

Ronald Reagan Presidential Library

Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: White House Office of Records Management:
Presidential Handwriting File, 1981-1989 (COPY SET)

Series II: Presidential Records

Folder Title: Folder 217 (01/16/1986-01/23/1986)

Box: 14

To see more digitized collections visit:

<https://www.reaganlibrary.gov/archives/digitized-textual-material>

To see all Ronald Reagan Presidential Library Inventories, visit:

<https://www.reaganlibrary.gov/archives/white-house-inventories>

Contact a reference archivist at: **reagan.library@nara.gov**

Citation Guidelines: <https://reaganlibrary.gov/archives/research-support/citation-guide>

National Archives Catalogue: <https://catalog.archives.gov/>

373217
AF

THE WHITE HOUSE

WASHINGTON

January 16, 1986

Dear Mr. Minister:

The gift of your book has been delivered to me and I thank you very much. You were more than kind and I'm most grateful.

Nancy and I are fascinated by the great beauty of your Nation as shown in the book. We remember with great pleasure our visit to the Philippines some years ago, but our schedule was such that we had no opportunity to see the countryside and all it's glory.

Again, my heartfelt thanks and very best wishes to you.

Sincerely,

RONALD REAGAN

The Honorable Jose D. Aspiras
Minister of Tourism
Manila
Republic of the Philippines

860117

Philippines Look.

Jose D. Aspiras

MINISTER OF TOURISM
CHAIRMAN: PHILIPPINE TOURISM AUTHORITY
CIVIL AERONAUTICS BOARD
PHILIPPINE CONVENTION BUREAU
ASIAN INSTITUTE OF TOURISM

Republic of the Philippines
Manila

373218
PR003

THE WHITE HOUSE
WASHINGTON

January 16, 1986

Dear Alan:

Talk of brightening a day -- you certainly brightened ours. You were more than kind to pass on those heartwarming comments and Nancy and I are both truly grateful. We are also basking a little in the warm glow and promising each other we won't let it go to our heads.

We hope your holidays were everything you wanted them to be. We had Christmas in Washington with a good part of our family and then, as always, New Year's in Palm Springs which was warm and beautiful.

Again, my thanks.

Sincerely,

RON

Mr. Alan Brown
Box R-4526
A.P.O., New York, New York 09283

Box R-4526
A.P.O., NEW YORK NY 09283

10 January 1985

Dear Mr. President:

I would like to share with you some comments that were in Christmas cards I received this past month. I might add that not one Christmas card was received from any people currently in office, so no one said what they said in order to get any political benefits.

Our mutual friend, former Senator George Murphy, wrote:..."Reagan continues to excel". A retired four-star Admiral commented: "President Reagan did a great job in Geneva -- gave up nothing!". A young civil engineer in California said: "My wife and I are so proud to have a man like Ronald Reagan as President". A young married woman in Washington wrote: "All Americans should be happy and proud that we are represented so magnificently by President Reagan and his superb wife". A retired Marine officer said: "Thank God we have a President with guts!". Another retired Marine(a general) said: "Reagan? Great, great, great, thank God!" (The Marines appreciate God). A California widow, very old, wrote: "The President is noble, firm and clever."

Although I don't know whether you ever see personal letters, or whether they are all handled by some bright assistant who then answers the letters in the "Reagan style", I thought that maybe, somehow, word might leak through to you that your fellow-citizens not only vote for you, but respect and admire you, too.

My respects and warmest best wishes to you and Nancy.

Yours,



Alan Brown

To The Hon. Jose D. Asprinas

Minister of Tourism Manila - Repub. of The
Philippines

Dear Mr. Minister

The gift of your book has been delivered to me and I thank you very much. You were more than kind and I'm most grateful.

Nancy & I are fascinated by the great beauty of your Nation as shown in the book. We remember with great pleasure our visit to the Philippines some years ago but our schedule was such that we had no opportunity to see the country side and all it's glory.

Again our heartfelt thanks & very best wishes to you.

Sincerely RR

To Mr. Alan Brown Box R-4526 A.P.O.
N.Y. N.Y. 09283

Dear Alan

Talk of brightening a day - you certainly brightened ours. You were more than kind to pass on those heartwarming comments and Nancy & I are both truly grateful. We are also basking a little in the warm glow & promising each other we won't let it go to our heads.

We hope your holidays were everything you wanted them to be. We had Christmas in Wash. with a good part of our family and then as always New Years in ~~San~~ Palm Springs which was warm & beautiful.

Again thanks Sincerely Ron

End
Case
File

36606755

THE WHITE HOUSE
WASHINGTON

DATE: 1/16/86

NOTE FOR: FRED RYAN

The President has

seen ☒

acted upon ☐

commented upon ☒

the attached; and it is forwarded to you for your:

information ☐

action ☒

David L. Chew
Staff Secretary
(x-2702)

cc: Donald T. Regan
Fred Fielding
Original to Files✓

The President has seen _____

THE WHITE HOUSE
WASHINGTON

January 15, 1986

MEMORANDUM FOR THE PRESIDENT

FROM: FREDERICK J. RYAN, JR. *FR*
SUBJECT: Eureka College

During your December 2 trip to Seattle, Washington, you had a brief photo in the holding room with 95 year old Harry Casey and his grandson.

