during the crucial buildup period in late 1965 and much of 1966. Most economists and government administrators, moreover, failed to appreciate how quickly the military buildup was influencing the national economy—that the economic impact was occurring as soon as the defense orders were placed and, thus, substantially before the work was completed, paid for, and showing up in the federal budget. Furthermore, policy measures to offset inflationary pressures were not taken soon enough or in a substantial enough way. The January 1966 budget message of the President maintained that the United States could afford simultaneously to wage a two-front war without raising taxes; the domestic war against poverty and the war in Vietnam.

But the program choices made were not as simple as the classroom dichotomy of “guns vs. butter.” In a sense, we chose both more guns (military spending) and more butter (more consumer purchases). However, we also chose—in part as tight money began to affect specific parts of the private economy—less housing and fewer automobiles. Simultaneously, the nation was voting for more social welfare programs—thus increasing both the military and the civilian portions of the public sector. As a result, 1966 witnessed what was then the most rapid period of price inflation since the Korean War.

Several major economic problems face the United States as a legacy of 1965-66. With the collapse of the stable price and cost situation prevailing prior to Vietnam, inflation is a major concern. Unusually high interest rates have been set in a thus far unsuccessful attempt to contain the inflation. Income taxes have been raised to reduce unprecedentedly large budget deficits ($25 billion in fiscal 1968). Despite forecasts to the contrary, a serious balance-of-payments situation continues. More basic than all this, the public’s confidence in the ability to “fine tune”
domestic economic stabilization policies has been undermined. The basic information and analysis released by the federal government to justify its policies has created more suspicion than trust.

There also have been, of course, positive impacts of governmental economic policy during the war. A fundamental imperative was successfully achieved; a large and rapid shift of resources from civilian uses or idleness to military programs was accomplished. At the same time—unlike either the World War II or Korean experiences—the nation managed to avoid direct controls over prices, wages, and materials generally (although relatively small amounts of copper and a few other metals were set aside for use by defense contractors).

Despite the increases in defense spending and the accompanying inflation, economic growth and real improvements in the living standard of the average American continued. Even after allowing for inflation, the average American has experienced a real growth in income, from $2,123 in 1964 to $2,473 in 1968. Also, expenditures for civilian government programs actually have increased by a larger amount than did the military budget—simultaneously with the $30-billion rise in defense spending due to the Vietnam war, civilian agencies of the Government have increased their expenditures by $35 billion since the war began.

The shift from cold to hot war not only has raised the size of the military

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**U.S. MILITARY BUDGETS**

(1964, 1969, 1974*)

(IN BILLIONS OF DOLLARS)

- Military expenditures
- All other federal expenditures

- 145.0
- 120
- 100
- 80
- 60
- 40
- 20
- 0

- 53.6
- 81.0
- 76.0

*Projected, fiscal 1974, with no 10% surcharge, no wartime expenditures.
Source: Research Institute of America.
budget, but also has changed its composition drastically. The fundamental change was the shift of emphasis from maintaining the potential capability to deal with world-wide or general war situations, in favor of moving toward a military establishment actually waging a difficult but limited war whose dimensions kept evolving.

Three specific shifts in military requirements took place. The amount of funds going for tanks, artillery, rifles, ammunition, and similar conventional battlefield hardware more than doubled from the prewar level. The relative—as well as absolute—importance of missiles was reduced drastically. Meanwhile, the military aircraft budget was reoriented from new long-range bombers to acquiring smaller “tactical” aircraft, particularly helicopters and supersonic fighters, such as the F-4 Phantom.

Once again, the traditional manufacturing industries—automobiles, mechanical equipment, textiles, clothing, tires—have become important suppliers of war material. The most dramatic increases have occurred in ammunition (orders have quadrupled since 1965), artillery and small arms (more than doubled), clothing and textiles (doubled), tanks and vehicles (up 68 per cent), and food (up 66 per cent).

