The Economic Club of New York

John Fitzgerald Kennedy
35th President, United States of America

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General Royall, Mr. Trippe, Mr. Rockefeller, General Clay, gentlemen:

I feel tonight somewhat like I felt when I addressed in 1960 the Houston Ministers Conference on the separation of church and state. But I am glad to have a chance to talk to you tonight about the advantages of the free enterprise system. [Applause]

Less than a month ago this Nation reminded the world that it possessed both the will and the weapons to meet any threat to the security of free men. The gains we have made will not be given up, and the course that we have pursued will not be abandoned. But in the long run, that security will not be determined by military or diplomatic moves alone. It will be affected by the decisions of finance ministers as well as by the decisions of Secretaries of State and Secretaries of Defense; by the deployment of fiscal and monetary weapons as well as by military weapons; and above all by the strength of this Nation's economy as well as by the strength of our defenses.

You will recall the Chairman Khrushchev has said that he believed that the hinge of world history would begin to move when the Soviet Union out-produced the United States. Therefore, the subject to which we address ourselves tonight concerns not merely our own well being, but also very vitally the defense of the free world. America's rise to world leadership in the century since the Civil War has reflected more than anything else our unprecedented economic growth. Interrupted during the decade of the thirties, the vigorous expansion of our economy was resumed in 1940 and continued for more than 15 years thereafter. It demonstrated for all to see the power of freedom and the efficiency of free institutions. The economic health of this Nation has been and is now fundamentally sound.

But a leading nation, a nation which upon all depends not only in this country but around the world, cannot afford to be satisfied, to look back or to pause. On our strength and growth depend the strength of others, the spread of free world trade and unity, and continued confidence in our leadership and our currency. The underdeveloped countries are dependent upon us for sale of their primary commodities and for aid to their struggling economies. In short, a prosperous and growing America is important not only to Americans—it is, as the spokesman for 20 Western nations in the Organizations for Economic Cooperation and Development, as he stressed this week, of vital importance to the entire Western World.

In the last 2 years we have made significant strides. Our gross national product has risen 11 percent while inflation has been arrested. Employment has been increased by 1.3 million jobs. Profits, personal income, and living standards—all are setting new records. Most of the economic indicators for this quarter are up and the prospects are for further expansion in the next quarter. But we must look beyond the next quarter, or the last quarter, or even the last two years. For we can and must do better, much better than we have been doing for the last 5 ½ years.

This economy is capable of producing without strain $30 and $40 billion more than we are producing today. Business earnings could be $7 to $8 billion higher than they are today. Utilization of existing plants and equipment could be much higher; and if it were, investment would rise. We need not accept an unemployment rate of 5 percent or more, such as we have had for 60 out of the last 61 months. There is no need for us to be satisfied with a rate of growth that keeps good men out of work and good capacity out of use.

The Economic Club of New York is of course familiar with these problems. For in this State the rate of insured unemployment has been persistently higher than the national average, and the increases in personal income and employment have been slower here than in the Nation as a whole. You have seen the tragedy of chronically depressed areas upstate, of unemployed young people, and I think this might be one of our most serious national problems, unemployed young people, those under 20, one out of four is unemployed, particularly those in the minority groups, roaming the streets of New York and our other great cities, and other on relief at an early age, with the prospect that in this decade we will have between 7 and 8 million school dropouts, unskilled, coming into the labor marker, at a time when the need for unskilled labor is steadily diminishing. And I know you share my conviction that, proud as we are of its progress, this Nation's economic can and must do even better than it has done in the last 5 years. Our choice, therefore, boils down to one of doing nothing and thereby risking a widening gap between our actual and potential growth in output, profits, and employment-or taking action, at the Federal level, to raise our entire economic to a new and higher level of business activity.

If we do not take action, those who have the most reason to be dissatisfied with our present rate of growth will be tempted to seek shortsighted and narrow solutions—to resist automation, to reduce the work week to 35 hours or even lower, to shut out imports, or to raise prices in a vain effort to obtain full capacity profits on under-capacity operations. But these are all self-defeating expedients which can only restrict the economy, not expand it.

There are a number of ways by which the Federal Government can meet its responsibilities to aid economic growth. We can and must improve American education and technical training. We can and must expand civilian research and technology. One of the great bottlenecks for this country’s economic growth in this decade will be the shortage of doctorates in mathematics, engineering, and physics; a serious shortage with a great demand and an under-supply of highly trained manpower. We can and must step up the development of our natural resources.