We have just learned from the Eureka College staff that Mr. Casey has given them a \$500,000 donation to the Eureka College Reagan Scholars Program.

*Can we find out
Mr. Harry Casey's address
so I can thank him?
RR*

Each
case
File

371567

1R014-08



GANNETT

Questions:

1. What was your first car? - 1934 NASH LA FAYETTE COUPE
2. What was your most memorable car, and why? A jeep I was given
for Xmas by Mommy in 1963 - I'm still driving it
3. Which car would you like to forget, and why? I won't name the
brand but it was a
luxury limo. I was the
driver. I would help open while
I was driving.
4. What type of car do you own now? - JEEP, PICK-UP TRUCK
5. What is your ideal car? The one I've had lately. I just
get in the back seat & someone drives
me to where I'm supposed to be.

[illegible]

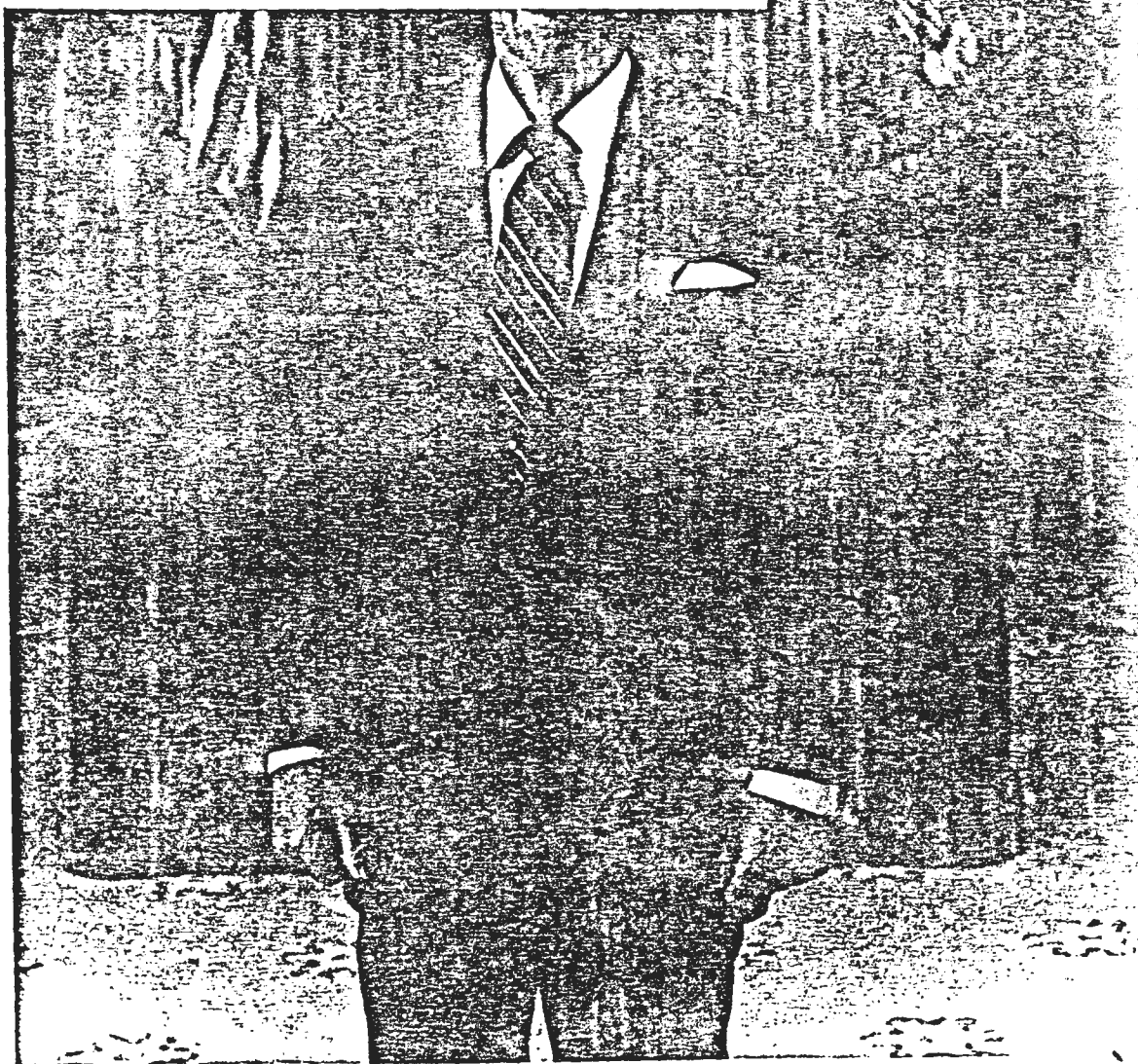
End
case
File

FROM
THE WHITE HOUSE
WASHINGTON, D.C.