The highly specialized, science-oriented aerospace and electronics firms, although still very significant defense contractors, have found their shares of defense business declining. The ten firms with the largest amount of defense contracts in fiscal 1968—General Dynamics, Lockheed, General Electric, United Aircraft, McDonnell-Douglas, Boeing, Ling-Temco-Vought, North American Rockwell, and General Motors—received 29.9 per cent of the total awards. This was down from their pre-Vietnam share of 32.2 per cent. It is interesting to note that nine of these ten giants of the military market are aerospace and electronics firms.

Unlike the period of production of large weapon systems—such as ICBMs, which could be supplied only by a few of the industrial behemoths with especially sophisticated capabilities—the economic demands of Vietnam involve numerous smaller contracts with a variety of medium-sized firms. “Small” firms increased their share of defense contracts from 15.3 per cent in fiscal 1968 to 18.4 per cent in 1968. (Companies that made the Pentagon’s list of the top 100 contractors in 1968, but were not in that roster earlier, include Atlas Chemical, Colt Industries, Lykes, McLean Industries, Automatic Sprinkler, Harris-Intertype, and National Presto Industries.) But many branches of the industrial economy—including leather, paint, plastic, paper, and furniture companies—have experienced virtually no increase in defense work in recent years.

Large proportions of the companies working on Vietnam orders are in the upper Midwest and in other relatively older industrial states in the East, all of which have long-standing positions in the industrial and consumer markets. The Far West, which since the Korean War had been receiving a dominant share of defense orders, has experienced absolute as well as relative declines as a military supplier. For example, Washington state firms (mainly Boeing) received $530-million worth of defense contracts in 1968, compared to twice that amount in 1964 ($1.1 billion). Colorado’s $283 million of Pentagon orders in 1968 were down substantially from the $390-million level of 1964, reflecting a decline in missile work by the Denver Division of Martin-Marlietta. Similarly, in 1964 Utah received $340 million in military contracts, down to $263 million in 1968, reflecting lower levels of work on the Minuteman ICBM.

Eight states received defense contracts in 1968 at rates at least twice as high as the pre-Vietnam levels. They are Tennessee, Texas, Connecticut, Illinois, Alabama, Mississippi, Minnesota, and Wisconsin. Six other states were awarded defense contracts at least 50 per cent greater than in fiscal 1965, before the military buildup in Southeast Asia—Florida, Indiana, Louisiana, New York, Ohio, and Pennsylvania. Most of these states, such as those in the upper Midwest, are major producers of Army ordnance and other battlefields hardware. The most dramatic expansions have been among helicopter manufacturers, notably Bell Aircraft in the Dallas-Fort Worth area, Sikorsky Division of United Aircraft in the Hartford region, and Boeing-Vertol near Philadelphia. A special case of expanding effort is the TFX (F-111) supersonic aircraft being built by General Dynamics in Fort Worth.

Vietnam also has had important effects on the pattern of civilian employment. Overall, out of more than one million new jobs directly generated by the Vietnam war, the great majority has been in highly skilled and highly paid occupations—238,000 more professional and managerial employees vs. 50,000
more service workers (the latter being among the lowest-paid groups in the nation's labor force). While the war effort has resulted in 245,000 more skilled factory workers being hired, there have been only 65,000 more jobs for laborers, 178,000 more office jobs, and 29,000 more sales positions. Thus, indirectly, the war effort has intensified some of our domestic problems—by increasing jobs for the highly skilled and relatively highly paid, rather than for the lower-income, lower-skilled portions of the population. Only one out of every ten defense jobs bears a laborer's classification, while 22 per cent of civilian jobs do.

Early optimistic appraisals of the economic environment following peace in Vietnam have glowed with visions of tax reduction, negative income taxes, federal tax sharing with the states, and massive increases in nondefense governmental activities. However, decisions already being made are strongly shaping the nature of economic adjustments to peace. A return to the peacetime dollar "base" of military spending no longer seems feasible.

One reason for this is inflation. Prices on military procurements, and wages and salaries for the armed forces and civilian employees, have increased. Under existing law, the pay of both military and civilian employees of the Pentagon is scheduled to rise by about $2 billion in mid-1969. Several large weapon systems are in early production stages and the large expenditures will come in the next year or so. They include several nuclear carriers and destroyers (about $4 to 5 billion), the Poseidon and Minuteman III missiles (about $7 billion), and the Safeguard ABM system (estimated from $6 billion to several times that amount).