But the most direct and significant kind of Federal action aiding economic growth is to make possible an increase in private consumption and investment demand—to cut the fetters which hold back private spending. In the past, this could be done in part by the increased use of credit and monetary tools, but our balance of payments situation today places limits on our use of those tools for expansion. It could also be done by increasing Federal expenditures more rapidly than necessary, but such a course would soon demoralize both the Government and our economy. If Government is to retain the confidence of the people, it must not spend more than can be justified on grounds of national need or spent with maximum efficiency. I shall say more on this in a moment.

The final and best means of strengthening demand among consumers and business is to reduce the burden on private income and the deterrents to private initiative which are imposed by our present tax system; and this administration pledged itself last summer to an across-the-board top-to-bottom cut in personal and corporate income taxes to be enacted and become effective in 1963.

I am not talking about a "quickie" or a temporary tax cut, which would be more appropriate if a recession for imminent. Nor am I talking about giving the economy a mere shot in the arm, to ease some temporary complaint. I am talking about the accumulated evidence of the last 5 years that our present tax system, developed as it was, in good part, during World War II to restrain growth, exerts way too heavy a drag on growth in peace time, that it siphons out of the private economy too large a share of personal and business purchasing power, that it reduces the financial incentives for personal effort, investment, and risk-taking.

In short, to increase demand and lift the economy, the Federal Government's most useful role is not to rush into a program of excessive increases in public expenditures, but to expand the incentives and opportunities for private expenditures.

Under these circumstances, any new tax legislation—and you can understand that under the comity which exists in the United States Constitution whereby the Ways and Means Committee in the House of Representatives have the responsibility of initiating this legislation, that the details of any proposal should wait on the meeting of the Congress in January. But you can understand that under these circumstances, in general, that any new tax legislation enacted next year should meet the following three tests:

First, it should reduce net taxes by a sufficiently early date and a sufficiently large amount to do the job required. Early action could give us extra leverage, added results, and important insurance against recession. Too large a tax cut, of course, could result in inflation and insufficient future revenues—but the greatest danger is a tax cut too little or too late to be effective.

Second, the new tax bill must increase private consumption as well as investment. Consumers are still spending between 92 and 94 percent of their after-tax income, as they have every year since 1950. But that after-tax income could and should be greater, providing stronger markets for the product of American industry. When consumers purchase more goods, plants use more of their capacity, men are hired instead of laid off, investment increases and profits are high.

Corporate tax rates must also be cut to increase incentives and the availability of investment capital. The Government has already taken major steps this year to reduce business tax liability and to stimulate the modernization, replacement, and expansion of our productive plant and equipment. We have done this through the 1962 investment tax credit and through the liberalization of depreciation allowances—two essential parts of our first step in tax revision which amounted to a 10 percent reduction in corporate income taxes with $2.5 billion. Now we need to increase consumer demand to make these measures fully effective—demand which will make more use of existing capacity and thus increase both profits and incentive to invest. In fact, profits after taxes would be at least 15 percent higher today if we were operating at full employment.

For all these reasons, next year’s tax bill should replace personal as well as corporate income taxes, for those in the lower brackets, who are certain to spend their additional take-home pay, and for those in the middle and upper brackets, who can thereby be encouraged to undertake additional efforts and enabled to invest more capital.

Third, the new tax bill should improve both the equity and the simplicity of our present tax system. This means the enactment of long-needed tax reforms, a broadening of the tax base and the elimination or modification of many special tax privileges. These steps are not only needed to recover lost revenue and thus make possible a larger cut in present rates; they are also tied directly to our goal of greater growth. For the present patchwork of special provisions and preferences lightens the tax load of some only at the cost of placing a heavier burden on others. It distorts economic judgments and channels an undue amount of energy into efforts to avoid tax liabilities. It makes certain types of less productive activity for profitable than other more valuable undertakings. All this inhibits our growth and efficiency, as well as considerably complicating the work of both the taxpayer and the Internal Revenue Service.

These various exclusions and concessions have been justified in part as a means of overcoming oppressively high rates in the upper brackets—and a sharp reduction in those rates, accompanied by base-broadening, loophole-closing measures, would properly make the new rates not only lower but also more widely applicable. Surely this is more equitable on both counts.

Those are the three tests which the right kind of bill must meet and I am confident that the enactment of the right bill next year will in due course increase the gross national product by several times the amount of taxes actually cut. Profit margins will be improved and both the incentive to invest and the supply of internal funds will be increased. There will be new interest in taking risks, in increasing productivity, in creating new jobs and new products for long-term economic growth.