379019
P/L 005-01

Mr. Bob Oberreich
200 East Jackson Boulevard
Elkhart, Indiana 46514

860118



To Bob Oberreich - With every good wish,
& Very Best Regards.
Ronald Reagan

To Bob Oberreich

200 E. Jackson Blvd.
Elkhart Ind. 46514

CHUN EXPANDED MEETING (ECONOMIC ISSUES) (A)
(6:00 P.M., 11/13)
(OBSERVATIONS RE VISIT TO DMZ)

- DRAMATIC ECONOMIC PROGRESS.
- WORLD TRADE SYSTEM THREATENED BY PROTECTIONISM, MUST DEFEND.
- BILATERAL ECONOMIC RELATIONS GOOD, GROWING; BUT SOME PROBLEMS. URGE ACCELERATED EFFORT TO OPEN DOMESTIC MARKET TO IMPORTS AND INVESTMENT.
- RECENT ACTION ON IMPORT BARRIERS GOOD; HELPS ME RESIST PROTECTIONIST PRESSURES AT HOME.

(1 of 2 cards)

End
Case
File

379018
NP016

January 21, 1986

Dear Nackey:

Thank you for your letter and for the editorials and news story. Just between us, we are carrying out what we hope is an "ominous silence" for now. Our hands were tied until we could clear the target of those 1,500 or so American citizens. That was what was behind the sanction gesture. Of course not all of them came home, but we are no longer responsible for those who were warned but refuse to leave, so the coast is clear.

I'm looking forward to John Whitehead's report. He's been meeting with our NATO partners these past several days.

Now about Rex; I've informed him he must keep his calendar clear for your future visits. And he's agreed to do so. He's just had his tonsils out but is completely recovered and noisy as always.

Thanks again.

Sincerely,

Mrs. William Loeb
Post Office Box 780
Manchester, New Hampshire 03105

RR:AVH:SEV:pps

RR Dictation

UNION LEADER CORPORATION • 35 AMHERST ST., P.O. BOX 780 • MANCHESTER, N.H. 03105 • 603 668-4321

 SUNDAY NEWS

William Loeb, President and Publisher, 1946-1981
Nackey Scripps Loeb, President and Publisher

January 13, 1986

President Ronald Reagan
#16691
The White House
Washington, DC 20500

Dear Ron:

This letter is late, but may I express my gratitude for the time you gave me while in Washington. Your relaxed and easy mood on a day full of pressures such as that one, December 11th, never ceases to amaze me. It is the secret of your perpetual youth. May I add also that your open friendship is a great treasure to me.

I also want to thank you for your strong support of New Hampshire's Representative Bob Smith in his pursuit of information on the MIA/POWs in Vietnam and Laos. This is an issue dear to the hearts of American citizens and your support will gain credit with them. Note copy of my editorial "A National Disgrace" and our front page story of your backing Bob Smith on the following day.

On another subject, applause is due you on your firm stand against Khadafy and his goons, despite our fair weather friends in Europe. Editorials of November 27, 1985, and January 13, 1986, are enclosed. If we ever needed strength of purpose, it is now and your leadership will provide that, so keep it up.

This is my day for heaping praise (well-deserved) on you, so I end this letter with one word of criticism. You never did give me a chance to meet Rex while in Washington. We'll have to allow for that next time. Best wishes.

Sincerely,


Nackey

NSL:Mrs. S. Raymond
Enclosures

To Mrs. Wm. Loebe - Union Leader Conf.
35 Amburst St. P.O. Box 780
THE WHITE HOUSE
WASHINGTON
Manchester N.H. 03105

Dear Mackay

Thank you for your letter & for the editorials & news story. Just between us we are carrying out what we hope is an "ominous silence" for now. Our hands were tied until we could clear the target of those 1500 or so American citizens. That was what was behind the sanction gesture. Of course not all of them came home but we are no longer responsible for those who were warned but refuse to leave, so the coast is clear.

I'm looking forward to John Whitehead's report. He's been meeting with our Nato partners these past several days.

Now about Rex; I've informed him he must keep his calendar clear for your future visits. And he's agreed to do so. He's first had his tonsils out but is completely recovered & noisy as always.

Thanks again. Sincerely Rex

End
case
File

379045
61002

THE WHITE HOUSE
WASHINGTON

January 21, 1986

Dear Mr. Badger:

Our mutual friend Bob Michel delivered your gift, "The Badger Collection." Thank you very much and thanks, too, for your inscription.

