

SUPPOSE IT ENDED TODAY

This weekly report has another one of those cryptic titles. I call it "Suppose It Ended Today". I'm sure from the title you know what I mean. Suppose the Viet Nam War ended today. Suppose the negotiations succeeded and suppose the hostilities ceased, the killing ceased and that there was no more bombing and that some kind of an agreement had been reached around the negotiation table in Paris or at least enough so that it would be the basis for a further negotiation that you could consider rather firm and hopeful. Well, maybe they would suggest that we would withdraw at once or that we withdraw from Viet Nam over a one or two year period or that we left a protective force there for a time and took out the rest of the troops. Well, let's assume that. What would happen to our economy? Have you thought of it?

Well, of course, there are a lot of people speculating on that subject and in fact, they have to. Think of the plans the business people have to make. What about credit and money and what do you think the impact would be on banks. These speculations are just as natural as they can be. And then too, government has to be tremendously interested, because some things will necessarily follow and then are there plans available to carry on or do we run into a vacuum of some kind that may cause us no end of difficulty before we get through?

There's always an effort of course to find the parallel with some other controversy in the past. And since Korea was the last it's quite natural also to think in terms of Korea and what happened after the Korean War was over and what policies and programs were set in motion, whether in the private sector of business and industry or in the public sector of government in order to face up to whatever the condition was going to be.

Now you know there are some things that are reasonably certain if it ended today. We'd stop making shells and ammunition because I presume we have a big supply already and certainly more than we would need for a peacetime effort. So that could stop and that would mean that the contracts in effect would be cancelled. And then you could probably stop making rifles and bazookas and mortars that they're using so freely over there at the present time and all the contracts covering those instrumentalities could be cancelled.

Then, if the bombing stopped I suppose we would stop for a while on the construction of bombers and fighter aircraft because surely there are new designs constantly under way and we wouldn't want to be producing things that might be antiquated in light of our experience in this last war. And then there is the question of bringing the troops home. That's a big logistical problem. The ships that are necessary, the examinations that are necessary, the disposition of food, supplies, weapons. Oh, it piles up endlessly if you've ever seen it after a war is over and I have seen it. And then of course there are contracts to be cancelled by the score.

Then comes the job for Congress and particularly the Appropriations Committee of the House and Senate to rescind authorizations and appropriations. In other words, where you may have appropriated X billion for one facet of the war, suddenly you must cut that back to a couple of hundred million at most. That's what you refer to as the

rescission of appropriations and you grab the money so to speak and put it back in the Federal Treasury. Well, those things are pretty certain because they were certain before. I recall when we rescinded and stopped these authorizations after Korea and I remember what we did after World War II and it ran into the billions and into the billions. You see, that rescission after World War II came right after 1945 and all these cancellations after Korea came in the period of 1952 and 1953.

So there are guesses today and estimates of what will happen if it does happen just what we must do to try to keep the country reasonably stable. Now after World War II I think there were a lot of people who were pleasantly surprised because they thought the economy would drop into a cocked hat. Well, actually it didn't and maybe the principal reason was that we had put so many restrictions on the people during World War II that here was a vast pent up demand and in proportion as industry could quickly retoul and start making consumer goods that people wanted, you see that kept the economy rolling for quite a while before we got into a squeeze.

But after Korea it was a different thing. Industrial production dropped very sharply right away and the stock market went down as I recall, about 11, 12 points on the average and it could have been more and it wasn't necessarily an inflated market either. And then the percent of jobless, people without jobs where they lost their jobs because contracts were cancelled, went up very sharply also and we developed the recession of 1953. The economy didn't go into a full tailspin but the trend was down and of course that's a very unhappy thing that it should happen to the economy of a country like this.

So, we may be up against that all over again. This war has got to end sometime; its just a question of when. And if and when it does stop then what do we do? Well, there are some things that, in my judgment, are pretty well substantiated, and I think we can regard them pretty much as gospel. Our plant capacity is rather substantial. We've been building industrial plants all over the place so it can't be said that we haven't got plant capacity to do what we want in order to build up this economy, even though the production of war goods will come to an end. Inventories are reasonably good right now although I think in some industrial fields there has been a liquidation of inventories so that there is then, this stockpile, as it were, for which you can produce and from which people can buy. I think that's a pretty firm fact as of now.

But with respect to automobiles, I wonder if we haven't reached about a saturation point for awhile. Maybe the auto makers wouldn't like to hear me say that but I just look at this diligent and energetic effort to hike up the production of cars and of course they have been doing it. And just think of the automobiles on our highways today; I suppose we've got well over ninety million trucks and cars of one kind or another. And the new cars you see today are really fantastic in numbers. So maybe, you can't get much comfort out of hiking up automobile production although if people have money you can't be too sure but what first shot out of the box they'll want to buy a car.

But we have a couple of other handicaps. One is our gold imbalances and our trade imbalance, marked for the first year in many seasons when what we sold to other countries was less than what we bought from them and that imbalance or that difference we had to pay either in gold or in dollars.

But here is a rather speculative situation. How much are we going to have to spend to rehabilitate South Viet Nam when this is over. Well, think of the merciless killing and shelling, destruction of homes, pitting of the soil, destruction of utilities. Well, can they put it together on their own? And will we have to dip in for additional billions and give them some direction in order to have them rehabilitate their own country before they can make it succeed and be sure that they'll have a stable government.

And then there's this question of new weaponry. You know, you get out of one war and the first thing you know you are talking about another one. And they like to improve the weapons of a country on the basis of the last war experience. Then, of course, those who are charged with the security of a country will come forth and say this is what we need and that is what they need so you can't tell how much money will have to be committed for that purpose. But when it's all over of course, there will be available money that would go back into the Treasury.

And then comes the great question, what about increases in the domestic program -- for housing, social security benefits and a thousand and one other things for which there will be a clamor? And then of course comes the residual question and that's the bothersome thing, for regardless of what you do, some of these things are certainties and there will be cutbacks and we won't be spending \$77 billion a year on our defense budget and we won't be spending \$3 billion a month on South Viet Nam and the Viet Nam war so that there'll be money to go back; there'll be a demand for it. And when there is and if there is can we head off deflation, which is the very obverse, the very contrary, of inflation. Where inflation scoops your prices up, deflation scoops them down. And when they go down you're in trouble because that amounts to a depression and those who remember the last major depression know what it can do to a country. So what will happen if it ended today? Great speculative question.

Thank you.