

The
PRESIDENTIAL
RECORDINGS

JOHN F. KENNEDY

➔➔➔➔ *THE GREAT CRISES, VOLUME TWO* ➔➔➔➔

SEPTEMBER–OCTOBER 21, 1962

Timothy Naftali and Philip Zelikow
Editors, Volume Two

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Ernest May

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Patricia Dunn
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Philip Zelikow and Ernest May
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to finally make it by twelve, but we'll do everything we can to get them in as soon as possible.

President Kennedy: I see. OK. Fine.

Vance: Just a second; Bob [McNamara] is here.

Robert McNamara: Hello, Bobby.

President Kennedy: Yes. Oh, this is . . . No, this is the President.

McNamara: [*Unclear*], oh, Mr. President.

President Kennedy: Yeah.

McNamara: I think that with the priority the Air Force is giving this and we're diverting all our MATS aircraft and our troop carrier aircraft, we can get them there by midnight.¹⁰

President Kennedy: Right. I see. You coming over for this . . . ?

McNamara: No, sir. I just gave my citation to Ros and he will read it. I thought I'd stay here . . .

President Kennedy: I see. OK.

McNamara: . . . and follow this.

President Kennedy: Righto. Fine. Thank you.

McNamara: Thank you.

President Kennedy hangs up.

By late in the day, a force of nearly 5,000 National Guardsmen and soldiers were in Oxford, Mississippi. As of the next morning, 8,735 troops would have reached the town.

After the ceremony for General Lemnitzer, the same group witnessed the swearing in of Maxwell Taylor as Lemnitzer's replacement. The President then went for a swim and his lunch. In the afternoon, he had an unrecorded conversation with George Ball, Ralph Dungan, and Carl Kaysen. This brought the President's official day to an end.

Tuesday, October 2, 1962

The legislative tide was turning in the administration's favor. In July it had seemed President Kennedy would achieve very little of his domestic agenda due to congressional obstruction. But in two months, what was

10. The acronym MATS stands for Military Air Transport Service.

once called the “Won’t Do” Congress had been somewhat transformed. On Monday the Senate had passed a version of the Foreign Aid Bill that restored 70 percent of the cuts made by the House. And this morning the President was able to sign one more bill that had seemed in trouble earlier in the summer. At a 9:30 A.M. ceremony he signed the U.N. Bond Act, which authorized a substantial U.S. loan to the international organization. This was encouraging too, in light of Kennedy’s concerns in late August that events in the Congo would derail its passage.

Kennedy was taping very little at this point. Following a meeting with former U.S. ambassador to France James Gavin, the President received a confidential briefing from military aide Major General Chester V. Clifton. It is possible the President received the results of the September 29 in-and-out U-2 flight over Guantánamo and the western tip of Cuba. This mission brought evidence of new SAM sites but no surface-to-surface missile installations. Cuba was certainly the subject of a meeting at 11:12 A.M. with George Ball and Carl Kaysen. Ball presented the President with a series of alternatives for dealing with non-Soviet bloc ships trading with Cuba. As a result of this meeting, the President chose “to close all United States ports to any ship that on the same continuous voyage was used or is being used in Bloc-Cuba trade.”¹

Cuba was also the focus of a luncheon given by Kennedy for the foreign ministers of 19 Latin American countries. There he pressed for a joint hemispheric approach to the increasing Soviet presence in Cuba.

The one meeting Kennedy taped was a discussion of the 1963 budget in light of its implications for future tax policy. Current budget estimates exceeded the political threshold of \$100 billion, a first for the federal budget, with a \$6 billion deficit. Would a budget that size kill any possibility of tax cuts in 1963? Already Kennedy had to consider the possible political consequences in 1964 of this level of deficit spending.

1. Memorandum from Acting Secretary of State Ball to President Kennedy, 2 October 1962, *FRUS*, 11: 3–4. Carl Kaysen noted the President’s reaction to this memorandum in National Security Action Memorandum No. 194, 2 October 1962, *ibid.*, pp. 4–5.

4:20–5:20 P.M.

So, if we go ahead with the idea of a substantial tax cut, we don't believe in these people who say that they have to cut expenditures equivalently. But we do believe that you have to put on a performance that looks like you're being careful with the expenditures.

Meeting on the Budget and Tax Cut Proposal²

As the 87th Congress struggled to finish its business—adjourning on October 13, 1962—and with the 1962 midterm elections fast approaching, President Kennedy hoped to settle on a budget policy that would enhance the prospects for his party in the midterm election, the passage of pending tax cut legislation to be introduced in 1963, and his own reelection effort in 1964. He would make clear in the following discussion that the kind of policy he desired—a deficit now, produced largely with a tax cut and increased or accelerated public works expenditures—would be exceedingly difficult to sell to either Wilbur Mills or Harry Byrd, respective chairs of the House and Senate committees on which the fate of his tax cut proposal ultimately rested. Rehearsing the economics of gap-closing and full employment, Kennedy and his advisers would discuss both the budget as a whole and specific questions related to individual budget items.³ Should the official budget be changed to reflect trust fund transactions? Would Senate Finance Committee chairman Harry Byrd swallow any budget over the potentially shocking \$100 billion mark and still endorse the administration's tax cut proposal?⁴ Could committee chairman Wilbur Mills deliver a

2. Including President Kennedy, Gardner Ackley, David E. Bell, C. Douglas Dillon, Walter Heller, Charles Schultze, Theodore Sorensen, and Elmer B. Staats. Tape 27.1, John F. Kennedy Library, President's Office Files, Presidential Recordings Collection.

3. When Ted Sorensen wondered aloud why raising the employment "score" from 93 to 96 percent, from A-minus to A, deserved such high political priority, Kennedy's Council of Economic Advisers (and staff economist Arthur Okun in particular) undertook to outline and document the changes in general economic conditions that resulted from *small* changes in unemployment rates. What came to be called Okun's law suggested that 3 extra percentage points in unemployment implied a 10 percent *gap* between actual and potential GNP. This gap was estimated to be approximately \$51 billion at the time of Kennedy's inauguration and had closed to approximately \$30 billion at the beginning of 1962.

4. Indeed, when Lyndon Johnson finally convinced Byrd to pass the 1964 Tax Cut bill out of the Senate Finance Committee in January 1964, a budget introduced then under \$100 billion assured the success of President Johnson's lobbying efforts. "Harry," Johnson announced after

tax cut from the House Ways and Means Committee with sufficient alacrity to lift the economy before it fell too far behind its full-employment potential? Would a recession be required to force Mill's hand, or could the administration convince him and others that to wait for a recession would mean failing to exploit the potential of an economy that was growing but growing all too sluggishly?

Because the performance of the U.S. economy had most recently fallen short of administration projections—a \$555 billion GNP at midyear, when the Council of Economic Advisors had forecast \$570 billion—the administration's full-employment goal, established conservatively at 4 percent, was no longer a realistic target for 1963 but had to be pushed back to the middle of the presidential election year of 1964.⁵ Slippage in the employment target was a symptom of a larger problem for the President and his economic team. Leading economic indicators were offering only an indistinct picture of current economic trends; the significant durable goods orders category, for example, had reversed its direction every month from May to August. Kennedy needed to know where the economy was heading to make a firm decision on tax cuts.

Somehow the White House had to reconcile a certain reluctance to act, in the face of opposition from Congress and much of the U.S. business community, with a growing unease at inaction, produced by an uncertain, perhaps teetering, domestic economy. To find a good economic policy when the best was beyond the political pale, as Kennedy adviser Walter Heller once put it, was the task at hand as the President convened the following meeting.

Begins in midconversation.

Elmer Staats: . . . well, we've thought of that, Mr. President, just to inject . . . one note of optimism is that I think it is very likely that you will not have a deficit on the income . . . the national income basis which, as you know—and nobody else seems to know [*unclear*] the question—

presenting the official budget for fiscal year 1965, "I've got the damn thing under \$100 billion . . . way under. It's only \$97.9 billion. Now you can tell your friends that you forced the President of the United States to reduce the budget before you let him have his tax cut" [quoted in Richard Goodwin, *Remembering America: A Voice From the Sixties* (Boston: Little, Brown, 1988), p. 262].

5. The 1963 target was introduced in Kennedy's first Economic Report to Congress delivered on 22 January 1962 [see "Message to the Congress Presenting the President's First Economic Report. 22 January 1962," *Public Papers of the Presidents, John F. Kennedy, 1962* (Washington, DC: U.S. Government Printing Office, 1963), p. 45].

that the amount of the deficit will be less than the amount of the cut . . . the net reduction in taxes.⁶ So that you could say that tax reduction is really what's causing the deficit. You need that for full-range growth because . . .

President Kennedy: That is what sustains the argument that the deficit is necessary to counteract [*unclear*], but you'd have a tough time justifying this tax cut because they'll say we should reduce expenditures. As much as you have intended to reduce the taxes, we're going to have to make the argument that the deficit is desired.

Douglas Dillon: Yeah, well, also you have the other argument that tax reduction is desirable to take the brakes off growth and provides incentives and that to make reductions equivalent to that would mean that you'd have to cut your defense budget and things like that. And, obviously, either way it's the—

President Kennedy: Well, I don't, I don't mind taking on that argument so much. I'm not as—

Dillon: Although I find the second one, that'll pitch everything on the economic angle, that people don't understand, although I think it's . . . will have to be made politically.