You brought on a warm wave of nostalgia with those Dixon homes plus the addresses. I went through the book with great interest and enjoyment. Again, my heartfelt thanks.

Sincerely,

RONALD REAGAN

Mr. David Alan Badger
202 South Plum
Havana, Illinois 62644

To Mr. David Alan Badger
Havana Ill.

(Maybe Congressman Bob Michel has his complete address)

Dear Mr. Badger

Our mutual friend Bob Michel delivered your gift, "The Badger Collection". Thank you very much & thanks too for your inscription.

You brought on a warm wave of nostalgia with three Dixon homes plus the addresses. I went through the book with great interest & enjoyment.

Again my heart felt thanks.

Sincerely RR

Address: Mr. David Alan Badger
202 South Plum
Havana, Ill. 62644

End
Case
File



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

The President has seen 1/27

36609555
FI001-02

JAN 23 1986

Franklin
RR

MEMORANDUM FOR THE PRESIDENT .

FROM: Jim Miller *[Signature]*
SUBJECT: President Eisenhower's Record on Federal Spending

At last week's Cabinet meeting, you mentioned that President Eisenhower actually was able to reduce Federal spending. The attached data confirms your point, but suggests a couple of caveats.

President Truman submitted an FY 1954 budget calling for \$75.2 billion in revenues, \$81.8 billion in outlays, and a deficit of \$6.6 billion.

President Eisenhower's FY 1955 budget reflected his revisions in the Truman FY 1954 budget: FY 1954 spending was \$6.6 billion lower than what Truman requested. Receipts were also reduced, but the projected deficit fell from \$6.6 billion to only \$0.2 billion, which is the deficit that actually resulted (see Attachment A).

One interesting point is that Truman's FY 1954 budget understated what he would have requested if he had remained in office. As he indicated in his budget message, he felt it would not be appropriate for an outgoing President to include "the cost of new legislation which I recommended to Congress." Thus, his FY 1954 budget does not include the costs of new programs he supported.

A second point, though, is that the bulk of the spending reductions actually achieved by President Eisenhower came in the national defense area and were associated with the winding down of the Korean War.

Finally, as indicated in Attachment B, and explained more fully in a book by OMB spokesman Ed Dale (Attachment C), President Eisenhower's success in curtailing spending was short-lived: Total outlays grew from \$70.9 billion to \$97.7 billion over the eight years of his Presidency.

Attachments

c: Don Regan

Attachment A

January 20, 1986
314:120,102

RECEIPTS FROM AND PAYMENTS TO THE PUBLIC
FISCAL YEAR 1954
(in billions of dollars)

Item	1953 Actual	FY 1954			Difference of Actual from:	
		Truman Budget	Eisenhower (one year later)	Amount	Truman	Eisenhower
Receipts.....	71.3	75.2	74.9	71.6	-3.5	-3.3
Outlays:						
Defense and international..	52.6	54.5	50.7	48.3	-6.3	-2.4
Domestic programs:						
Agriculture.....	3.0	1.9	2.7	2.6	+0.8	-0.1
Veterans benefits.....	4.9	5.2	4.9	5.0	-0.3	+0.1
Other programs.....	<u>12.2</u>	<u>15.5</u>	<u>12.4</u>	<u>11.9</u>	<u>-3.7</u>	<u>-0.6</u>
Subtotal.....	20.0	22.6	20.1	19.4	-3.2	-0.7
Interest.....	4.7	5.0	4.8	4.7	-0.3	-0.1
All other.....	<u>-0.8</u>	<u>-0.4</u>	<u>-0.4</u>	<u>-0.5</u>	<u>-0.1</u>	<u>-0.1</u>
Total.....	76.6	81.8	75.2	71.9	-9.9	-3.3
Deficit (-).....	-5.3	-6.6	-0.2	-0.2	-6.4	---

January 21, 1986

THE FEDERAL BUDGET, FY 1953-1961
(in billions of dollars)

	Truman 1953	Eisenhower's Years							
	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
Receipts.....	69.6	69.7	65.5	74.6	80.0	79.6	79.2	92.5	94.4
Outlays:									
Defense and international..	54.9	50.9	45.0	44.9	48.6	50.2	52.2	51.1	52.8
Domestic programs:									
Human resources.....	11.8	13.1	14.9	16.1	18.2	22.3	24.9	26.2	29.8
Physical resources.....	4.0	2.6	2.7	3.1	4.6	5.2	7.8	8.0	7.8
Agriculture.....	2.3	1.8	3.5	3.5	2.3	2.4	4.5	2.6	2.6
Other programs.....	1.5	1.1	1.0	1.6	1.8	1.1	1.6	2.1	2.8
Subtotal.....	<u>19.6</u>	<u>18.6</u>	<u>22.1</u>	<u>24.2</u>	<u>26.8</u>	<u>31.0</u>	<u>38.8</u>	<u>38.9</u>	<u>43.0</u>
Net interest.....	5.2	4.8	4.8	5.1	5.4	5.6	5.8	6.9	6.7
Undistributed offsetting receipts.....	<u>-3.6</u>	<u>-3.4</u>	<u>-3.5</u>	<u>-3.6</u>	<u>-4.1</u>	<u>-4.4</u>	<u>-4.6</u>	<u>-4.8</u>	<u>-4.8</u>
Total.....	76.1	70.9	68.4	70.6	76.6	82.4	92.1	92.2	97.7
Surplus (+) or deficit (-)..<	-6.5	-1.2	-3.0	+3.9	+3.4	-2.8	-12.8	+0.3	-3.3



