This means that America's military dollar subsidies to southeastern Asia are working out as America's dollar subsidies to Japan.

No one doubts that Japan can outcompete America in southeastern Asia. But everyone has been surprised by Japan's increasing ability to undersell us in our own domestic markets. I suggest that the formidable rate at which America's military subsidies to the theater of war have flown back to Japan has made a sufficiently significant contribution to Japan's total export earnings to be more than marginally responsible for what on the surface seems to be a striking competitive achievement on the part of Japan.

Japan is the biggest dollar borrower, year in and year out, in international markets in the world. In Europe, of course, our emergency distress borrowings have made us larger borrowers of dollars than even Japan. But Japan is normally the largest international, legitimate user of borrowed dollars. Japan likes to borrow where she sells and to sell where she borrows and this is good business practice.

Japan is now beginning to tap the new Asia market too.

Senator Gore. Again using U.S. capital?

Mr. Janeway. Yes, sir. So that when the distinguished chairman of the House Ways and Means Committee, Mr. Mills, feels impelled to indicate his sympathy and support for the complaint from American producers who suffer from being undersold in their own home markets, and, Senator Javits, even our clothing workers' unions in New York have joined in this complaint, one good reason—not, to be sure, the only one—goes back to this same systematic mismanagement of our financial operations in the theater of war.

Senator Gore. Mr. Chairman, may I interrupt for a moment?

The Chairman. Yes.

REGULATION OF CAPITAL AND PRODUCT EXPORTS

Senator Gore. Mr. Janeway, I don't think you can confine that to mismanagement with respect to war.

Mr. Janeway. I don't mean to, Senator. I don't mean to.

Senator Gore. Fine. There are many other factors, a major one being that Japan has very rigid control over the exports of capital, as well as product.

The United States has no regulation whatsoever upon the movement of capital, and thereby invites this kind of invasion of her capital structure.

Mr. Janeway. This is precisely my thesis today, Senator. We are playing a sucker's game in sending these free floating dollars, this torrent of dollars, into the war zone, perpetuating the initiatives and the incentives of competitive powers to use those dollars while we handcuff ourselves.

Senator Gore. Coming now to your comment about Congressman Mills, I would daresay that I have been as strong in support of free trade policies as anyone else in the Congress. With these economic advances, two of which you have referred to, plus the internal Japanese control on prices and wages—

Mr. Janeway. And borrowings. Japan has one central borrower.

Senator Gore. When you add to that their very modern machinery and their factories, the natural dexterity of hand of the Japanese
people, it creates a very stringent situation with respect to both textiles and shoes as well as some other commodities.

I simply do not know how much longer either the Administration or the Congress can ignore this unless Japan is willing to enter into some voluntary arrangements.

A few years ago I took a part in helping to achieve a voluntary arrangement with Japan. Now she is unwilling to do so, and unless there is some willingness on her part then not only will Congressman Mills find it necessary to support American producers but the whole country will find it necessary.

UNITED STATES IS NOT ACTING IN ITS OWN INTEREST

Mr. JaneWay. And Senator Gore, this is where my thinking takes me, exactly in the direction to which your remarks point. However, I find it impossible to fault any country for playing its own hand in its own interest.

I do feel impelled to fault our own country for failing to play its hand in its own interest. I sense a rising tide of criticism from other normally friendly countries because of this failure of ours. Surely it is ironical that despite the criticism directed against the United States on the grounds that it is pursuing an imperialistic policy it is not even looking out for its own self-interest.

In fact what we are doing is subsidizing all of our competition, financing all of our enemies, and creating the conditions in which we are being outcompeted all over the world. We have suffered a striking deterioration in our position and the inflation of the Eurodollar market measures the precise loss of initiative and control over our own financial initiatives and, therefore over our own policy system. This brings me to the recommendation that I want to submit to this committee this morning.

Senator JAvItS. Mr. Chairman, would the witness allow me to say that I would like to reply to Senator Gore in due course. I just didn't want to interrupt his train of thought.

Mr. JaneWay. I thank you, Senator.

INTRODUCTION OF SCRIP IN WAR ZONE RECOMMENDED

It seems to me axiomatic that the introduction of dollar scrip is urgently needed, is overdue, to soak up this excess flow and accumulation of dollar liquidity in the war zone. This measure is not one of ideology. All war powers invariably begin their occupation of all war zones with this rudimentary measure. In World War II the Russians did it, the Germans did it, the Japanese did it, and the first order General Eisenhower issued in North Africa provided for it too. As the Free French were our allies, and were dedicated and historic in their quest to end the war by winning it, not to perpetuate it by making a good thing of it, they cooperated with General Eisenhower. They supported him when he issued this order.

This too, is exactly what happened in the other theater of war. It was the first order General MacArthur issued. I speak as no military man, of course, but we all remember that in the era before there was paper money Caesar speaks of the frumenti of the grain supply. Just as the first basic measure for the protection of the troops that military officers
take is to protect the water supply and to arrange for sanitary facili-
ties, so the first basic measure which political leaders take to support
the troops is to get money out of the area of occupation. Control of the
currency in an area of military occupation is the financial equivalent
of sanitation.

It seems clear to me that our military failure up to this point to
eliminate pockets of resistance is not unrelated to our failure or, more
precisely, to our fear of soaking up these troublesome pools of dollar
liquidity in the theater of war.

I believe that we are appeasing the predatory, mercenary incentives
which we have unleashed and fed in the client countries.

The CHAIRMAN. Are talking primarily about Vietnam?
Mr. JANEWAY. I mean more than Vietnam.
The CHAIRMAN. What else?
Mr. JANEWAY. I mean Thailand.
The CHAIRMAN. I am sorry, yes.
Mr. JANEWAY. I mean the area. We can't do anything about Hong
Kong, I suppose, but the thrust of my point is aimed at this entire dol-
lar freebooting area. We have created a reservoir which is pouring
torrents of free dollars back into Europe; and at the same time cir-
culating these dollars through the superstructure of the Asia dollar
market below which there is no economic foundation, nor any modern
social foundation and none is being built.

Senator GORE. May I interrupt? Just as we cannot do anything about
Hong Kong, there are other areas about which we can do nothing.
Mr. JANEWAY. Malaysia and the Philippines.
Senator GORE. We can do something by disciplining our own selves.
Mr. JANEWAY. That is right.
Senator GORE. By managing our own capital structure and by plac-
ingsome regulation on other outflow.
Mr. JANEWAY. Exactly, and, specifically by mopping up the currency
and restricting its free flow into whatever the President, at his dis-
cretion, upon the advice of his advisers, may designate as the theater
of war.

My own professional judgment is that this extends now, since the
inflation in Asia is so pernicious, to the Philippines, to Malaysia, to
Indonesia, all countries with the most staggering social problems and
economic deficits.

GENUINE U.S. ALLIES WOULD SUPPORT INTRODUCTION OF SCRIIP

Now, it is my belief that when I first warned of this development, at
the outset of the escalation, and urged that this measure of what I call
financial sanitation be adopted, President Johnson made a sincere ef-
fort to scout the feasibility of the proposal; and it is my belief that this
exploration of his ran into an ultimatum: "Keep the dollars coming
or the front doesn't stay up in front of you."

By analogy with the Free French during the Eisenhower-led occu-
pation in North Africa and during our invasion of Europe, if there
were a bona fide dedication among our clients in Asia to clearing the
area of communism, if we had genuine allies, they would support this
measure. If, instead, as I fear, these incentives to prolong this disas-
ter govern, then we are going to be kept under the gun to subordinate
our own interests, and to appease the mercenaries—and by the mer­
cenaries I don't mean hired troops or Hessians. By the mercenaries I
mean the dollar dealers, the new Asia dollar bankers.

ESCALATION OF WAR HAS HURT U.S. ECONOMIC GROWTH

May I, in conclusion, offer three general observations: First, no re­
marks of mine could be complete this morning if they did not express
my agreement with the wise and the penetrating judgments put before
this committee yesterday by the distinguished Chairman of the Board
of the Bank of America, Mr. Lundborg. I entirely associate myself
with his view that the escalation, more particularly its financial mis-
management, has put a crimp in our economic growth in general, re-
stricting our ability to convert income into capital and diverting our
capital flows, instead of being available, as they were during World
War II, during Korea, during every previous war in our history, to
shorten our wars and to win them—our capital flows are going to
prolong a war which we are losing.

More specifically, our mismanagement of our financial strategy there
has set in motion inside this country pernicious, and in my judgment,
unendurable inflations in the two underlying markets of markets, the
markets which are the lowest common denominator of all other mar-
kets, the market for credit and the market for skills.

Yesterday, I see, contrary to hopes expressed in this city for an
early end to this cruel, this insupportable money squeeze, the Wash-
ington Waterpower Co., a great institution, paid 9 1/4 percent for
a relatively small amount of money. Ford Motor Co. paid 9 per­
cent. The inflation in the cost of money, which, in my judgment, is
getting worse and not better, is fueling the inflation in the cost of labor
and the inflation in the cost of labor is returning the compliment.
And when we see the labor pattern in this country accelerating from
a presumed rate of 6 percent a year to an actual rate of something
like 15 percent a year, how can we deny the justice of labor's claims?
The cost of rent, which is the key or the "swing" item in the family
budget, is now inflating neck and neck with health costs at I would say
something closer to 20 or 30 percent a year. So that, at a 15-percent
rate of labor inflation, the working man is saying that he is continuing
to fall behind.

U.S. FAILURE TO BUDGET NATIONAL EMERGENCY REQUIREMENT

My second general observation recalls the teachings of the late Ber­
nard Baruch, and if that great man could be here today in this hour
of trial and decision for this body whose respect he commanded, I
think that he would summarize everything he learned from previous
errors, and everything he counseled, with one simple phrase: the mak­
ing of strategic policy begins with the budgeting of requirements.
Baruch taught us that the budgeting of national emergency require­
ment be treated as a prior charge on the economy.

What have we done instead? The consequences of the escalation by
stealth, and I am proud that President Nixon borrowed this phrase
from my book in his 1968 campaign, exactly reversed Baruch's basic
law. We loaded on top of a full economy, of an economy which was
already overloaded, unbudgeted war costs. The result has inevitably
turned our inherent economic strength into a major source of political and diplomatic and trading weakness. I remind you that in World War II our economy, guided by the teachings of Baruch, led by that great man, the late Mr. Ferdinand Eberstadt, did such a great job on the home front that we were able to relax production controls before Eisenhower’s troops hit the beaches in France.

Today, by contrast, our dislocations which we have brought on ourselves, as you were saying, Senator Gore, are inviting the other side to drag the ordeal out.

Now we economists disagree about many things, but about one fundamental principle economists of all points of view have agreed for a hundred years. This is the marginal theory. Stated very simply the marginal theory teaches that in an overloaded market—and this is a special case of it—the last source of demand makes the market. Consequently, when we reversed Baruch’s law and loaded our war costs on top of an overloaded economy, instead of vice versa, the cost of that money, and the cost of that labor became the marginal source of demand setting off the inflationary fireworks.

**STOCK MARKET VOTE OF NO CONFIDENCE**

My final general observation relates to the stock market. While, of course, it would be inappropriate for the making of national security policy by this Government to zig and zag with the rises and falls in the stock market, nevertheless experience suggests the prudence of respectful attention to the stock market when it registers such a strong vote of no confidence in an operation which has failed.

I believe that the Administration’s economic advisers have fallen into a failure of communication with the financial community. The Administration is reading the stock market’s fear that the dragging out of the war will intensify the inflationary pressures responsible for putting a ceiling on the stock market’s ability to rise, and splintering the floor under its successive falls.

The Nixon administration itself has declared war on inflation, and I support that resolve. I deplore this inflation.

The stock market commands our respect, I believe, when it says that the inflationary consequences of the present American operation in Vietnam are foredooming us to defeat in the war against inflation here at home without, however, bringing us visibly closer to a satisfactory resolution in Vietnam.

I thank you.

(The full statement of Mr. Janeway follows.)

**STATEMENT BY ELIOT JANEWAY, PRESIDENT OF THE JANEWAY PUBLISHING AND RESEARCH CORP., BEFORE THE SENATE COMMITTEE ON FOREIGN RELATIONS, WASHINGTON, D.C., APRIL 16, 1970**

My name is Eliot Janeway. I am President of the Janeway Publishing and Research Corp. in New York and an independent economist and writer. I deem it a high privilege to accept your invitation to appear before your distinguished Committee this morning.