Moreover, because the non-Vietnam portions of the military budget have been squeezed in recent years, considerable "catching up" is needed especially in deferments, maintenance, inventory replenishment, and advanced research and development. In 1968, for example, the Department of Defense spent less money than in 1965 on research and development in army ordnance and combat vehicles ( tanks, artillery, etc.) and in military science.

This is all aside from future consequences of any new decisions to bolster the nation's long-term arsenal of weapon systems. Two portents of future Congressional action are recent reports by the influential House and Senate Committees on Armed Services. After a year of detailed study and hearings on strategic forces—those designed for all-out nuclear warfare—the Senate Committee urged "Prompt decisions should be forthcoming for the deployment of additional and more modern weapon systems and improvements to existing weapon systems." The Committee specifically recommended rapid development of a new long-range strategic bomber, and accelerated research and development on an advanced ICBM—each of which could cost $5 billion or more to develop and produce in quantity.

The House Armed Services Committee issued a similar report on seapower, again recommending new hardware. The committee chairman described as "irrefutable" the conclusion that the Navy's most urgent requirement is new ships (nuclear escort ships currently cost about $125 million each, and nuclear carriers more than $600 million).

In addition, a large civilian space program is being recommended for the 1970's. Simultaneous development of a permanent space station plus continued exploration of the moon—after this year's scheduled manned landing—carries a price tag of $45 billion for the next decade. And development of a commercial supersonic transport, if carried out, will cost more than $1 billion. Over the whole economic structure, meanwhile, hangs the threat of inflationary pressures—which, as of this spring, were substantial.

Hence, because of these built-in momentums, the economic environment is not conducive to easy selection of new or expanded domestic social programs, regardless of urgency. Rather, economic factors tend to indicate the need for hard choices among the many pressures for government spending. A tough-minded sense of priorities and a careful weighing of benefits against costs are very much needed.

U.S. GOVERNMENT'S FISCAL AND MONETARY POLICIES DURING VIETNAM BUILDUP

The CHAIRMAN. There is one question I do not believe you answered. Would you comment about how you think the Federal Government has handled the fiscal and monetary matter during the time of the buildup in Vietnam in view of what has happened? Would you say they should have followed different policies 4 or 5 years ago?
Mr. LUNDBORG. Yes.

The CHAIRMAN. In what respect?

Mr. LUNDBORG. Well, we can spend another entire morning talking about this. I think that there is much too much reliance on monetary policy, not nearly enough use of fiscal policy early enough, not enough at all, and even what we have done, we have not done early enough; so that too much of the burden of trying to keep the economy in balance has rested on strictly monetary devices and not on fiscal, and this has been part of what has led to the distortion of the economy.

EFFECT ON BUSINESS OF PROSPECTS FOR ENDING VIETNAM WAR

The CHAIRMAN. What, in your view, are the expectations of the average businessman about when the war might end? Do you have any view about that?

Mr. LUNDBORG. I do not suppose businessmen are any different from anyone else in the population. They are all hoping it will be soon; they are bewildered and confused, as I said before, about when and how.

The CHAIRMAN. I have noticed in the paper that the pessimism over the prospects for ending the war are an element in the very weak situation in the stock market today.

Do you think it is an element in how people look at the stock market? To put it another way, do you think that when there are rumors that there may be some progress toward peace the stock market usually goes up?

Mr. LUNDBORG. First of all, Senator, I should probably make it clear I do not pose as an expert on the stock market, and my own record supports that.

But, in general, the stock market is downward—any downward movement in the stock market, any bearish tendencies are a reflection of uncertainty; and any bullish movement is a reflection of hope and certainty.

The CHAIRMAN. Confidence, would you say?

Mr. LUNDBORG. So that uncertainty certainly in the market, as in other things, would have a tendency to depress the market.

The CHAIRMAN. I want to put in the record here from this week's Time magazine an article on this very point, which is to the effect that many of the business leaders are pessimistic about the war's ending. Maybe it is better to just leave it at that.