Other national problems, moreover, will be aided by full employment. It will encourage the location of new plants in areas of labor surplus and provide new jobs for works that we are retraining and facilitate the adjustment which will be necessary under our new trade expansion bill and reduce the number of government expenditures.

It will not, I'm confident, revive an inflationary spiral or adversely affect our balance of payments. If the economy today were operating close to capacity levels with little unemployment, or if a sudden change in our military requirements should cause a scramble for men and resources, then I would oppose tax reductions as irresponsible and inflationary; and I would not hesitate to recommend a tax increase, if that were necessary. But our resources and manpower are not being fully utilized; the general level of prices has been remarkably stable; and increased competition, both at home and abroad, along with increased productivity will help keep both prices and wages within appropriate limits.

The same is true of our balance of payments. While rising demand will expand imports, new investment in more efficient productive facilities will aid exports and a new economic climate could both draw capital from abroad and keep capital here at home. It will also put us in a better position, if necessary, to use monetary tools to help our international accounts. But, more importantly, confidence in the dollar in the long run rests on confidence in America, in our ability to meet our economic commitments and reach our economic goals. In a worldwide conviction that we are not drifting from recession with no answer, the substantial improvement in our balance of payments position in the last two years makes it clear that nothing could be more foolish than to restrict our growth merely to minimize that particular problem, because a slowdown in our economy will feed that problem rather than diminish it. On the contrary, European governmental and financial authorities with almost total unanimity, far from threatening to withdraw gold, have urged us to cut taxes in order to expand our economy, attract more capital, and increase confidence in our future.

But what concerns most Americans about a tax cut, I know, is not the deficit in our balance of payments but the deficit in our Federal budget, When I announced in April of 1961 that this kind of comprehensive tax reform would follow the bill enacted this year, I had hoped to present it in an atmosphere of a balanced budget. But it has been necessary to augment sharply our nuclear and conventional forces to step up our efforts in space to meet the increased cost of servicing the national debt and meeting our obligations, established by law, to veterans. These expenditure increases, let me stress, constitute practically all the increases which have occurred under this administration, the remainder having gone to fight the recession we found in industry—mostly through the supplemental employment bill-and in agriculture.

We shall, therefore, neither postpone our tax cut plans nor cut into essential national security programs. This administration is determined to protect America's security and survival and we are also determined to step up its economic growth. I think we must do both.

Our true choice is not between tax reduction, on the one hand, and the avoidance of large Federal deficits on the other. It is increasingly clear that no matter what party is in power, so long as our national security needs keep rising, an economy hampered by restrictive tax rates will never produce enough revenue to balance our budget just as it will never produce enough jobs or enough profits. Surely the less of the last decade is that budget deficits are not caused by wild-eyed spenders but by slow economic growth and periodic recessions, and any new recession would break all deficit records.

In short, it is a paradoxical truth that tax rates are too high today and tax revenues are too low and the soundest way to raise the revenues in the long run is to cut the rates now. The experience of a number of European countries and Japan have borne this out. This country's own experience with tax reduction in 1954 has borne this out. And the reason is that only full employment can balance the budget, and tax reduction can pave the way to that employment. The purpose of cutting taxes is not to incur a budget deficit, but to achieve the more prosperous, expanding economy which can bring a budget surplus.

I repeat: our practical choice is not between a tax-cut deficit and a budgetary surplus. It is between two kinds of deficits: a chronic deficit of inertia, as the unwanted result of inadequate revenues and a restricted economy; our a temporary deficit of transition, resulting from a tax cut designed to boost the economy, increase tax revenues, and achieve—and I believe this can be done—a budget surplus. The first type of deficit is a sign of waste and weakness; the second reflects an investment in the future.

Nevertheless, as Chairman Mills of the House Ways and Means Committee pointed out this week, the size of the deficit is to be regarded with concern, and tax reduction must be accompanied, in his words, by "increased control of the rises in expenditures." This is precisely the course we intend to follow in 1963.

At the same time as our tax program is presented to the Congress in January, the Federal budget for fiscal 1964 will also be presented. Defense and space expenditures will necessarily rise in order to carry out programs which are demanded and are necessary for our own security, and which have largely been authorized by Members in both parties of the Congress with overwhelming majorities. Fixed interest charges on the debt all rise slightly. But I can tell you now that the total of all other expenditures combined will be held at approximately its current level.