The economic consequences of the unbudgeted stretch-out of the status quo in the Southeastern theatre of war are dramatized by one striking new reversal of financial function. An Asiadollar market is developing as a miniature of the Eurodollar market. Certainly any Asiadollar market available to American corporate money-users—whether directly or indirectly by way of financial
centers outside Southeast Asia—will never be more than a miniature of its inflated Eurodollar prototype. However, the emergence of countries in the theatre of war as high-cost dollar lenders on any scale at all, no matter how small relative to the size of the huge Eurodollar market, is a striking development which, in my judgment, is disturbing for the prospects of international stability—political, economic, and military.

The reason for concern is not the size of the burgeoning Asiadollar market; although the fact of a liquid, usury-lenders' foreign dollar market certainly is impressive relative to the pathetic lags of social development in the area as well as to the urgent borrowing requirements of the area for the most rudimentary beginnings of social and economic modernization. Those sovereignties in the war-torn area have been the beneficiaries of American aid and subsidized low-cost borrowings during these years when the cost of money to American borrowers was rising and its availability tightening. Dollar hoarders there have turned foreign lenders during the very time when the best-rated American banks and businesses have been unable to fulfill their credit requirements, and when American state and local governments have been forced to back up more than a few billions of borrowings to meet urgent public service requirements.

Against this background of credit crisis in America and of credit strain in Europe, the spectacle of America's clients in Southeastern Asia doubling in brass—or, perhaps, I should say in gold—by accommodating American borrowers with high-cost financial first aid calls to mind Dr. Johnson's memorable remark—made, I hasten to explain, centuries before the rise of the Women's Liberation Movement—about the woman preacher: she was like a dog walking on its hind legs—it wasn't well done but one was surprised to find it done at all.

It is a fact that the Bank of Thailand has become active as a high-interest-rate lender of last resort—scourer is the money trade term for the practice—to well-rated American businesses whose paper has been acceptable in the Eurodollar market and whose long-term financing requirements have spilled out over from both the domestic and the Eurodollar credit markets.

To continue with Dr. Johnson's figure of speech, I suggest that this is a case of the tail wagging the dog. Where we have invested and given not merely in dollars—but in blood, sweat and tears as well—in the hope of catalyzing underdeveloped feudalism into modern economic societies, what we are developing is not a new lease on economic life but, instead the old loan shark's racket of profiteering; and, adding insult to injury, the loan sharks we are financing are profiteering not merely at the expense of their own people but at the expense of ours.

My reason for attaching so much significance to this reversal of role represented by the emergent Asiadollar market reflects my sense of the general situation. I see the key to the future of America's financial markets is to be found at the other end of the line from New York or from Washington—in Saigon and, to a disturbingly increasing extent, in the new financial center developing in Bangkok. For the powers that be in Thailand seem to be doing better out of the war than even those who have been doing well out of it in Vietnam.

The briefest of references to the troublesome inflation of the Eurodollar market suffices to send up two ominous warning flares over the miniature Asiadollar market now inflating as a happy hunting ground for war profiteers extending their scope as usurers at the expense of disadvantaged dollar borrowers. I suggest that the analogy with the inflation represented by the Eurodollar is to be taken as a danger signal to America's national interest, as well as to the hope of normalizing American-Asian relationships.

The first relevant point to bear in mind about the birth of the Eurodollar market is that it was the Russian financial managers who provided the effective midwifery. Moscow's foreign banking arms officiated over the Eurodollar market's pattern-making transactions. They did so with a keen professional prevision of the rule which financial opinion on the free side of the curtain has since come to accept as axiomatic; namely, that the relative rate of growth in the Eurodollar cash float could be taken as the reliable measure of the absolute degree of overstrain on the American structure of finance and credit. What is good for lenders to under-financed American businesses and banks in the Euro-market is bad for all American money-users—it's as simple as that.

The second relevant point to consider about the subsequent sprouting of the Eurodollar market is that it has been and remains a gigantic exercise not merely in the frustration but in the actual defeat of America's financial self-interest.
Dollars which American companies invested at long-term in European enterprises when money was cheap are being re-borrowed at short-term now that money is expensive.

Either of these violations of sound financial practice would call for what the late Secretary of State, John Foster Dulles spoke of in another connection as an "agonizing reappraisal" of our competence to play at being a world power on even the financial front, let alone in terms of power politics. To violate both financial fundamentals at once—investing long and borrowing short, while freezing cheap money and gobbling at expensive money—invites scrutiny not merely of the competence of our operation as a financial power but of our dignity in negotiating what is good for America's interest.

In suggesting this standard, I mean in no sense to be taken as retreating to the isolationist stance that was discredited morally as well as pragmatically over a generation ago. I do, however, mean to affirm my strong belief that what it good for the well-financed growth of America's domestic economy in this new era of the world dollar standard will be good for the economic society of the world as it is structured today; and, moreover, that what is bad for the well-financed growth of America's domestic economy is guaranteed to sound the death knell for our hopes that the economic society of today's world can be re-engineered more acceptably into line with the optimistic blueprints that have been drawn for its future.

Thus, the larger example of the Eurodollar market puts us on clear notice, first, that the appearance of an Asiadollar market on any scale offers powerful if not irresistible incentives in a part of the world where the habits of economic man remain predatory, to make a good thing out of a bad situation that is bad for Asia, bad for America, and good only for the financial strategy of America's strategic competitors.

One of the commanding ironies frustrating the world's hope for a trustworthy new stabilization of the balance of power is to be found in the invitation which America's financial mismanagement of her strategic operations has given to the strategy of the Soviet powers. In any confrontation between America and either Russia or China the economy looms as America's obvious center of strength and as the corresponding center of weakness in Russia and China—this with all due deference to Russia's impressive achievements, and that of China, in the technology of space. Notwithstanding America's presumed prominence on the dollar front it is precisely on the dollar front that America has lost her advantage; and that in losing it she has given first Russia and then China literally golden opportunities to play the balance of power game against America. I do not mean to be taken as perpetuating or magnifying cold war shibboleths when I speak of the Soviet Powers manipulating the balance of power against America. It is understandable that all other countries, but particularly Russia and China, have a keen inferiority complex vis-a-vis America in economic matters. At the same time policy makers in America would do well to be on notice that Russia and China are as shrewd at the financial game as they are weak in economic operations, and that moreover, their power politicians have developed a keen sense of how to coordinate financial operations with strategic objectives—a skill conspicuously absent on our side.

In this same connection, it is relevant also to recall that Lenin anticipated the present anomalous development in the Southeastern Asia theatre of war in his concept of the "uneven development of capitalism". Here today we have the spectacle of a war-torn area, where poverty is endemic, and where industrial development is conspicuous by its absence, sprouting a financial superstructure with a capability which it is exploiting for lending abroad on usurious terms despite the unmet requirements for priming the social pump on its own native heath.

I see no reason to doubt and every reason to believe that Lenin's successors have pondered this teaching of his carefully and are busily perfecting ways and means of putting his theory to practice in their interest, It seems to be unarguable that the political calculations of imperialism in Moscow and Peking are reinforcing the usurious calculations of profiteers in Saigon, Bangkok and the other new centers of dollar traffic in the theatre of war. The conclusion seems equally inescapable to me that the rising traffic in dollars throughout the theatre of war is giving the Communist and the compradore calculators alike a vested interest in the status quo there.

The official figures tabulated by the IMF and the Federal Reserve Board tell a story of what the grandfather of all Communist teachers, Karl Marx himself, referred to in his revolutionary study of capital as "primitive accumulation"
Take the aggregate for Vietnam, Thailand, Korea, Malaysia, Burma, Taiwan, and the Philippines of total liquid dollar reserves: starting from a level in the area of less than $1.5 billion—which is a great deal of dollar liquidity for this area—the total has risen to more than $3 billion.

It is noteworthy that the Federal Reserve Board's parallel tabulation of dollar liabilities owed by the American banking system to the central banks of the area—that is, the total of officially admitted dollar deposits in American commercial banks—has barely risen at all since the war was escalated in earnest in 1965, and has actually fallen since 1967. The plain unvarnished meaning of these related developments is that the beneficiaries of the dollars we have showered upon the theatre of war have preferred, for reasons ranging from greed to fear, to siphon their dollar accumulations out of the American banking system, presumably but not necessarily into Europe at a rate faster than even their rate of dollar accumulation.

In assessing this striking improvement in the net foreign liquidity position of the American client governments in the area, it wants to be borne in mind that these figures, being official, significantly understate the benefits of war profiteering and the parasitic incentives which feed on these incentives. They entirely disregard the proceeds of black marketeering, of diversion of funds and all the various proceeds of the war traffic which, by American moral standards at any rate, is deemed illicit.

Last, but by no means least, this officially admitted increase of a billion dollars in above-the-table liquid dollar assets, from an area where dollars have been traditionally conspicuous by their absence, reckons without the proceeds of the traffic accounting for continental Asia's most profitable invisible export and America's most costly visible import; namely, heroin. While the consequences of the drug habit are rapidly becoming America's most conspicuous domestic problems, the origins of the problem nevertheless remain rooted on the other side of the Pacific. Before Communism came to China and Indo-China, the peoples of that tragically stricken continental area had learned the hard way how the drug habit debilitates people. The new nationalistic cynicism of the East has set out to kill two birds with one stone by revitallzing Asia and exporting the drug habit to America in order to make money for Asia and put America out of business. Any realistic count on the total of dollar flows into Asia and back again, at our expense, to the West is subject to generous upward revision for the rich dollar take from the drug traffic—including that segment which is Communist controlled.

What segment of this sinister growth market is controlled in combination between this nationalistic cynicism of the East and the commercial gangsterism of the West is nobody's guess. With due allowance for the presumption that Turkey accounts for a considerable source of supply as to other parts of the Mediterranean, suffice it that the predatory methods of the gun-runners, the Communists and the Mafia are being underwritten by the continued free flow of dollars through the war area.

More generally, it is my impression, formed from my continuous contacts with European financiers, that we have permitted war to be made so much of a good thing all through Southeastern Asia that those doing well out of it there are not likely to share our desire for a cooling off of hostilities and a political stabilization of the crisis there.

In the same connection, many students of money movements whom I regard as well-informed confirm my impression that Southeastern Asia has overnight become a major source of immeasurable magnitude from the flow of liquidity by way of European financial centers into permanent investment behind European fronts in American securities and American real property.

While I would be the last to begrudge foreigners an opportunity to participate in the benefits of investment in our securities and property markets, and while I welcome this developing trend for many reasons—not least as insuring long-term strength to the dollar as an offset to our current deficits—nevertheless it seems axiomatic to me that everybody on this side of the Iron Curtain would be better off if these free-flowing American dollars had not been offered for war profiteering in the first place or, if after they had been showered upon the theatre of war, they could have been re-invested locally in the kind of social assets calculated to support a trustworthy private sector in the area itself.

By way of relating the increase in officially admitted dollar holdings of theatre of war nationals to our own well-identified problems, a change of $1 billion either way in our domestic accounts no longer rates as momentous. But in our
foreign accounts, the sharp and steady deterioration in the position of the unsubsidized dollar balance of trade is universally agreed to be a cause for concern. The deterioration in the last four years has taken us from an unsubsidized export balance in the neighborhood of $2.5 billion to a deficit in the unsubsidized trade balance of $2.5 billion. This represents a deterioration of $5 billion in this short period of time in America's competitive position internationally—and, it behooves us to note, before the latest turn of the inflationary screw took its inescapable toll against our trading account, overpricing our exports and making our import markets more inviting than ever against this $5 billion negative swing.

The $3 billion portion of the Asiatic iceberg that shows above the surface accounts for a formidable portion of our problem, and the $3 billion increase in the troublesome float can be taken as a reminder that the growth of the dollar traffic there is the other side of the coin from the aggravation of our problems here. The real total is vastly greater, and the admitted rise of $3 billion dollars—again the real increase is immeasurably greater—may seem marginal within the enormous parameter of the American domestic economy, but it accounts for a critically important margin relative to the international standing of the dollar.

The most dramatic change in the economic balance of power internationally during the years dominated politically by the Vietnam crisis has been accounted for by the Japanese success story. America's competitive position in the world economy has been the principal casualty of Japan's smashing breakthrough. I suggest that two increasingly important ingredients of the Japanese recipe for international competitive leadership have been furnished to her gratis by us via the dollar traffic in the theater of war.

