

## HOW MUCH SECURITY CAN THE COUNTRY AFFORD?

8 February 1960

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## HOW MUCH SECURITY CAN THE COUNTRY AFFORD?

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COLONEL REID: General Houseman, Gentlemen: Earlier this morning you had a talk on "Transportation and National Security," and now we will slip back into economic stabilization. You have had two speakers so far in this course, one who gave a plan for sound economic growth and one who covered the price-wage-cost relationship.

The speaker today, with the subject of "How Much Security Can the Country Afford," begins to hit a little closer to home, both on the present political scene which is being the presidential election year and on more or less the personnel scene, as the bulk of the group in here are military.

You will find that Mr. Silberman's talk is quite a thought-provoking and challenging approach to the amount of security that this Nation can afford.

Mr. Silberman, it is a pleasure to welcome you for your first appearance here on the platform and to introduce you to the Class of 1960.

MR. SILBERMAN: Thank you, Colonel Reid. General Houseman: I was rather intrigued when I was asked to come down here and was given the subject matter. In case you haven't looked at the course description in a while, I thought it might be interesting to read to you what it was that I was asked to talk to you about. The topic is "How Much Security Can The Country Afford? The scope is:

"An analysis of the cost of national security and some indication of future needs. A comparison of the methods available to meet these costs as well as an evaluation of their separate effects on the national economy. A consideration of the relationship of gross national product and Treasury revenues and of productivity and economic growth. The long-run effects of a large public debt."

I thought when I saw this list of an old story about an Arabian prince whose father, the Shiek, gave him on his 21st birthday a harem consisting of 45 magnificent women. A day or two later the Sheik met

his son in the corridors of the palace, and the son seemed rather troubled, almost downcast. The father said, "Son, what is the trouble? Didn't you like the present that I gave you?" The son replied, "Oh, no, Dad. It's not that. I'm just mad for the present." The father said, "Well, why is it that you look so troubled?" The son replied, "It's just that I don't know where to begin."

The best way to begin discussing as vast a topic as this is, I think, to give as direct an answer as I can to the question that forms the main subject matter: "How Much Security Can the Country Afford?" The answer, it seems to me, is as simple as it is obvious. We can afford as much security as we need. To put the matter even more bluntly, the United States can afford to survive. We can afford to devote at least as much resources to our own survival as the Soviet Union can to our destruction.

This, of course, doesn't dispose of the matter, for it is still true that defense has its costs, however necessary these costs may be. The costs can be measured in the first instance in terms of money, which is to say in terms of spending that has to be foregone for some other purpose--for personal consumption, for business investment, for education, or for other social needs. But these costs must also be measured in terms of their effect on the overall health of the economy and of the society. This, I think, involves two rather specific questions.

Firstly: What effect does a given level of defense spending have on the rate of growth of the economy and on its capacity for future growth?

Secondly: Is the cost in the form of taxes paid and consumption foregone more than the American people are willing to pay? Are there, in other words, economic constraints, or are there political constraints, on the amount that we can spend?

Let me address myself first to the question of how defense spending affects the growth and overall well-being of the economy. From the postwar to date, I think the evidence is unequivocal. There simply are no grounds for arguing that defense spending or the high personal and corporate taxes that this spending has evoked have stunted economic growth or impaired the incentive to invest which is essential to growth in the future. The fact is that the economy, as measured by its gross national product, has grown at a somewhat faster rate during the postwar than the long-term average, and, despite the widespread impression

that a disproportionate share of output has been going into services rather than into goods, the fact is that industrial production has actually been growing about 10 percent faster than gross national product or total output of goods and services, faster also than its own long-term average.

Even more important from the standpoint of the economy's capacity to grow, productivity, defined as output per man hour, has also grown at a faster rate during the postwar than its long-term average; that is, by 3 percent a year, against a long-term average of 2.5 percent. What makes this so important is that productivity is the principal source of economic growth. The quickened pace of overall economic growth in the postwar has stemmed from an acceleration in the rate of productivity growth rather than from any fast growth in the labor force. The latter, in fact, grew very slowly. Nor is there any evidence that the high and seemingly punitive levels of taxation that heavy defense and other Government spending have required have impaired the investment process on which growth also crucially depends.

On the contrary, business corporations, which are the most heavily taxed of business firms, have actually invested a slightly larger share of their total output in new plant and equipment during the postwar, when the tax averaged 52 percent, than they did in the low-tax days of the 1920's.