Conservatives in Power

A STUDY IN FRUSTRATION

BY

ROBERT H. ROSEN

CHAPTER SIX

THE BOUNDING BUDGET

ON A COLD JANUARY DAY IN 1957 GEORGE MAGOFFIN Humphrey, the ebullient, strong-willed Secretary of the Treasury who had symbolized Eisenhower economic policy in the first four years of the regime, suddenly blew his top. To the enlightenment of the citizenry, he did it in public—at a press conference held in connection with the transmission of the fiscal 1958 budget. Mr. Humphrey said that if the upward trend revealed in that budget continued for long, the United States was bound to have “a depression that will curl your hair.” To put it mildly, he was upset.

The extraordinary Humphrey incident—a Secretary

CONSERVATIVES IN POWER

of the Treasury exploding at his own administration's budget—was, of course, the very epitome of the frustration of the conservatives in power. If George Humphrey did not like the size of the budget, people asked, why didn't he do something about it? If the reply was that the budget was not Mr. Humphrey's direct responsibility, the counter-reply was that the Director of the Budget—then Percival Brundage—was no happier about it than George Humphrey. And the next year, despite Mr. Humphrey's horror, things were to get even worse.

What strange world, then, was this? Wasn't the budget at the heart of an administration's policy—the very expression of what it wanted to do? This chapter will deal with that question. The answer, though familiar to a few experts, is not generally realized by the public. But first, let us take a closer look at why conservatives care as much as they do about the size of the budget.

When Vice-President Richard Nixon was trying in the early fall of 1958 to induce wealthy Republicans to loosen their purse strings for the campaign of that year, he discovered that their major complaint—and their major disillusionment with the conservative administration they had so fervently desired—was over the size of the budget. It had by then risen to a peacetime record of about \$80 billion (the estimate for fiscal year 1959, ending June 30, 1959) on a conventional accounting basis, and a good deal more (about \$94 billion) on the more

The Bounding Budget

meaningful cash accounting basis. This was in contrast with a hopeful pledge by General Eisenhower in his first campaign to aim for a \$60 billion budget on the conventional basis. It was a rise in four years of \$16 billion in the conventional budget and \$24 billion in the cash budget, which includes items like highways, social security, and unemployment compensation that are financed by "trust funds." The unhappiness of the wealthy Republican contributors was understandable.

Why should they care so? Does the size of the budget really matter that much? Or is the conservative emphasis on this point just a reflection of a visceral feeling carried over from the past with little rational validity?

The answer is that the size of the budget *does* matter, though the alleged danger of any given size of budget is obviously open to debate. Conservative, middle-of-the-road, and even left-wing governments all over the world have been grappling with runaway budgets ever since the modern economic era dawned after World War II. No less an institution than the impartial and undoctinaire International Monetary Fund, in its endless quest for world economic stability (which means, among other things, a fair degree of price stability) has laid great emphasis on what the economists call "fiscal policy"—meaning in this context holding spending under control and covering what spending there is by taxation. The famous, and overworked, Republican cry for a "sound fiscal policy" has a genuine meaning.

CONSERVATIVES IN POWER

We have already mentioned briefly the two major reasons why the size of the budget is important to a conservative, and we shall examine them a bit more closely here.

The first is simply that big budgets, all other things being equal, tend to be inflationary. This is almost certainly true *even if spending is covered by taxes*—that is, even if the budget is balanced. The question of deficits will be touched on later, and it is clear that a given budget is much more inflationary if it shows a deficit than if it is balanced. But economists are coming more and more to a view that can be stated as follows: In an economy of a size (as measured by the gross national product) of, say, \$450 billion, federal spending of \$80 billion is likely to give an upward pull to the price level where federal spending of \$20 billion would not, regardless of the amount of revenue. The point is being debated among the experts, particularly as to degree, but there seems little doubt of its basic validity.

A big cause of this effect is fairly obvious. The idea that a balanced budget, no matter how big, will not be inflationary is based on the proposition that a dollar of private spending will be subtracted, by taxes, for every dollar of public spending that is added. But in fact all of that money raised in taxes would not have been spent; some of it would have been saved. Whether this saved money would in turn have found its way into the spending stream via investment depends upon the state of the

The Bounding Budget

economy and other factors, but in general it seems clear that an addition to public spending almost always makes some net addition to the total spending stream.

