

SOL-TF/C-1
ENCLOSURE 1

TOP SECRET
SECURITY INFORMATION



MAINTENANCE OF THE ECONOMY

(Section III.B. of SOL-TF/A-1)

DECLASSIFIED	
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By	TB NLE Date 2/24/99

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III

B. MAINTENANCE OF THE ECONOMY

1. Task Force A's policy has, as one of its general objectives, the maintenance of "a strong and sound U.S. economy based on free enterprise."

2. Comparison with Soviet Economy

a. We were interested in the comparative strength of the U.S. and U.S.S.R. economies over a sustained period (Chart B-1). According to the estimates of the Central Intelligence Agency, the Soviet economy will not grow so as to reduce our preponderance of economic strength in the foreseeable future -- assuming that our economy continues an average growth of the order of $3\frac{1}{2}$ percent a year, shown on the Chart.

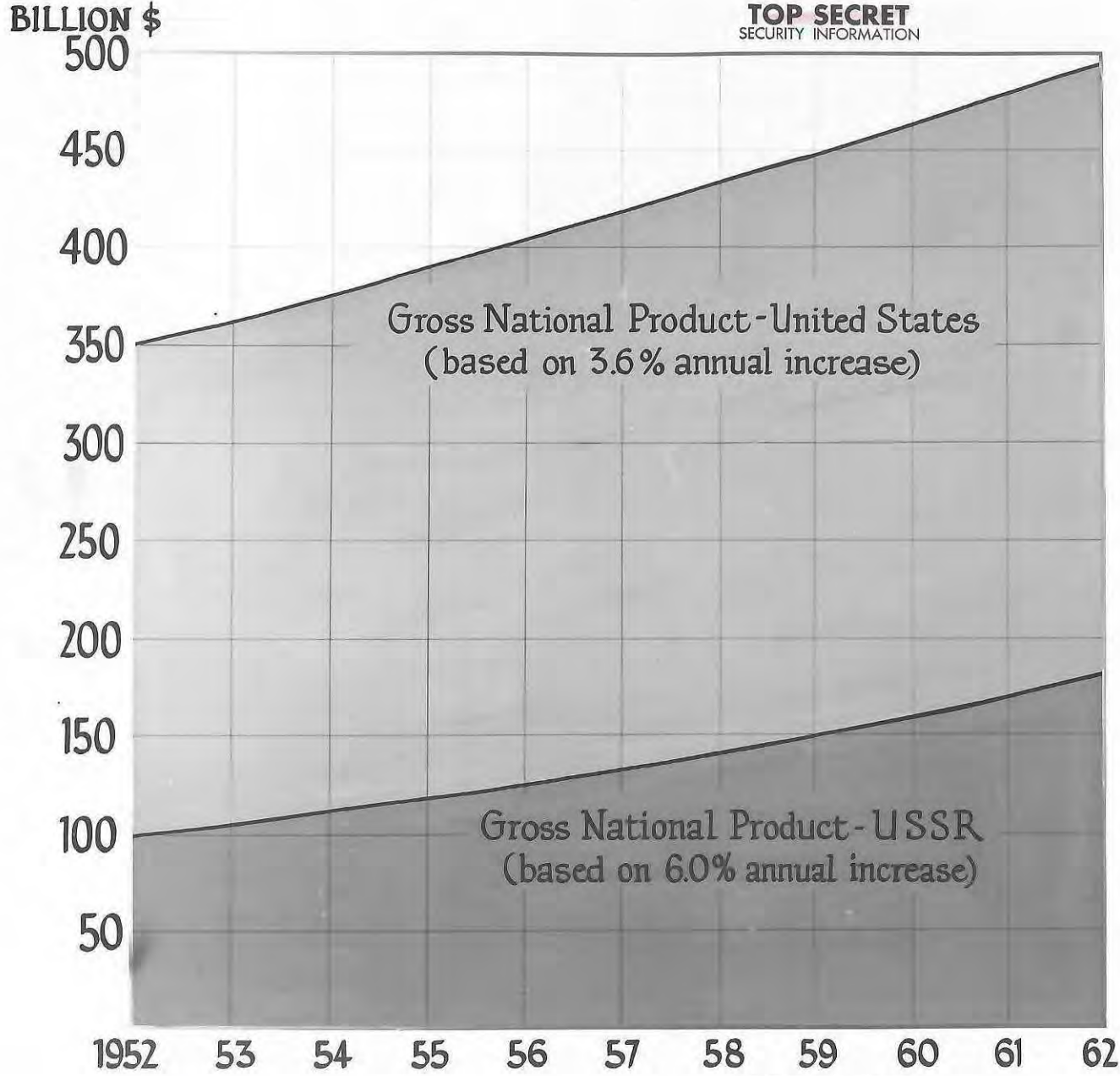
3. Implications of Our Economic Objective

a. The general objective, stated in par. 1 above, emphasizes a need for a security policy minimizing both the risk of war and of the necessity for a high state of mobilization with their concomitant risks of a controlled economy. The stated objective also implies a steady course of security effort at a reasonably high level of preparedness. Major fluctuations in the security program are bound to disrupt the economy. Any recession in our security effort which meets a sudden increase in tension with the Soviet Union is likely to necessitate limited mobilization, to regain an adequate plateau of preparedness, with consequent temporary impact on free enterprise. General war, of course, would leave us little of either health or free enterprise.