This is not an easy task. During the past 9 years, domestic civilian expenditures in the National Government have risen at an average rate of more than 7 ½ percent. State and local government expenditures have risen at an annual rate of 9 percent. Expenditures by New York State Government, for example, have risen in recent years at a rate of roughly 10 percent a year. At a time when Government pay scales have necessarily risen—and I take New York as an example—when our population and pressures are growing and the demand for services and State aid is thus increasing, next year's Federal budget, which will hold domestic outlays at their present level, will represent a genuine effort in expenditure control. This budget will reflect, among other economies, a $750 million reduction in the postal deficit. It will reflect a savings of over $300 million in the storage costs of surplus feed grain stocks, and as a result of the feed grain bill of 1961 we will have two-thirds less in storage than we would otherwise have had in January 1963 and a savings of at least $600 million from the cancellation of obsolete or unworkable weapons systems. Secretary McNamara is undertaking a cost reduction program expected to save at least $3 billion a year in the Department of Defense, cutting down on duplication and closing down nonessential installations. Other agencies must do the same.

In addition, I have directed all heads of Government departments and agencies to hold Federal employment under the levels authorized by congressional appropriations; to absorb through greater efficiency a substantial part of this year's Federal pay increase; to achieve an increase in productivity which will enable the same amount of work to be done by fewer people; and to refrain from spending any unnecessary funds that were appropriated by the Congress.

It should also be noted that the Federal debt, as a proportion of our gross national product, has been steadily reduced in this last year. Last year the total increase in the Federal debt was 2 percent—compared to an 8 percent increase in the gross debt of State and local governments. Taking a longer view, the Federal debt today is 13 percent higher than it was in 1946, while State and local debt increased over 360 percent and private debt by over 300 percent. In fact, if it were not for Federal financial assistance to State and local governments, the Federal cash budget would show a surplus. Federal civilian employment, for example is actually lower today than it was in 1952, while State and local government employment over the same period has increased 67 percent.

It is this setting which makes Federal tax reduction both possible and appropriate next year. I do not underestimate the obstacles which the Congress will face in enacting such legislation. No one will be satisfied. Everyone will have his own approach, his own bill, his own reduction. A high order of restraint and determination will be required if the possible is not to wait on the perfect. But a nation capable of marshaling these qualities in any dramatic threat to its security is surely capable, as a great free society, of meeting a slower and more complex threat to our economic vitality. This Nation can afford to reduce taxes. We can afford a temporary deficit, but we cannot afford to do nothing. For on the strength of our free economy rests the hope of all free nations. We shall not fail that hope, for free men and free nations must prosper and they must prevail. Thank you.

QUESTION AND ANSWER PERIOD

QUESTIONER: There has been much talk in Washington and elsewhere of reductions in personal income tax rates to 15 percent for the lowest brackets, and 65 for the highest brackets, in personal income taxes, and for a reduction in corporate rates to 47 percent. What many of these questioners would like to know is, are those figures generally in the ballpark?

JOHN F. KENNEDY: This legislation is going to have very difficult traveling at best, and I would suggest giving it at least the most favorable start we can, as I said in my speech, by permitting Mr. Dillon to present this before the Ways and Means Committee in January. So that I would suggest that the details of the tax reduction should wait upon presentation to the Ways and Means Committee. There might be something for everybody, though.

QUESTIONER: Mr. President, my first question is: One of the great achievements of your legislative program this year was the passage of the Trade Expansion Act—would you care to comment on your program in that area of the economy?

JOHN F. KENNEDY: We have, as you know, appointed former Secretary of State Herter to be our chief negotiator. He is assisted by Mr. Gossett, who was Vice President of the Ford Company. They will begin the discussions with the Common Market in 1963. There are fourteen our fifteen hundred items. It will probably take well into 1963—I would say towards the end of ’63—before both sides have prepared their positions. We are going to have an extremely difficult negotiation, particularly in agriculture. The United States has had a favorable market for its agricultural surpluses to Europe—or its agricultural products; it has been our best dollar earner, it has really meant that our balance of payments has not been in more difficult position than it has been. Now, with the Common Market, with the prospect of Britain’s joining, with the tremendous revolution in agricultural production which is about to hit Europe-France in particular—levies and the rates and the penalties which are placed on the introduction of agricultural commodities into Europe in the coming 3 or 4 months may be of decisive importance to us in our battle on the balance of payments, and also in our struggle to bring some sense out of the problems we face in American agriculture.