All of this is particularly true, of course, when the economy is booming and generating its own inflationary pressure (as was true in 1956 and 1957). A big budget in a slump can be positively desirable, because that is the time when more, rather than less, total spending is needed. But then, in theory, the desirable increase in the budget during a slump should be offset by reductions later during prosperity.

The second major reason why the size of the budget is important to a conservative is that, to minimize the inflationary effect described above, the spending must be covered by taxes. *Ergo*, big budgets mean high taxes. Conservatives have a special cause for disliking high taxes, quite apart from the fact that nobody likes them and that conservatives, on the whole probably a bit richer, pay more than a proportionate share. Behind their deep distaste is their belief that high taxes act as a serious brake on economic progress. It was this thought that raised for George Humphrey the specter of future depression.

High taxes are said to discourage incentives, to distort economic "energy" into non-economic pursuits, to "dry up risk capital," to deter investment in the plant and equipment needed to create new jobs, and a number of other dreadful things. Whether they in fact do so is the

CONSERVATIVES IN POWER

subject of an endless and perhaps a little tiresome debate. The figures, as usual, are susceptible of being used to serve the purposes of the debater, and the evidence is in any case mixed. It is reasonably clear, of course, that present tax rates in America have not been high enough to do any major damage so far to our growth and progress; otherwise we should not have grown as much as we have in the postwar period, nor should we have been able to achieve the extraordinary rate of \$37 billion investment in new plant and equipment at the peak of the 1955-57 boom. Still, my own belief is that the conservative view is not without merit. There is a point above which taxes obviously hurt the economy, and Britain may be the best recent example of it.

So much for the conviction—a respectable conviction—that big budgets are bad. But what of the constant series of expert analyses to the effect that the United States can easily “afford” a much higher level of government spending, on defense or on other things? This concept is, in part, a semantic trick, just as the conservative claim that “a sound economy is the first essential of a sound defense” is a semantic trick. What is meant by “afford” and what is meant by “sound economy”? Those who say we could spend much more mean that if we did our economy would not “collapse” (economies almost never do), that the sacrifices which might result in the form of higher taxes or higher prices, or both, would be small in relation to the benefits of the higher spend-

The Bounding Budget

ing. That may be quite true. But the fact remains that there is almost surely a real cost in higher budgets. When the conservative talks about a "sound economy" he means an economy with the present or lower tax rates and a stable price level (he really means a *desirable* economy, in his terms). The United States, the dark fears of Senator Harry Byrd to the contrary notwithstanding, would not suffer any disasters from higher budgets than we have, but in several important respects it would be a worse place to live: both taxes and prices would quite likely be higher, and, depending on where the money was spent, one level of well-being and even our economic growth might well be lower.

It ought to be mentioned at this point that, even granting the conservative position, the size of the budget can be viewed sensibly only in relation to the size of the economy. For one thing, as the economy grows—meaning higher incomes, more profits, and more transactions all around—a given set of tax rates raises more revenue. Thus federal spending can rise gradually over time without any increase in taxes (though of course, as a conservative would quickly note, if spending always rises taxes cannot be cut, either). For another thing, what inflationary effect there is in high federal spending per se is less as the size of the budget in relation to the economy is less. There is little doubt that Americans of the next generation will view with equanimity—and properly so—budgets of more than \$100

CONSERVATIVES IN POWER

billion. But there will still be an important difference between a 1975 budget of \$100 billion and one of \$120 billion. Looked at from any angle, the increase in federal spending from the Eisenhower low of \$64.6 billion in fiscal 1955 to over \$80 billion in fiscal 1959 was so large and so rapid that Mr. Nixon's reluctant Republicans had every reason to feel as they did.

In examining later the question of balanced and unbalanced budgets, we shall trace the early movements of the budget, before 1955. The point at issue here is how the subsequent enormous increase came about. How did the conservatives fail so badly in this central aspect of their doctrine? The answer to this question is of great importance to future American governments and to the future of the economy. There are five—and only five—important parts to the answer, some familiar and some not so familiar.

1. *Inflation*. This must be mentioned first because it affects all the others. It cannot be exactly quantified, of course. How much less would the same amount of defense have cost if there had been no post-1955 inflation? How much less would federal salaries have had to be raised? How much less increase would there have been in various welfare payments partly financed from Washington?

But if no precise dollar figure can be put on this item, there is one rough measure. The national income accounts contain one of those ghastly economists' terms

The Bounding Budget

called "implicit price deflator for government income and product account." It is a measure of the increase in prices for the goods and services (including the services of its own employees) that the government buys. This does not cover by any means all government spending, but it probably covers the great bulk of the spending that is most directly affected by a rising price level in the economy. It shows that between 1955 and 1957 the index of prices paid by the government rose from 103.9 to 115.7—or enough to add roughly \$6 billion to the cost of the goods and services that the government buys.