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ECONOMIC GROWTH OF US AND USSR

Annual Increase 1962



10 Year Increase



USSR

U.S.

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44a



4. Ability of the Economy to Sustain the Security Load

a. Task Force A has studied the trends in our economy over the period since 1947 during which we have been engaged in combatting Communism and notes that:

(1) Our industrial plant has been greatly expanded and modernized through a steady, high rate of investment.

(2) The gross national product has risen steadily -- averaging 4-5 percent per year.

(3) Our non-renewable resources have not been consumed significantly faster than under a condition of near full employment with lower security expenditures. The products of our economy, under the latter condition, would of course have been different and might have resulted in a fraction less consumption of some metals. Our country has, in effect, been putting resources both into its military shield for the economy and into the standard of living. The resources would otherwise have gone partly to accelerate further the rise in the standard of living. There might have been additional public investment, providing the government and public had been willing to continue to take by taxes some of the increment, which have instead been devoted to security, to build roads, schools, etc.

(4) The civilian standard of living has gone up steadily, averaging a rise of over two percent per year in consumption expenditures and slightly less than two percent per year in disposable income.

(5) Economic controls, imposed during about two years of the

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limited mobilization since 1950, have, with a few exceptions, been eliminated due to the production expansion generated by our private enterprise.

b. Turning to an appraisal of U.S. capacity to support a security program over a sustained period, Task Force A considered the currently projected security expenditures to 1960, in comparison with the estimated national production for the same period (Chart B-2).

c. In order to generate a reasoned view as to the impact of likely security expenditures on the standard of living, we considered (Chart B-3) the same information as on the previous chart, but presented to assume that the standard of living (the highest yet attained) is frozen at the current level. It is apparent that, barring a serious recession, there should be an increasing increment of production available for either increased investment and a higher standard of living, or for increasing the effort against Communism. This increment may be of the order of 70-80 billion dollars by 1960 or not much below the current magnitude of total Soviet production (Chart B-1).

d. Believing that relative rather than absolute costs may be the best measure of the true impact of the security program on our economy, we considered that program (Chart B-4) as a proportion of national production. As now estimated, the proportion declines steadily in future years.

e. Task Force A concludes that there is no question that our country has the economic capacity to provide a high plateau of preparedness -- certainly the program envisaged by Task Force A -- over a sustained period.