So I would say that Secretary Herter has really a responsibility comparable to what he had has Secretary of State, and one which ties in our security, because quite obviously unless we’re able to meet our balance of payments in time, then we are going to have to find other means of solving it. As you know, it costs us about $3 billion a year because of national security expenditures. So that this goes to the heart of our ability to keep more than one million Americans in uniform who now are serving the United States outside the borders of the United States.

So that I think is a very vital issue, and that is why I was particularly pleased that Mr. Herter accepted it. I'm glad to see in this New York Port Authority, the trade enter that they are building, the effort that businesses are making to sell abroad. We still sell abroad much too little. As a percentage of our gross national product the United State sells abroad less than really almost any major industrialized country. We have never had before us the prospect of "export or die," and I think that if all those who are in positions of responsibility will think not only of the markets which may be abroad for investment, but also going up and down the streets and selling American products, they can make a decisive contribution to the maintenance of our balance of payment, and also serve the country and the free economy system.

So the next few months I think will be very decisive and the burdens of Mr. Herter will be very great.

QUESTIONER: Mr. President, in view of the prospect for a deficit in any event, and a fairly large one if taxes are reduced, is it part of the administration's plan to finance a major part of that deficit outside the banking system in order to reduce the threat of monetary inflation?

JOHN F. KENNEDY: That will be a judgment which is primarily that of Mr. Martin and the Federal Reserve. He has commented on that to a degree before the Joint Committee this year. He is concerned about the prospect of inflation, because of course it affects us adversely, and also because it affects the balance of payments. I would hope, however, and I'm sure he will agree, that he will—any deficit which has to be financed will be financed in a way which will be the maximum degree possible to stimulate the economy without increasing the prospect of another inflationary or speculative spiral. So it is a fine adjustment which Mr. Martin will make, but I'm sure that he will be as concerned as all of us are to get the benefit such as it may be out of the deficit, and also at that time keep and use our monetary tools wisely enough to keep matters in control. His judgment will be, because of the Federal Reserve Law, of course final.

QUESTIONER: Mr. President, the strong attitude you took towards Khrushchev during the Cuban crisis has not only been applauded, but has improved the standing of our country throughout the free world. Don't you feel we would gain more respect and further improve our status by really implementing the Hickenlooper Amendment on American properties which are seized largely without compensation overseas, rather than just giving lip service?

JOHN F. KENNEDY: Well, I'm not sure I'd accept the premise of the question. The Hickenlooper Amendment is very clearly and sharply drawn. We are appointing businessmen's committee to advise us on implementing the Hickenlooper Amendment. It's not altogether an easy job. We've got one controversy now in Turkey, which involves a default by a previous government which was overthrown, a number of the ministers executed, which was regarded as highly corrupt. The present government is reluctant to accept its obligations. We have the problem in Brazil where you have the seizure of some American property by local governors—a local governor—and we have looked to the National Government for relief.

The Hickenlooper Amendment does not go wholly into effect for some months under its terms, but I can inform you that its provisions are being read to the finance minister of every state.

QUESTIONER: Mr. President, this question cropped up in many forms. Here's one form of it: Are current tax plans giving any consideration to increased emphasis on consumption taxes by way of a broad base Federal excuse tax in order to relieve some of the tax pressure on income from investment sources?

JOHN F. KENNEDY: Once again I'll pass.

QUESTIONER: I should have chosen one of the other versions!

JOHN F. KENNEDY: When I was a Congressmen I never realized how important Congress was, but now I do.

QUESTIONER: I think I can paraphrase it by saying are you thinking about the possibility later on, perhaps, of using consumption or sales tax in the tax packages that you're considering?

JOHN F. KENNEDY: No, I suppose I—I assume what they mean is whether we are thinking of going the route which has been followed in France and some other countries of putting manufacturers' tax, and lessening the burden on income. I think that these details of the tax program that in your interest as well as mine we should wait.

QUESTIONER: Mr. President, what progress has been made by our Latin American neighbors to effect tax reforms and economic reforms, so that they being to carry their own weight under the Alliance for Progress?

JOHN F. KENNEDY: Well, we have made some progress in some countries. I made a reference the other day at the press conference that some efforts have been made certainly to meet the principles of the Alliance for Progress in Colombia. The President of Chile, who has been visiting us this week, us putting in a new tax program, some of which is causing some concern to American companies which have investments there, but I would say that we have made some progress in some countries. But tax reform is very difficult. It's a very appealing title. But as we know from the struggle which we had in the Congress this year. In our efforts to pass the 7-percent investment credit, and at the same time to collect taxes more effectively through reform, when we become more specific, does not carry with it the same popular support. They have the same difficulty.