So much for what happened. The more important question is what effect rising defense expenditures will have on the economy in the foreseeable future. The question takes on added importance, for it seems clear that, barring some agreement on disarmament, defense spending will have to rise if we are to enjoy any security at all. One reason is the steadily rising cost of military weapons. I am referring not just to inflation per se but to the steady increase in the prices of defense goods relative to other goods. This means, that even if we can contain inflation in the economy at large--and I think we can--the price of defense goods would continue to rise.

The more important factor, however, is the incredibly quickening pace of technological development which makes weapon systems obsolete before, almost, they can be deployed. The late Secretary Quarles used to quip that if it works it is obsolete. One useful measure of the cumulative effect of these two factors is that, although the Armed Forces have been cut by nearly 30 percent in the past seven years, spending now is just about where it was then.

To get even more specific, the Administration has been increasing outlays for retaliatory power by about \$1.5 billion a year. It has been able to hold overall defense costs relatively stable over the past several years only by trimming our capability for limited war--for example, cutting troop strength. But these savings obviously cannot go on indefinitely short of disarmament. It is likely, in fact, that the limit has about been reached.

Given the rising cost and the quickened pace of innovation, therefore, spending on defense would have to rise from about \$46 billion this year to perhaps \$54 billion in 1965, and to \$61 billion in 1970, merely to keep our strength at the current levels.

These projections, then, can be taken as a kind of rough minimum. It is here, of course, that the disagreements begin. A good many responsible people believe, and believe very passionately, that we must step up our spending very much more than that if we are to survive. Let's consider, for example, what the cost would be of carrying out the major proposals of the so-called Gaither and Rockefeller Committees. Their proposals can be summarized under two main headings: Increasing our Deterrent Power, and Increasing our Capacity to Fight Limited or Brushfire Wars.

Increasing our deterrent power in turn involves defensive as well as offensive measures. The former includes such programs as hardening and dispersing the existing SAC bomber bases, instituting an airborne alert, stepping up research and development on reconnaissance satellites and early warning systems, and starting construction of fallout shelters and other forms of passive civilian defense.

The offensive measures would include a substantial increase in the number of ICBM's in hardened and dispersed bases, acceleration of the Polaris submarine program, and reenforcement of the bomber force until such time as missiles are able to take over.

Strengthening our limited-war capabilities would also involve a large number of separate measures; most notably, expansion of airlift capacity, reequipment of ground forces with new tactical conventional as well as nuclear weapons, expansion of the Navy's carrier force, and some expansion of Army and Marine Corps troop levels as well.

Just this partial list of the measures which critics of present military policy believe are necessary suggests the enormous costs that would be involved. Keeping just 10 to 15 percent of the SAC bomber force in the air, for example, would involve an additional \$2 to \$3 billion a year to pay for the higher operating costs--fuel, and other things--for additional personnel that would be required, and for additional spare parts and the more rapid replacement of the planes themselves.

The whole program outlined above, as nearly as we have been able to judge from an attempt to price out each separate part, would require an expansion of defense spending from the current \$46 billion, roughly, to \$65 billion in 1965, at the latest; that is, by \$4 to \$5 billion a year. No one, of course, is proposing that this rate of increase go on indefinitely. Once the recommended levels were reached, spending could level off, rising at perhaps a billion or so a year to roughly \$70 billion in 1970.

These figures, then, can be taken as a kind of rough maximum of our defense needs, maximum in the sense of what seems both necessary and possible, rather than in the sense of what might profitably or usefully be spent. In working out our own projections of the future course of the economy, we at "Fortune" struck a balance between this big defense program and our extrapolation of the Administration's program. We assumed, therefore, a physical volume of defense needs of roughly \$60 billion in 1965, and \$65 billion in 1970. Since we believe that the relative price of defense goods will rise during the 1960's--that is that the price of defense goods will rise even though the price level as a whole remains steady--this works out to about \$61 billion, or a little more, in 1965, and \$68 billion in 1970, in actual dollars.

Let's see now what these levels of defense spending might mean for the economy. To do that, we need some picture of how fast the economy itself will be growing. There are, to repeat, basically only two sources for expansion in total output--on the one hand an increase in the labor force, that is to say, in the number of people available to work, and on the other hand an increase in productivity, that is to say, in the amount that each person produces.