Theodore Sorensen: That's really my point also, Doug. In other words, we can say that, at least on the income . . . national income basis, we could give you a balanced budget if we're not thinking a tax cut, but we think the tax cut is needed.

David Bell: Well, you can't, economically, sustain precisely that point . . . if I recall the figures correctly. Because without the tax cut, the economy would not be pushing high enough so that that would be true, you see.⁷

Sorensen: Because of the feedback on taxes?

Bell: Exactly—because of taxes. But, the point, I think, is—

President Kennedy: Well, the problem is . . . is '64.

Dillon: Another thing that complicates that, Mr. President, is this idea of what we said we'd do is to make a retroactive tax cut. And, the effect of that really is that, for most of these assumptions, are that you won't be able to get any of that retroactivity in operation except by refunds which take place in '64. So in '64 you have a double deduction: you have the deduction

6. The national income basis is a method of budgetary accounting, unlike the standard federal procedure known as the administrative budget, that includes trust fund receipts and expenditures (Social Security, highway grants-in-aid, unemployment compensation, etc.), omits government transactions in financial assets (e.g., federal loans), and records liabilities when they are incurred (accrual basis) and not when cash changes hands.

7. To produce enough revenue to achieve balance.

on the income side, not only from tax-rate reduction but also from the refunds for '63, which are claimed backwards. So it's—I've forgotten what the figure is—about a 3 or 4 billion dollar deficit.

Bell: [*Unclear.*]

President Kennedy: Deficit?

Bell: Yeah. But . . . the assumption is made here that the figures you see there is about 2 billion dollars. The deficit in '60—fiscal '64, which represents refunds—

Charles Schultze: If—

Bell: —to people who paid—

Schultze: If you—

Bell: —their taxes in '63.

Schultze: If you look on page 7, and look at that fiscal '64 figure of a 13 billion dollar deficit, if the reductions were not retroactive, that figure would be 9.6 billion.

Bell: Yes, you're right. And—

Schultze: And even if the . . . if the corporate rates were retroactive, but we coupled that with the Mills plan, but the personal rates were not retroactive, it would still be 9.6—⁸

Bell: You'd get—

Schultze: You get below your 10 billion figure. This means that a great deal of the . . . we put this into the picture, if we did that, went back to where we left off and we left out the commitment, just on the personal income tax, your 98½ billion figure would be less than a 100 billion; it would be a substantially less increase than in previous years; you could probably cut your deficit below 10 billion to this 9.6; and you could cite the fact that the tax cut is equal to about three fourths of the deficit. That is, that the tax cut of 7 billion that this is based on is equal to three-fourths of the deficit. Now, the argument against that is that the lack of retroactivity would not permit your return to full employment, but would bring it down to about 4½ percent rather than 4 percent in '64.

Bell: The retroactivity part of it that you really have to be asked to make a decision on, very obviously, is a tricky one, because the time you need the economic boost from a tax cut would probably be next spring,

8. Wilbur D. Mills, chairman of the House Ways and Means Committee, had suggested in earlier meetings with the President and other administration officials that the Internal Revenue Service could reduce withholding rates, alone or in conjunction with a tax cut, to jump-start the economy.

and that's not the most likely time to get the tax bill enacted. So, this is going to be a difficult legislative problem.

President Kennedy: Unless you have to divide it, I don't know. We could look for that.

Dillon: Even if you do that, if, you see, if it passes very quickly, you . . . there's no particular feeling that, say if it even became law some time in May, then you probably couldn't get the refund checks out in time. On the other hand, in '63 . . .

President Kennedy: There's nothing we can do about the deficit, then, with respect to recession in the winter or spring, is there? As far as a tax cut?

Walter Heller: But, do you really think that's a . . . that's an inescapable con[clusion] . . . legislative judgment, given the fact that there had been a couple of cases where Congress has whistled through a tax cut?

Dillon: Oh, if we could get a tax cut through in March, we could get, oh . . . we could get, definitely, some of the refunds out in time, but not all of them.

President Kennedy: Well, John Gerrity called, said in about thirty minutes Kaiser Steel's going to take the price on it and cut it.⁹ Twelve dollars a ton across the board?¹⁰

Unidentified: Fools! [*A whistle.*]

Unidentified: A cut!

Unidentified: A cut!

President Kennedy: Twelve dollars a ton?

Unidentified: Gee! [*Unclear exchange. Laughter.*]

Staats: Well, I would . . . Let's see, It would be . . .

Unidentified: Eight percent . . .

Staats: One hundred and four dollars . . .

9. John Gerrity was the Washington bureau reporter for the New York-based *Daily Bond Buyer*. See Walter Heller's later comments in the transcript.

10. Later that day, Kaiser Steel Company announced cuts on products from its Fontana, California, mill. It changed its price for plates and structural shapes to \$108 a ton from \$122 a ton; for hot-rolled steel to \$104 a ton from \$116.50 a ton (compared to the \$106 a ton charged by eastern mills); and for cold-rolled steel to \$143 a ton from \$148 a ton. The price cut on which Kennedy and his advisers are commenting here is the price cut for Kaiser's hot-rolled steel. Chairman Edgar Kaiser noted later that day that the cuts were made to end regional differences, to make the West more competitive domestically, and to "materially assist in combating foreign steel imports to the West coast." Immediately after the Kaiser cuts, U.S. Steel's Geneva Steel division in Torrance, California, and Pittsburg, California, announced comparable cuts.

Unidentified: Twelve dollars . . .

Staats: I mean 140 dollars, which is about—

Unidentified: Eight percent.

Bell: Eight percent. Yeah.

Heller: This fellow Gerrity's very close to the steel industry. . . .

President Kennedy: Who is it?

Heller: And there's a good chance that that's right. He's a reporter now for the *Bond Buyer*. He used to be up on the Hill. That's one Irish Catholic—

President Kennedy: What's the effect going to be of that? On the economy?

Sorensen: It ought to be good.

President Kennedy: Good?

Bell: It'll stimulate buying of steel. . . .

President Kennedy: How would it?

Bell: On the other hand, it may be regarded as a symptom of a—

President Kennedy: Recession?

Bell: —of a recession.

Heller: Yes, I think the first reaction will be—

Unidentified: Stockholders will—

Heller: —the stock market will say—

Unidentified: [*Unclear.*]

Heller: —now the squeeze is going to get tighter.

Schultze: This may be what this stuff's all about, anticipating this.
[*Unclear.*]

Unidentified: [*Unclear.*]

Gardner Ackley: That lowers their profit position, too.

Schultze: Well, that'll be the principal thing, I think, the impact on profit.

Heller: Of course, steel users will not be entirely unhappy about this.

President Kennedy: That's Roger's. Roger Blough's six-dollar increase . . .¹¹

Heller: This is a retroactive—

11. The President is referring here to the \$6 a ton across-the-board increase implemented by Roger Blough and U.S. Steel back on 10 April 1962, followed by increases by five other steel companies the next day, and rescinded by all when the President objected publicly, said that he had been double-crossed, and began deploying his government contract, antitrust, and tax law leverage to force the rescission.

President Kennedy: Roger Blough is obviously . . . is just saying that—

Heller: —justification for the President's action.¹²

Bell: Not long—

President Kennedy: Well, he could say, "No, it isn't a justification," that if he ignored it, they would have to bring it down anyway.

Unidentified: No, I think it's better than my calling Roger.

President Kennedy: [*Unclear.*]

Ackley: What Walter's saying is that this is not [*unclear*] this enterprise system we have, and so are our foreign competitors.

Dillon: And so . . .

Unidentified: They have [*unclear*].

Schultze: I would lay a small bet that this won't—

Unidentified: [*Unclear.*]

Schultze: —involve one, more than one company.¹³

President Kennedy: Why?

Schultze: Why—

Heller: One percent of the industry, Mr. President.

Staats: And a maverick 1 percent at that.

Heller: Yeah.

Dillon: They don't . . . barely sell the Pacific coast.

Schultze: This is a market maneuver, not only on the stock market but in order to get Kaiser up a notch or two, you see.

Heller: Yeah, that's right. That's the competitive system.

President Kennedy: They're all just a bunch anyway, you know.

Unidentified: [*Unclear*], that's right.

Bell: Since the outlook for the economy is not clear . . .

Heller: Well, now, Dave, before . . . is it, is this an operating assumption that we can't possibly get a quick, simple kind of tax reduction, across the board, of some kind?

Dillon: When? By March?

Bell: I take it that it depends on what the economic situation looks like.

President Kennedy: I think it's . . . I suppose it's possible that you

12. Heller's implication is that Kennedy's effort to achieve a rescission of the April 1962 steel price increases was an effort to force the steel companies to abide by, rather than thumb their noses at, market fundamentals. Able to raise prices in the short run due to oligopoly positions in the U.S. market and lucrative government contracts, the U.S. steel industry's pricing power was fast being undermined by increasing foreign competition.

13. As noted above, U.S. Steel's Geneva division did follow suit.

could always, well, if you had any votes or if you broke even in the congressional election maybe you can justify coming back and doing it if you really thought it was necessary.¹⁴

Ackley: The economic conditions, I think, are obvious enough.

Dillon: Well, the vote answer is that's the new Congress. They wouldn't start doing anything until close to the first of February.