This \$6 billion shows up most particularly in the defense budget; that is, some of the rise in defense spending to be mentioned below is pure inflation. Next most important, it shows up in the pay of federal employees, which had to be increased as a matter of simple justice. That increase, obviously, is spread through every program of the government. Because the \$6 billion covers only goods and services purchased, it would not find reflection in government benefit programs. But there is no doubt whatever that much of the increase in social security outlays (both those such as public assistance that are included in the regular budget and old-age insurance which is not) is accounted for by inflation. The increases in these programs voted by Congress, usually with the reluctant concurrence of the administra-

CONSERVATIVES IN POWER

tion, were mainly aimed at keeping the beneficiaries even with the game.

We have mentioned before the chicken-and-egg problem involved here: Higher budgets tend to promote inflation and inflation tends to promote higher budgets. Mr. Humphrey discovered this, at some cost to his blood pressure. It was a truth not of his making but was inherent in the very fact of budgets that are large to begin with (the same inflation would have added only \$1 billion to a \$9 billion budget, the highest ever achieved during the New Deal).

2. *Defense.* It was, of course, not the fault of a conservative administration that defense technology should have accelerated at such a fantastic rate and that complicated weaponry naturally costs more than simple weaponry, quite apart from the effect of inflation. Nor was it the fault of the conservative administration that for the first time in history the American defense posture had to reckon with the possibility of immediate destruction of this nation.

The Republicans took office when the Korean War—and the steep mobilization curve of procurement that accompanied it—was about to end. Defense spending reached its peak of \$43.6 billion in fiscal 1953, the last year of the war, and dropped quite naturally over the next two years to \$35.5 billion in fiscal 1955, a level that was essentially unchanged in fiscal 1956. This can be said to be the “plateau” of peacetime spending on

The Bounding Budget

which the Republicans started. By fiscal 1959 the total was up to \$41.2 billion.

Needless to say, the most common complaint about the Eisenhower defense budgets has been that they were too small—an issue beyond the scope of this book. A quite opposite complaint, gradually diminishing in intensity with rising hopelessness, is that there is too much “waste” in defense spending. Of course there is. But surely one firm conclusion from the first conservative regime in two decades is that nobody on earth can make the “waste” significantly less. The Republicans tried, and they had some small successes. But the fact of the matter is that no human institution can spend \$40 billion efficiently, and we might as well learn to live with that fact. In my view, one of the most dangerous canards abroad in the land is the allegation that we could have the same defense for much less money if only the Pentagon were more efficient; it is dangerous because it leads to pressure to cut defense appropriations in the belief that only “fat” and not “muscle” will be affected.

Parallel with the increase in direct military spending—and resulting from essentially the same causes—was an increase of \$900 million in atomic energy spending between fiscal 1955 and fiscal 1959. A little of this represented the new program of peaceful uses of the atom, particularly for power, but most of it was inflation and the need for more complex weapons. Thus, together,

CONSERVATIVES IN POWER

defense and atomic energy account for more than \$6 billion of the total increase. It was an increase that obviously was beyond the control of the administration, though there is no doubt that administration decisions kept it from being even greater.

3. *Interest.* Here again the paradox. The conservatives quite rightly used "tight money" in the attack on inflation, of which more later. But one result was bigger budgets. The total expenditure for interest on the national debt depends on the size of the debt and the level of interest rates. In the period in question, the only important variable was the level of interest rates, the total debt being relatively stable. Spending on this item rose from \$6.4 billion in fiscal 1955 to \$7.6 billion in fiscal 1959, an increase of an impressive \$1.2 billion, with worse to come in fiscal 1960.

4. *New programs.* There is a bit of trickery here. By all odds the most important new program launched by the conservatives was the big highway program, but they carefully shoved it outside the regular budget into a trust fund financed by highway-user taxes. In any real sense—the impact of the budget on prices and taxes—it should count. Highway spending rose from \$650 million in fiscal 1955 to \$2.6 billion in fiscal 1959.

But there were a few other programs, too. The most important besides highways was the very expensive program of modernizing the nation's civil aviation traffic control and communications facilities; the spend-

The Bounding Budget

ing increase was from \$250 million in 1955 to \$570 million in 1959. There were substantial increases in expenditures for medical research (mostly, but not entirely, at the initiative of the administration), the aforementioned program for peaceful uses of the atom, space programs, a new program of small-business lending, a more aggressive use of the Export-Import Bank for rescue operations abroad, an expansion and modernization of the postal service so large as to count as a new program, a small program of federal assistance in the education field (to be touched upon later), and one or two others.

There should also be mentioned two temporary programs associated with the 1957-58 recession—a \$1 billion mortgage purchase program that was one of the surprisingly rare cases of an item of important size pushed through on the initiative of Congress over the moderately vigorous protest of the administration, and a \$400 million program of temporary, emergency unemployment compensation. Both were included in the \$80 billion spending total of fiscal 1959, though they presumably will not recur.