The former, the labor force, will be expanding very much faster during the 1960's, than it did during the 1950's, when it was held down by the birth rate back in the twenties and thirties. The babies who weren't born during the twenties and thirties, that is to say, were not available to enter the labor force during the 1950's. Now, however, the huge rise in

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the birth rate during and after World War II is beginning to be felt, and so total man-hours worked (allowing, in other words, for some increase in vacation times, and so on), are likely to rise at the rate of about 1.2 percent a year during the 1960's, compared to only about one-half percent or .6 percent in the period since 1947.

Even more important, there is every reason to expect that productivity, or output per man hour, will continue to expand during the 1960's at least as fast as it did during the forties and fifties--that is to say, by 3 percent a year. Adding the two together, we get a probable growth rate for the whole economy of 4.2 percent a year, compared to an average rate of increase of 3.5 percent a year in the period since the end of World War II.

This in turn means that the gross national product will rise from \$479 billion last year and about \$513 billion this year to \$615 billion in 1965 and \$750 billion in 1970.

Let's take another look at our projections of defense spending, therefore, in the light of these projections of total output. If the economy grows as we expect, our projection of a one-third rise in defense spending in five years, from \$46 billion to \$61 billion, could be purchased at the cost of only about a 10 percent rise in the proportion of national resources going to defense. The share, that is to say, would rise from 8.9 percent of gross national product this year to 9.9 percent in 1965, which is no more--in fact, slightly less--than defense took in 1957, when the burden certainly didn't seem intolerable. And the share would be nearly one-third less than it was in 1953, at the peak of the Korean War expenditures. After 1965, moreover, on our projections, the share of output going to defense would decline, reaching about the current level by 1970.

Before you relax completely, let me assure you that the picture is not quite as comforting as this sounds so far. Like defense, rapid economic growth also has its price. That price is a disproportionate rise for a time in industrial investment and in what might be called social investment. The rapid growth that can be expected in the labor force, together with the drive for higher productivity, will generate and, in fact, require a very heavy volume of business investment in new plant and equipment. Thus, capital expenditures would probably rise from about \$48 billion this year, or 9.6 percent of gross national product, to \$69 billion, or 11.2 percent, in 1965.

Investment in health and education also contributes importantly to the expansion of productivity, and such social investment will also be rising fairly rapidly for the next few years.

What this means is that the heavy investment spending required by economic growth and the heavy defense spending required by national security will both be concentrated in the next three to five years. It is this combination of circumstances that will put a strain on consumers, for consumption under these circumstances would necessarily have to grow more slowly than the economy as a whole; that is to say, no more than 3.5 percent a year from now until 1965, compared to an average of 4.2 percent a year expansion in total output.

This difference between consumption and total income would be funneled into defense and investment spending through the progressive income tax system, through the depreciation provisions of the corporate tax system, through rising school and gasoline and social security and other kinds of taxation, as well as by rising personal savings.

Since population will also be rising, a 3.5 percent a year rise in total consumption implies an increase in per capita consumption of about 2.2 percent a year. For a large number of people, the increase would be less than that, perhaps no more than 1.5 percent a year, because, part of the gains from rising productivity and output have to go for what might be termed "mobility grease" to provide rapid increases in income to people whose skills are rising very rapidly and who therefore are key people in the rise in total output.

Even so, Americans will be improving their living standards at a faster rate during the next five years than they did over the past decade when per capita consumption rose at an average of 1.7 percent a year, against the 2.2 percent overall average that we see for the next five years. Even if the maximum Gaither-type program were adopted, it would mean that real living standards could continue to rise, although at a rate a little below that of the past decade.

By the middle of the 1960's, however, both defense and investment needs on any set of projections will level off and, therefore, consumption will begin to rise at a very rapid rate, faster, in fact, than the rise in total output.

What all this means is that the price for adequate security plus economic growth will be steep, but certainly tolerable, if not actually easy to bear. There are, in short, no real economic constraints on our spending as much on defense as seems necessary.

One key question remains, however--whether there are any serious political constraints on defense spending. Will Americans be willing to pay the price? Will they be willing to give up between one-third and one-half of the gains from rising productivity in order to finance a higher defense program? Or are there expectations geared to a faster rise in consumption and in living standards than rising defense spending would permit? If so, can they be persuaded to accept less?