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B 2

BILLION \$

500

450

400

350

300

250

200

150

100

50

FEDERAL EXPENDITURES

Compared to Gross National Product

1941

43

45

47

49

51

53

55

57

59

61

Civilian Economy

TODAY

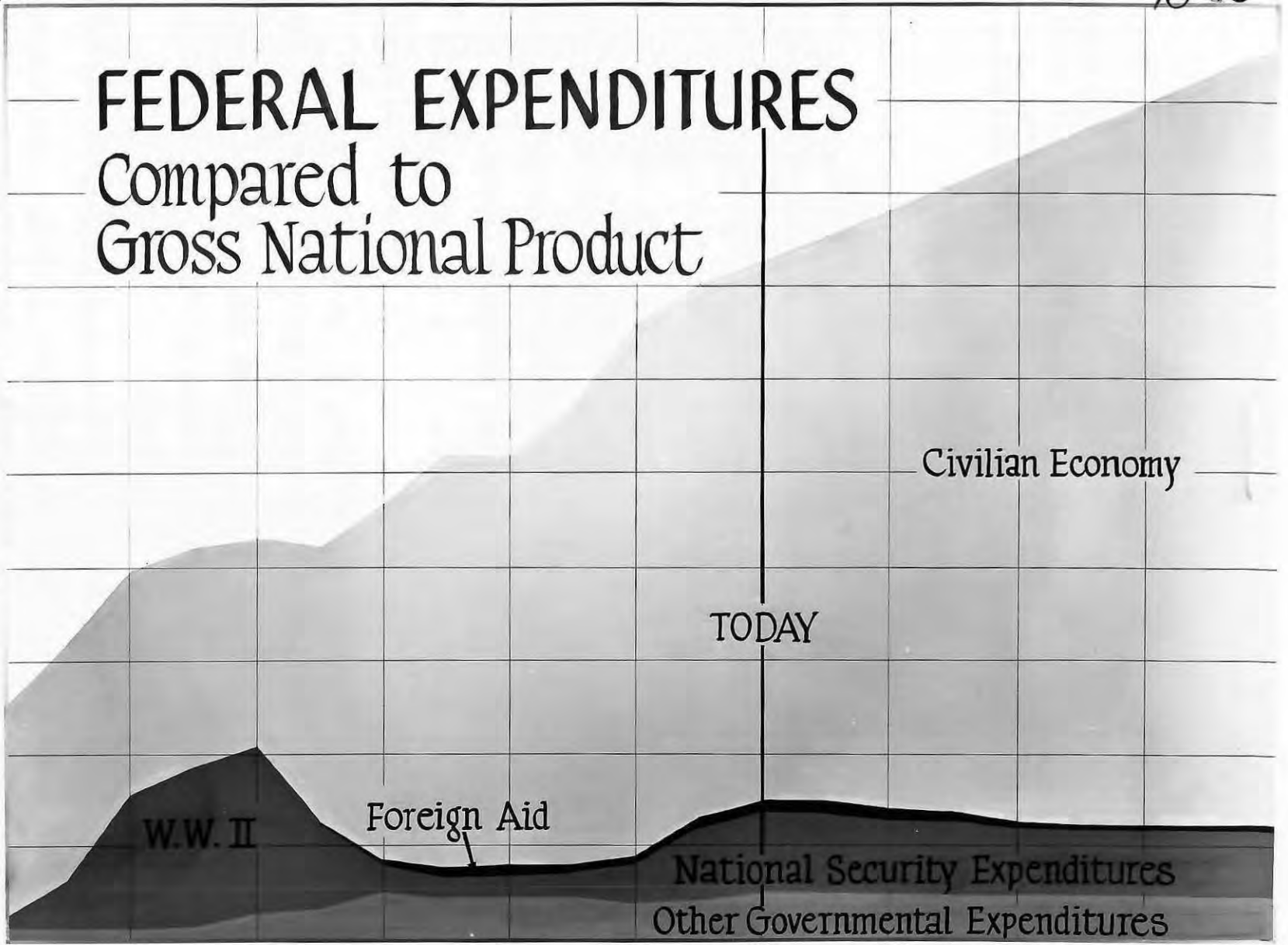
W.W. II

Foreign Aid

National Security Expenditures

Other Governmental Expenditures

46 a



B 3



76 b

B4

Percent
100

FEDERAL EXPENDITURES as a Percentage of Gross National Product



1941

43

45

47

49

51

53

55

57

59

60

46c

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f. NSC 153/1 states that the cost in resources of our security program over a sustained period (we interpret a sustained period as ten years or more) may from the economic standpoint present a principal threat to the survival of the U.S. way of life. The real threat, from the economic standpoint, in our opinion, does not arise from absolute cost of security so much as from other dangers. They include:

(1) The effect on adequate legislative action of the unprecedented absolute cost short of war.

(2) The effect of an economic recession which might occasion a retreat from our military position, gravely upset the economies of countries in the in-between world with consequent political disruptions, and provide a great propaganda victory for Communism by giving a demonstration (they would say) of the inadequacy of our economic system compared to theirs. The U.S.S.R. might grasp the opportunity for economic warfare.

(3) Lack of an economic readiness for mobilization, general war, and atomic attack on the U.S. NSC 153/1 does not, we think, contain any policy guidance for those preparatory economic and industrial mobilization arrangements within the Executive Branch which are consistent with our stated policy of military readiness. The long run need for standby production and consumer control measures as part of a defense against atomic attack seems clearly apparent. These arrangements, for a full mobilization, require about nine months to place in operation according to information available to the Task Force, providing it is necessary to start from scratch.

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g. Task Force A considers the government planning should take account of the points raised in (2) and (3) above and that, at the appropriate opportunity, standby legislation should be obtained on which to base sustained economic mobilization readiness consistent with military readiness. These internal problems just listed, and they are serious, are under our own control and arrangements -- unlike the external threat.

5. Ability of Governmental Arrangements to Provide Resources

a. The capability, existent in the economy, to support an adequate security program still does not assure that the governmental mechanisms exist to provide these resources to the security effort. There is certainly a point at which the fiscal and tax structures no longer can make the needed transfers from the civilian economy -- or can make these transfers only with unacceptable damage to that economy. Based on the World War II experience of the United States and Great Britain, we think the saturation point of the economy in all-out war is the diversion to the war effort of somewhere between 50 and 60 percent of national production. This rough estimate assumes no material atomic damage. We believe our Government should be carrying forward studies of the capabilities of the economy in case of such atomic damage. We make no estimates thereon since we are dealing in our examination with the problems of the economy in supporting not a war program but a preparedness program of the scope required by the policy of Task Force A.

b. Our Task Force was impressed by the budgetary and financial problems, currently facing the U.S. Government, as explained to us by the

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Director of the Bureau of the Budget. Charts B-5 and B-8 contain some data indicating the nature of these problems. Certainly our Government should not operate in ordinary times on an unbalanced budget continuously year after year. The current problem is one of completing a build-up of military strength over the next two to four years and then sustaining that strength at a high level of preparedness. The current years are, we hope and believe, not ordinary times. The main question concerning the national debt is, to us, whether it is likely to become so high as to be a threat to the strength of the U.S. Charts B-9 and B-10 show the debt (the latter presenting it as a percentage of national production) assuming that there is no significant increase thereof. This we realize may prove to be an unwarranted assumption but it does not necessarily invalidate our conclusion as to the degree to which the debt constitutes a threat. Any threat existent in the debt does not seem comparable to the Soviet threat. The debt situation does, however, have grave political and psychological problems and presents major difficulties to our federal financial administration.