The first has resulted from the mushrooming of the cash market for advanced industrial products in an area which Japan dominates competitively, but where her past efforts have been limited to the bartering of subsistence manufactures. The big new money-good market we have presented to Japan in her back yard has enabled her to absorb the overhead burdens arising from her prodigious industrial expansion within Asia, thereby reducing the unit costs of production available for export—with results that speak for themselves.

The second advantage with which Japan's competitive position has been endowed at our expense, and as a free ride on our money, results from the growing availability of dollar borrowing in Asia. Year in and year out, Japan is the largest and most aggressive short-term dollar borrower internationally. It pays her to sell where she borrows and to borrow where she sells. Accordingly, she is stepping up her dollar borrowings in the Asiadollar market.

She is habitually the biggest dollar borrower in the world, and her constant need to settle up in order to re-borrow is normally a source of strength to the dollar—at least to the extent that she is obliged to deal directly with American dollar lenders. But the growth of the Eurodollar market, by freeing her to deal for dollars with third parties, has increased her freedom of maneuvering vis-a-vis American money-users and has correspondingly decreased our freedom of maneuvering.

But now the opening of a new third market in Asia for dealing in dollars will enable Japan to piggyback her economy as well as her foreign policy objectives into even more advantageous trading ground on the money with which we are endowing these dubious allies and mercenary clients of ours, Japan, with characteristic shrewdness and practicality, is now launching a world-wide investment drive to develop controlled sources of basic industrial materials—this at a time when American corporations have been subjected to regulatory cutbacks and uneconomic restraints on their investments, particularly as regards overseas dollar investment flows.

Before the financial backlash from Vietnam prompted our authorities to adopt these restrictive financial practices, American industry was free to step up its investments overseas as Japanese industry is now doing with its borrowed dollars. Our exports followed our investments in those bygone years, and our resultant unsubsidized export surplus was a major source of strength for the dollar. I believe that the expansive international course on which Japan has embarked will pay her handsomely, and that the restrictive policy our authorities have felt obliged to impose upon American overseas corporate investment will cost us dearly.

Meanwhile, it is timely to report that, contrary to hopes which have been expressed that, at long last, relief from the credit crunch is just around the corner, Japan—the most successful and sophisticated international borrower—has just raised her export financing rate by a full point. I take this as one of
many market indicators that Japan is finding it to her interest to step up her high-cost dollar borrowings in the Asia dollar market which we are subsidizing.

May I submit for your consideration a recommendation which is in no way proprietary with me, and which I have repeatedly urged since the outset of the Vietnam escalation. During World War II, Russia, Germany, Japan and the American military authorities as well—without regard to ideology and as a commonsensical security measure—moved methodically to soak up all the free exchangeable currency in their respective areas of occupation as quickly and as systematically as they mopped up pockets of resistance. I suggest that our military failure to mop up pockets of resistance in the theatre of war is not unrelated to our failure—fear would be a more precise word—to soak up the pools of dollar liquidity in which it is drenched.

I am, of course, no military man, but my studies of war control mobilization measures and of war-time economics leave me unable to explain our failure to freeze the dollar flow in the theatre of war onto a scrip basis, as Eisenhower and MacArthur did in their respective theatres of command during World War II, except as an appeasement of the dollar profiteering incentives of our clients in the disaster area. Any allies willing to enlist in the common task of clearing the area of Communist penetration would welcome the strictest of freezes on dollar trafficking; the resulting privations would work as an incentive to get the fighting over with. But if, as I fear, it has all along been our purpose and their mercenary profiteering which have accounted for the combination on our side, the painful conclusion becomes inescapable that our presumed allies are putting the pressure on us to continue to keep the dollars coming as the price of fronting for us.

No generals can support their troops without insuring the water supply and seeing to sanitary facilities. No political authorities can support their generals in an active theatre of war short of controlling the currency and freezing the float of liquidity in the theatre of operations. Now that an Asiadollar market is arising to haunt us as the result of this critical error of omission on our part, it is meaningful to record that, when I first urged the need for this measure, I believe that I am well informed in saying that President Johnson moved to scout its feasibility. It was only after our clients re-registered their insistence that our dollars be made continuously available to them as part of the bargain that President Johnson issued the order still in effect which restricts the issuance of scrip to our military personnel, in effect reducing them to the status of second-class citizens in the mercenary dollar economy in Vietnam.

The business of marketing scrip conversion is by no means an incidental source of dollar profiteering to the dealers in war dollars. A market half restricted and half exposed to the tender mercies of profiteers is bound to benefit profiteers more than a wide-open wartime free-for-all; and, by the same token, it is bound to victimize those restricted within the halfway house of controls more cruelly than if no limitations to dollar freebooting had been introduced at all. It is ironical to say the least that the victims we have exposed to this financial fleecing are the American troops who are there to protect the dollar, dealers who are taking advantage of them.

May I in conclusion make three observations of a more general nature. First, I associate myself with the penetrating and practical analysis presented here yesterday by Mr. Louis B. Lundborg, the distinguished Chairman of the Board of the Bank of America. The backlash of the war has, indeed put a costly crimp in the American economy, and it has marred our entire society with scars which show and hurt.

But, more specifically, in addition to holding back the vital functions of economic nutrition which generate national income and turn it into capital for the benefit of the country earning it, the economic consequences of the war have unleashed a particularly costly inflation on the two inter-related markets whose trends determine the direction in which the economy moves and at what velocity. These are the money market and the labor market.

As the result of the financial mismanagement of the war, to which I will refer again in a moment, acute shortages in the supply of credit and of skills were simultaneously created. Consequently, the rising cost of money has accelerated the inflationary spiral of labor costs, and the rising cost of labor has returned the compliment. I see no end to this costly and debilitating process.

My second observation recalls the fundamental rule of war mobilization formulated by the late Bernard M. Baruch. All war mobilization planning, he taught us, begins with the budgeting of requirements. But the price we have paid for our
escalation by stealth—and I am proud to say that President Nixon borrowed this phrase from my book, The Economics of Crisis—has shown up in the end as a reversal of Baruch's Law. Instead of budgeting a clearly stated, politically acceptable prior charge on our economy for our national security objectives, we loaded the cost of this war onto an already full economy.

Economists are notoriously prone to disagree, but for over 100 years economists of all points of view have been unanimous in accepting the marginal theory which, put simply, tells us that the last item of demand loaded on top of an overloaded economy makes the market. This is what Vietnam has done to the American economy.

Consequently, instead of the limitless strength of the American economy being brought to bear, in line with Baruch's principle, to reduce the Vietnam crisis to size—as the strength of our economy has invariably done in past crises—the Vietnam crisis has been allowed to upset the American economy and, incidentally, to drag out the war. The immobilization of American strength into weakness is bound to have this effect.

My final observation relates to the stock market. The service which, more rather than less reliably, it renders to the economy parallels that which the Central Intelligence Agency is expected to provide to the National Security Establishment. I fear that a momentous failure of communication between the President's economic advisors and the stock market has been developing in recent months. Administration spokesmen have reacted with optimism to the development of weakness in the stock market, hailing it as an expression of the waning of inflationary psychology in the economy.

My one reading of the weakness in the stock market, however, attributes its weakness to its fear that Vietnam, far from being behind us, may still be in front of us. On that assumption, the stock market would be realistic in calculating that the continued pressure of inflationary arithmetic will cause it to develop still further weakness. This is my expectation.

The CHAIRMAN. Thank you very much, Mr. Janeway. It is a very provocative statement and we will return to you.

Now we will hear from Mr. Sherman and then we will have open questions for both gentlemen.

Mr. Sherman.

STATEMENT OF GORDON SHERMAN, PRESIDENT, MIDAS-INTERNATIONAL CORP.

Mr. SHERMAN. It is as a businessman that I appear before this committee. I am a chief executive officer in charge of the affairs of a commercial microcosm, and, if I may presume to say so, I, too, am a president.

What I propose here has seldom if ever been ventured in these halls. I want to compare the leadership of our country with the conduct of a business. I want to judge our foreign policy against the admired, even hallowed standards and practices of businessmen in the American marketplace.

It is then, in the role of a businessman that I offer now, at the outset, the theme of my testimony:

VIETNAM WAR IS CAUSING LOSS OF U.S. SELF-RESPECT

The war in Vietnam is causing Americans to lose their national self-respect. That is a truism. Let me develop it further: The war in Vietnam is causing Americans to lose confidence in one of their most cherished attributes: Their practical business commonsense, their pragmatic wisdom.

As a people we have felt the pride of this distinctive virtue which has marked our country's history from its earliest times. But now it is
being rent assunder by a war which, in the most down-to-earth business terms, is hopeless and self-destructive. Our country perpetuates a folly that has already brought us great harm and may, if left to continue, however abated, bring us to disaster.

QUALIFICATIONS OF THE WITNESS

I do not speak as an economist. Indeed, I offer among my credentials the fact that I come from a corporation of middling size. We will do this year (God and the market willing) something less than 100 million in sales volume. But I urge that as a personal advantage here in distinction to the massive size and seeming authority which greater executives may project. Our company stands somewhere in size midway between the giant corporations with whom we have contact as sources of supply, and the small retailers who totter precariously on the scrimmage line of the marketplace. These latter are our customers whom we in turn supply. I am, therefore, not as removed from the feelings and attitudes of the people with whom I consort as are my larger fellows in kind, and in asserting my views I bespeak those of a vast spectrum of business people.

And, as a second qualification, I offer the peculiar nature of our business: It is a franchise program. Now, franchises have come under a great deal of discussion in these parts, but one thing is quite clear to those of us who live within the realm of this very special kind of marketing: Franchise dealers (and we have 600 now across the Nation, in Hawaii, Puerto Rico and England and Canada) call forth great sensitivity in human relations.

Our destiny is intimately linked with theirs. We do not sell them goods and move on. We are responsible for their prosperity; we are accountable to them for our leadership and they are accountable to us as the chief source of their cohesiveness and strength.

In this sense then, I am heading up a kind of foreign relations department. The franchisee is not our customer in the conventional sense and he is not our employee. We must relate to him honorably, at arm's length within certain provisions of the law, chief of which is that we cannot "make" him do anything. We must lead by charisma, by example. We must, in short, create an atmosphere of faith. We can destroy the integrity of our relationships by leading with suspicion and fear. Or, we can create among our franchise dealers a feeling of trust by initiating such behavior toward them ourselves.

These then are my two qualifications in describing my own experience over the last dozen years as I heap angry disbelief and scorn upon the conduct of our country's foreign policy.

PRACTICAL WISDOM OF NATIONAL LEADERS CRITICIZED

I say respectfully (albeit irreverently) that our national leaders, whatever their brilliance in political craftsmanship, are wretchedly maladroit in matters of business strategy and show grave limitations in the application of businesslike insights.

In making this condemnation I am not speaking here with reference to their conduct of the economy, though that bears the inevitable and probably disastrous effect of what else they do. I am speaking
rather of their practical wisdom with which as "statesmen" they seek to apply their commonsense to the problems of our survival as a nation in a world where many perils abound.

Let me move on to the specifics of my experience and equate them now to our foreign policy.

U.S. ESCALATION AND WITHDRAWAL POLICIES

Several years ago when the word "escalation" was fresh and in popular use, when it was the subject of controversy and anxiety, I could not help... bizarre and grotesque as the circumstances were... I could not help but smile.

I understand with amusement and sympathy, the problems of our Nation's President confronted by his chiefs of staff: Does he want to win the war? Because he is helpless to do so himself, he must give them what they want and say they need.

I know from my own world the insularity of a President who must sit in his office and learn of reality by the accounts he receives from itinerant truthmongers. I know the helplessness with which he must search their renditions of what is going on in the world outside, which, by his lofty remoteness, he cannot hope to touch with his own hand. I know what it is like to sit as a boss, in front of carping sales managers who tell me I must give them more salesmen, lower prices, more warehouses, more advertising if they are to do what I depend on them to do.

I know the spirit of escalation and that it doesn't work... as indeed it has not in Vietnam.

I know, as, alas, our former President did not, that if they cannot do the job with what they have they will not be able to do it with more. And, let me say here, that I am not intimidated by the difference in scale between my experience and that of the President of the United States. The dynamics are identical.

And so I watched escalation take place knowing long in advance the inefficiencies and inhuman wastes based on the Chief Executive's woeful miscalculation of the elements involved.