I think that the situation in Latin America is very critical. It would say it represents the greatest challenge which the United States now faces, except for the direct matter of our dealings with the Soviet Union. And in some of the countries the situation is far less satisfactory—the problems are staggering. And Brazil, which is a matter of great concern to us, is the largest country in Latin America, has a population 40 percent of which is under 20, substantially illiterate in some portions, particularly the northeast, living on an average income of $100 a year, some radicals in control in some areas, so I would say we face extremely serious problems in implementing the principles of the Alliance for Progress.

We do it with a good deal less resources than we did with the Marshall Plan. And in many ways the Marshall Plan was easier. We really only had to rebuild the plants in Europe. The manpower was there, the tradition was there, the resources were there. Latin America does not have the resources. It is dependent on two or three or four commodities for export, the prices of which have been dropping the last 3 years. It doesn't have the trained manpower or skills. It's trying to accomplish a social revolution under freedom under the greatest obstacles. So I think that we should continue our effort there and not lose heart, but I would say that we face—and Latin Americans face—staggering problems in trying to solve it. We had the question from Honduras whose population is 60 percent illiterate. We go through country after country in Central America, the same high illiteracy, high unemployment, and bad health conditions. I would say that we are facing the job of doing this revolution under freedom, and it's probably the most difficult assignment the United States has ever taken on.

In addition, because of the atmosphere in some of the countries of Latin America, there has been a flight of capital out of there. The amount of assistance which we put in under the Alliance for Progress amount to about $550 million a year. We have been losing capital out of Latin America either to Europe or because some of our companies don't feel like reinvesting because of the social conditions—we have been losing capital at a faster rate than that out of Latin America, and with a drop in commodity prices in many ways their balance of payments is worse than it was 2 years ago. This is not the fault of the Alliance of Progress. It's the fault of the very desperate situation which these countries face: 180 million people with a chance that their population will be 600 million by the year 2000, with no particular expectation that their raw materials will dramatically increase. So I think that that deserves the attention and hard work and sympathy of us all, and not walk away because the problems are unsolved.

QUESTIONER: Mr. President, many of the questions submitted dealt with monetary policies, and the central theme seemed to be whether it will be possible and desirable to use a little easy money stimulation as well as tax reduction. And to quote from one of the shorter questions, “Why not ease up on money?”

JOHN F. KENNEDY: Well, I think there is a good supply of credit. I think the Federal Reserve Board has attempted to keep credit as free as it could, and the supply of money has been increased with the growth of the economy. I think it would be very difficult to keep it easier than it now is, without having the short-term funds pour out at a higher rate than they are. After all, we have seen when Canada put its interest rates up, I think as high as 7 percent, though hit has dropped them now, it affected the flow of capital here. In October, we had several cases of major investments using our markets because of our interest rates. The fact of the matter is what I’m not sure that we would get much stimulation out of the economy, but I don’t see how we could possibly afford easier money than we have now, and still not have a hemorrhage at our balance of payments.

I think we have a major problem to balance off the use of monetary policy here at home and affecting our balance of payments abroad, and also that is one of the good arguments, and as a matter of fact I think that we can make the case which I think has almost unanimously been made in Europe, that the United States monetary policy in some ways is too loose, while our fiscal policy is too tight. And it is for that reason that the International Banks in Europe and others have suggested that the reverse would be more appropriate. I think we should attempt to keep monetary policy about where it is, try to liberalize fiscal policy, for the reasons that I've given tonight, but I don't see how we could possibly go any further in the direction of easier credit, while we have a balance of payments which is against us by over two and a half billion dollars a year.

QUESTIONER: Mr. President, there are a number of questions about Cuba. This is a brief one. Is there a firm policy on getting the Russian manpower out of Cuba?

JOHN F. KENNEDY: Mr. Khrushchev in his agreement only committed himself to the withdrawal of the missiles and the bombers, and the manpower which was connected with the maintenance of those forces. That would amount to several thousand. In addition, he stated that he would, though he did not put a time limit on this, he would be withdrawing other elements. But that guarantee is not as precise and that commitment has not been implemented, nor was it as hard as his others, which he has kept. So this must be a matter of continuing concern, and is the reason why we are maintaining observation and verification by our own means daily, and why we will continue to do so. And while the matter of Cuba, therefore, still remains unsettled, as long as it's a Soviet military base, it of course represents a threat to peace in the Caribbean. On the other hand, it does not represent an offensive threat under present conditions, nor will it be, of course, permitted to do so.