Schultze: I would say in answer to your question, Walter, my own judgment would be that if the economy is more or less moving along at the present tide, no. You've got to have something that's recognizable as a recession.

Unidentified: [*Unclear.*]

Heller: Is there any, anything approaching a commitment from Wilbur Mills to move fast if—?

President Kennedy: Oh, well, you know, it just depends really, on the situation. I think—¹⁵ [*Unclear exchange.*]

Dillon: If you get those hearings, if they both have hearings, you know, [*unclear*] but certainly Byrd would on anything like this.¹⁶

President Kennedy: In June and July, is that the one?

Unidentified: In fact there [*unclear*] the hearings [*unclear*] month.

Bell: Well, in view of the fact, the possibility that, or the fact that we don't know what the most likely possibility is for the economy at this stage, we are suggesting that the tax bills, in effect, be worked on over the next Monday or two . . . which would be appropriate for either contingency—if the outlook looks very good going on into '63, or looks as though a recession is going to be breathing down our neck. And that if these questions of the timing and retroactivity and the nature of the tax reduction and all that, on which the Treasury will be working on, be brought back to you later this fall.

The presentation here, however, is intended to indicate that whichever way it goes, you . . . it looks as though it's kind of political to present a deficit in '64 of the size and magnitude . . . that we may want to be presenting a proposition for economic reasons, which would be . . . make a

14. The President is returning to the idea of the special session of the lame duck Congress, which he discussed with Wilbur Mills on August 6 (see Volume 1, "Meeting with Wilbur Mills," 6 August 1962).

15. Kennedy had arranged several recent meetings with Mills to discuss this issue (*ibid.*).

16. Harry F. Byrd, Sr., was a U.S. senator from Virginia, 1933 to 1965; chairman of the Senate Finance Committee, 1955 to 1965; and founder of the Joint Committee on Reduction of Federal Expenditures.

pretty, a pretty large deficit indeed. Now, so far as the expenditures are concerned, we do have a need for some instructions on them at this point. If you look at the thing that says "attachment" there, there's no reason for you to be called. And I'll tell you in just a minute some other political facts. The key point is that, as indicated there on pages 1 and 2, we find built-in changes of about 5 billion dollars, which means—¹⁷

President Kennedy: What will those be . . . the major . . . in space, I suppose?

Bell: Yeah. Space. At the bottom you'll see a billion and a half of it is defense, another billion and a half for NASA.¹⁸

President Kennedy: Where's that? Oh, I see . . . both under five billion. Now, is that the pay increase?¹⁹

Bell: No, we do not count the pay increase as built-in, Mr. President; we count that as optional. That's on top of this. This is simply the increased expenditures associated with the procurement plans and the force plans that you've already approved.

President Kennedy: Three billion of the five billion is defense and space . . . ?

Bell: Right.

President Kennedy: And a half a billion, really a half, is HEW?²⁰

Bell: Right.

President Kennedy: Now, you've got a billion and a half left.

Bell: You've got a full table on page 5.

President Kennedy: I see.

Bell: Now, beyond this, we think there is another billion seven, which represents sensible carrying forward of your program, and, indeed, it includes legislative proposals that are not passed this year but which you've already recommended to the Congress. And that, the nature of which . . . the amounts of those increases are also indicated in the table on page 5. This is how we get the one being kept forward.

17. Early versions of this item may be found in the Theodore Sorensen Papers, Classified Subject Files, Budget, 1966, Box 44, and Bureau of the Budget, Box 47.

18. National Aeronautical and Space Administration.

19. The reference is to the effects of the "Pay Bill" that Kennedy would sign nine days later on 11 October 1962 granting pay increases to all federal employees [see "Remarks Upon Signing the Postal Service and Federal Employees Salary Act of 1962," *Public Papers of the Presidents*, pp. 756–57].

20. Department of Health, Education and Welfare (later the *Departments* of Education and of Health and Human Services).

President Kennedy: Yeah.

Bell: And we should warn you that there are a number of the cabinet officers and agency heads that think these figures are too tight. And that is also indicated in the table on page 5.

Staats: In other words, that's [*unclear*], Mr. President, are in excess of the amounts that we indicated here.

President Kennedy: Because [*unclear*] . . . what is the billion five based on?

Unidentified: [*Unclear.*]

President Kennedy: [*Unclear.*]

Bell: It is . . . out of the back . . . very detailed statements that includes . . . The biggest single item is the 500 million dollar increase in Navy aircraft . . . Navy aircraft expenditures which . . . let's see, payments on the planes that are, that are now being ordered or were ordered last year, F4Hs in very large part.²¹ And another 300 million dollars of shipbuilding, increased expenditures for shipbuilding under the shipbuilding program which has already been embarked on. There, that's principally the start-up on Polaris submarines.²² There are other elements which add up to close to a billion and a half as [*unclear*].

President Kennedy: AEC?²³

Bell: Now, we would take the AEC down a little bit. This is strongly opposed by Seaborg and it implies that both a tight program on weapons—our advice does—and a tight program on civilian power reactors and that sort of thing.²⁴ The NASA program, if you would draw your attention to the fact that our figures—the figure we have included in the 100.4 billion which is 4 billion dollars of expenditures for NASA—that figure now looks low, not because they are going to add anything in particular but because, well, they've got better cost figures and this figure should be, according to them—we haven't fully reviewed this—about 4.7. We think that that's unnecessarily high, but it clearly is several hundred million dollars too low unless some change were to be made in the ongoing program.

21. The F4Hs were fighter planes, later renamed F4A, and also known as "Phantoms."

22. Polaris submarines, nuclear-powered submarines capable of submerged firing of Polaris ballistic missiles, began patrolling the seas in 1960. The third generation of Polaris submarines, typified by the USS *Lafayette* and the USS *Alexander Hamilton* and capable of firing the 2,500-mile A3 Polaris missile, were, at the time of this meeting, currently under development.

23. The abbreviation AEC stands for Atomic Energy Commission.

24. Glenn T. Seaborg was chairman of the U.S. Atomic Energy Commission, 1961 to 1971. Recipient of the 1951 Nobel Prize in chemistry and discoverer of many of the known transuranium elements, including plutonium, Seaborg also worked on the Manhattan Project during World War II.

President Kennedy: I don't like that. I notice aid to impacted school districts and all the rest, built-in increases . . .²⁵

Bell: Yes.

President Kennedy: That's Interior . . . oh, we're just not going to be able to do all that, except saline water [*unclear*] less than that, but some of the rest of that Interior, Justice . . .²⁶

Bell: Beginning on page 15, Mr. President, we have indicated what the kind of cutbacks below our figures which would be necessary to reach this alternative target figure of 98.5. Let me get back to that point.

President Kennedy: What's that on? What page?

Bell: On 15.

Unidentified: I think it's to some advantage, though, Dave, to know how [*unclear*] will look at the various increased expenditures.

Unidentified: Yeah, and lead up to—

President Kennedy: What about our putting in a . . . What effect would it have if we put in the federal budget for the next three years? As you know, the Congress, suddenly, they vote for these programs; nobody realizes where it's going to go. We have to take all this. I don't know whether we would gain or lose if we put in some of the next three years' expenditures, and income, and estimates already put in this year.

Bell: Well, they would show . . . and a steadily improving relationship between receipts and expenditures.²⁷ I'm sure they would be sharply attacked as "pie in the sky," as just making the situation look good.

They would be perfectly honest figures, but any figures that far ahead are necessarily fairly shaky. We would have to—in defending them—we would need to not to unveil any news . . . that wouldn't be hard to defend under those carrying forward existing programs.

President Kennedy: What about when the FAA does a supersonic string of jet transports?²⁸ I see the French and the British have joined together on that. I'm interested in that, because that's a . . . an area where we've got to maintain our position. There also is a dollar in it . . . sale of aircraft abroad.

Bell: Well, it's an item that thus far we do not have in—

President Kennedy: Yeah.

25. Additional federal aid to school districts in areas of prominent federal installations, justified on the basis of diminished property tax base in the affected areas, was \$229 million in the final education appropriations bill for FY 1963.

26. "Saline water" refers to pilot desalinization projects.

27. Not, perhaps, what President Kennedy expected to be forecast.

28. The abbreviation FAA stands for the Federal Aviation Administration.

Bell: —the 100.4. So that would mean—

President Kennedy: I'd like to see if we could get a breakdown of what he's going to do with that 100 million, and then the arguments as to why you don't think they put it in.

Bell: [*Volume fades several times during Bell's comments.*] Yes, well, we have at our request, he has been making these contractors with special studies. That's not our concern. It's difficult to separate the figures by the first of December. Bob McNamara, as you may know, Mr. President, has expressed some skepticism about this supersonic transport, whether we ever get an urgency in terms of the market for it.²⁹ There's also the question of why we don't do this *with* the British and the French. Why do we insist on being competitive? It's going to cost us a hell of a lot of money to develop it, and it's going to cost *them* a hell of a lot of money to develop it; maybe we ought to do it together. How much of a revolutionary notion that would be—

Staats: Doesn't he have a feeling it's more of a prestige item—?

Bell: Yes.

Staats: —than it would be commercially profitable in that program, for a long, long time?

Bell: This is a very high [*unclear*] for this fall's budget consideration. Do you want a special memorandum early in this—?

President Kennedy: Well, I don't mean to put it in there, but I, anyway . . . I was just sort of interested in itself . . . Whatever the proper time would be.