I leave out of this list the soil bank, because its main effect was probably to prevent higher spending on farm price support, included in the next category. The total cost of the new programs launched by the administration is complicated by the special treatment of highways and the temporary nature of the two anti-recession

CONSERVATIVES IN POWER

programs. At a maximum, including everything, I would put it at nearly \$5 billion by fiscal 1959. Including only budget items (thus omitting highways) and excluding the recession programs it would be in the neighborhood of \$2 billion.

It seems to me to be so clear as to be beyond argument that every one of these new programs was either literally essential (civil aviation) or so desirable as to verge on the essential (highways, cancer research, postal improvement). When Brazil and Argentina were on the brink of bankruptcy, it was quite impossible to refuse to bail them out with the Export-Import Bank. Could the administration have refused to respond to the Soviet sputniks with a new space program? There was no conservative "weakness" in the approval of these items, as the *Wall Street Journal's* editorial page constantly implied. I would put it as flatly as this: With almost no exceptions, the conservatives had no choice.

We shall examine later the idea that "pressure groups" or the Democratic Congress forced on the conservative government things it did not want. For our purposes here, it is enough to say that to the extent they did, the amounts involved were extremely small, except for the \$1 billion anti-recession mortgage program. In quantity terms, the increase in the budget from new programs came about because no government could possibly have chosen otherwise.

5. Here is the real *pièce de résistance*, the almost

The Bounding Budget

unrecognized culprit for the conservative frustration. It can be termed the "open-end commitment."

This is a category of items of expenditure over which the government in power has absolutely no control, barring an almost impossible change in existing law. The initiative for the expenditure comes from *outside the government*, and the government has no choice but to put up the money. Of all our categories, it is by far the most frustrating.

The really appalling item in the list is the farm program. While Mr. Benson preached and schemed and basked in the approbation of city folk, the budget of his department rose from net spending of \$2.9 billion in fiscal 1953 to over \$7 billion in fiscal 1959. Between fiscal 1955 and fiscal 1959, the period we are considering, it rose by more than \$3 billion. We shall have more to say of this in a subsequent chapter. The rise was by no means Mr. Benson's fault. It was nobody's fault, except possibly the makers of weather and fertilizers, and the members of Congress in 1938 who invented the program. But the figure is quite staggering. The *increase* in farm spending alone since the Republicans took office is more than is spent on the entire foreign-aid program, for example. And there was literally nothing the administration could do about it.

Three other items in this list of nightmares for the conservatives are worth mentioning.

One is veterans' pensions. This is distinct from

CONSERVATIVES IN POWER

compensation for wartime injuries. It is a system under which any veteran of 65 or over is almost automatically counted "disabled" and, if he is fairly poor, gets a monthly pension. The veterans of World War I are now reaching 65 in increasing numbers, and the pension item has risen from \$800 million in fiscal 1955 to over \$1.1 billion in fiscal 1959. It will go right on rising indefinitely.

The next is that obscure little item in the welfare category called "aid to dependent children." When the father runs away, the mother goes to the local welfare department and qualifies for a special form of relief, partly financed by the federal government. Fathers have been particularly irresponsible under the conservatives, it seems. The federal share alone has risen from \$355 million in fiscal 1955 to \$615 million in fiscal 1959. The spending depends entirely on the number of people who apply and qualify.

The last is what goes by the name of "stockpiling." It is not going to be a continuing item, fortunately, but is cited here as illustrative. In order to induce expansion of facilities for producing aluminum and copper during the early days of the Korean War, the government had signed contracts allowing the producers to sell their output to the government if private markets weakened. Markets weakened starting in late 1956. The stuff was dumped on the government by the ton and spending

The Bounding Budget

spurred by an amount, not made public, somewhere upward of \$100 million.

With the economic impact of the budget in mind, there ought to be mentioned at this point one of the greatest open-end commitments of them all—one that does not show in the ordinary budget figures because it is a trust-fund item, and one that certainly nobody begrudges. It is the old-age retirement system under social security. Payments here depend, of course, mainly on how many people retire and apply. They have gone up from \$2.1 billion in fiscal 1952 to \$4.5 billion in fiscal 1955 to \$9.5 billion in fiscal 1959. Together with highways and the recession-induced spurt in unemployment compensation, these payments account for the fact that total cash spending rose \$24 billion between 1955 and 1959 while ordinary budget spending rose "only" \$16 billion.

At this point, a pause for breath. Is there any sort of pattern about all of this? I believe there is, and it is this: governments cannot control the size of budgets.

Now there are some important qualifications to this rather gloomy conclusion. Governments can, and the conservatives did, impose definite limits on the number of new programs started, for example. They can, and obviously do, make decisions in the area of defense that control the rate of increase in spending (though I am certain they cannot actually reduce defense budgets