QUESTIONER: Mr. President, we received many questions which reflected some fear that if your tax message were to call for many of the tax reforms discussed from time to time by some of your advisors, the effect might offset the favorable impact of the tax reduction itself. The specific question that we decided to select here was this: "Why not have a moratorium on reform until we get back to full employment?"

JOHN F. KENNEDY: Well, the purpose of reform really is directed to the encouraging of growth and employment. I quite agree that to launch into a full scale battle on general reform for academic reasons would be unwise. The central purpose behind the reform must therefore be to encourage those changes in our tax laws which will encourage economic growth for that purpose, and not merely because it might have some longer range interest or significance. The primary job will be to encourage the flow of capital into those areas, which stimulate the national growth and not diminish it. But it is going to be a tough fight, because once you spell out, as I said before, reform, it's bound to affect adversely the interests of some, while favoring the interests of others. Therefore reform may be a longer task, and we are anxious that in the effort to get reform, that we do not lose the very important matter of tax reduction for the sake of the economy.

I know that I am not satisfying you, and I know this is going to be a major matter before the Congress, this matter of affording a tax cut when we have a deficit. But I do point out that the largest peacetime deficit, which was the '58 deficit of $12.5 billion, came at a time when

President Eisenhower believed that he has presented a balanced budget, and the reason of course was the recession of '58. The biggest deficit comes historically—and it has been proved, in 1958, 1960—because of a recession. That is what would really knock our budget out of shape. So that as I tried to say in my speech, we are not faced with the question of balancing our budget, or having a tax reduction. I believe we are faced with the fact that we are going to have a deficit mostly because of the sharp rise in the recent years in space and defense, and to increase our taxes sufficient to bring that budget into balance would be defeating, because of course it would provide a heavy deflationary effect on our economy, and move us into a recession at an accelerated rate. So I hope that you gentlemen will realize that we are not talking about irresponsibility increasing the deficit. We have a deficit, which is already on the books. What I am concerned about is the kind of deficit we would have if we had a recession, and while the prospects for a recession are not certainly imminent before us, we do have to look at our historical record and realize that any society such as ours, particularly with the tax structure such as ours, must face that prospect at some time. So that we have to decide which kind of a deficit do we want, and for what reason, and which in the longer run offers us the better prospect of bringing our books into balance.

In addition, we are hopeful, as the Minuteman begins to come into our defenses, that w will be able to bring our defense expenditures to a level, unless we have a severe international emergency, which in a period of the not-to-distant future will cap off our defense expenditures. The Minuteman will be coming in great quantities. A large portion of our increases in defense in the next budget are due, one, to the pay increase for the military, and they have not had one since 1958, and they are far behind civilian and the other civilian employees of the Government, and for new weapons, of equipping the new divisions which we've built up, the conventional forces, and bringing into our arsenal the Minuteman. And when we have the Minuteman in quantity, Secretary McNamara believes it will be possible to peak off, and not have this steadily rising expenditure in defense.

I want to point out that we have increased in conventional forces in the last 2 years the number of our divisions from 11 to 16, and we are also providing equipment for 22 divisions in case it were necessary to mobilize our Guard. We have six divisions in Europe, and we have the equipment for two more. Now, I think the Cuban incident indicated the importance of a strong conventional force. The greatest factor on our side was the fact that we had superior conventional strength on the scene, and it would have been necessary to equalize that strength for the Soviets to initiate the use of nuclear weapons, which of course they were quite reluctant to do.

Now, in other areas we do not have a satisfactory conventional position. General Clay is more familiar with this than any man, and this is true in Western Europe. The United States is doing its part, but other countries of NATO have not met their quotas. Up until 2 or 3 years ago, the United States had its six divisions in Western Europe, its two divisions in South Korea, and it's three divisions in the airborne Reserve here in the United States, and that's all. Now we have increased by five divisions, and therefore with the obligations that we bear all the way from South Korea through South Vietnam to Berlin, as well as our obligations in this hemisphere, I think it was only prudent to increase our conventional as well as our nuclear force. That and our commitment to space have been the big burdens in our budget. Space will continue to rise, but not excessively. Defense we hope to cap off, and that's why I believe that we are not getting in a position where we will be out of control, providing we can maintain a steady rise in our economic growth.