Bell: Well, in any event, it's not in our . . . [*sound fades and returns*] . . . at this point, Mr. President.

Ten-second pause.

President Kennedy: Cancel the Skybolt?³⁰ Well, you can't do that; there's a commitment with the British, I think.³¹ Can't cancel Skybolt. Mobile Minuteman and [*unclear*] in all services.³² And a big Fall

29. Robert S. McNamara was secretary of defense.

30. The transport was an air-launched missile system on which Britain had relied to prolong its manned-bomber nuclear deterrent. An American commitment to share Skybolt with the British had been initiated in the Eisenhower administration, most likely at Camp David in March 1960. Early in November 1962, according to Richard Neustadt's "Top Secret" report to the President on "Skybolt and Nassau," "the Secretary of Defense put to the President and to the Secretary of State the likelihood that we would terminate our Skybolt program" [Richard Neustadt, *Report to JFK: The Skybolt Crisis in Perspective* (Ithaca, NY: Cornell University Press, 1999), p. 27].

31. "They can't cancel Skybolt on us," one Air Force General told a budget bureau aide in 1962. "The British are in with us" (Neustadt, *Report to JFK*, p. 30).

32. The FY 1963 budget proposal included funding for 200 additional Minuteman intercontinental ballistic missiles (surface-to-surface).

increase in equipment modernization. Proposed pay legislation. Well, he's going to have . . . they have Are they due as much as the other federal employees?³³

Bell: We had thought so, and therefore we had . . . our figures include a pay increase as of January 1 in '64, one year after this Spring.

President Kennedy: Well, I'm inclined to think we'd have difficulty avoiding increasing *their* pay.

Staats: You'd have difficulty letting it start earlier than that, and they had difficulty, as you may recall, Mr. President, in getting them to postpone it because—

President Kennedy: Yeah. Well, I think we've got to go on that.

Bell: Well, these aren't the only things you could do, but they are illustrative of the fact that anything you did to try to knock this \$100 billion figure down is going to run you into budgets like this.

Ten-second pause.

Bell: I would think, for instance, that it would be quite difficult to eliminate all new starts for public works.³⁴

President Kennedy: NASA. We got a pretty good . . . have you got a good budget group that goes with . . . looking at all these NASA expenditures?

Bell: Yes, we do. It's handled by the same people that handle the military budget: Veatch³⁵ and Shapley,³⁶ and then about four able, younger guys who have been watching the program the last two or three years. We have a pretty good feeling about the work, in so far as the budget side of it is concerned . . . on the NASA program. But it's a big program; . . . it's jumping up every day.

President Kennedy: It's a question of whether we're doing too many things [*unclear*].

Bell: Well, this will be coming to you in about three weeks with a special study and report on that. But, it does not look to me as though you are going to want to trim it back to the extent it would be necessary to—

Ackley: Does your report read that, Defense and NASA, we're deal-

33. Due to the "Pay Bill," signed into law by President Kennedy nine days later (11 October 1962).

34. See "Cabinet Meeting on the Federal Budget for Fiscal Year 1964," 18 October 1962, in which Bell advises against a policy of "no new starts."

35. Ellis H. Veatch, chief of the Military Division, Bureau of the Budget. Though this division would be renamed on several occasions, Veatch remained its chief until 1974.

36. Willis Shapley, deputy to Ellis Veatch and budget analyst for NASA and other science-oriented agencies and programs.

ing with both space, both military and space just thrown together. . . . Can your report [*unclear*]?

President Kennedy: I'm going to look here for some of the . . . What's your thought, Mr. Secretary?

Dillon: Well, the basic problem, where we see it, is that it's probably based on the extensive experience up until tax time of this year—February, March, and quite a little bit—but we feel that instead it would just be impossible to go up and get a tax reduction if our spending . . . our increase in spending next year is larger than the increase in spending that we've had in any year so far. And that's what the 100.4 is.

But the increase in spending in fiscal '62 over '61 was 6.2 billion [*unclear*], and '61 over '60, rather, '62 over '61 it was 6 billion. And the proposed increase here is 6.7 billion . . . increase in expenditures. And . . . which is a larger increase than we've had before, so we just really, we have to somehow get that down a respectable amount below the 6.2 and 6 billion increases, which were the previous ones, if we're going to justify a tax reduction.

Now the exact amount below is a difficult thing to judge. We said 98½, which would put the increase at 4.8 compared with, with the 6 and 6.2. But the bulk of the real increase is that we think it has to be substantially below what we think [*unclear*]. It might be you would hold on the debt limit thing which you came mighty close to veto, which could be quite a . . . be very difficult. Of course, we'll know better, we'll be able to measure this better after we see what happens in November, but—

President Kennedy: Obviously, if we get . . . set back seriously in November, we will—

Dillon: Well, on the debt limit case, we seem to have the Republican vote.³⁷ Increasingly, they all decide they want to vote against the increase so that when . . . This is just not responsible, but it is just symptomatic of a—

President Kennedy: Yeah. I'm sure it's going to—

Dillon: So, if we go ahead with the idea of a substantial tax cut, we don't believe in these people who say that they have to cut expenditures equivalently.³⁸ But we do believe that you have to put on a performance that looks like you're being careful with the expenditures.

37. The administration had already lobbied successfully for a prior debt limit increase in March 1962.

38. Harry F. Byrd, for example.

Unidentified: I would turn around and [*unclear*] your spending increasing faster than you ever have—

Dillon: [*Unclear*] certain [*unclear*]. Well, right across the board for a total figure of 6.7 increase, which is about 15 percent or 10 percent bigger than you've ever done before.

Bell: Aren't the . . . but the bulk of the increase under our . . . more than two-thirds of the increase that we projected here would be in the national security and international field, and so on. So it could not be attacked on the grounds it was letting loose of the strings on the civilian side. I know that Aikman is not party to the increase with something at West Point, but I guess he is.

Now, it's difficult to make an accurate estimate—along the lines Doug is talking about—because we don't know how firm this 93.7 figure's going to be. It'll be another three or four weeks before we have a really . . . a good solid figure for '63 expenditures, now that the Congress is completing action. Remember last year when we had our midyear budget review, we suddenly came up with a billion dollar agricultural expenditure that we hadn't expected. Now we hope we've guarded against any unexpected finds this year, but we shouldn't think of the 93.7 as too precise, as yet. Think of it as being—

President Kennedy: Of course, Ken Galbraith, though, thinks we're not going to get the tax cut at all while we run a deficit.³⁹ It might be you'd do better for the economy if you have the expenditures for those . . . [*unclear*] and Berlin, that you get them and . . . tax . . . but, however, that's a viewpoint we're just not going to be able to get.⁴⁰ Economic education has not proceeded enough to let you . . . to think of the Congress, as tough as this is going to be—next one probably—to get that kind of a tax cut through.

Bell: This is about the proper position to take. This is hammered-down-type figure in the program that you've—

President Kennedy: Except I will say everybody wants to increase these expenditures. I know how desirable all these programs are, but I just . . .

Bell: Remember, sir, that this is . . . the figure they gave us originally was 108 billion.

Sorensen: More than the [*unclear*], Mr. President, it seems. What

39. John Kenneth Galbraith was ambassador to India and a Harvard economist. Galbraith had argued, quite prominently, that increased expenditures were a preferred alternative to tax cuts if the administration sought a fiscal stimulus.

40. Military buildup and added expenditures related to the ongoing Berlin crisis.

the Budget Bureau has done in their [*unclear*] submissions, and it worries me that some of it we've already cut too far to get down to the 100.4.

Bell: The third and fourth columns there.

President Kennedy: As far as 1964, the agency—

Bell: Yeah.

Unidentified: Yeah.

Ten-second pause.

Sorensen: So that while I'm sympathetic to Doug's point, I don't know where the \$2 billion can be cut out.

Twenty-second pause.

President Kennedy: About this goal in three years. Has that got the . . . where do you think . . . or are we just suggesting what these expenditures are going to be?

Heller: I like the idea.

Sorensen: I don't think it . . . I'm trying to think of . . . you'd just, you'd just be taking on that and many more enemies unnecessarily.

Bell: Maybe because it would show the expenditures rising.

Sorensen: Yes.

President Kennedy: Well, It doesn't rise so much, though, except in space. So far I've gotten space. They got NASA. That's the big rise.

Bell: Well, these figures would have to be revised a lot—

President Kennedy: Yeah.

Bell: —further than they have been.

President Kennedy: That's right.

Bell: My guess is—

President Kennedy: I don't see any enormous—

Bell: —if you tightened them up, they would probably look like—

President Kennedy: HEW's the biggest.

Bell: —105, 109.

President Kennedy: And HEW went from 4.2 in '62 up to 9.3.

Dillon: Well, economic aid—

President Kennedy: Well, we'll have to just cut that back. But, I see nothing else except for HEW with a really big rise. Treasury interest, but the—

Sorensen: Housing and Home Finance.

Bell: It would be comforting to a lot of people to see those NASA figures, because it would show that they're going to taper off after another year or more of a rapid rise.⁴¹ HEW would be the big issue, that's right.

41. Figures are in the form of *multiyear projections*, discussed here.

President Kennedy: What is that increase for?

Bell: Well, it's a—

President Kennedy: Population increases?

Bell: No, there's a big increase in education, which is connected with the bill, the elementary and secondary bills you've had up there now.