(From Time magazine, Apr. 20, 1970)

BEARISH BOSSES

Among business decision makers, optimism about the future of the economy is at its lowest level in years. That gloomy statistic comes from a survey of "executive confidence" by the marketing firm of Sindlinger & Co. In a three-week period ending early in April, a nationwide sample of 230 owners and managers was queried. Only 50.9% of them thought that business conditions, employment and their own incomes would not be worse six months from now. This was the smallest percentage since July 1960, just after the last recession began. In January 1969, when President Nixon was inaugurated, the confidence level stood at 87.0%. It has been dropping fairly steadily ever since.

The company also takes a poll of consumer confidence. For the first time, says President Albert E. Sindlinger, that survey shows marked regional variations. Confidence is still high in rural areas and the South, but it is low where defense, construction and consumer durable-goods industries are based. "Up until March
of this year, the public generally pointed to high prices and inflation as the most important task facing President Nixon," says Sindlinger. "Just in the last two weeks, though, people are switching to talk of recession as his biggest problem."

COMMENDATION OF THE WITNESS

The CHAIRMAN. Do you have anything further? I find it difficult to thank you enough for what you have said. I think you have made a great contribution above and beyond what you said, which is very valuable.

Your example of a great business leader's being willing to discuss these matters, which are obviously controversial, in a public forum, I hope is an example that some of our business leaders will follow. I hope that you will suffer no ill consequences from this, and if you don't, that will reassure them. Many of them seem to be very timid. I have inquired among some of them about their willingness to testify, and they very often are very reluctant to do it because this is a highly sensitive matter.

As you can see from the beginning of your testimony, particularly some of the Senators' reactions to whether war is a good or bad thing, that the subject is highly controversial. It touches so many people in such intimate ways that it is bound to be. I think it is a very fine thing for you to be willing to come here, and we are very much in your debt.

Do you have anything further you would like to add?

Mr. LUNDBORG. No. Thank you very much, Senator. I appreciate your willingness to let me come here. I hope it has made some contribution, not nearly so much by anything substantive that I may have said, but really I hope it would encourage other people to be willing to not only appear here but, in general, to discuss this kind of issue.

I think one of our problems has been the lack of adequate public discourse on this whole subject.

TESTIMONY OF BUSINESSMEN ON VIETNAM

The CHAIRMAN. Yes. I do not want the record to be left that none of them have testified. I am being unfair to people like Marriner Eccles, who was formerly Chairman of the Federal Reserve Board, who was very outspoken, and a number of others. There are a number of Businessmen for Peace in Vietnam, of which he is certainly one of the prominent members. There are some 1,000 or 1,200, and I did not mean to reflect upon them at all. Some rightly have felt that perhaps this was not their responsibility, that this is a political matter. I think there is some substance to that, but it has become so critical, and those of us in the Senate have been unable to move the country out of this.

We are really seeking help from the business community because we believe the war is really undermining the business community, and that they no longer should stand aloof.

I do not wish to be critical of them as a group because primarily and normally they do not enter into these things, but I think you have set a great example, and I thank you very much.

Mr. LUNDBORG. Thank you, Senator.

The CHAIRMAN. The committee is adjourned.

(Whereupon, at 12:45 p.m., the committee adjourned, subject to the call of the Chair.)
IMPACT OF THE VIETNAM WAR ON U.S. SOCIETY AND ECONOMY

THURSDAY, APRIL 16, 1970

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The committee met, pursuant to notice, at 10:45 a.m., in room 4221, New Senate Office Building, Senator J. W. Fulbright (chairman) presiding.

Present: Senators Fulbright, Sparkman, Gore, Pell, Case, and Javits.

The CHAIRMAN. The committee will come to order.

I am very apologetic to our witnesses and the audience because of my lateness in arrival and I think you are due an explanation.

PRESIDENTIAL BRIEFING ON SALT TALKS

The President only yesterday afternoon requested a number of the members of the House and Senate, whose committees' work is directly related to the SALT talks, to come by the White House at 8:30 this morning to be briefed upon the President's decisions and the negotiating stance that he has given to our representatives in Vienna.

They, as you know, are opening the talks today with the Soviet Union in what I would consider to be the most important negotiations in which we have ever engaged with the Soviets. The talks are so important, and I thought it was so interesting, that it was my duty to stay there. I am very apologetic. I hope you will understand and forgive me for being late.