QUESTIONER: Mr. President, why shouldn't the United States emphasize foreign aid by means of technical and material assistance from the United States private firms, backed by United States credit guarantees, rather than the prevalent government-to-government gifts which rarely help American exports? For instance, a large part of the industrial equipment being installed in India and in South America is coming from Europe on long-term credit, rather than from U.S. plants, in spite of our aid to these countries.

JOHN F. KENNEDY: It is a fact that the United States has given economic assistance, particularly in India, at low rates of interest and with years of grace, while the other members of the consortium have given their assistance on rather short terms and high rates of interest. The fact of the matter is that the United States has carried an excessive burden in foreign assistance, in relation to Western Europe, but not in relation to need. Now, we spend about $1.7 billion to $1.8 billion in foreign assistance, which goes of course to the Pentagon to buy surplus equipment, so therefore it's an addition to our own available funds. Then we have another $2 billion, which we give, in the form of loans, some of which are reasonably hard, and some of which are soft, but we are emphasizing loans. Now, for that $2 billion, we sustain South Korea, which has 40 percent unemployed; it has been the country which has been the major beneficiary. There is not any doubt that it would go under immediately if the United States ceased its economic assistance. Fifty thousand Americans were killed to protect South Korea. We carry the load, not so much, but still some, on Nationalist China, and we carry a very heavy load in Vietnam. Vietnam would collapse instantaneously if it were not for the United States assistance. We carry a heavy load in Thailand, India, Pakistan, Iran, Turkey, and Greece. We also carry some burden in Africa, about $250 million. I had the President of Somalia to visit me 2 weeks ago—the average income for Somalia per capita is $45 a year.

When we see how difficult it is to get the Communists out once they get in, when we see the trouble that Cuba has caused, when we see that there is not one Communist regime yet in control in Africa, or indeed in Asia, other than those in North Vietnam, North Korea, and China, it seems to me that for this $2 billion, that considering that we put $51 or $52 billion into our defense, we are going to put nearly $5 billion into space, $5.5 billion into veterans, $19.5 billion in interest in our debt, $7 billion into agriculture, about $4 billion into public assistance—it seems to me for that $2 billion, which covers the Alliance for Progress, assistance to India, which has 40 percent of all the underdeveloped people of the world, I think that we should embark wit some care on any effort to cut it out.

Now, what we are trying to do is cut the dollar loss, which is the real burden; and we are cutting it this year from $1.3 billion, which was the dollar loss in foreign aid, to $800 million. We have increased the support for the Export-Import Bank. We are trying to tie all of our assistance to American purchases, and we hope to have it 80 percent tied, even though it does cost us some more doing it. But if you are going to build a school or a hospital, some local assistance is needed, and most of these countries are bankrupt—Columbia and Brazil and the others. So I would like to cut our foreign aid. It's very unpopular. It is a hard fight each year. President Eisenhower had the same struggle, and so did President Truman.

General Clay, as you know, is heading a committee1, with Mr. Lovett, Eugene Black, Mr. McCollum, and others, to look into this program. But I must say I am reminded of Mr. Robert Frost's motto about not taking down a fence until you know why it is put up, and this is a method by which the United States maintains a position of influence and control around

[1] The Committee to Strength the Security of the Free World, the establishment of which was announced by the White House on December to, 1962, has the following membership: Gen. Lucius Clay, chairman, Robert A. Lovett, George Meany, Edward S. Mason, Eugene Black, Robert A. Anderson, L.F. McCollum, Herman Phleger, and Clifford Harden.

the world, and sustains a good many countries which would definitely collapse or pass into the Communist bloc. Now, India, as I said, has 500 million people. We have been digging our way out of the loss of China for the last 12 years, and my successor in office may have to deal with the problem of a China, which is carrying out an expansionary policy with nuclear weapons and missiles. But for India to go, it would seem to me that the whole balance of power in the world would change. So I think that talking about $2 billion—what really concerns me is that Western Europe does not do its part in aid, considering the great increase in its own balance of payments position. And I do believe also that the United States should tie as much as possible. But I certainly would be reluctant to see this program abandoned, because really I put it right up at the top of the essential programs in protecting the security of the United States, not for any reasons of long-range good it may do, because for 2 years he's played an important role in getting that program by—if somebody said which programs of the United States Government really contribute to the maintenance of our position around the world, I would have to put this up near the top. But General Clay can make his judgment, and I think whatever judgment he makes can give this program a very important imprimatur.

QUESTIONER: Mr. President, I simply ran out of questions. All I'd like to say to you is congratulations on your answers, and thank you, Mr. President.

JOHN F. KENNEDY: Thank you very much.