President Kennedy: Well, they're not going to pass that.⁴² That's just a . . . start off with that realization.

Bell: What do you mean? You—

President Kennedy: Starting off, we ought to talk about whether we're going to go again with that.

Bell: Oh, yes, I see what you mean. Well, that's . . . that's a . . . well, that's at least a billion dollars and maybe more, but the increase that shows here between '64 and '69 . . . Another substantial increase is in the higher education field. There is some increase in welfare, which is natural. You know, they go up every year—by 2[00], 3[00], or 400 million dollars. And—

Staats: NIH goes up over a billion dollars.⁴³

Bell: NIH keeps on rising—I've forgotten the precise rate we've assumed in here, but 2 or 3, say \$250 million a year, something like that—
increase.⁴⁴

Dillon: Regularly.

Bell: The people who are in favor of health research have their eyes set on \$2 billion by 1970. This would be . . . to take it there this is less of a rapid rate of increase than they have proposed. I believe those are the principal increases in HEW, I don't—

President Kennedy: HHFA.⁴⁵ That would be . . . what's the reason for that hike?

Bell: Well, that's mostly built-in. That's the steady rise in the Urban Renewal program which was financed a year ago, with the Housing Act of '61. And it would be showing quite substantial increases in outlays as the cities get their Urban Renewal projects to the point at which payments made to those cities—

President Kennedy: What about mass transit?

Bell: Mass transit's in here, also. I've forgotten the precise figures

42. These bills, for additional aid to schools, were defeated in the 87th Congress.

43. The abbreviation NIH stands for National Institutes of Health.

44. The original budget proposal for NIH for FY 1963 was \$741 million, an increase of \$113 million over FY 1962.

45. Housing and Home Finance Agency.

that are here. If you want to think seriously about this, Mr. President, we can very readily put together a memo to show you the kinds of figures connected to programs that would be implicit in—

President Kennedy: Well, it would only be if it were not going to be a rapid increase which would look like we're inundating them. And the only advantage would be if you're going to give an impression that this is [*unclear*].

Dillon: This is [*unclear*] increase.

Bell: Well, and if it does give that impression . . . I mean it logically does. Whether it would look that way and be politically vulnerable, I—

Heller: Dave, I doubt that it would look that way, and I'm not sure that we want them all saying that it's—[*Unclear exchange.*]

Dillon:—things way ahead of us and not too [*unclear*].

Unidentified: Umm . . .

Unidentified: That's true.

Dillon: That's very ostentatious.

Bell: Well, it's up in the air with 3 more billion dollars than we said we'd [*unclear*].

Heller: Well, not only that, when you've got the economy going full tilt, you'd probably want to hold back some programs.

Bell: That wouldn't be so hard.

Unidentified: Yeah.

Unidentified: On the other hand, you might take some [*unclear*].

Dillon: I think on the expenditures thing, while 98½ seems a good figure, providing you freeze inflation, but, the basic essence of the thing is that you just have to come back, so that your increase in expenditures is something clearly less than it has been. And I would say that this shows you've done the best you possibly can on expenditures at the same time you—

Schultze: This would . . . I would say, Doug, that in the eight years I was up there, I never heard anyone use that as a measuring stick.⁴⁶

Dillon: What?

Schultze: Whether expenditures increased more this year than they increased last year or the year before that. And, secondly . . . and my guess is that this increase, percentage-wise, *is* smaller than those previous increases.

Dillon: Probably about the same.

46. From 1952 to 1959, Schultze served as a staff economist with the Council of Economic Advisers.

President Kennedy: Well, I don't think the . . . you know, I think it's just really a question of whether it'll be a 100 billion figure and so on, plus the fact you're asking for a tax cut of 6 or 7 million dollars; and then have . . . maybe you can't do anything about it.⁴⁷ If you ask for a tax cut with a \$4 billion deficit, it's probably just as hard a political struggle if you ask for it with 6 billion . . . probably. We don't know how many people who . . . all of the Republicans are going to be against us unless we get a tax bill which is so designed to take care, in a sense disproportionately, of their constituency.⁴⁸

Dillon: Because one thing is, too, is that this figure is a higher figure than anyone has contemplated anywhere. It's gonna be a shock. But there's not much you can do about it. I think everyone, I think, expects a 4 or 5 billion dollar increase in expenditures, but I don't think any of them think it should be moved this high next year. Even Mr. Byrd hasn't mentioned that [*unclear*].

Heller: Well, the Senate bill is high.

Sorensen: We're probably going to go this high this year.

Dillon: Huh?

Sorensen: Yes, he [*unclear*]—

Unidentified: Well . . .

Sorensen: —in one of his speeches.

Dillon: Hmm.

Bell: If we can . . . one of the things that you're suggesting, implicitly, is that if you estimate a little generously on the '63 expenditures, which we're about to put out a release on, that you're likely—

Unidentified: Yeah.

Bell: —if that were 95 billion dollars instead of 93.7 . . . The Congress, after all, has added a number of things. They moved forward the date of the pay increase, and added money for health research and military perks, and so on. Then, the big jump in '63 to '64, would fit your description even of these figures.

47. Speaking rapidly here, President Kennedy said "million dollars" when he meant to say "billion dollars."

48. Convinced that aggregate demand was the linchpin to greater private investment and to the growth of the economy, both President Kennedy and Chairman Heller of the CEA originally sought a tax cut proposal under which the lion's share of the decreases would go to individuals and to the less well-off. Other cuts and incentives for wealthier individuals and for corporations were gradually added in as the political obstacles became clearer and the necessary amendments were considered. This was true in the area of tax reform as well, where even more compromises had to be made to secure only a few somewhat modest changes.

Dillon: Uh-huh . . . uh-huh. [*Unclear.*]

Bell: I don't know but—

Schultze: One way of looking at it, in capsule form in terms of fiscal policy, is that the first two years we've tried to get the economy going by increasing expenditures and the budget deficits. Now if we go to a sharp increase in expenditures *and* tax cuts on top of it, we leapfrog over the intermediate step which is tax cuts, withholding expenditure increases—*down*, which is a—

Bell: The budget that was presented to them—

Schultze: —kind of an intermediate step.

Bell: —in January of this year, because the budget will show a relatively small expenditure increase—under 2½ billion dollars—and a balance if the economy would perform as we hoped it would. Now, the reason there isn't a 3½ billion increase in expenditures, but 6, is because '62 expenditures were lower than we thought they would be, by about \$2 billion, a little over. And '63 is going to be higher than we thought in January. But the budget policy was a very conservative one in January.⁴⁹ It wasn't a . . . it wasn't a deficit policy to lift the economy; it was deliberately a balanced-budget policy.

Schultze: No, I'm speaking in terms of results, so—

Bell: Yeah.

Schultze: But what we—[*Unclear exchange.*]

Bell: Well—[*Unclear exchange.*]

Bell: The result is that the economy has not moved forward as it should and we're stuck with a deficit. It isn't because we *planned* it that way.

Dillon: No.

Schultze: Oh, no. No, we haven't planned it . . . yeah.

Heller: We need to remember that on the . . . on the basis that makes economic sense—the income and product account—we went into balance . . . second quarter of this year, virtually.⁵⁰

President Kennedy: What about the change in our method of budget-keeping as far as the repayable loans, and so on?⁵¹ Has anybody got any thoughts on that?

49. Revenues, from lower-than-expected levels of economic growth, also trailed most forecasts for this period.

50. Income account is national income accounts basis. See note 3.

51. Prepared on the national income accounts basis, the federal budget would not include federal repayable loan outlays or proceeds.

Bell: We've been working with the council.⁵² We had some brief discussion earlier on this. We have a staff paper that everybody is looking at. If you take out repayable loans, it doesn't take out very much, around \$3 billion or 3 plus, in this particular series of budget years. If you just take it out and say the budget should be regarded as the figures exclusive of this, you don't gain enough to make much impact on the deficit figures, and you pick up a fight for yourself without much benefit. In consequence, and third . . . secondly, we looked at the questions of . . .

President Kennedy: Three billion dollars might be of use to us.

Bell: Well, yes . . . in the sense that it would reduce the budget deficit, apparent deficit. We've assumed that we should present a set of budget figures that represent the federal financial transactions in some kind of total sense. And then we say, and alongside of it, here are the income and product account figures which are a more accurate indicator of the *economic* effects of the federal budget.

And, of course, the repayable loans are excluded from that so that the income and product account deficit will presumably look that much better than the cash figures that we use. And, accordingly, we get that benefit . . . we expect we will have that benefit by using the income and product account figures.

And our question, therefore, is what about the overall budget figure? Do we also take it out of there? You can, of course, ask, "Should we take *more* out?" We could take out repayable loans plus capital items of various kinds. Go to a quasi-capital budget. We've had some preliminary discussion with Walter and his boys on this. There's a little disagreement among us, and I think it might be better if we brought the question to you a little later rather than today.

Heller: I agree.

Bell: I think there's some majority sentiment against rather than for this point, but it isn't a matter that's closed up, nor . . . one on which we're ready to ask you to sign off.

Take the Chamber of Commerce committee. You've seen the preliminary draft of their report that you asked Mallon⁵³ to set up, I mean, Plumley.⁵⁴ Mallon's the chairman of the committee. . . .