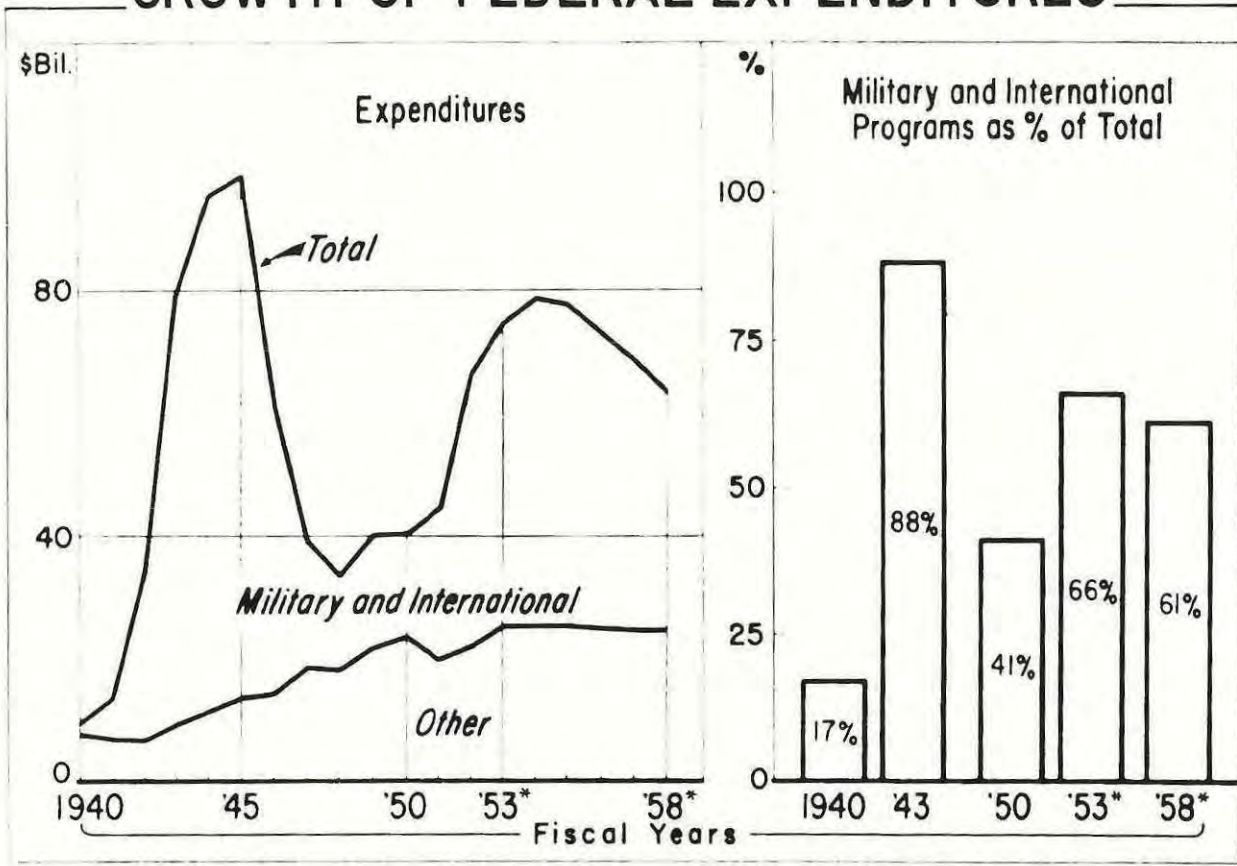
c. The economic policy set forth in NSC 153/1 contains an implication of a reduction of taxes and certainly no suggestion of increasing the level of taxes to balance the budget. We understand that the reduction of federal income which may occur due to lapses of taxation legislation is of the order of eight billion dollars a year.

d. In searching for a guide to tax capacity and for possible arguments for our implied economic policy in the tax area we examined the

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GROWTH OF FEDERAL EXPENDITURES



*Projections based on programs as of Jan. 9, 1953.