I move on: Right now we are undergoing some kind of withdrawal from Vietnam. What a pathetic illusion. Because of the regrettable state of our economy and its particular effect on my affairs, I, too, am, at this moment, undertaking a certain "withdrawal." I am laying off people at our manufacturing plants to cut production. But a strange thing is happening. As we lay off large groups of personal—productivity is going up. All that the withdrawal from Vietnam has shown to me so far, as a hard-nosed businessman, is that escalation wasn't necessary in the first place even to carry on the war at any stated level of activity.

U.S. EFFORTS AT PARIS PEACE NEGOTIATIONS

Negotiation is a fundamental technique in business, often involving survival itself. Sometimes negotiations are tense, accompanied on both sides by harassments, anxiety, and delay. We businessmen experience personally what the President and his negotiators must have felt with respect to that unfortunate charade that has lingered and languished in Paris these many, many months.
But I know something about negotiations, too: When I send a team of men out to negotiate on our behalf, I must instruct them clearly since I shall not be present. I must make a choice: I can instruct them to hold fast to the terms or I can instruct them to get the deal. I can't have both. I have never sent out a team to negotiate that has not returned with the deal as long as they have understood in advance that the terms must take the hindmost, that to get the deal was the essence of their assignment—their challenge.

When I read that what has taken place in Paris is a result of "obstinacy" of the other side, I merely see the reflection of our own uncertainty, our own suspicion and bad faith visited back upon us in the person of our counterpart. In the futile Paris peace talks I see the secret, if even unconscious, inhibition of our President to instruct our negotiating team to get the deal.

I know from business and I apply it unabashedly to foreign policy that, when my negotiators understand that they must get the deal on the best terms possible—but they must get the deal—they invariably return with the deal and with better terms than I might have hoped.

**U.S. FREE ENTERPRISE DEMOCRACY IS IN DANGER**

Finally, and more broadly, I know how self-destructive in business an obsession with competitors can be. We are told we must not underestimate our competitors, but far more mischief is done by overestimating them, by becoming emotionally entangled with their activities, by trimming everything we do to their presumed response, by playing to a marketplace—or to a world—that we imagine to have fastened its attention on the contest between us. I know how totally self-destructive that can be, for it can absorb and exhaust our best energies endlessly, fruitlessly.

The ultimate challenge in business is to proceed with one's enlightened self-interest foremost in mind, surely to be alert to his competitor, but to go on conducting his affairs according to his own highest aspirations.

In this regard, the towering purpose of any business is to improve its product.

Our product in the United States is the most beautiful system ever conceived by the minds of men. It is free enterprise democracy. It is in great danger now.

The sacred principles on which it was based are under constant siege by citizens representing all points of view and sharing in common only a great swelling anger. Its environment is in jeopardy. The economy on which it is based is faltering. We must devote all of our attention to that precious product. We dare no longer deflect our means and deplete ourselves in profitless ventures based on imaginary dangers when all that we hold dear is at stake. It is our own product that is being cruelly neglected as we scamper about the world trying to create the belief that it is intact and worthy of export.
I have one final point to make in this analog between business and our present national situation.

In business we make many mistakes. They are humiliating to us. They are often difficult to face and reverse. It is harsh for us to have to admit that we were wrong. And yet we learn in business to build on our mistakes, to admit that we have been in error, and to turn our failures to good account.

The question may be asked, as it is now so often with such anguish: If we were to reverse our strategy in Vietnam and withdraw quickly, what would we say to 47,000 mothers, wives and sweethearts?

The deaths in all previous wars have been for the glorious national purpose of preserving our soil and ending war, and yet they have, each in turn, perpetuated the conduct of war and eventuated in more deaths in future wars. The end of World War I was merely a pause before World War II and that before Korea—and now Vietnam.

Forty-seven thousand deaths are the price that we have paid for the discovery that our foreign policy has gone awry, that our Nation needs a reexamination of its world posture, of its self-imposed role of a jealous god. These 47,000 men could be brought to the finest account in our history for it could be their unspeakable loss, the shrieking pain of their seeming waste, that might bring us to our final departure from war.

War was once a luxury the world could indulge. The scale of battle and the stretch of time made that possible. The dimensions of conflict now threaten to engulf us all and time is running out. War won’t work any more but it takes courage for any of us, not the least our President, to stand up and say that this is so.

When we speak of saving face the question is simply which face shall we save? The face of a bellicose, angry power upset that a previous policy no longer works—or the face of a compassionate understanding people eager to build on what went wrong, to end this order of human destruction and to be the authors of a better way of life at home and abroad.

The war in Vietnam has failed; yet we can still turn that failure to a triumph of lasting value. The people of this country are sensitive to that enormous decision. As long as we temporize at the continued cost of human life, as long as we vacillate at the point of crisis tempted by the false allure of further war, hesitant before the unanswerable cry for peace, we will protract our national shame and court catastrophe of incalculable proportions. We are practical people and we are proud of it. Whatever his political point of view, every citizen of this land of ours shares the shame of this uncertain hour.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Sherman.

Your last observation I think is extremely pertinent or relevant to these hearings; not that all of your statement isn’t. This problem about accepting the idea that we have been mistaken has bothered all of us, I think, not only on this committee but in the country. To put it as you have, I think, is extremely appropriate and eloquent.

If we can recognize the significance of the war in that sense, it will have been indeed a very great achievement by the men who have been killed in the war.
Both of you have made an extremely persuasive presentation with regard to the tragic and disastrous nature of the war. I would like both of you perhaps to comment on the following. It seems quite obvious to both of you and you have no doubts about this war being disastrous for our free enterprise democracy. Why hasn't the business community as a whole recognized this prior to now? Our economy has been deteriorating for a long time, it seems to me. It has been drifting down, down, and inflation has been gathering momentum. We have been afflicted with these strikes which are certainly tied in with the inflation.

What is your feeling about the business community generally? You two and yesterday's witness are among the first who have been willing to come and express themselves in public about the effect of this war on our economy. I have heard very little discussion by businessmen in opposition to the war, outside of the Businessmen for Peace in Vietnam. They started out as a group of about a thousand and I think have grown considerably. Why don't businessmen protest like students protest? They protest for other reasons, not for the reasons you adult businessmen and economists do. Mr. Janeway, you answer first and then Mr. Sherman. What do you think about it?

BUSINESS COMMUNITY PROTESTS THROUGH MARKETS

Mr. Janeway. Mr. Chairman, Adam Smith spoke of the invisible hand of the market. That was in a very rudimentary era when the forces of law and order were needed to insure the passage of bulky bullion from Edinburgh to London.

The economy has since developed an audible voice, but one which is anonymous. It speaks with the voice of the markets.

Through the market the business community has from the outset of this escalation been casting a decisive and a frightened vote of no confidence in the course of our financial affairs as that course has reflected and measured miscalculations of a political and military nature.

Mr. Chairman, if you were to go down the list of every corporation on the New York Stock Exchange, and then move over to the over-the-counter market where the banks and the insurance companies are, and if you were to leave out of the computation the SEC, because all publicly owned corporations are subject to it, I venture to suggest that the corporation that you will find that is not subject to an agency from which it fears reprisal and penalty or to which it hopes for incentives would be the exception to the rule.

With the growth of diversification, virtually all corporations regardless of their initial business, and certainly all banks, all insurance companies, and the insurance companies negatively because they are so afraid of Federal regulation, have accumulated vested interests in letting the market do their talking for them. Ever since the escalation, every successive rumor or indication or false start or solid evidence of a deemphasis of the war and a letup in the strain and the drain has resulted in triggering direct, immediate, and enthusiastic expressions of stock market support.

Contrarywise, every successive experience of disillusionment has not only undone what is called the rally, but has resulted in a further
deterioration in the structure of the market. And I suggest to you that the market has never been more vulnerable, it has never been more demoralized, it has never been more vulnerable specifically to the diversion of liquidity drains since the latest turn of the inflationary screw resulted from these developments I spoke of at the outset, which have been signaled by the rise of the Asia-dollar market and by our client countries turning up as the No. 1 source of excess liquidity spilling over into the Eurodollar market. And again, what the inflation of the Euromarket expresses and what our emergency borrowing in that market expresses is the loss of confidence, the growth of fear, and the modern version of what Adam Smith spoke of, the audible anonymous protest of the business community.

The CHAIRMAN. What you are saying is that the business community has protested through the markets.

Mr. JANEWAY. That is its way and its medium.

The CHAIRMAN. Because of Government regulation and fear of reprisal, they don't dare to speak out individually. Is that what you are saying? Do you agree with that, Mr. Sherman?

PRINCIPAL LESSON OF VIETNAM WAR

Mr. SHERMAN. I assert that the Vietnam war could still be viewed as an important constructive experience in American history. We still have that opportunity. As it has lingered past the benefits of its lesson it becomes more and more irreversibly disastrous. But it has taught us something, if we are only sensitive to the lesson. One of its lesser benefits has been for the first time perhaps in remembered history to dislodge the businessman from his customary passive role, and even in the face of self-disinterest in his Government relations or his customer relations to stand up like a man and say that this is wrong. That is the movement which is swelling around us, and has been for several years in the form of the Business Executives Move for Vietnam Peace, and that is why businessmen are now beginning to be available to testify before this committee.

The CHAIRMAN. You seem to be suggesting that America should review the role it has been playing. I mean that the role that was assumed some years ago, certainly not recently, is quite a wrong one. You expect America to change its whole approach to what it is to do in the world. Is that correct?

Mr. SHERMAN. Yes. I see America as an exemplar of free enterprise and democracy, not as an anxious, angry purveyor of it. Our role is subject to change now. The policy which may have been apt once has simply grown obsolete.

The CHAIRMAN. You feel that is the lesson this war has brought to our country?

Mr. SHERMAN. The principal lesson, yes.

The CHAIRMAN. That is a lesson well worth learning. The price will not have been too great if we learn the lesson?

Mr. SHERMAN. Yes.

The CHAIRMAN. If we don't learn that lesson, then it has really been futile?

Mr. SHERMAN. Then we will be taught it again.

The CHAIRMAN. Yes.
Mr. Janeway. If I may further reply to your penetrating question, I think that modern American economic man in his organized corporate role assumes that, when the market has spoken, it has spoken for him and that in speaking it has taken account of his aggregate decisions. I suggest that that verdict is more decisive than the raising of any individual voice could be eloquent or appropriate. Moreover, businessmen are subject to the divided loyalty of which Mr. Lundborg spoke so eloquently, sensitively, responsibly in dissociating his personal remarks from his trusteeship. Business executives, directors, corporation presidents are understandably reluctant to get their trusteeship to stockholders confused, shall we say, to use a euphemism, with larger considerations of national policy, not merely to the stock market. The market is too often thought of as merely a medium for speculation, but it is more than that. And thank goodness that it is, because the Standard of New Jersey, the Telephone Co., the American Electric Power Co., our greatest business institutions in this country, are now recognizing that thanks to this inflationary squeeze they are being forced to retreat to the stock market. They are being forced to go to their stockholders-reaching them through this great institution of the stock market, the size of which is a distinctive American institution, in order to raise money to reach their mushrooming capital requirements.

The scope of my remarks refers also to the bond market. The bond market has been going through a 1929 all its own during this inflation and as the result of it. This verdict of the market, rendered every day when corporation after corporation comes hat in hand as a distressed borrower either in New York or to that swollen Euroidollar market, borrowing under disadvantageous circumstances, is, I think, a very eloquent protest.

Again in this connection, President Nixon has spoken of the silent majority. In my own effort to explain the workings and the wisdom of the market, I have found myself returning the compliment and borrowing the phrase from President Nixon—I almost slipped because I almost referred to him as Professor Nixon because in this respect I have thought of him as a teacher—thanks to his thought of the silent majority. What did the silent majority do as it assessed the running debate in the country over this inflation resulting from the war? All during the time when the market was hoping against hope that the war would recede and it could be on its way again, the silent majority took its marbles, left the stock market, left the professionals to speculate on how to assess the Washington news. The silent majority, for the first time in history expressed its confidence in the dollar in cash as a defense against inflation, and it moved to bonds, and here as you deliberate over our thoughts today, we see the spectacle of the greatest private institution in the world, which is also the most sensitively regulated institution in the world, the American Telephone & Telegraph Co. itself, making, I think, the wise and responsible move to merchandise its paper to the silent majority, one billion and a half dollars of it. They have gone where the money is, where it has left the stock market.
REVIVAL IN U.S. MONEY MARKET

I would like to call to your attention this telltale reversal in the market which has occurred. The U.S. Treasury is paying today's brutal prices for money. Today's extortionate interest rates are creating fiscal problems for you gentlemen. I note that the Secretary of the Treasury admitted this yesterday when he said that we may need new taxes which I have no doubt will be needed. The U.S. Treasury, in order to protect the savings institutions against a run was forced to raise the minimum which it would make available to members of the silent majority wishing to buy treasury bills. The minimum has always been a thousand dollars. It is now $10,000.