While I am on the subject, I am bound to say that the decisions the President has made and the instructions he has given struck me very favorably. It was a classified briefing. The Soviets in particular, as are our people, are extremely anxious that there be no public discussions. Certainly they are sensitive to any American trying to take advantage of the opportunity to make what you might call propaganda and to assume a position that would in any way give us a public relations advantage. That is why they are primarily very careful not to talk in any specifics at this time. These were exactly the same rules and the same procedure followed at Helsinki. Everyone felt that those preliminary talks went off very well, so we are trying to be very careful not to give any reason at all for the Soviets to be offended by anything we say.

Therefore, I do not propose to describe the decisions made, but I think in a general way that the President has given his repre-
sentatives a very wide latitude to consider all phases of the strategic weapons systems. As I view it, this in a sense consistent with what most of us have said. There may be details about which people have legitimate differences of opinion. But on the whole, I think he has taken a very sensible and wise position at the beginning of these talks.

Before I turn to our own committee meeting, I want to say that some of my colleagues on this committee were also at the White House. They had to go by their offices. I hope some of them will appear in a few minutes. This disrupted our hearing.

**OPENING STATEMENT**

The committee is meeting to continue hearings on the impact of the Vietnam war on the American economy.

We are pleased to have today as witnesses Mr. Eliot Janeway, who is a noted economist, author, and business consultant, and Mr. Gordon Sherman, who is one of the distinguished businessmen of our period.

Mr. Janeway has had a long and influential career in observing and commenting on the American economic scene. He has been the business editor of Time magazine, a consultant to Fortune and Newsweek magazine and for many years has been associated with the Chicago Tribune as a syndicated columnist on economic affairs.

He is the author of "The Economics of Crisis," an examination of the effect of wars on the American economy, with particular emphasis on the Vietnam war. His testimony today will concentrate on the impact of the war on the stock market, the strength of the dollar, and related issues.

Mr. Sherman is president and chief executive officer of Midas International Corp. of Chicago, a diversified manufacturer and marketer of automobile replacement parts and recreation vehicles. His company is widely known for the Midas Muffler Shop operation with 500 outlets across the United States.

As the director of this system he is, of course, in constant contact with businessmen and economic conditions throughout the country, and he is well qualified to discuss the subject before us today.

His testimony will be directed toward the effects of the war on his own business, on our economy as a whole and on any other aspects that occur to him as a businessman and a citizen.

Since the testimony of both witnesses is interrelated and in order to encourage a more informal discussion, I will ask Mr. Janeway and Mr. Sherman to sit together at the witness table. Each can give his opening statement and then members can submit questions to either or both.

I think this procedure will result in a more productive hearing.

Mr. Janeway will you begin and give your statement and then we will hear Mr. Sherman.
STATEMENT OF ELIOT JANEWAY, PRESIDENT, JANEWAY PUBLISHING AND RESEARCH CORP.

Mr. Janeway. Mr. Chairman, I regard it as a great privilege to accept your invitation to appear before your distinguished committee this morning.

I propose to develop a broad examination of the financial consequences of what I regard as the mismanagement of the financial conduct of the war. I mean to develop the conclusion that the result of this financial mismanagement has been the loss of America's financial initiatives. It is axiomatic that, when a country loses control of its own financial destinies, it loses control of its foreign policy.

EMERGENCE OF ASIA DOLLAR MARKET

First, however, I want to bring to your attention a very specific development which I regard as startling and having ominous implications for the immediate future. I refer to the emergence of what in the financial community is being called an Asia dollar market.

The new Switzerland of Asia is Thailand. No one regards it as strange that Germany and to a lesser extent Switzerland are the centers of the Eurodollar market. Financial leadership in Europe has gravitated where industrial strength has pulled it. If, therefore, a new Asia dollar market were developing as a legitimate dividend from normal commercial success no one would regard it as strange if Japan were duplicating the financial functions which Germany and Switzerland render in Europe. But I suggest that no one cannot regard it as strange that instead it is Thailand of all countries which is functioning as the main financial bootlegger—to be blunt about it—in Asia.