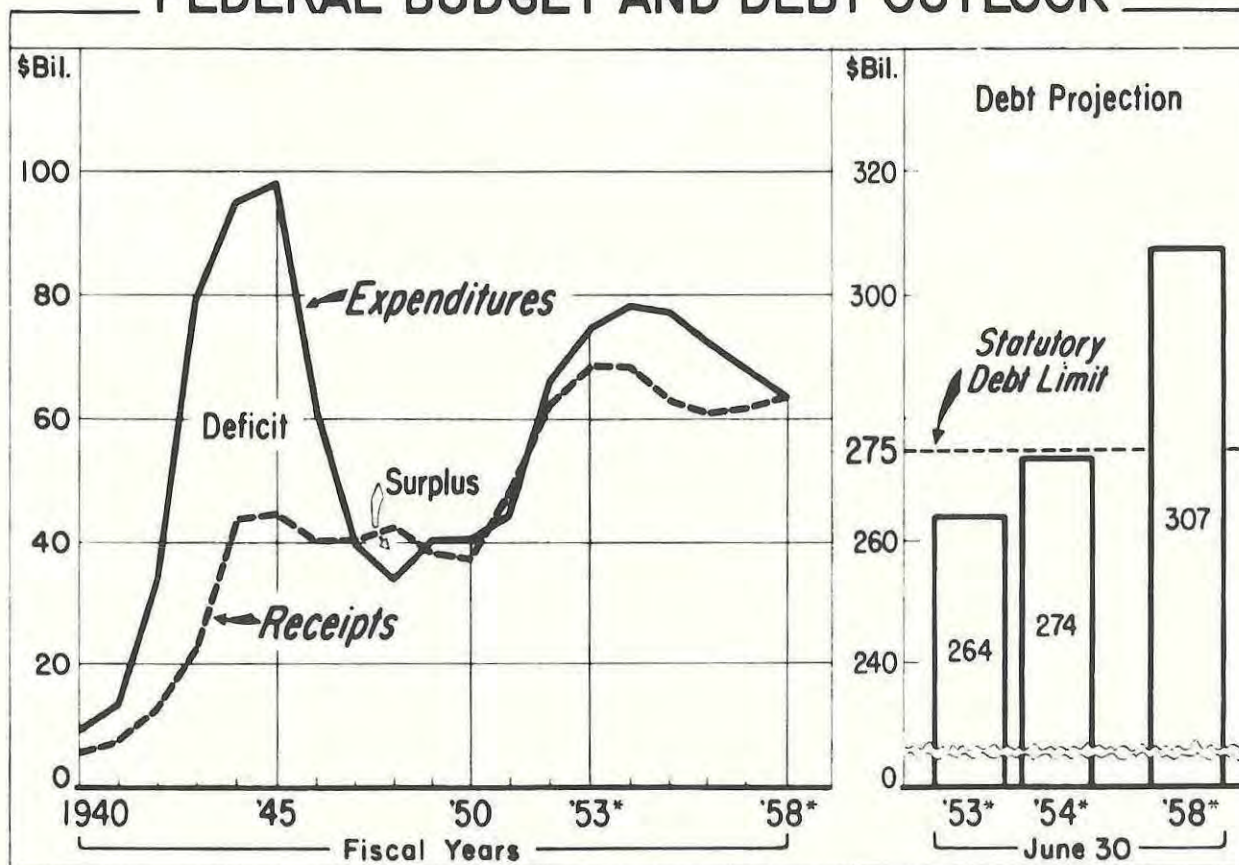
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FEDERAL BUDGET AND DEBT OUTLOOK



*Projections based on programs as of Jan. 9, 1953.