There is a widespread impression, of course, that the answer to the last question is no, that Americans are not willing to pay the price. Indeed, the one point on which liberals and conservatives seem united these days is a belief in the moral flabbiness and insistent self-indulgence of the American people. It is a cliché of our time that Americans have become a nation of nouveau riche, pouring more and more of their rising incomes into big-fin Cadillacs, pleasure boats, swimming pools, and other frivolities, and begrudging every dollar that goes out or that is requested for such serious matters as defense, education, medical care and so on. This picture is certainly familiar. It also happens to be badly overdrawn.

The fact is, that, for all their wealth, Americans spend their incomes in a remarkably sober fashion. Last year, for example, their after-tax incomes ran to \$336 billion. Three-quarters of this was spent on food, clothing, housing, and transportation, leaving \$84 billion for everything else. The great bulk of this remainder, moreover, went for eminently sober purposes--\$24 billion for savings, \$19 billion for private medical care, \$4 billion for private education, \$17 billion for personal business--that is to say, bank service charges, interest on loans, insurance premiums, and the like. That left only \$16 billion for fun, for admissions to movies and sporting events, for athletic equipment, for playing sports, for books, magazines, foreign travel, and so on. This figure, of course, understates the full amount that Americans spend on recreation and leisure. A good deal of spending for the operation of automobiles and other forms of transportation, and much that goes for housing, home goods, and even for food, must also count as fun. If we track down all the pleasurable spending that Americans do, the fun market comes to \$41 billion. But the significant fact that emerges is that spending for recreation and leisure has grown no

faster than consumer income in the postwar, whichever definition is used. In fact, if we take the broader definition, including every conceivable form of recreational and leisure spending that brings us up to \$41 billion, we find that the proportion of income going in this way is actually lower now than it was in 1947.

On the other hand, consumers have been expanding their spending for private medical care, education, religion, welfare, and personal affairs very much faster than their incomes, and so the share of income going to these quite serious and sober purposes has been rising very rapidly. The share, on all the evidence, is almost certain to keep rising in the 1960's, and so will continue to squeeze recreational and leisure spending.

For all the talk about misuses of prosperity, therefore, it appears that Americans are reasonably sober, responsible people after all. In fact, these figures don't begin to show the sobriety and responsibility, for, within the total of recreational spending, there has been a very important redirection of spending. What has given the general impression of a tremendous boom in spending for fun is simply that Americans have shifted from spending on passive forms of recreation to spending on very active forms of recreation. There has been a tremendous boom in boats and in golf and in bowling. But these are what you might call serious, in the sense of purposeful and active, ways of spending leisure time. Spending on commercial athletic events, spectator sports, has actually declined. Spending for theater, concerts, and opera has gone up very very sharply. Spending on alcohol has gone up 7 percent since 1947, in a period in which personal incomes went up about 2.5 times.

So that it is not simply that Americans have maintained or increased their spending for serious purposes very much faster than for self-indulgence. Even within the overall pattern of self-indulgence, we get a picture of seriousness of activity, certainly not of any growing flabbiness or passivity. And so it would seem that the American people are, as I say, reasonably responsible. They may grumble about high taxes and resist the suggestion that taxes be raised, but the most objective measure of a people's sense of value is the way they allocate their incomes.

If, therefore, the American people resist or resent the sacrifices that they are asked to make for their own survival, the reason, I submit must be a failure of leadership, and not any inherent weakness or flabbiness in the American character. If this be true, then there can

be no real political constraints on our spending as much as we have to spend on the national security. Bold and imaginative leadership, I submit, can persuade the American people to accept whatever sacrifices must be made to provide for their own and the free world's safety.

One last point before I close: Because of the limitations of time in analyzing a limitless subject, I have not dealt with the problems of the Federal budget and the management of the public debt. My optimism generally should not imply that there would be no problems in this respect. There are, after all, limits to all things, even the best. But the chief problem, it seems to me, is not fiscal or monetary. It is to persuade the American people to devote however much is necessary to provide for the national defense and for essential nonmilitary functions, like education.

The fiscal job may even be easier than it seems for the Federal budget, after all, contains some gross and horrible examples of waste. The most indecent, as well as the most durable, is the farm subsidy program. But it seems to me that a nation which has been aroused to a sense of sacrifice will easily accept, indeed might even demand, that profligacy of this sort be ended. Sharply rising defense expenditures, therefore, could be cushioned by a reduction in farm subsidies and in other forms of pork-barrel expenditures.