Meanwhile, the Telephone Co. in order to merchandise this unprecedented requirement for capital on Main Street, has reduced its denominations to a hundred dollars apiece.

Now, the treasurer of the Telephone Co., Mr. Scanlon, told me last week that, I think, two-thirds of their stockholders own a hundred shares or less. This is the silent majority. The fact that these people have been withholding their confidence from the stock market, despite all the tomtom beating about the cult of the equity and the presumed advantages of stock market investment, in a period of inflation, and that they are renting their money out, at today's high rates, tells us, I think, Mr. Chairman, that there is a vote of no confidence for our money.

The CHAIRMAN. Mr. Janeway, it tells you that as an economist. I am frank to say that I had not been sensitive enough to this aspect to say it is proof that the business community knows this war is a disaster. The polls, for example, have not reflected that in the past, and other criteria have not reflected it.

As an economist you interpret it that way and you make a very persuasive case. If I had had that same conversation with you a year or so ago, I might have also looked at it that way.

VIETNAM WAR UNDERMINES RATHER THAN PRESERVES FREE ENTERPRISE DEMOCRACY

It might very well be that this is true. Let me put my question to you. I want my colleagues to ask questions of you. Both of them are much more knowledgeable about the mysteries of Wall Street than I am, but I want to ask a very general question if you consider it legitimate. We all agree that what you have already described as the free enterprise democracy is one of the most cherished aspects of our society and we all wish to preserve it. It has served the country very well.

Would you each agree or would you disagree that this war, of which at least one aspect was the preservation of the continued existence of our economy and our society, which in many peoples' view was threatened by the encroachment of communism, actually instead of preserving it is threatening to undermine and destroy it, even though there were a military victory in Southeast Asia, which no one anticipates. What both of you have said about the effect of the war would lead me to say that it seems that we are in the process of losing one of the
most important elements we said we were trying to preserve. Is that an overstatement or not? Do you think it is, Mr. Sherman?

Mr. SHERMAN. I agree totally, and that is the point I have tried to make. No matter what our rhetoric or our rationale, when we have to use force of arms amidst enormous and bitter criticism and self-doubt to enforce our beautiful way of life, the message to the world and to ourselves must be that we, too, doubt it.

The strength and glory of America lies in the sense shared by its citizens wealthy and poor, regardless of their circumstances, that the country has a wise and good and happy destiny worthy of fulfilling. That is what this war has taken from us.

The CHAIRMAN. That is what you had in mind when you said earlier that it has destroyed our self-respect.

Mr. SHERMAN. Yes, and our practical wisdom. We have been proud of that heretofore.

The CHAIRMAN. Do you agree with that, Mr. Janeway?

Mr. JANEWAY. I think it is destroying our sense of confidence in our competence, in our ability to manage our own affairs.

The CHAIRMAN. It is a very serious matter, I may say.

Mr. JANEWAY. Yes, sir. Mr. Eberstadt, who has just died, and rendered such distinguished and such unforgettable service during World War II, used to tell me that we came out of the depression obsessed with fear of unemployment, but that the countries of Europe, of which he had such professional knowledge, Germany and France particularly, were seared by and never got over the trauma resulting from the inflations they suffered after World War I. Mind you, Professor Slichter used to speak of a one-and-a-half-percent inflation as helpful during the 1940’s—and he was taken for a radical which indeed he was not. But when we move to the acceleration of inflation occurring now and its obvious threat to the domestic dollar, we then see that the direct consequences of this financial mismanagement have exactly reversed within 4 years the unsubsidized trade balance which measures our competitive position in the world, and that this happened before the inflation really got started, as it is doing now with a vengeance. It seems that loss of our freedom of maneuver and our initiative in our foreign affairs is being compounded and confirmed by the rise of fear in our domestic economy.

If you were to ask the managers of the Treasury’s debt operations to come before you, and if you were to examine them as to the rates they would be expecting the Treasury to pay—competing in the open market with the Telephone Co., Washington Water Power and so forth—on one set of assumptions about the war and then on another set of assumptions about the war, I am confident they would express agreement with the answer I suggested to your question.

EFFECT OF CONTINUATION OF VIETNAM WAR ON U.S.-POLITICAL
DEMONCACY

The CHAIRMAN. Before I turn you over to the Senator from New Jersey, may I be allowed to draw the conclusion that both of you agree if we don’t stop this war in the very near future our free enterprise democracy is going down the drain and along with it, I think, our political democracy because one would bring on the other.
I don't want to overstate it, but I certainly would think that you have made a very good case. Assuming you are correct, and I have no reason to doubt it, we are treading on very dangerous ground. We have just about run out our line on this business. We can't afford to continue this war any longer because it is building up.

Not being an economist, I didn't interpret it as you do, but I am familiar with many of the facts you mentioned. You have only given me a new outlook on such things as A.T. & T. selling 8 3/4% debentures.

Mr. JANEWAY. In hundred-dollar lots.

The CHAIRMAN. If that is true this is an all-time high, way high. Only a few years ago they could have sold those at three and three-quarters or four, I don't know why this doesn't impress the Administration a little more. I have not given the same arguments as you have because I haven't the same experience. I have looked at it from a different point of view, from the point of view of my constituents, what it is doing to their lives personally, what it is doing to our students and their ideas of allegiance to the community. You have given an extremely persuasive additional fact, it seems to me, that leaves no alternative but proceeding to Paris and settling the war.

As you said a moment ago, they should be given instructions to make the deal, period.

Mr. SHERMAN. Forget about the terms which can come in suitably nonetheless.

The CHAIRMAN. Do you agree with that extremist view of it, Mr. Janeway?

Mr. JANEWAY. I am prepared to invoke the privilege of intellectual sanctuary and to take a different tack. I am prepared to say that the President as Commander in Chief, clearly has certain discretion, certain responsibilities, and certain powers. I am not prepared to challenge those powers or his use of those powers. However, I am prepared to warn that if those powers are used without invocation of the required measures of support to guarantee that those powers will not boomerang and explode in our faces, then the conclusions you suggest are not exaggerated. In other words, if this war is to continue, if it is not to stop, the dollars had better be drained out of that area yesterday, yesterday. But that would be to admit that the war is going to continue, and it may be that that is the sensitivity, although I wouldn't know.

The CHAIRMAN. The Senator from New Jersey.

NECESSITY OF EMERGENCY TAXES AND CONTROLS DURING WAR

Senator Case. Well, I have often wondered why in any war or any other period of great governmental activity, because that is what you are talking about here now, it wasn't possible to tax currently for the full expense of the operation. Is there any reason economically why that can't be done?

Mr. JANEWAY. Senator, you have put your finger on one of the two interrelated fundamentals of war economic management. It is impossible and it is insupportable to run a military operation, to run an emergency operation, without emergency taxes and controls. We have not done this.
I have not wanted perhaps to complicate the parameter of this discussion this morning by stating, which I suppose in response to your question I had better do immediately for the record, my own judgment. This has all along been that the 10-percent surtax was not only too little and came too late but was part and parcel of the systematic mismanagement of the news which understated the requirement of the budget; and that, moreover, a 25-percent tax, which clearly was unacceptable politically in that atmosphere would have been needed if the truth had been told.

I would also like to state for the record that I believe—and I regret, I deplore feeling obliged to say this—that I believe that continuation of the war requires the imposition of stringent controls over credit. I believe that they are a year overdue, and I have read with the most respectful attention the characteristically judicious remarks before Senator Sparkman’s committee by Chairman Burns, in which he made it clear that in his own view he was holding the door open and keeping an open mind on the need to retreat to direct controls over credit.

Mr. Chairman, Senator Case asked me about whether it was not appropriate if you were running a war to have emergency taxes and I said you bet and also emergency controls, and it is insupportable to run a war if you are saying that that is what you are doing, without doing both.

Senator Javits. Mr. Chairman, would the Senator yield?

Senator Case. I will yield if I may say this, I appreciate the testimony you have given and you, sir. I wish I could stay, not to ask questions because I doubt that I have any more questions that would be of any intelligence at all.

Mr. Janeway. Senator Case, I know you better than that and have pleasant stimulating memories.

Senator Case. I know, these are very pleasant indeed. I have to go, Mr. Chairman.

The Chairman. All right. The Senator from New York.

WAGE AND PRICE CONTROLS

Senator Javits. Mr. Chairman, I am grateful to Senator Case. I shall not detain the witnesses long, but I did want to ask this additional question while he is still walking out the door: Do credit controls include wage and price controls?

Mr. Janeway. To have been effective about it at the outset of the escalation absolutely.

If, Senator, you are asking me for my professional judgment at this time, for what that judgment may be worth, I believe that one has missed the boat on wage controls; that it is impossible to sit on the lid now, and that the runaway in rent costs is knocking wage controls off the agenda.

As to price controls, I think that, if we beat prices down in the marketplace by having workable credit conditions, by permitting business to produce more instead of obliging business to produce less, and if we had more commercial construction, then I think retail prices could be held in check. But I regret to say—although I don’t mean ever to be for controls—I regret to say that I regard the situation as already too far out of hand for wage and price controls to be workable. But I
do think that we have a fighting chance to buy time against a proper inflationary crisis if we move on credit controls, assuming, that is to say, Mr. Chairman, that contrary to the judgment you expressed the war were to be dragged on. That is in the absence of the war I see no need for controls, of course.

Senator JAVITTS. Now what about the concept of guidelines of jawboning in terms of wages?

Mr. JANEWAY. I do not believe that they would be at all effective, and I would like to go on record as saying that when they were deemed to be effective was not jawboning, but the threat of reprisal by income tax investigation, antitrust prosecution and that kind of thing.

EQUATING PRODUCTIVITY WITH PATRIOTISM

Senator JAVITTS. Finally, what would you say to some agency of the U.S. Government, if this war is going to drag on, which would endeavor to equate productivity with patriotism, as we did during World War II with the War Production Board and other techniques. It is extraordinary that nothing has been done on that.

Mr. JANEWAY. I agree with you. I think that is an error of omission.

Senator, perhaps one reason for this goes back to the way in which our draft policy has been run. I recall that at the worst of World War II, when bodies were being washed up on the Atlantic coast as the result of Nazi submarine operations, we gave young men the draft exemption if they would work a machine tool at a rated plant.

What are we doing now? We give them draft exemption if they become a cooking major or hairstylist by majoring in a subsidized school. Perhaps if there is an order; an exhortation to work, it seems to me it would be well for us to begin by directing the incentives and penalties of the labor market—and it is clear, to be realistic about it, that the draft is a penalty and not an opportunity to serve as matters stand in this country today—if we were to direct those incentives and penalties to the realities of productivity.

PRESENT AND PREVIOUS ADMINISTRATIONS' APPROACH TO WAGE-PRICE SPIRAL

Senator JAVITTS. Now, moving to another subject, what do you—would you delineate for us the difference in approach between this Administration and the Johnson administration in dealing with the wage-price spiral?

Mr. JANEWAY. The Johnson administration clearly committed itself to jawboning and indeed, its former advisers still advocate what they still speak of as jawboning—although I think it more realistic to look back on it as arm twisting or eye gouging. I think my friends among the Johnson economists are naive in that respect. This Administration has eschewed that course, and, if it is eschewing eye gouging and arm twisting, then I am all for this Administration in not continuing that practice.

As to the other, however, more broadly, I am afraid if one word were to sum up the difficulties which this Administration seems to be
making for itself in terms of the marketplace vis-a-vis the economy, that word would be continuity.

Senator, you asked me about price controls as part of this broader question. I see no way to fight this inflation except in the marketplace and by saturating the market with the goods produced by manufacturers and merchants needing to sell them at a price.