8-1112

496





B7

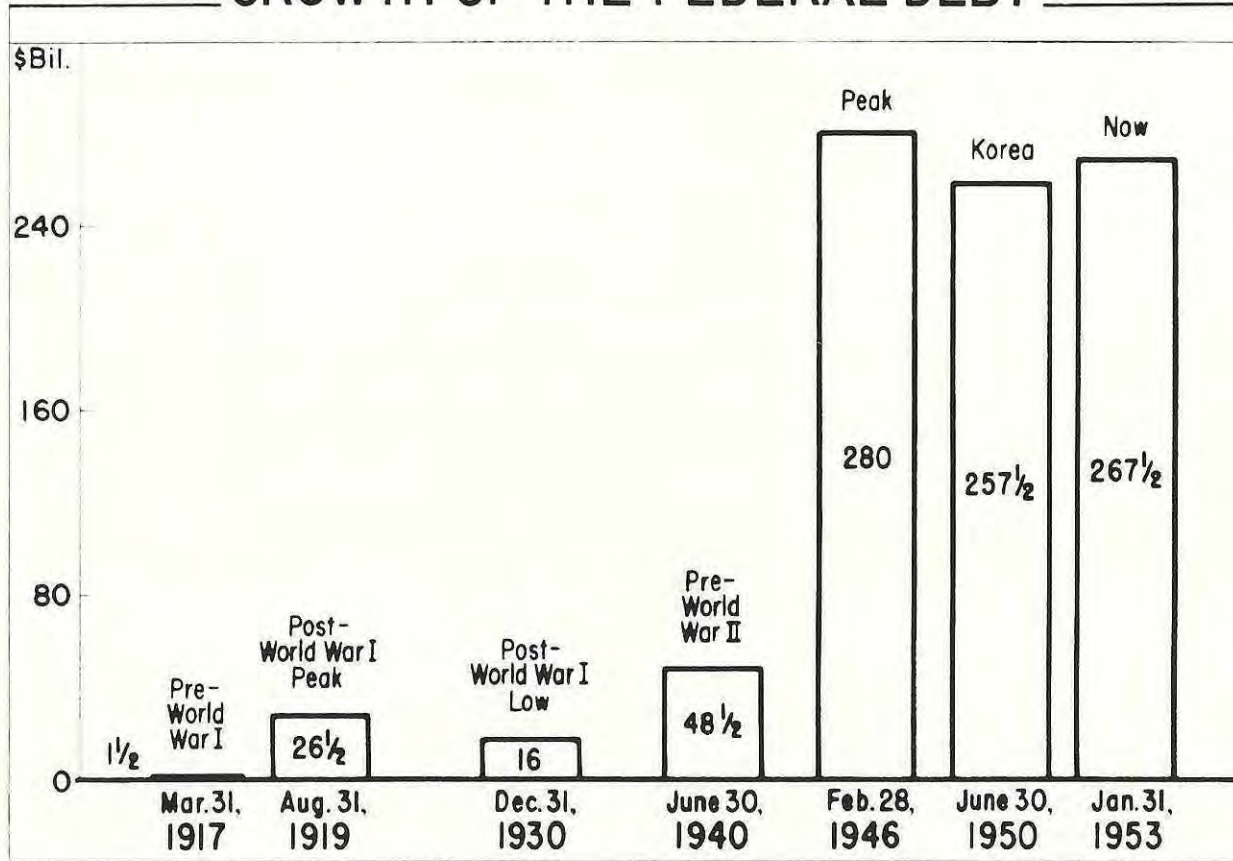
ESTIMATED REVENUE LOSS FROM
SCHEDULED TAX REDUCTIONS UNDER PRESENT LAW

Type of tax	Date of expiration	Initial effect fiscal year 1954	Ultimate effect fiscal year 1956
<i>(In billions of dollars)</i>			
Corporation excess profits	June 30, 1953	.8	2.3
Individual income	December 31, 1953	1.1	3.1
Selected excises	March 31, 1954	.2	1.0
Corporation income	March 31, 1954	—	1.9
Total		2.1	8.3