If we were to adopt a crash program, moreover, it might also be advisable to ease the adjustment for the very brief period of time through some expansion of the national debt, as well as through higher taxes. There is no reason why we must meet all of our needs through immediate taxation provided we take the proper precautions at the same time. It would be necessary, that is to say, to increase the savings of the public at large enough to offset the inflationary pressure of a Government deficit. This could be done through selective credit controls to limit the growth of private debt and through bold and imaginative management of the Federal debt. Limiting the term of installment and mortgage credit, for example, would force people to defer the purchase of new cars and new homes. This in turn would produce a substantial, though not necessarily a proportionate, increase in real savings.

The Treasury has already shown in the past few months how much leverage can be exerted on personal savings through the magic of a 5 percent yield. If it were necessary to step up defense spending by \$5 billion a year, or even more, for a few years, in order to get a new plateau, the Treasury, just for example, might very well issue a special

series of 5 or even 6 percent savings bonds to be paid for through payroll deductions and with other safeguards to make sure that the bonds were not concentrated in the hands of a few wealthy people. It might at the same time announce that this new rate would apply only for the duration of the national emergency; that is to say, for three or four or five years, with interest rates to return to a more normal lower level after that.

The response to such an appeal and such an opportunity for savings by a people already aroused by its leadership to the dangers that exist would, I am convinced, be overwhelmingly favorable, and thus would avoid the danger of inflation.

And so, let me conclude as I began, by asserting as strongly as I know how that this country can afford as much security as it needs.

Thank you.

COLONEL REID: Mr. Silberman is ready for your questions.

QUESTION: Sir, would you review for us and evaluate the arguments advanced by the current Administration as to why we should maintain our spending at the current level?

MR. SILBERMAN: I'll try to reproduce the arguments. I think basically the Administration is convinced of two main points--one, any substantial increase in spending would put a strain on the economy which would weaken its capacity to grow and therefore weaken its capacity to resist the Soviet in what everyone must assume will be a very long period of strain and pressure. Secondly, the Administration feels that our economy is being weakened by inflation and that inflationary pressures can be contained only if the budget runs a surplus rather than operates just at balance or at a deficit. Within this, the Administration would seem to be convinced that the current level of spending is adequate to maintain our security so that, given this adequacy, fiscal, monetary, economic considerations should prevail.

In terms of an evaluation, the only thing I can add really to what I suggested in my speech is that, if we are engaged in a long struggle with the Soviet, we must assume that their economy is being put under strain as well as our own. I would argue that the strain on the Soviet is very much greater at any level of defense spending, from the current

on up, than the strain on our own. For one thing, their total output is a lot less. More importantly, perhaps--the consensus among the Soviet experts whose opinions I respect--is that the Soviet economy is entering a period of major crisis, or is in a period of major crisis, for several reasons:

The growth in output in the Soviet in the past has stemmed, not from increases in productivity in the real sense, but rather from shifts of man-power from agriculture to industry. This has the effect of raising apparent productivity, simply because the level of productivity, output per man hour, on the farm is a fraction of what it is in the factory. But there has been relatively little increase of productivity at either place, either on the farms or in the factories. They have reached the point where they can't get any more increase in output from this source. If anything, manpower has to be shifted back to the farms. So that growth in the future can come only from increases in productivity.

This in turn raises a problem of incentives. The way you get people to produce more is, at least in part, by making it worth while to do so. This involves more than the problem of incentive pay. The Soviet has done this in the past through incentives, but incentives mean nothing unless they can be used to buy things. If you are going to spread incentives around on a broader scale, the people who receive them have to be able to buy something with the money. This requires an increase in the production of consumer goods. It therefore means a reduction in production of capital goods, which tends to slow down the rate of growth. So that there is this terrible conflict of goals. In order to increase efficiency, they have to provide the incentives, which means cutting down growth and increasing the amount of consumer goods.

The problem is made even more intense by the fact--there was an article in the "New York Times" yesterday commenting on a recent Soviet census--that there is going to be a terrible shortage of workers in the next 5 to 10 years. The Soviets are going to have a small increase in the labor force because of the tremendous casualties they suffered during World War II, which in turn cut down the marriage rate and the birth rate very sharply in the immediate postwar period.