The Johnson administration, never admitting that it was doing what in fact it was doing, got involved in an exercise in defeating our productivity, in restraining our production. They committed themselves to, I believe, the perverse theory that the way to fight inflation is to produce less. Well, that creates scarcity. One need not be a learned professor of economics in order to be clear that, in the presence of a rise in incomes such as we are clearly seeing, if you present people with higher incomes with less to buy, more money will purchase fewer goods. This is most tragically apparent in the home market, the largest source of claim on family incomes, where more money is chasing no new additions to the housing starts, and, therefore, you are having this brutal increase in rents.

Senator JAVITS. Isn't that true of this Administration as well?

Mr. JANEWAY. Yes, yes. There is continuity; I say this one word of continuity sums up what I regard as the continuous disaster.

**HIGHEST U.S. PRIORITIES**

Senator JAVITS. So would you place the highest priority today in the national firmament on enforcing credit rations or control either through a new issues committee or some other techniques, plus a stimulation of housing construction through governmental action, such as interest subsidies, new poolings of funds, whatever it might be, which will stimulate materially, including perhaps even accelerated depreciation—

Mr. JANEWAY. I am for that.

Senator JAVITS. Turn to that, the production of housing and the renovation of housing.

Mr. JANEWAY. And of hospital construction and nursing home construction.

The CHAIRMAN. Will the Senator yield? You say the highest priority. Isn't the highest priority to stop the war, both of you?

Senator JAVITS. We are talking about it, I think more in terms—

The CHAIRMAN. The second one if we are going to have it.

Mr. JANEWAY. Mr. Chairman, may I suggest a professional way of inserting myself as a mediator.

Senator JAVITS. We don't need a mediator.

Mr. JANEWAY. I was joking.

(Laughter.)

But suppose one were to give, as I believe necessary in terms of Baruch's teaching, the very highest priority to the Government's stating—which perhaps gets at what you were asking, Mr. Chairman—the Government's stating for the Congress to see and for the public to weigh and for the press to report, the true magnitude of the Government's financing requirement; and that is how much more money does the Government need? Now that raises the question, that involves the interrelated questions. Is the war going on?
And, if so, how to finance it? It is flying blind, and playing blind man’s buff with the Nation’s destiny and with America’s role in the world and responsibility to herself, if one doesn’t know how much is needed for what purposes.

If we begin there and if we put the requirements first, going back to fundamental of Baruch’s then it becomes clear, as I think it will be clear—and as I read Chairman Burns, I think he would go along with my interpretation—you would then, and there I entirely agree with you, Senator Javits, you would then need credit priorities and controls. In fact, just before you came in I reported that the foreign accumulators of dollars, while building their dollars up, are not building up their dollar deposits in this country for fear perhaps that we may put a clamp on their free use of that. We commandeered the assets of our allies during World War II, when they were really fighting for themselves and for us, but we are letting these people buy champagne, and they don’t even buy Cadillacs, they buy Mercedeses. And then, your American corporate leaders are anticipating what credit controls would do, because when Standard Oil of New Jersey went from more borrowing and of all major oil companies this is the one most like a bank, when they went to their stockholders for equity money, they supplied the answer to inflation. Just as the primary, you might say the primary, function of all living things, human, animal, plant, marine, is to breathe, so the economic function at the root of inflation is borrowing in anticipation of earning. Under present circumstance credit controls would force the laggards in the business community to follow where the leaders are going anyway.

The leaders are doing exactly what credit control would have obliged them to do, going to their stockholders to raise hard money. I think this is the top priority, if the war is to continue.

U.S. PROSPECTS IF PRESENT SITUATION CONTINUES

Senator Javits. I would just like to ask you one other question and then ask Mr. Sherman one question.

Finally if the situation continues as it is, just as we are doing with no changes—you know all the building blocks involved—what are we heading for? Are we heading for a serious recession and more unemployment or what do you see us heading for.

Mr. Janevay. I foresee an inflationary crisis, modern American scale, reproducing the inflationary crisis of Germany: mass bankruptcies of disadvantaged borrowers unable to enjoy access to credit. The big fellows will always get money. The Wall Street Journal gives a preview of the answer, Senator, this morning, in its account of the difficulties of our common city, our own uncommon common city, in raising emergency funds. This will be a very cruel test in the market today.

I think we will see under conditions of affluence a tragic reproduction of the circumstances of the depression when, with 14 million people unemployed, cities, counties, and States, Michigan, Cook County, could not pay their employees, could not finance the most rudimentary public services. This I fear will happen again.

I think our cities and our States will go bust. I think there will be runs on savings institutions, and I have no hesitation in saying that
on the premises you posit, continuation of the status quo, you will see the stock market doing what the business community, answering your question, Mr. Chairman, would regard as the financial equivalent of a picket line or of a mass protest. I have no difficulty anticipating 500 on the Dow, and I think, Senator, that all of, an overwhelming consensus of your constituents, so many of whom we both know, would agree that that would be a disaster level.

Senator Javits. Now, in view of the fact that this is posited upon the continuance of the Vietnam war, in your judgment, how much time do you give us to avoid the awful situation?

Mr. JaneWAY. I would think that you would see an intense financial crisis this year—and sooner rather than later on all of the premises you posited. That is continuation of the war, but nothing done to batten down the hatches.

Senator Javits. As if in war.

Mr. JaneWAY. That is right.

UNITED STATES IS FIGHTING MAJOR WAR WITHOUT WARTIME CONTROLS

Senator Javits. That is it. Hasn't this been, we have been hearing a lot of talk here about hypocrisy, a word I hate because I would not wish to impute it to anybody, but hasn't that been the self-delusion that we have fought a war now for well over 5 years, certainly 5 years, with the deployment of forces equivalent to a major war and we have not taken the financial, economic, even social and patriotic measures which war requires. We have strenuously avoided controls and the suspicion is that this is because Government has sought to put us in the mental condition of non-war even though war was the reality?

Mr. JaneWAY. You are exactly right, Senator. But may I suggest one amendment to your lucid, realistic summary of the situation. You spoke of this being a major war, and I believe my sense of your formulation was in a military sense.

Senator Javits. Right.

Mr. JaneWAY. I submit that the financial involvement of this war, and the financial repercussions of its mismanagement under the approach you mentioned, are vastly in excess of even what is represented by the 47,000 tragic casualties Mr. Sherman mentioned.

Senator Javits. Deaths.

Mr. JaneWAY. Yes, deaths; I beg your pardon.

Senator Javits. That is, casualties are well in excess of that.

Mr. JaneWAY. The financial parameter of the problem we have made for ourselves lends itself to this kind of—I don't know; you could say stealth.

Senator Javits. Sweeping it under the rug.

Mr. JaneWAY. Whatever it is. It lends itself to it more than moving bodies around, and inviting casualties and deaths.

Senator Javits. Thank you very much.

FORMULATION OF WITNESS' VIEWS ON VIETNAM

I would like to ask you one question, Mr. Sherman.

I was fascinated, and I think our chairman and other members were fascinated, by the visceral reactions as a businessman which you gave us.
Could we ask you a question—and please don't answer it if you don’t feel like it—but how did you come by these views? What brought you to this?

Mr. SHERMAN. I remember telling my children not many years ago, in conventional pre-Vietnam terms, about the wisdom and justification of this war, the conventional “hawk” point of view: There must always be wars, a small war will prevent larger ones, and so forth.

But like so many people, even now, who expertize on the subject, I hadn’t cracked a book on the matter at the time; then I did, and then another and another, and I couldn’t believe the well-documented, irrefutable shame of it all. And so I came, little by little—and that some while ago—to this point of view. But I have been in the other camp; I have been there before.

And, always operating from the practical Yankee business sense, which I have tried to represent here. There is a difference between a businessman and a statesman. A statesman lives willy-nilly on deferral. His job is to get out of office in one piece, and to confer upon his unhappy successor the holocaust which he has accumulated. A businessman can’t afford that. Year after year he must produce. He is constrained to predict reality, and I define “reality” in practical terms as “what will happen if you don’t do something about it.”

ONLY U.S. ALTERNATIVE IS TO GET OUT OF VIETNAM

You have asked Mr. Janeway several questions. There is no change between the Administrations, in my view; only a subtle refinement in rhetoric. Because, as a businessman, I am accustomed to look not at the weather reports of my traveling salesmen, not at the intermediate items, but rather at the final line. I say that either there is a war or there is not a war. But, the fact is, there is still a war.

The necessary measures may well be the economic provisions that were discussed here. But we cannot continue to lay a virulent postulating patina of patchwork on top of a sick, fruitless, interminable war. We cannot do it.

And, finally, the reason taxes have not been provided—the reason the planning and the provisions for this war, as for other wars, have not been forthcoming—is simply that, for our leaders, it has been an embarrassment from start to finish; and so, even if these terms are in order, they will not happen.

The only real, practical alternative we face—and it is within our President’s executive prerogative; it can be done gracefully, it can be done to national advantage; it can be done to the redounding glory of our history, now and in the future—is to get out as expeditiously as we possibly can, and I mean at once.

Senator JAVRIS. I might say to you as a citizen at least with a small word of reassurance, I hope, and I see signs of it, but I hope that the Congress, perhaps the Senate itself, is on the threshold of asserting a form of leadership which is better manifested always in the Chief Executive. No one understands that better than I, but, in the absence of manifestation of leadership by the Chief Executive, such leadership may have to come from the Congress itself. If we can manage it, it will represent, probably, a height of action by a representative legislative body very rarely attained in the world, but I am rapidly
coming to the conclusion myself that this is the only way it is going to happen. I might tell you that I feel, and I have been, very deeply impressed with being a member of one of the committees from which it is very likely to happen. Thank you.

The CHAIRMAN. Is that all?

Senator JAVITS. Yes.

LACK OF JUSTIFICATION FOR VIETNAM WAR

The CHAIRMAN. Both of you have been extremely helpful. I don't like to take too much time, but I am very interested in this last line of questioning. I don't wish to minimize the importance of the measures which were being discussed, about how to immediately control the inflation. At the same time, to proceed down that line would seem to assume that there is some legitimate objective that still is worth pursuing, that would entail further sacrifices. This is what your last question raises, in my mind. I have had this great difficulty going back to the days of Secretary Rusk. I remember at one of the hearings we asked him, "If you win, what do you win?" and we never did get what I would call even a reasonably satisfactory remark. We were on a course which had no legitimate objective. To put it another way, it was a great and tragic mistake to ever get involved. I think this is one reason, certainly, and I think it is consistent with what you said, that, from the legislative point of view, I and others have never become very intrigued in trying to go down the line of definitely opening ways and means to make a continuation of the war tolerable. We couldn't see that the continuation of it and the eventual, I suppose, settling of it by military means would solve the matter. It would not achieve anything to justify what had been done.

In your previous answer, you said that the sacrifice of 48,000 men, soon to be probably 50,000, and 300,000 casualties can be justified not by any admitted objective so far, but by the idea that we will have learned from this experience that this is an intolerable and unacceptable way to go about solving these differences, and we must have a new approach to international relations.

I have thought for a good while that the presence of nuclear weapons, among other things, would surely prove to nearly anyone who is accustomed to the traditional way of solving international disputes that it is no longer acceptable.

I think General Eisenhower, and others, in the past have said such things as war, nuclear war, is no longer an acceptable way. No one seemed to pay much attention to it. As I recall, this is not an original thought, by any means, but we have never taken it seriously.

Now I think you have put it in a framework in which there is no escaping it unless we are willing to go down to a self-inflicted destruction. Will you comment on that?

Mr. SHERMAN. Yes. The bizarre irony of your egregious war production is that the best we can hope of its products is that we will never have to use them.

The fear in Vietnam is that if we could define victory and then achieve it, we will have brought down upon ourselves a horror beyond our imagining. So, it is not only our inability to define victory, it is the fact that we really don't want it. What we are left with, then, as
we pay in deaths, day after day, is a temporizing, which is intolerable in the business setting; temporizing while we drain ourselves, while we give to our "competitors" their wildest longing: our self-inflicted destruction.

Senator JAVITS. Would the chairman yield for a moment?

The CHAIRMAN. Certainly.

UNTRADITIONAL STOCK MARKET REACTION TO PEACE RUMORS

Senator JAVITS. What Mr. Janeway said about the automaticity of the market in reflecting a mood of confidence, or lack of it, is very interesting, certainly very instructive, during the recent war period. I think Mr. Janeway is right in saying the market has to be looked at as kind of a legal speculation, but I did want to interject—it is very interesting and bears on the validity of what is being testified to—that the slightest peace rumor causes the market to move up drastically. This is completely counter to the traditional idea of a speculative market; namely, that a peace rumor should cause the market to fall on its face.