Japan's participation in the Asia dollar market is not as a lender but as a borrower.

To be sure, this new Asia dollar market is a miniature of the Eurodollar market. What is important about it, however, is not its size but the fact of its existence.

Clearly an arresting reversal of role is in process. Just as clearly this reversal suggests that American policy has been diverted along with American resources. The clients of the United States in Asia—by definition all of them getting American dollars—are turning into international lenders of dollars. Moreover America's presumed policy and actual resources are not the only subject of diversion measured by the rise of this disturbing phenomena of an Asia dollar market.

From the outset of the present American exercise in Southeastern Asia the hope has been expressed that American dollar flows into the theater of war would solidify and accelerate the internal development of the area. Indeed, supporters of recent American policy there have generally agreed with its critics that the rise of a modern economic and social structure in that troubled area offers the only hope of building defenses against Communist inroads which will prove more effective than what has been tried up to this point. President Nixon's bet on the "Vietnamization" of the war certainly assumes that the reliability of local and military resistance will be rooted in the in-
tegrity of local economic development. But the diversion of American dollar flows from internal development into this new Asia dollar market—more particularly from Vietnam into Thailand—suggests that the diversion of resources and not their development is the order of the day.

**ANALOGY WITH EURODOLLAR MARKET**

Although the Asia dollar market is not building financial strength upon the solid foundations of industrial strength it does suggest one arresting analogy with the Eurodollar market. Moreover, the mere fact of its existence points a moral.

The midwives presiding over the birth of the Eurodollar market were the Russian financial experts. Russian foreign financial tacticians—and Moscow has them, her strength being directed at foreign weaknesses—were quick to sense the opportunity a Eurodollar market would offer them to develop an altogether new dimension for Russian foreign strategy in power politics.

The subsequent growth of the Eurodollar market to its present mammoth proportions can be taken—we economists are always looking for reliable indicators—as the most reliable indicator of the weakening of the international competitive position of the United States and of the loss by the United States of control over its own financial initiatives.

The analogy this suggests for the history of America—specifically for the political and military history in the period leading up to Pearl Harbor, is simply stated. I remember writing then, in association with a committee headed by the late great Henry Stimson, our wartime Secretary of War, that we had torn down the Third Avenue elevated railroad in New York City, shipped the scrap iron over to Japan and that was shot back into our faces at Pearl Harbor.

**EFFECTS OF ASIA DOLLAR MARKET**

What is happening now is that we are sending our substance, our financial substance, to the war zone, and it is being siphoned back through the Eurodollar market and is returning behind a variety of anonymous international guises to buy up Third Avenue.

The growth of the Asia dollar market is inviting the various competing Soviet imperialisms today to extend the scope of the game they had been playing in Europe and to extend it into a war zone which does not exist in Europe. At the same time, it is creating irresistible incentives in the immediate theater of war and throughout Southeastern Asia to make a good thing out of a deal which is bad for Asia, bad for America, and bad for the world. War profiteering always is. War is bad enough, but profiteering perpetuates the evil of war.

I do not for a moment mean to suggest that even the most rigorous financial policing of the present military operation can turn the inherent evil which this war is into a good thing. I do, however, submit that the entire lack of the most rudimentary policing methods is inviting the evil of war profiteering which in turn is guaranteeing the perpetuation of the evil of the war.

Here we have the anomalous phenomenon of countries lacking the most rudimentary social services, of these countries being flooded
with dollars and of these dollars going to develop the most advanced techniques of sophisticated international lending and manipulation.

**THAI PARTICIPATION IN EURODOLLAR MARKET**

The Chairman. May I be clear about one point? Are you saying that the Thais are now lending money in substantial amounts in the Eurodollar market?

Mr. Janeway. Yes, Mr. Chairman. Yes.

**INCREASE IN FOREIGN DOLLAR ASSETS OF CLIENT COUNTRIES**

Mr. Chairman, may I illustrate my point, perhaps clarifying your question, with reference to the official figures published by the IMF and the Federal Reserve Board.

The figures relate merely to that portion of the iceberg which shows above the surface. The central banks of the client countries, Vietnam, Thailand—and I include in the theater of war the Philippines, Malaysia, and the rest—at the outset of escalation admitted owning official foreign dollar assets of slightly under $2 billion.