52. The President's Council of Economic Advisers, Walter Heller, James Tobin, Kermit Gordon, and staff.

53. Henry Neil Mallon was chairman and director of Dresser Industries.

54. H. Ladd Plumley was chairman and president of State Mutual Life Assurance Company of America and president of the U.S. Chamber of Commerce. President Kennedy asked Plumley

President Kennedy: Have they been through much of this with you about what the expenditures are?

Bell: We met with them, yes. There are on the committee two or three quite able people—Frank Pace⁵⁵ is a member, and Norman Ness⁵⁶ is a member—who really know what they're talking about. They're . . . we've been working with them all along. And one of them showed us a draft of the report in an early stage, and what it was, if they carry through as it is now drafted, it's going to recommend, implicitly, abandonment of the administrative budget, but the use of the cash statement—consolidated cash statement—as the main presentation of federal receipts and expenditures.⁵⁷ Now, this is not necessarily a bad idea. This would show a total which next year would be around 116 billion dollars of expenditures and around a hundred and—

Schultze: About three and a half lower in deficit.

Bell: Yeah. Now, that includes all the trust fund receipts. It includes the trust funds, and since the trust funds are gonna be running some small surplus next year, that will help the overall . . . would help the overall appearance of the budget . . . cut the deficit. You could say this is the overall summary of the federal receipts and expenditures. Within this, there are the following categories—

President Kennedy: What'd be the advantage of having this?

Bell: Well . . .

President Kennedy: Why do they think it's a good idea, this group?

Bell: Well, they have different ideas. Some of them think it's good simply because it would produce a bigger figure than the one we're now using.

President Kennedy: And they want to—

Bell: Make a horror story . . . say that the budget is obviously getting out of hand. Others simply say that this is a better representation of the transactions in the federal government, and a better figure to have in people's minds is how big the federal government's financial transactions actually are in relation to anything you want to measure it against—total national income or product or what not.

and others at the U.S. Chamber of Commerce to study both government budgeting and the administration's tax cut proposal.

55. Frank Pace, Jr., was chairman and director of General Dynamics Corporation.

56. Norman Ness was vice president and director of the International Milling Company, Minneapolis, and director of the Minneapolis Grain Exchange.

57. Like the national income budget, the consolidated cash basis includes trust fund receipts. Unlike the national income budget, it records transactions on a cash, rather than accrual, basis and includes net loans and other credit transactions. In FY 1967 the federal government would begin reporting its official budget in this form.

President Kennedy: There's no doubt that all these programs are desirable. I mean, like mass transit, I can go explain things that ought to be done. The question really . . . I mean even in defense . . . I mean in these other countries, nobody else is spending this kind of [*unclear*] are even cutting their defense expenditures and all these other people. We've got space and AEC in addition to defense, and foreign assistance which none of the rest have. It's really a question of whether we're spending and figuring and thinking about a tax cut, whether these agencies, I don't think we have confidence in their [outlook] . . . because they're only considering their own agency and not the overall . . . We really have to worry about—

Bell: Their figures are 108; ours are 100. We've taken a big discount from their figures already. We think that these both represent a reasonable program to carry forward the kind of things that you . . . all of us have considered are desirable for the growth and security of the country. Furthermore, we think that this is a . . . these are figures which are easily sustainable by the economy. There isn't the slightest doubt that this is a sensible program in terms of the use of resources. On any real grounds, this is a good program; however, what it is that the [*unclear*] that Doug talks about and other political considerations are obviously very important.

Sorensen: As you know, Mr. President, this is one kind of meeting we have where we all agree about what we've done. When we have a meeting on, let's say, on military assistance, and somebody else on how a dam will save that state, and so on, and it's a . . . it gets pretty tough to . . . I think the Budget Bureau has cut hard. Now, and we . . . I think we really need a decision from you today as to whether we want a budget in the neighborhood of 100.4 or in the neighborhood of 98.4, so they can go ahead and make their tax, economic, and budget decisions on that basis. If you find on pages 15 to 19—

President Kennedy: I think we ought to—

Sorensen: [*Unclear*] that those things ought to be cut out, then.

President Kennedy: Well, I think we probably ought to try to get it under a 100 billion just for . . . if we can do that, then we have the political argument of the tax thing. So I suppose we'd better try to put it ninety . . . I know that nobody doesn't like to go the 99.3 route, but . . .

Sorensen: Because it just means for sure that you bust the 100 maybe the year after, which is a worse year to do it.

Bell: Well . . .

President Kennedy: They're going to say a 100 billion budget anyway, but why don't we say—[*Obscuring noise.*]

Unidentified: Keep it below a 100 . . . half a billion of leeway.

President Kennedy: That's right.

Bell: Well . . .

Heller: If we shift emphasis to the other budget, they're going to be well above a 100 billion anyway.

Unidentified: Well, this is, again, the—

President Kennedy: This is the advantage of the cash—⁵⁸ [*Unclear exchange.*]

Bell: That's true, Mr. President. That would be one advantage to following the Chamber of Commerce suggestion . . . cash total.

President Kennedy: Well, here's what I'd like us to do with all . . . to make this decision with a little more light than I have now. I think the Treasury, if the Secretary thinks that that's what we ought to do. But I think we ought to get from the Treasury, after a consultation with the Budget [Bureau], what it is we would take *out* in order to reach that figure. Then we can tell whether we ought to do it, whether it's worth . . . whether the advantage we gain in the way we sell it, whether it's worth taking out 2 billion dollars. I don't know. . . . That's what we have to decide. It may not well be, and I don't know enough about what we'd be taking out. Have you got down what we'd be taking out of it?

Unidentified: Right. That's what [*unclear*].

Dillon: Well, that's . . . there's a lot of things together there; I don't know whether they're the only things to be taken out or not.

Unidentified: That'll take a little longer than it's worth?

Bell: We definitely tried to take the marginal items.

Dillon: What you considered really marginal?

Bell: [*Unclear*] not only [*unclear*].

President Kennedy: Those are the ones that we all want to take . . . from 16 to 19?

Bell: That's right. These are the ones which we think would be the—

President Kennedy: Well, we can't . . . we can't postpone the pay thing.⁵⁹

Dillon: Well, I just never figured that we could do anything about the Skybolt. We've got an international commitment on that. [*Unclear.*]

President Kennedy: [*Unclear*] into Skybolt?

Bell: Skybolt is . . . it's pretty close to being up for consideration for

58. Consolidated cash budget.

59. Federal pay raises instituted by the "Pay Bill" signed nine days later (11 October 1962).

cancellation on its own merits. If it weren't for the British commitment, we might very well be recommending it as a normal part of—⁶⁰

President Kennedy: Let me ask how much the British are putting into the development of Skybolt compared to us?

Bell: Oh, damn little . . . damn little. It's practically all ours.

Schultze: Mr. President, we haven't really looked at the expenditure figures since July. We made an estimate in July. Since that time we haven't a program to counter . . . a different mix or different selection and then on . . . we haven't attempted to do that today.

Bell: One thing that might be interesting, Mr. President . . .

President Kennedy: I think you ought to do that though, if you're gonna give—

Bell: We could pretty well, if you wanted us to, we could go shoot at an increase—if that made any sense—an increase of less than \$6 billion from whatever the '63 figure turns out to be when we know. I don't think that makes much difference in terms of bill consultations, but Doug said he'd work with the Ways and Means Committee. . . . It may mean something to them.

President Kennedy: Do you think that if they're given 100.4 is . . . This is aside from what the increase is. Is it just the percent of the increase that disturbs you, or is it the 100 billion?

Dillon: Well, it's everything all added together. I mean it's the fact that it's a 100 billion; that's more than anybody expects. Now, if we'd been at 96, and everybody had known that we're coming up to 100, that's one thing. But Byrd and all these other people who think that we just spend money much too fast, they'll make their own estimates and say, "Well, next year it'll be another 4 or 5 billion and we'd be approaching 100 billion dollars." None of them are dreaming that you're going to go over it, and so it would be a shock to them. And, again, I think that's a fact that we have to recognize. It's very important. For that reason, the 100 billion figure does mean something to them. And I think it'd be better if the . . . 99.3, that much out of 100.4, because it'd look like you've at least tried.

60. Days later, on 26 October 1962, after receiving confidential information from Roswell Gilpatric that Secretary McNamara would seek to cancel the Skybolt program, Dave Bell sent a memorandum to McGeorge Bundy, intended originally from the President, that noted a "firm recommendation by the Secretary [McNamara] that the SKYBOLT missile be cancelled" (Neustadt, *Report to JFK*, p. 33).

Schultze: Well, the simplest line to take, which is a very difficult line to take budgetwise, but the simplest line to take from the standpoint of accuracy, is that in this year in which we're trying to reduce taxes and get the economy moving to this prescription, we're going to live with our built-in increases, the things we have to live with, and we're not going to authorize any new programs. This is a price we're going to have to pay. Now, this is the only kind of simple, political logic, I think, that you can make, rather than a . . . than a pick and choose. And, I guess—

President Kennedy: Now, I'll tell you what; let's get on with it.

Unidentified: About the consulting . . .

President Kennedy: Why don't we get the Treasury with the Bureau of the Budget to tell us what they would take out of that, in order to save that which—

Dillon: We could do that, but [*unclear*] moot point is [*unclear*].

President Kennedy: [*Unclear*] we'll have alternatives for what we choose or not choose.