Mr. JANEWAY. Mr. Chairman, I didn't mean to be out of order.

The CHAIRMAN. Go ahead.

Mr. JANEWAY. I would like to supplement that remark by adding that, not only does the stock market respond in the way in which you report, but, in terms of the dreadful problems confronting every State, municipality, and county in the country, the bond market responds in the same way and interest rates drop for the duration of the rumor.

The CHAIRMAN. Yes.

CONFUSION OVER VALUE OF LIFE IN UNITED STATES

Yesterday, Mr. Lundborg, to whom you both referred, had a very persuasive and a very interesting statement. I believe I am correct in saying that one of the overriding characteristics of the situation is confusion. I think this arose in connection with one of his own banks which had been burned in Santa Barbara. In discussion of it, he didn't interpret it as an attack upon the bank as such. It reflected the kind of confusion that afflicts everyone.

We all have a tremendous interest, and great sympathy and concern, about the three astronauts who, according to the press, are now apparently safely on the way to splashdown. Everyone has been deeply concerned about these three men. But, there are about 150 men killed in Vietnam, who were just as much men as those three men—most of them draftees, fine Americans—and there doesn't seem to be the same concern about it. We have been accepting this week after week, year after year, anywhere from a hundred deaths up to four, five hundred. We don't suspend activities and concentrate on that. To me, this illustrates the confusion. Why are we so much more concerned over three men who voluntarily undertook a mission than we are over 150 men who have been drafted by the Government, sent off to Vietnam, and slaughtered.

This has left me very confused about the sense of values, the sense of responsibility, that our people feel about the lives of our citizens. Do you have any comment to make on that?
Mr. Sherman. Yes.

The Chairman. Why is there this peculiar deep concern over these three in contrast to Vietnam casualties? I am not belittling the concern for the three.

Mr. Sherman. I won't attempt to explain it. It is anybody's guess; but I would like to extend it by saying that, without the slightest intimation of unpatriotism, I marvel at our national indifference to the deaths of our so-called enemy, who seem to die in such extraordinary proportions, and of whom so many are civilians, women and children, and not only in that single hideous disaster which has preoccupied the press lately—My Lai—but on a day-to-day basis, whether deliberate or erroneous. It is a nightmare. It is horror out of keeping with these times in which every problem the earth faces can at least be solved by the technology and the means at hand. It is a wretched atavism which brings a war which the world no longer can afford. It brings it back into the Middle Ages where disaster is threatened manifold. It is a sorrow that the world stands in greatest peril at the moment when its lingering redemption is so ready at hand.

**How can America's role be changed?**

The Chairman. It puzzles me very much, and this committee. I know in our discussions we are confused, too, about how to proceed. I think most of this committee shares what the Senator from New York, among others, has very pointedly stated on numerous occasions: That is, a desire to do something to bring this war to a conclusion. We have difficulties in doing it. If there were a way to convey to the American people, and through the American people to our decisive leaders in the executive branch, what I believe to be the basic ethic of this country, it would be a reassertion of what originally our Founding Fathers thought of as being the proper role for this country. As you say, it is to set an example. You have already said it. I am only saying it in another way. I am not saying anything new. What we are always seeking is to say it in a way, or present it in a way, that it touches the American people, and touches our leaders to where they see the necessity of doing what I think you agree we should do.

Mr. Sherman. Yes.

The Chairman. How do we do it? How can we impress upon them that America has a different role? You can imagine what a great role it would be. We have this great power, which everyone would acknowledge, to destroy this country in order to achieve a kind of victory which so far, thank goodness, I think the people and our leaders have not been willing to do, for the reasons you have already put forth. But, if we could be persuaded to take the initiative to really conclude the war, in view of the fact we don't have to in the sense that we could continue it, it would be a reassertion of what originally our Founding Fathers thought of as being the proper role for this country. As you say, it is to set an example. You have already said it. I am only saying it in another way. I am not saying anything new. What we are always seeking is to say it in a way, or present it in a way, that it touches the American people, and touches our leaders to where they see the necessity of doing what I think you agree we should do.

Mr. Sherman. Yes.

The Chairman. Do you have any thoughts on how to bring that about? I am personally convinced that the American people do not like this role. You have already put it very well; both of you have. I keep
groping for a way to convey this and to inspire the movement that we need. I get very frustrated.

One of the things that frustrates me most of all is when I get into discussions in a hearing of one of our subcommittees of this numbers game with nuclear weapons. Although everyone admits we can kill everyone in Russia 10 times over, if they make a little increase in SS-8's, we have to respond by an increase in something else. It leaves me absolutely befuddled as to why we proceed in that kind of a fashion.

WHAT CAN CONGRESS DO TO CHANGE U.S. POLICY?

You both have thought deeply of this. What do you think? What can this committee and the Congress do? Senator Javits said he has hopes of the Congress or the Senate doing something. Can you suggest anything we might do?

Mr. Sherman. I cannot presume upon the techniques or the manipulations available to you. I would like to—

The Chairman. We don't have any manipulations.

Mr. Sherman. Well, more's the pity, then. What is at stake here is something—

The Chairman. Really, it is a pity that we don't have more means, but you go ahead.

Mr. Sherman. What is at stake here is something which transcends Vietnam itself, in the broad span of our country and its destiny.

The Chairman. That is right.

Mr. Sherman. It is the balance, the relationship between the legislative and the executive. It is very possible to assert that the prerogative of the President has been abused in the last two Administrations, and that the great problem is how to reach that lonely insulated man in that great house, because somewhere along the line it is his fiat that makes this war go or not, and what we can hope for is that not only that many changes will have come from this unfortunate event, but that among them, as Senator Javits suggests, will be a quickening of the legislative to its faltering role in guiding the destiny of the Nation, and as evidenced by Mr. Janeway, Mr. Lundborg, and myself, that a rising and informed, enlightened citizenry will lift itself from its torpor, as it is now doing, to revive the very processes of a free and open society and out of this wretched mess will arise the very substance of salvation which seems so dim right now.

The Chairman. Do you have any comment on that?

ASSESSMENT OF COSTS, RESPONSIBILITIES, AND BURDENS OF WAR SUGGESTED

Mr. Janeway. May I make a suggestion? Review of the legislative history of the National Security Act, the result of the labors of Mr. Eberstadt to whom I have referred and also of his lifelong friend, Mr. James Forrestal, Secretary Forrestal, a great man, and your own colleague, Senator Symington who served as Secretary of the Air Force in the Truman administration, will show that it took a great deal of pioneering work involving the expertise of Eberstadt, Forrestal, and Symington to persuade the Truman administration and, I think, the Congress, that in the creation of the National Security Council, it was deemed to be of the essence of the problem to involve the Secretary of
the Treasury as a coordinate member, along with the Secretary of State and the Secretary of Defense. With all the talk we have heard of the industrial-military complex and so forth, the original project of the act of 1947 was for the first time to coordinate diplomatic and strategic policy or military policy as a whole so that the military people would know what the diplomatic people were doing and vice versa. But Forrestal said: "Your role in the world," and he was the Secretary of Defense after all, "your role in the world arises from your ability to manufacture the sinews of war as required; national security policy sits on a three-legged stool; your economy wants to be involved in this."

I suggest that if the deliberations of this committee were to be directed toward coordinating what is being said, thought, feared, documented, counted on the financial side of the Government, and the Government is so big that it always tends to be departmentalized and specialized, I think you would find sharp new tools. Let me say that an audit of what happened under the Johnson administration would show that the Secretary of the Treasury, and the Chairman of the Federal Reserve Board were gradually but definitely dealt out of the proceedings, so that it became a joint affair between the Secretary of State and the Secretary of Defense, the Joint Chiefs and the President.

I think if we could recapture the spirit and the logic of the original legislative intent of this great tradition of American security planning, we would begin to get somewhere. I can't believe that this Administration, for all of what one may say in criticism, is not sincerely sensitive to the ravages of inflation, including war inflation. Where there has been a missing link which I in my modest way have tried to fill today, has been in showing how the war and its unstated requirements and, therefore, its unfaced problems, have really been at the root of this domestic inflation.

I think that if the people on the domestic economic and the foreign financial side of the Government's operations were involved in this assessment of, shall we say, the cost, the burdens, the responsibilities, and the problems of this exercise, one could begin to draw a bead on the target.

**Recent Committee Action on Vietnam, Middle East, and SALT**

The Chairman. It really is a great and difficult problem. As you know, we have a number of resolutions before the committee, which, I think, have a common objective. The committee itself has difficulty in deciding what means to use. It recently voted to repeal the Middle East and the Tonkin resolution. We don't pretend this is going to be any great salvation of anything; I would say it is simply a gesture at this late date. It seems very minimal and some people think hardly worthwhile. I wouldn't want to exaggerate it.

I only mention it to say simply that the committee is groping for the kind of action it can take.

The recent Brooke-Cooper resolution again is a sign of trying to be of assistance to the President. Aside from the specific substantive measures, it is a way of expression; sort of as you say the business people express themselves through the market. The Senate expresses its anxiety and its desire that progress be made in the SALT talks through that resolution. They don't mean it as a directive. We can't
issue directives, but it is a means of expressing our great concern for the SALT talks.

One of the reasons why the SALT talks are so important is that we feel they may have a side effect upon the Vietnam war. It is all tied in. This is part of the way we are moving, but we have great difficulty in finding what would be an appropriate way to focus many of the things you gentlemen are saying with respect to the effect of the war.

**EFFECT OF INVOLVEMENT IN CAMBODIA AND LAOS**

I hesitate to go further with you; it is such a late hour. Mr. Sherman, you strike me as a rather unusual businessman. Most businessmen haven't quite approached it in the same terms that you do. I don't know whether this is a proper question to ask you and neither one of you are expected to comment on it. We are just having conversation here. This morning's paper indicates that the new government in Cambodia is going to request aid from us and the paper speculates about whether it will be direct or in effect by way of South Vietnam and even Indonesia.

If this is an appropriate question, and if you don't desire to answer you need not, I would be interested in your comments about it. If we go down that road and we give aid to Cambodia, if we become more deeply involved in Cambodia and Laos, what do you think the effect will be?

Mr. SHERMAN. Deleterious. The businessman and the statesman alike have to master the art of saying no gracefully.

The CHAIRMAN. It is a very embarrassing request, I know, to decline. I myself feel that this would simply be another way of escalating our involvement, and that this would have a very serious effect if we expand our activities there. Here again, I can see no real alternative to moving very seriously toward making the deal, if I understand what you mean by the deal.

Mr. SHERMAN. Yes.

The CHAIRMAN. There is just no alternative to making the deal. Any way we move we are boxed in, so to speak.

Mr. SHERMAN. And eventually how many deaths will it cost?

**U.S. NEGOTIATING STANCE QUESTIONED**

The CHAIRMAN. It would be disastrous to proceed.

As to the condition for the deal, as you know it has been said that it takes two to make a deal. We all agree it takes two to make the deal and this is where we have had difficulty. Obviously, the terms have not been found. I recently put some comments in the record by Mr. Roger Hilsman and, I think, Mr. Arthur Cox and Mr. Leslie Gelb. All of these men are experienced in this area. They say that the essential ingredient of that deal is what we do with the Thieu government. I suppose when you make a business deal to sell something, the price is the essential ingredient. If we want to make a deal, there are terms like this we have to weigh against the consequences of continuing. This is where I get confused. I don't understand why the Administration is not willing to make a deal of this kind.

When I contemplate what it is costing us, and you gentlemen have made it very clear as to the economy, which is certainly a matter of
the greatest consequence to all our people, plus the continuation of the killing, how in the world there could be any doubt about those terms is beyond my comprehension.

Mr. Sherman, May I speak to that?

The Chairman. Yes.

Mr. Sherman. I know from my own experience that both Presidents when instructing the negotiators are sending out ambiguous signals. What I do in the conduct of such a matter is tell trusted men, who are skilled negotiators, "Get the deal"; that is unambiguous. Then I go on to say to them since the subject must be addressed, "Get the best terms you can." And then they are able to go unequivocally and project to their counterpart who may be very suspicious—and goodness knows, the North Vietnamese have a backlog of suspicion against us with a certain amount of documentation—an honest intent and then they invariably come back with better terms than I might have imagined because they had the instructions, the clarity of the assignment, and they can command the scope of manipulation which negotiators must have in order to bring home the deal. There is a mystique in this and I can't account for it except that it always works and it is the way to do it.