49C

38

GROWTH OF THE FEDERAL DEBT



49 d

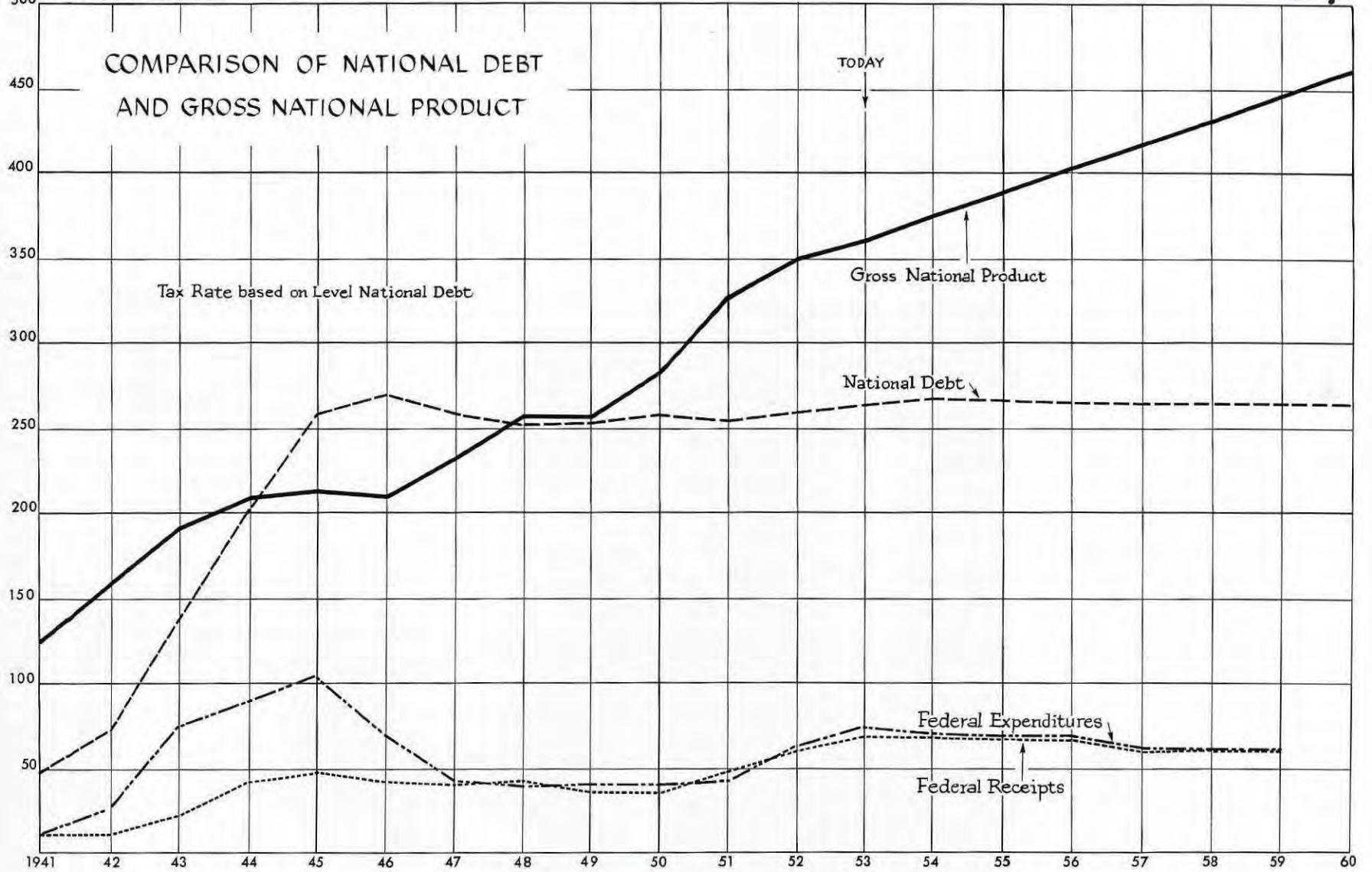
B-1108



89

(BILLIONS OF DOLLARS)

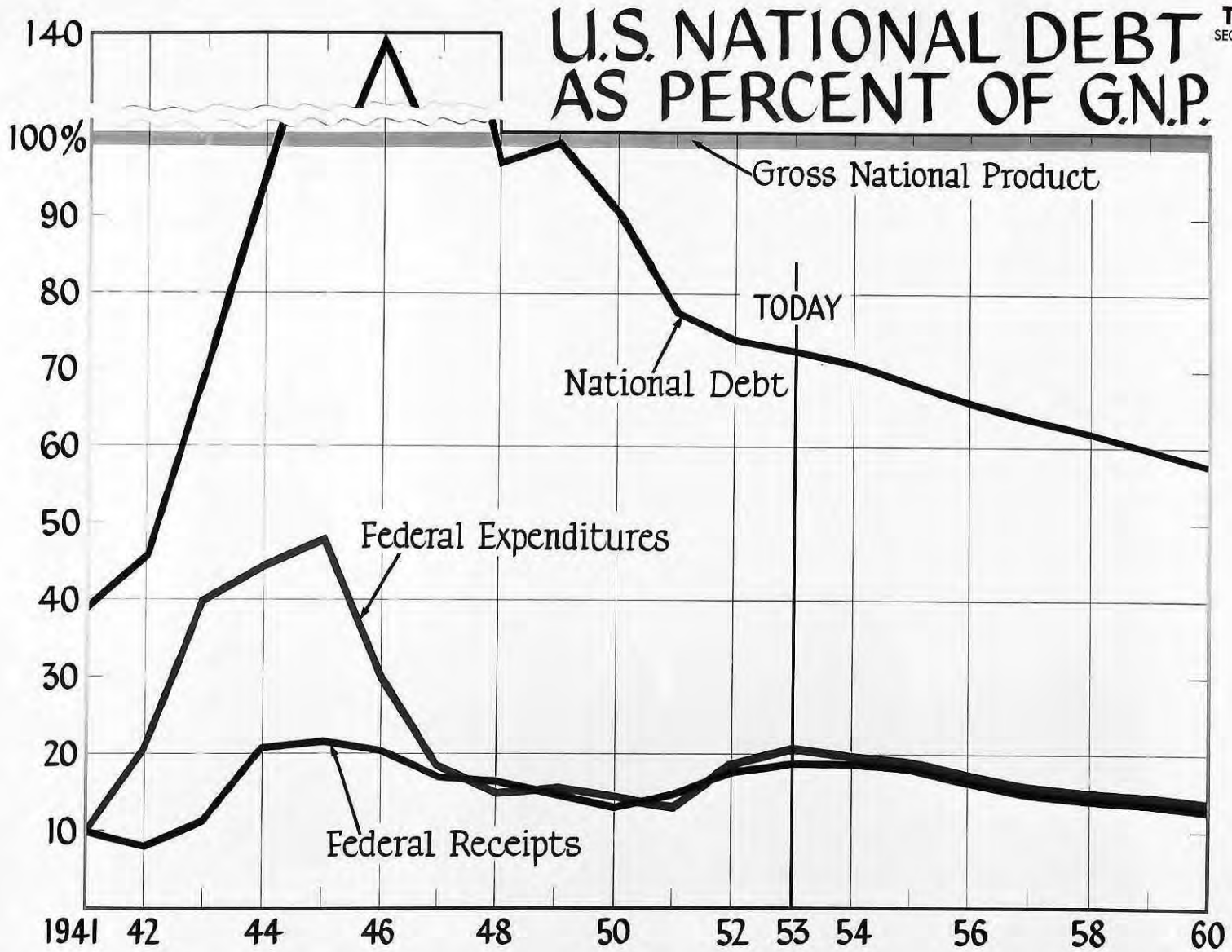
COMPARISON OF NATIONAL DEBT AND GROSS NATIONAL PRODUCT



29e

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taxes of our principal Allies (Chart B-11) and made an estimate of the likely U.S. situation in 1960 under our current program. Taxes as a percentage of national production would in that year be less than all except two or three of our NATO Allies today. The average per capita production of these countries (Chart B-12) is below 40 percent of ours for the best of them. Hence their tax burden is almost certainly more oppressive than in the U.S.