Dillon: [*Unclear.*]

President Kennedy: Well, that's one question. Now, those will have to wait until we see what you're suggesting we omit in order to cut this thing down.

Sorensen: Well, that . . . even that isn't necessary, Mr. President, unless the Treasury feels that the list which Dave's put together on pages 16 to 19 is not an adequate list.

Staats: I have a slant, Mr. President . . . [*Unclear exchange.*]

Staats: This list here adds up . . . adds up to 2.8 billion. To get down to Doug's figures, it'd be only 1.9. So we have definitely put in here more items that add up to 2.8 than you would need to get down to—

President Kennedy: Why don't you give us a [*unclear*].

Dillon: Some of the things aren't on this list. For instance—

President Kennedy: What else have we got to decide?

Bell: That's all . . . at this point.

President Kennedy: [*Unclear*] do something else, so we can talk a little more?

Bell: All right.

President Kennedy: But, in other words, we don't see any new budgeting procedures that are going to make our problem easier, do we?

Bell: I do not, Mr. President, but we haven't signed off on—

President Kennedy: Is everybody agreed that we shouldn't try to put up an advance sort of list? It seems to me in some of these programs where the increase will be much marked and where there is going to be a plateau, that it may be advantageous to indicate it.

Bell: Yes. [*Unclear exchange.*]

Dillon: —the space program, and particularly with HEW you could say that this list was [*unclear*]. [*Unclear exchange.*]

President Kennedy: —we won't allocate for [*unclear*]. I think it's facing the facts, because they're the ones . . . two-thirds of our increases have been in these areas. We can look for the next three or four years at this . . .

Ackley: We soften the impact of the \$100 billion breakthrough, if we add in the cash figures.

President Kennedy: It doesn't say foreign aid, too. We've got to consider what we should do with foreign aid.

Dillon: That's something we want to look at, because actually these figures—foreign aid—are too high, and the Budget Bureau reduced them themselves, because they were based on back when . . . before Appropriations had cut substantially. [*Unclear*] reduced these figures automatically, so we [*unclear*].

Bell: [*Unclear.*] McNamara is not necessarily, when he gets through with the next month or so, going to come in with figures this low. Certainly, they're not going to be lower, and they may very well be substantially higher. If he adds divisions, for instance, that he is considering—

President Kennedy: They're the 16, in addition?

Bell: Above 16. That was Max Taylor's recommended addition.⁶¹

President Kennedy: Well, Max is going to be an expensive chief.

Dillon: He's gonna be an expensive [*unclear*]. [*Laughter.*]

Bell: The space budget looks as though it's going to have to be higher than what we have here. Seaborg, Celebrezze,⁶² Freeman⁶³ are among the agency heads who have already put us on notice that they will be proposing substantially larger figures.

President Kennedy: [*Unclear.*]

Bell: It isn't going to be easy, but we come to this figure. If you want to go to the lower figure, then I think we should start it by talking to the Cabinet . . . who we're going to need to take along. But we should say to the Cabinet that the figures that they and we have been talking about, that you have reviewed now, and they look to you too high, and you have instructed us to go back and trim them back. Because this is the kind of

61. General Maxwell D. Taylor, former superintendent of the U.S. Military Academy and Army chief of staff, had been sworn in by President Kennedy as Chairman of the Joint Chiefs of Staff on 1 October 1962, the day before convening this recorded tax and budget meeting.

62. Anthony J. Celebrezze was secretary of health, education, and welfare, July 1962 to July 1965.

63. Orville L. Freeman was secretary of agriculture, January 1961 to January 1969.

backing that we would require to go back to these people and open it up on the low side.⁶⁴ And that could be better, you know . . . easier than—

Dillon: [*Unclear.*]

Bell: I'm not saying we don't want to do it. But I think we ought to, if that's the way you want it.

Dillon: One thing, Mr. President, that's . . . I think important. Looking at this, it's one of the big areas, and this is this NASA program where for us to cut back anything you'd have to slow up the date of the landing on the moon. I asked Dave what that meant and he said that meant '67. Now . . . well, I . . . we've always had this commitment to be there by the end of the—

President Kennedy: No, we really felt that '67 . . . We said the end of the—

Dillon: End of the decade.

President Kennedy: Yeah. I think we probably should not . . . I think we . . . currently there may be some things we're doing in space which are superfluous or just supportive but not vital. But I don't think we ought to . . . I'd rather unbalance my budget and all the rest, and—

Dillon: You want us to get there by '67?

Unclear exchange between Dillon and President Kennedy.

President Kennedy: —not have the commitment. Then if we could justify it, we could make a mistake and we'd be penny-wise and [pound-foolish]. And really . . . except, the only question I really have is whether that agency isn't doing many more things up in space than—

Bell: Well . . .

President Kennedy: —than is to be done.

Bell: Yeah.

President Kennedy: And the Defense Department.

Bell: Yeah, with this we have—

President Kennedy: Our Titan III, and so on.⁶⁵

Bell: Yeah. For this we have a full-scale review which is now . . . just coming into focus now, and we'll be back to you in about two weeks on it, which takes Titan III versus the C1 and the other elements.⁶⁶ There isn't much duplication, *direct*, as you know. But the Air Force has a Gemini program, now, as well as NASA. They want to use Gemini for military flyers, to learn how to operate out there. And we are questioning that, so

64. See "Cabinet Meeting on the Federal Budget for Fiscal Year 1964," 18 October 1962.

65. The Titan III was the largest intercontinental ballistic missile.

66. The C1 is the Lockheed C-130 Hercules transport plane.

that . . . But I don't think there's much there; we won't find there's a great deal of duplication to cut out. I think that we will achieve—when we bring this to you, and it's been nailed down—some limits on the military program which will be very helpful.

Meeting begins to break up.

Unidentified: [*Unclear.*] I'm going to meet Senator Douglas on the [*unclear*].⁶⁷

President Kennedy: I'm meeting him at 5:30. [*Unclear exchange.*]

Dillon: Mr. President, if you could say that I have talked about this overview, now, you know . . . if that would counteract the *New York Times* last Sunday?⁶⁸

President Kennedy: Yeah, yeah. That's right, about the business thing. Yeah. Well, what we can . . . what we're going to put in the economy, we got there. What we're going to take out as opposed to the [*unclear*] . . . the heart. What can we say?

Dillon: Well, we . . . I guess they're getting the figures together. I think that on an expenditure basis, on a national income accounts basis, we're giving much more stimulation, certainly, than we were in the last . . . in the second quarter of this year. I think that would be something that . . . you'll have the figures in a couple of days, that—

Bell: Yeah, [*unclear*] difficulty is—

Dillon: —you could talk about.

Bell: —not the difficulty. But what the point is, that on an income . . . on a real basis . . . on an income and product accounts basis, what we are doing now is running a deficit. *That* is stimulating the economy. We, of course, have not publicly announced any figure for the deficit. And we will not, presumably . . . will not do so until this review of the budget comes out a few days after the election . . . except determining that we have plans for it, as the—

President Kennedy: I mean, isn't it possible for us to say that we're spending \$4 billion more to [*unclear*] last quarter?

67. Paul H. Douglas was a Democratic senator from Illinois, 1949 to 1967, and chairman of the Joint Economic Committee, 1959 to 1967.

68. Possibly James Reston, "Seattle: The Mood of the Country and President Kennedy," *New York Times*, 23 September 1962, p. 10E. Reston noted: "Not since the heyday of anti-Roosevelt feeling in the Thirties has there been such personal and emotional feeling against 'that man in the White House.'" Though this feeling may well be what Dillon hopes to counteract, Reston concluded by adding that "the main strategic objective of the Democratic party now, as always, is to have elections decided on a simple partisan basis, and the Republicans, by making a party issue out of the steel price controversy and the stock market crash, have clearly furthered this aim."

Bell: It would be possible, yes.

Dillon: Just to say that. Something like that.

President Kennedy: I think we have to go to . . . can't we say that in the first six months there was this plateau effect during the last—

Dillon: Everyone knows there's a seasonal effect, and I think you've got to disengage a little bit out of that, because that is so . . .

Bell: The seasonal effect is—

Dillon: You can't take credit for the seasonal effect. That wouldn't—

Bell: Well, the seasonal effect is not real. That's simply a cash—

Dillon: A cash—

Bell: —that situation there. It doesn't have to mean that—

Dillon: [*Unclear*.]

Bell: —there's a real effect on the economy.

Sorensen: Oh, you mean we're putting in 4 billion dollars more, seasonally adjusted?

Bell: Yes, that's right.

Heller: Well . . .

Dillon: In fact, you're putting in some more, but—

Bell: Yeah.

Dillon: —in addition, they're putting in more demands; it's just seasonal.

President Kennedy: I think we ought to try to get it in shape for putting out, whether it ought to be put out by the Treasury, or the council, or the Budget Bureau . . . We can decide when we take a look at the figures.

Bell: That's fine.

President Kennedy: I think that with all this trouble, right now, the market's having, the quicker we do that, the better.

Bell: Well, now, we'll have the figures, I think, tomorrow.

President Kennedy: What do you think, the Sunday [*New York Times*]? Should we get that fellow who writes to . . . where is the most effective . . . ?

Heller: I think in the Sunday *Times* and send it [*unclear*].

Bell: Sunday *Times*, Monday *Wall Street Journal*. I think that's probably the way to do it.