When we say, "Get the deal but be careful of preserving the Thieu government," which, in itself is a perversion, then we are tying the hands of the negotiators and foredooming them to failure all the while of course resting on our rhetoric that the other fellow isn't trustworthy.

The Chairman. I think that last part you mention has been present in our approach for many years. In the early days when Stalin was in power, there was justification for this basic assumption that we are trustworthy, honest, good, God-fearing people and that they are evil, mean, unreliable, and untrustworthy. Therefore, there was almost the inevitable conclusion that you couldn't make a deal requiring any kind of confidence or trust with such people. In other words, the only kind of deal is a self-excluding one that takes place in an instant.

Mr. Sherman. I find it as an enormous community of interest, I may even call it a kinship, between us and the North Vietnamese. We both want us out of that area. Granted that kinship, it doesn't seem to me to be very difficult to arrange a graceful withdrawal from our position of entrenchment right now. "Build your enemy a golden bridge" is an ancient oriental proverb. They would convey us out with bells and flowers if we but settled down and persuaded them that we really intended to go. I am cynical in the extreme about any rhetoric to the contrary.

The Chairman. Do you have any comment on this particular aspect? I realize these questions are not what you contemplated. Please don't feel under any inhibition to answer them. I may be trespassing on your good nature to ask you. Do you want to say anything about this, Mr. Janeway?

Cambodian Request for Aid

Mr. Janeway. It is a very stimulating discussion. You mean, Mr. Chairman, with specific reference to Cambodia, this Cambodian affair specifically?

The Chairman. Yes. You saw this morning's paper had such an account?
Mr. JANEWAY. Yes.

The CHAIRMAN. The Cambodian Government is in the process of asking any and everyone about aid, but we are the ones from whom they probably expect to get it.

Mr. JANEWAY. It is a logical, predictable, inescapable outgrowth of the process I was trying to describe this morning.

The CHAIRMAN. You did it very well.

Mr. JANEWAY. Thank you. I think that to use a familiar market term, we have invited fierce competitive bidding among all factors in the political and military process in this area of the world where economic man is still more predatory than perhaps housebroken. They don’t pay taxes. After all customs there are altogether different. We have invited competitive bidding from these people to get the Yankee dollar. This Senate examined very carefully after World War I charges of war profiteering. President Truman rose to national prominence in this building by his systematic conduct of his war investigative subcommittee. Lyndon Johnson did the same thing, both on the House side and the Senate side. We know all about war profiteering. But over there you are getting the brass ring or should I say the gold ring or the green paper ring by proving that you can outcompete the next fellow at war profiteering.

The way you put your question referred to the possibility that if aid is given as asked it might go directly to Cambodia or indirectly through South Vietnam. That is what you said the report said.

The CHAIRMAN. I assume it will go one way or the other. We may let the Vietnamese do it. You were saying a moment ago that the Thais are now becoming the Switzerland of Asia.

Mr. JANEWAY. Switzerland; right.

The CHAIRMAN. I suppose in order to preserve a facade of nonescalation, it would have to be done indirectly. I don’t say it is being done.

Mr. JANEWAY. I understand that. But, if I were to project myself into the financial motivations or the power motivation of the powers that be or the weaknesses that are in Cambodia asking for this aid, I would most certainly not want it directly. I would be willing to let a commission be scalped off the top in Saigon. I would want it to go through Saigon because, in that way, I would be sure that no one in Washington would call my bluff by challenging my bona fides as an ally and saying, “Yes, we will give it to you in kind. We will give you what you need to defend your soil.” I would be cut in on the deal and I would be sure of getting dollars if I got my aid through Saigon, because the entire proposition there is “Keep the dollars coming if you want to us to keep the front up.”

FRENCH SOLUTION AS EXAMPLE FOR SETTLEMENT OF VIETNAM WAR

The CHAIRMAN. You made that clear and I, of course, am very sympathetic to the point of view that we should stop that. I don’t know how to do it. I don’t know anything to do, really, about stopping the abuses and the deaths caused by the war other than the way the French did. They saw the inevitable collapse of their effort. They went to Geneva, and in the course of 2 months approximately, I think it was April to July, they made the accord at Geneva and set out the procedure by which they were to allow these people to run their own affairs.
I know of no better procedure. When I am asked, as I have been many
times, what would you do if you were President? In a few words, I
would follow the precedents of the French. There is no mystery about
it. There is a traditional way of concluding a war, which is to have a
conference and to agree upon terms for the liquidation of the war.
The details may be varied according to changed circumstances, but in
outline I return to that. I can hardly see any alternative to that
procedure.

UNREALIZED POWERS OF THE PRESIDENT

Mr. Sherman. That is the tragedy of the American Presidency as
we have known it. For while he has insuperable monolithic power on
the one hand, he is one of the most enslaved of all men because he is
held in by his own illusion of public opinion and his own tempera­
mental limitations. He doesn’t realize what a great scope of choice
lies before him. He doesn’t realize that “nice customs, curtsy to kings
and queens” and that he alone can set attitudes and create policies.

Before the bombing pause, a bombing pause was unthinkable. “Think
of the blood bath,” they said. A day after March 31 it was inevitable,
because the President deemed it so. And we all sit and torment our­
selves with frustration because that lonely man doesn’t realize how
much good he can do for the mere willingness of it and all of us would
accept it with joy.

The Chairman. You say illusions of public opinion. Let’s see what
that means. Are you saying that public opinion overwhelmingly or
decidedly, a clear majority, dictates the policy which we, I think,
share? How does one inform the President of the United States about
public opinion?

Mr. Sherman. I suppose by dint of his insularity it has to reach
such a mounting dimension that even he will have word of it.

BUSINESSMEN FOR PEACE IN VIETNAM

The Chairman. That is the reason why the Businessmen for Peace
in Vietnam are mounting their program. Is that correct?

Mr. Sherman. Precisely.

The Chairman. Are you a member of the Businessmen?

Mr. Sherman. Yes.

The Chairman. Tell me about that organization. When did you
start and have you played an active part in it?

Mr. Sherman. Yes, I have been the chairman of the Chicago chapter
for the past year. It was originated by Henry Niles and Harold
Willens about 3 years ago at a time when opposition to the war
was very unfashionable and for a businessman it was a courageous stand
to take and quickly gathered forces of two and a half thousand around
it, men of high places, widely distributed throughout the country.
It created a dozen chapters, all of them in various stages of vigorous
activity, many of which have made a resounding impact locally and
nationally on thought about the war.

The Chairman. Is it still very active?

Mr. Sherman. Yes, very active. It comes alive periodically and in
full force. We are always in reserve.

The Chairman. Among other ways, I guess that is a way to deal
with this matter of public opinion.
Mr. SHERMAN. Yes.

The CHAIRMAN: These hearings are not related to any specific piece of legislation. My own feeling is to try to educate ourselves about the facts of life and also, whatever way we can, the public.

Lastly, I want to go to one other thing and I apologize for taking so long.

RELATIONSHIP OF WAR TO RECENT PROMINENT DOMESTIC QUESTIONS

How do you relate the war to these other questions which recently have become so prominent? For example, pollution. I read an article the other day which said pollution has now supplanted the war in the attention of the Administration and the people. The candidates for office are now talking about pollution, student unrest and allied questions. Do you think the war has a direct relation to these problems or doesn’t it?

Mr. SHERMAN. Yes. The interesting thing that I think I have discovered for myself at least is that all of the principal issues of survival and quality of life cut across class and party lines. They are neither radical nor conservative. They are not white, they are not black. They have to do with our global survival. Pollution and population control are two stellar examples, and with respect to this the ultimate denunciation of Vietnam simply is that it is a colossal distraction, it is a bore. Its time is over. It is simply deflector us from far more, infinitely more important matters at hand. It is simply not worth the energy that is put into it. It should be whisked out of the way, not because of its significance, but because of its insignificance, and we should get on to the crucial matters at hand, for which there is already too little time.

The CHAIRMAN. I thank you both. You know I imposed on you. We don’t often get busy businessmen or a high-powered economist before this committee. It is very rare that we have had businessmen and economists such as you are and we have taken advantage of you. You have been very patient indeed.

Do either of you have anything else you would like to give to the committee or the people before we adjourn?

COMMITTEE ACTING AS GOAD CAN ACCELERATE PUBLIC OPINION

Mr. SHERMAN. One more thing: My demurrer in answering the Chairman’s question of what the committee might do. What the committee is probably doing and what I know to be in the mind of Senator Goodell, with whom I met yesterday in Chicago, is to perpetrate or conceive of legislative proposals which might pass. It is presumed that the Gulf of Tonkin counterresolution will now pass. Let me suggest that you propose resolutions with respect to ending the war in Vietnam which are sufficiently “far out” so that they won’t pass, and never mind the notion that, “Oh, my goodness, this will scuttle our cause if it is seen how little support we have.” Keep ahead of the game. One of the principles I have learned (which I in turn cannot explain) in business is that sometimes in strategic encounters you have to lose a couple of times before you win, and if the committee then takes as strong a stand as it can by dint of its own consensus establish and goad the Congress in the very process of saying, “No” to an attrition of will it can acceler-
ate the mounting surge of public opinion and gradually reach the high corridors where the ultimate decision must be made.

The CHAIRMAN. I think that is a very interesting observation and I don't disagree with it. I will point out that the committee is not a unitary body. To get the committee to agree upon anything is quite an undertaking.

Mr. SHERMAN. I know.

The CHAIRMAN. We certainly have agreed on many occasions. Even then we don't always prevail by any means, but I would say it is a very difficult thing on these controversial matters to get an agreement of the committee itself even before it goes to the Senate.

Do you have any final advice before I adjourn? I can't thank you both enough for coming here. This is a thankless job. We need it and I consider it to be a public service. We didn't send you to Vietnam, so we brought you down here.

Do you have anything?

INTRODUCTION OF SCRIP TO REMOVE TEMPTATION TO CONTINUE WAR

Mr. JANeway. I would like to bring the thrust of this trialog back to this one problem which I think is central, and which is brought into focus by the question of our presumed or explicit commitment to the Thieu government or the ambiguity of whether we walk out on allies who are fighting for themselves, and all that complex of argument. I don't think we are going to crystallize the yeas and nays of the decisionmaking process until we call the bluff, until we test the bona fides of those anti-Communist Asiacities in the theater of war to whom we have given really irresistible temptations to keep it going.

Now this body moved, I believe yesterday, to pass Senator Proxmire's bill in what might seem to be an unrelated matter, these bank credit cards that are floating all around the country as sort of black market currency. I understand that in the postal service they say that anyone who fitches one of these cards out of the mail can turn it into a $50 bill. These cards, unauthorized, unsolicited cards, seem to be commanding a $50 black market price. Now we know the postal workers are underpaid and we have learned that we have been exposing these people handling mail to temptations which have resulted in widespread fraud. If this goes on among civil servants in a society as advanced as ours, what is the consequence of exposing officeholders in Asia—where there is no private sector, is no press, no savings, no savings institutions—of exposing whoever it may be who can lay hands on dollars in Vietnam or Thailand or Cambodia, to this temptation, to keep it going?

I don't mean to say it would make this a good war by the measure I have advocated, but it seems to me if we sanitize and insulate those motives by moving to stop this horrible abuse which is clearly running up our casualties and so forth and so on, then it seems we would put the cards on the table. Then we would bring the ambiguities to a head, and we would be in a position to choose up sides on our presumed side and to separate the mercenaries, the profiteers, the prostitutes of their countries' interest from those to whom we really have an obligation. And we would be giving them a chance to be counted. I do not think the pieces will fall into place until that bluff is called, and we
show that we mean business to the extent that we are there, and I will go so far as to say that this is a rudimentary security measure in protection of the Americans we have deployed in the area.

The CHAIRMAN. I think that sounds very reasonable, and I agree with you. I don't know that I spoke before about the incentives we have given to carry on this war. I think you are quite right about that.

I thank you both very much.

FURTHER COMMITTEE HEARINGS

This series of hearings will continue on Tuesday, April 28, when the committee will hear witnesses to discuss the impact of the war on problems of urban areas.

Thank you very much.

The committee is adjourned.

(Whereupon, at 1:20 p.m. the committee adjourned to reconvene at 10:00 a.m., April 28, 1970.)