The Chairman. $2 billion.

Mr. Janeway. $2 billion, which is a great deal of money for that area. Their present admitted, and I emphasize that word “admitted,” official dollar reserves have risen to $3 billion. This is an increase of 50 percent or a billion dollars. As I will develop in a minute an increase of 50 percent compressed into a 4-year period is important for the most advanced economies. An increase of a billion dollars is important even for the foreign dealings of our own great economy. It has immeasurable significance in that backward area. Adding insult to injury, their admitted bank deposits held in the United States have not risen with their dollar foreign assets.

I put it to you, Mr. Chairman, that their calculation has represented a form of insurance against the possibility that this Government may impose the measure which I advocate and will recommend this morning; namely, the control of the currency there, the freezing up of all free floating dollars, and the imposition of a scrip system, such as Generals Eisenhower and MacArthur imposed in their respective theaters of war in World War II. The admitted dollar of its own central banks have not risen. They have been siphoned off instead to Europe into the Eurodollar market.

Again in terms of the well known warning to study the writings of one’s opponents, this process is developing as a striking confirmation of another Communist doctrine—specifically that developed by the founding father of Communism, Karl Marx, in his definitive work on capitalism in which he spoke of the process of “primitive accumulation.”

In this connection, the figures I am citing, and I will relate these figures to their relative importance as to the American economy in a moment, make no provision for black marketing, for gunrunning, for information which has been uncovered by committees of this Congress relating to the diversion of American assets to cash. It makes no provision for the enormous dollar revenues created in Asia from the dope traffic, so much of which originates in Asia and so much of which terminates in America.
DETERIORATION OF U.S. FOREIGN TRADE BALANCE

Coming now to the significance of this billion-dollar increase during the escalation period since 1965 to the $3 billion level, the unsubsidized foreign trade balance of the American economy has suffered a staggering deterioration. Most popular references, Mr. Chairman, to the American trade balance either get confused with the American balance of payments position or tend to indulge in the sloppy public relations practice of our Government agencies, which habitually lump into the merchandise export account the movement of military assistance for which we pay, which costs us dollars, earning us no dollars; the same goes for subsidized crop export movements.

If, however, we deflate the merchandise export account for all subsidized transactions since 1965, this true and fundamental measure of the competitive international position of the American economy has gone from an unsubsidized trade surplus of two and a half billion to a 1969 unsubsidized trade deficit approaching two and a half billion. This reflects a deterioration of $5 billion in 4 years—or more than $1 billion a year.

Against this deterioration of $5 billion which has gone on a straight line during the escalation period, the officially admitted holdings of $3 billion of the client countries' central bank loom as a substantial item. So does the billion-dollar increase to which I referred.

More than this, the 1970 picture assures a further striking deterioration on both sides of the trade ledger. For the intensification of the inflation is further overpricing American unsubsidized merchandise exports inviting increased imports at the same time.

JAPAN IS LARGEST BENEFICIARY OF ASIAN DOLLAR LIQUIDITY

In mentioning the appearance of the new Asia dollar market I suggested that, if its birth had resulted from a normal competitive change in the economic balance of power, one would have expected Japan to become the Asiatic counterpart of Germany in these international dollar dealings.

Germany has in fact been passed by Japan in the industrial competition and at the same time Japan has become the biggest borrower, the biggest beneficiary of this torrent of dollar liquidity still remaining in Asia and not being siphoned back to Europe. This simple fact, I suggest, demonstrates the self-defeating nature of our policy.

Japan's sensational success during this period has been due in good part to the remarkable growth of her merchandise exports to southeastern Asia. In the past, she had been content to assume these markets were good only for barter producing no money and being limited to the most rudimentary products. But now she is enjoying massive increases, compounded at the rate of over 30 percent a year, and in advanced industrial products. Moreover, she is getting paid in dollars instead of in rice and vegetable oil.

The sensational compounded annual rate of growth in Japan's backdoor dollar market is helping her to absorb the overhead costs incidental to her investment in increased industrial capacity and to cut her unit costs.