Dillon: [*Unclear*.]

President Kennedy: Well, I think that we ought to probably let Treasury or the . . . if we're going to put it in those mediums, we ought to let Treasury or the Bureau of the Budget do it.

Schultze: How about Treasury?

Dillon: Well, no one's going to get past the [*unclear*].

Bell: [*Laughter.*]

President Kennedy: [*Unclear.*] I don't think we—

Bell: [*Unclear*] statement of fact.

President Kennedy: Maybe it ought to come from the Bureau of the Budget. I don't think we want to have Walter do it.⁶⁹

Bell: No, I think that's right.

Dillon: [*Unclear*] political thing with the Bureau of the Budget.
[*Unclear exchange.*]

Unidentified: I think we can—

Dillon: It might need to be done right after the Congress quits.

Bell: There'd be some logic in a preliminary flash figure right after the Congress leaves, you know, it would be something to hang it on there if the Congress left and our quick estimate of the effect of their actions on the budget seems to . . . indicates that we are now—

President Kennedy: I think it ought to come out of the [Bureau of the] Budget. So let's try to do it as quickly as we can. We can estimate Congress going on Saturday. Maybe we could do it in the Sunday papers or Monday because that's a quicker—

Bell: OK.

President Kennedy: OK.

President Kennedy turns the machine off.

Before welcoming the chairman of the Joint Economic Committee, Senator Paul Douglas of Illinois, into his office, the President had to take care of a matter even more pressing than the '63 budget. At about 2:30 P.M., Governor Barnett had called the White House to request that the federalized Mississippi National Guardsmen be returned to state control. The President understood that he had to minimize the amount of time that Oxford appeared to be under siege. Kennedy began taping a conversation of this matter with Kenneth O'Donnell in the Oval Office before calling the secretary of the Army, Cyrus Vance. With the recorder still running in the Oval Office, Kennedy also taped most of the telephone conversation with Vance.

69. Walter Heller was chairman of the Council of Economic Advisers. Compared to Dave Bell at the Bureau of the Budget, and Treasury Secretary Douglas Dillon, Heller was considered the most outspoken liberal voice in the administration on matters economic.

5:25 P.M.

[T]he first 24 hours the use of force was desirable, and now it won't be. So that I suppose every time you get a picture of somebody getting knocked down, it feeds the fire around that place.

Conversation with Kenneth O'Donnell and Cyrus Vance⁷⁰

On October 2 as of 8:00 A.M., 8,735 Army troops had reached Oxford, with more heading toward the town. By the next day (October 3), the number would reach 9,827. According to the *New York Times*, the total number of troops (including the National Guard) in Oxford and the surrounding area was approximately 15,000. The Army units were under the direction of General Hamilton Howze.

President Kennedy: Secretary Vance, he doesn't [unclear].⁷¹

Kenneth O'Donnell: Now, Mr. President, there are 2,500 National Guard troops that we'd like to take out, you know, the chlorine that sunk [unclear].

President Kennedy: Yeah.

O'Donnell: There is a danger that we are going to use guards to do it. [Unclear] have not been federalized. Twenty-five hundred to do it anyway.

President Kennedy: Get the guards in. Well, what will they use?

O'Donnell: The 2,500 are not involved anyway for the [unclear].

President Kennedy: Yeah. Who conducted? Who [do] we turn them over to?

O'Donnell: The state.

President Kennedy: All right.

O'Donnell: And these are the ones who'll try to do something? [Unclear.]

President Kennedy: OK, fine. Now, who are we going to have announce that?

O'Donnell: Vance just called me, he said he's proceeding to do it but he won't . . .

70. Tape 27, John F. Kennedy Library, President's Office Files, Presidential Recordings Collection. The telephone call with Cyrus Vance is on Dictabelt 4J.1, Cassette B, John F. Kennedy Library, President's Office Files, Presidential Recordings Collection. They have been spliced together to reproduce all sides of this three-way conversation.

71. Cyrus Vance was secretary of the Army.

President Kennedy: Will he announce it then?

Evelyn Lincoln announces that Secretary Vance is on the line.

Evelyn Lincoln: Secretary Vance.

President Kennedy: [*on the telephone*] Hello?

Cyrus Vance: [*Unrecorded.*]

President Kennedy: Oh, yes this is fine about the 2,500 troops then?

Vance: [*Unrecorded.*]

President Kennedy: About being used for that chlorine business?

Vance: [*Unrecorded.*]

President Kennedy: Yeah, for that purpose?

Vance: [*Unrecorded.*]

President Kennedy: And then they would not be called back in?

Vance: [*Unrecorded.*]

President Kennedy: Right. Now, [*the dictabelt recording begins here*] what about the other, the troop situation down there? How do you, how are you, how many . . .

Vance: We have got, it should be about 10,000 now. Those are what Howze is trying to stabilize in the Oxford area, sir.⁷² And what we propose to do on this, was General Wheeler was going to get in touch with General Howze, ask him to prepare a plan with respect to the phased withdrawal of troops of Mississippi.⁷³ And to submit that back so that we could then come and submit it to you, sir.

President Kennedy: Yeah, the quicker we could probably make some public indication of that, then, of course, the better off—

Vance: Right, sir.

President Kennedy: —psychologically it would be. They think that that's the number that they may need for awhile?

Vance: Yeah. They think that for the time being or so that this is the safest number to have there.

President Kennedy: I see.

Vance: It may be somewhat excessive, sir, but my feeling is it's better to be safe on [*unclear*].

President Kennedy: Now, do they have some instructions down there about how they should handle people? That they . . .

Vance: Minimum force [*unclear*] minimum force.

President Kennedy: . . . so we could, you know, that's been sort of restated. I think it may have to be restated today because in the first 24

72. Hamilton Howze, commander of the 18th Airborne Corps, was in charge of the military at the Oxford campus.

73. General Earle G. Wheeler.

hours the use of force was desirable, and now it won't be. So that I suppose every time you get a picture of somebody getting knocked down, it feeds the fire around that place. So I suppose at least it ought to be brought to his attention to see how he thinks it should be done.

Vance: Right. Well, we will do so.

President Kennedy: OK. Fine.

Vance: Sir, do you want to release anything [*unclear*], would you like us to do it in terms of the public release?

President Kennedy: Let me just think about that. Now, we've got the question of this release back to the state. Probably if we do it, it's a little bit too . . . Has he asked us to do it, Barnett? Has Barnett asked us for them or who's asked?

Vance: Barnett has not asked us; Barnett has not asked us to do this.

President Kennedy: Yeah. Who has asked us to do it?

Vance: Mr. President, I can't tell you who in the state of Mississippi *has*.

President Kennedy: He did. You see, well, now . . . Why don't we do it this way? You people announce that the President has approved the troop—

Vance: All right. [*Unclear*] "the President has approved." We'll release it over here and check the [*unclear*] . . .

President Kennedy: We ought to find out who's asked us to do it, though, so that . . .

[*off the phone to Kenny O'Donnell*] Well, when did he ask us to do it?

O'Donnell: The Governor asked us to.

President Kennedy: Well, when did he ask us, do you know?

O'Donnell: He asked us about 2[:00] or 2:30.

President Kennedy: [*on the phone to Vance*] The guess is that they, Kenny says that the Governor asked the civil defense, and so on. Of course, I suppose he didn't ask for the troops because he didn't have to ask us for the troops.

O'Donnell: No, he asked them for a declaration of a national emergency so he could get . . . [*unclear*].

President Kennedy: We'd given them that [*unclear*], that we'd give them a declaration of national emergency?

[*speaking to Vance on the phone*] Well, now who have you been talking to about this, Cy? Is it McDermott?⁷⁴

Vance: McDermott. Yeah.

President Kennedy: About the 2,500? What they're going to do with

74. Edward A. McDermott was director of the Office of Emergency Planning and a member of the National Security Council.

2,500 troops, I don't know. We agreed to help them get the thing out.⁷⁵ But I don't know what they're going to do with 2,500 soldiers to get it out, so . . .

Vance: The letter I have from McDermott says, "While we have no way to judge the appropriate figure, the state director of civil defense of Mississippi has informed the Public Health Service officials that 2,500 troops would be needed."

O'Donnell is saying something to the President in the background.

President Kennedy: [to O'Donnell] Did they?

O'Donnell: He hasn't [unclear] number of troops.

President Kennedy: I see. All right, well, I see. Well, then, I would think we ought to say that at the request of the civil defense director—

Vance: State director of civil defense of Mississippi.

President Kennedy: —that yes, the President has approved the . . .

Vance: Yeah. Fine.

President Kennedy: And so we don't get Barnett into it . . .

Vance: Right.

President Kennedy: Right. OK. Fine.

Vance: Yes, indeed, sir.

President Kennedy: Thank you, bye.

After hanging up the telephone, the President switches off both tape machines.

President Kennedy's next appointment was with Senator Paul Douglas of Illinois. The Douglas meeting and one later with Allan E. Lightner, Jr., the senior U.S. diplomatic representative in Berlin, went untaped. Kennedy left the office for the pool at 8:00 P.M.

Wednesday, October 3, 1962

The Kennedy administration continued making gains in Congress. The Senate sent the White House a tax revision bill containing the Kennedy business investment deduction. The price for this was the defeat of a measure to recoup some of the lost revenue through a withholding tax

75. Possibly another reference to the chlorine.