Anything that creates a strain on our economy therefore, is going to create a greater strain on the Soviet economy. So that, I think, in discussing the impact of defense spending on our economy, it has to be also analyzed in terms of the comparative effect on the Soviets.

QUESTION: Mr. Silberman, your comments point very definitely to the need for longer-term planning in our fiscal policy and for current commitments relatively farther in the future. What prospect is there to have such planning in the place of the hand-to-mouth existence of our present annual budgets, regardless of what form it might take, whether it would meet your objectives or others that might be offered?

MR. SILBERMAN: It's a hard question to answer. I don't think realistically there is any serious likelihood of a major change in the budgetary process in terms of creating long-term commitments. Constitutionally spending is a congressional prerogative, and I don't see any likelihood that Congress will give this up. I think one can get around this in a sense, by the way the executive branch handles its program, by creating a sense of need, of emergency, and therefore making it easier to get appropriations.

I think we have done this in a sense, and we have created a situation in which Congress certainly accepts the need for at least the current level in the defense budget. We have done it in foreign aid. But I think a fatal weakness in Administration policy was several years ago in cutting down the appropriations very sharply in a period when it was not cutting down the actual spending, in order to balance the public books, so to speak. Then, when the pipelines were dried up and it was necessary to increase appropriations sharply, in order to maintain roughly the same level of spending, it was tough to do it, because Congressmen were using the same arguments that had been given to them, in effect.

So I think all that can be done is to adapt to the political mechanism that we have and try to present programs in terms of long-run needs, so that there is among the responsible people a realization of what the requirements are and it becomes easier to get them through. I think the bulk of the people in Congress are reasonably responsible. There may be some who are not, but most of them are responsible people.

QUESTION: In considering this program that you consider is feasible through 1965 and 1970, it seems that in considering the national political situation we are about five years too late. In other words, I can envisage in the next five years perhaps being pushed around to a new line to hold while we are building up to this thing you recommend. What is your reaction to that conclusion?

MR. SILBERMAN: I think time is running out, but I don't think it is too late. I think there are measures which can be taken fairly rapidly to protect what we have. The critical problem is protecting what we have, protecting the existing deterrent force. While a lot of the things take time, you can get a fair amount of dispersal and hardening of bases in a fairly short period of time if you put it on a crash basis. You can get some of the SAC force up in the air in a fairly short period of time, because the critical period, as I understand it, is not now but 1961 and 1962. So that we do have a little leeway in terms of the deterrent. In terms of limited war forces, this would take longer, certainly, to build up. But we do have something with which to play at the moment. I don't think we have reached the point of no return, really. I hope that this view is not because I don't have enough up-to-date information.

QUESTION: Sir, for the past seven years we have been subjected to an educational campaign on the part of the Administration with reference to inflation. We have had previous speakers on this platform say that they felt that perhaps a little inflation might be helpful. To get to one of the points which you made in your talk, you stated that one of the methods that might be used to hold down inflation during the period of emergency was to sell 5 percent bonds, 6 percent bonds, et cetera. What is that going to do when this period is over and all this money and liquid assets are available for the consumer to spend and there are not enough consumer goods for them to buy?

MR. SILBERMAN: There are two things. One, there is no reason to assume necessarily that all of these bonds would be cashed in immediately. I mentioned this not as a panacea. I am not an authority on debt management. I mentioned it simply as a kind of for instance, an approach that, it seems to me, might be workable. The bonds could be long-term bonds--10 years or whatever period of time seemed proper. So that only some proportion of them would be cashed, let's say, at the duration of the emergency.

Now, you might make a provision that they couldn't be cashed for some period of time, or sell them in varying series, which would therefore defer the possibility of pressures being unloaded at one time. These involve technical problems of debt management. In terms of inflationary pressure five years from now, this would be the period in which on our analysis, defense spending would be able to level off and investment requirements would also level off. The period of pressure is the next five

years. For the five years after that, consumption, which means production of consumer goods, as well as spending, would be able to rise faster than total output. So that the pressures would be very, very much less.

If it appeared at the time that people were cashing in the assets that they had accumulated during the period of emergency, why then it simply would be necessary to take further action to siphon off this excess income by credit controls or what have you. If people had deferred buying cars and houses, and all of a sudden in 1965, as they did in 1955, started buying cars and houses like crazy, we could reimpose, or continue, selective credit controls on consumer installment credit and on mortgage credit, and squeeze these markets.

I see no problem that could not be dealt with. This is not to say there would not be a problem but simply that I see no reason why it would not be manageable.

QUESTION: Dr. Silberman, I would like to discuss the gross national product for a moment. We have had a series of speakers on this platform, including yourself, who talk in terms of over \$400 billion, up to half a trillion, as the figures indicate. You indicated that something less than \$40 billion were being spent for amusements. Let me cite a figure of \$50 billion that was quoted in the "Ladies Home Journal" as that which is being spent on beauty this year, on forms of fashion, where you can buy a pair of \$2 shoes with the proper label in them for \$25, and the money that has been spent for advertising for lipsticks, and for all sorts of frills. It has been stated that we spend more money for our children's toys than we do for our own college education. I wonder if there has been any serious attempt on the part of the economists to compare our real gross national product, that which is meaningful from a military or defense standpoint, with that of the Soviets.

MR. SILBERMAN: Yes, there are three or four volumes which were just published in the last couple of months by the Joint Committee on Economic Report, containing papers by a whole string of leading experts on Soviet and American economies, comparing U.S. and Soviet levels, growth rates, and so on. I think that we tend to exaggerate the waste in the economy. Certainly, there is an awful lot. The crucial question, in my judgment, is not what the level of waste is but whether it is getting better or worse, because this is what is crucial in terms of what we can do. Are we wasting a larger proportion as we get richer

or are we wasting a smaller proportion? The evidence, I think, is overwhelmingly that we are wasting a smaller proportion. We have been increasing the share of our incomes going to education, private and public. I was dealing only with private expenditures, but State and local expenditures, which are where the bulk of spending on education and medical care are concentrated, have been rising very much faster than the gross national product or personal income, as anybody who owns a house almost anywhere can testify. My school taxes have doubled in the last four years; my income hasn't. So that certainly it would be naive to argue that there is not a lot of waste in a society as rich, comparatively speaking, as the United States is.

The crucial question is: Are we wasting a larger and larger proportion? The answer has to be that we are not; that we have increased our spending for schools. The Twentieth Century Fund made a mammoth study a couple years ago called "America's Needs and Resources," and they estimated what our requirements were in education, in medical care, in welfare, and so on. As of the year 1950, they found that there were terrible deficiencies in education and in medicine--to take the two most important and most glaring measures. Just since 1950 we have made good more than half of the deficiency on their estimates in both education and medical care. Teachers' salaries, for example, have been going up faster than almost any other category of pay. This is not to say that teachers are getting paid as much as they should. But the differential between teachers' pay and that of others is very much narrower than it was a few years ago. The classroom shortage is less severe than it was. The shortage of hospital beds is very much less severe than it was--and so on down the line--in both public and private spending. We have been doing quite a good job of catching up with what in a value judgment you might say we ought to be doing. Not to say we are doing as much as we should--we are not. But we are getting better; not worse.

QUESTION: You mentioned the need in this situation for stronger leadership, dynamic leadership. I sort of get the impression from reading some of the Luce publications that we already have that. Maybe this illustrates the need for something else. Did not Mr. Luce participate in the development of the Gaither Report?

MR. SILBERMAN: He did in the Rockefeller Report.

QUESTION: Sir, you made some comments about the subsidy to the farmers. I happen to come from Wisconsin and Ohio. I am a little bit of a Republican in farming background. I might mention in passing that my grandfather was a successful farmer. He put five children through college. These children have had 16 children, none of whom is in farming. They have found better ways of making a living. I use that only to suggest that maybe some of the subsidy is not quite as evil as you hinted, and perhaps you haven't got many readers in the farming district. I know I didn't see "Fortune" until I made lieutenant commander. Now I will get on to my point and let my Republicanism show. Hidden in the \$40 billion defense budget I strongly suspect--since I have been in contracting, procurement, buying, and researching for 10 years now--that there might be \$6 billion of support to representatives, to unnecessary, and some of them even trashy, magazines, that are called the industrial symposium on military electronics--trivia which have been published--if you have watched the trade publications come up and triple in the last few years--and, finally, to salaries to the young whip-persnappers just out of college getting \$500 to \$650 a month, who are called engineers and technicians; and we are creating somewhat of an engineering shortage. Maybe that didn't exist, but we created it with our own military defense dollar. I think, therefore, that maybe your research staff can look and see how much of the \$40 billion for defense is producing anything for defense, and how much is subsidy to a part of our culture, including magazines, even.

MR. SILBERMAN: I don't think much of it goes to magazines; at least it doesn't get distributed around. I think you are right that the waste that is in the defense budget is the kind of waste that is politically most difficult to remove. There is undoubtedly a substantial amount of waste. I don't know how much. I wouldn't want to put a precise figure on it. The waste, however, is not the waste that people generally talk about when they talk about the waste. The waste is not, let's say, in having two or three or four, or even a half-dozen different approaches to a given weapon system going on simultaneously. This isn't waste. I would argue that this is economy because it is impossible to determine in advance which weapon system is going to work, and experience generally in the past has been that whichever one a sane and sound-thinking man ruled out as impossible is the one that turned out to be the most effective. This I understand is the case with the first atomic bomb. Had we followed a policy of economizing by eliminating so-called duplication it might have taken us three or four years and many billion dollars more to develop the bomb. The same thing was true with radar.

I think we cut down on alternatives when it is too soon to do it and we fail to cut down when it is too late. At the point at which we should go with one system we fail to do it because politically there would be too much objection from the districts in which employment might be cut down. At the early stage, when duplication is not expensive and might yield a cheaper alternative or an alternative sooner, we dump.

The big waste, however, is in the unnecessary bases and hospitals and things of that sort, which are maintained because the Congressman in whose district the base or the hospital is located is unwilling to let it go, and very frequently, the same man who is loudest in attacking military waste is the guy who refuses to let a particular base or hospital be eliminated.

So that I think that, if there were a sense again of emergency and sacrifice created by leadership, at least some of this waste could be cut out particularly if there were some national exposure, let's say, of log rolling at the defense level. It's pretty tough. It is not accidental, certainly, that we have two defense budgets--one for ordinary procurement and one for construction, because the construction is so crucially important to each individual district.

So I'd say, sure, let's get as much of that out as we possibly can. On the farm subsidy let me say just briefly two things: One, which is a rather cruel, harsh judgment is, the problem of American agriculture is that we have too many farmers. We have more than we need, several million more than we need, to produce the food that we have, because efficiency has increased. This poses a dreadful problem for the people who have to get off the land. I did not suggest or did not mean to suggest that there should be no assistance to these people. I think it would be socially unacceptable to simply say, "All right, scram," without any assistance in adjusting. We do, after all, have unemployment insurance for wage earners who are thrown out of work, and we do have Federal employment agencies to help them find jobs and relocate. I think we ought to have more of this to ease the burden of adjustment. But one has to draw a sharp distinction between preventing the adjustment from being made and making the adjustment personally and socially tolerable when it is made.

What is so evil about the present farm program, it seems to me, is that the money is not going to the small farmer who is forced off the land. The bulk of it is going to the large wheat and cotton farmer who doesn't need it, or who doesn't need it any more than any other business

corporation needs a subsidy payment. So I would say, sure, let's keep some. You can't simply go from 6 billion to nothing without creating human strains that simply are intolerable.

QUESTION: My question goes further to getting more miles out of the defense dollar. If a proper sense of urgency were developed to see that wage and price freezes or controls might be considered to reduce the inflationary trends, do you consider this feasible in the cold-war situation? If so, for how long do you think such a freeze or set of controls might remain in effect before negative growth factors might take hold?

MR. SILBERMAN: I don't think it would be necessary in any context in which I have been talking or in which anyone that I know of has been talking. To get up in three years, let's say, to the kind of levels that the Gaither Committee was talking about, I don't think would require anything as drastic as wage and price controls. It would create inflationary pressures because of the sharp reduction in consumption that would have to be imposed in order to swing it, but I think that these pressures could be contained by aggressive fiscal and monetary policy, by selective as well as general credit controls, and by whatever kind of debt-management policy is needed to siphon off funds from consumption into the purchase of Government bonds, so that we would not have to go into controls which would create all kinds of problems of adjustment. The things that I have suggested do not interfere with the way the market functions, basically, and I see no reason to do so unless there is some overriding need.

COLONEL REID: Mr. Silberman, on behalf of the Commandant and the student body, I certainly want to thank you for your presentation to us today. I know you were a little worried about walking around taxicabs in Washington after you had made your presentation, but I think some of the members of the class would certainly be glad to escort you, because I know they feel quite strongly on the manner in which you have presented the subject. Thank you.

MR. SILBERMAN: Thank you.

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