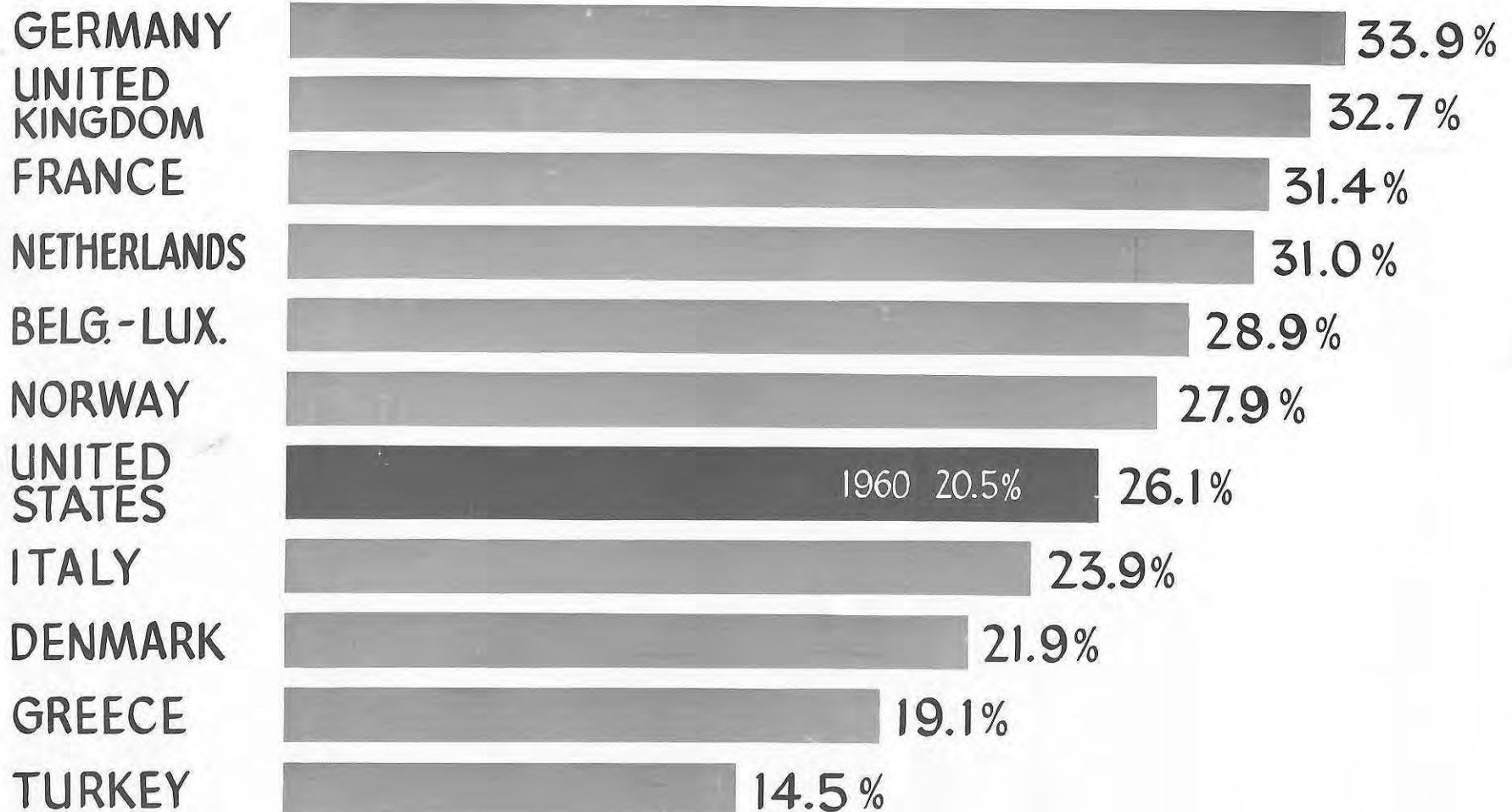
e. Looking at comparative defense expenditures as a percentage of gross national production (Chart B-13) ours will, according to our currently proposed security program, be lower by 1957 than the present defense expenditures of England and France. By 1960 our program will be proportionately below the average of current programs of the European NATO countries.

f. There is a way of thought in some governments with which we deal in our collective security effort, which equates the Soviet military threat to something less than a selected tax rate or a selected percentage of the national production. Task Force A considers that the United States is certainly not yet in a position where it needs to consider this line of reasoning which would have the effect of providing military defenses which may bear little relationship to the military requirement.

g. Our Task Force knows that some of the matters falling within our mission are the subject of complicated and controversial economic analysis. We seriously question, however, that, in the face of an unbalanced budget, the current security need, and an economy operating at around full

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TAXES AS A PERCENT OF GROSS NATIONAL PRODUCT ³¹⁶



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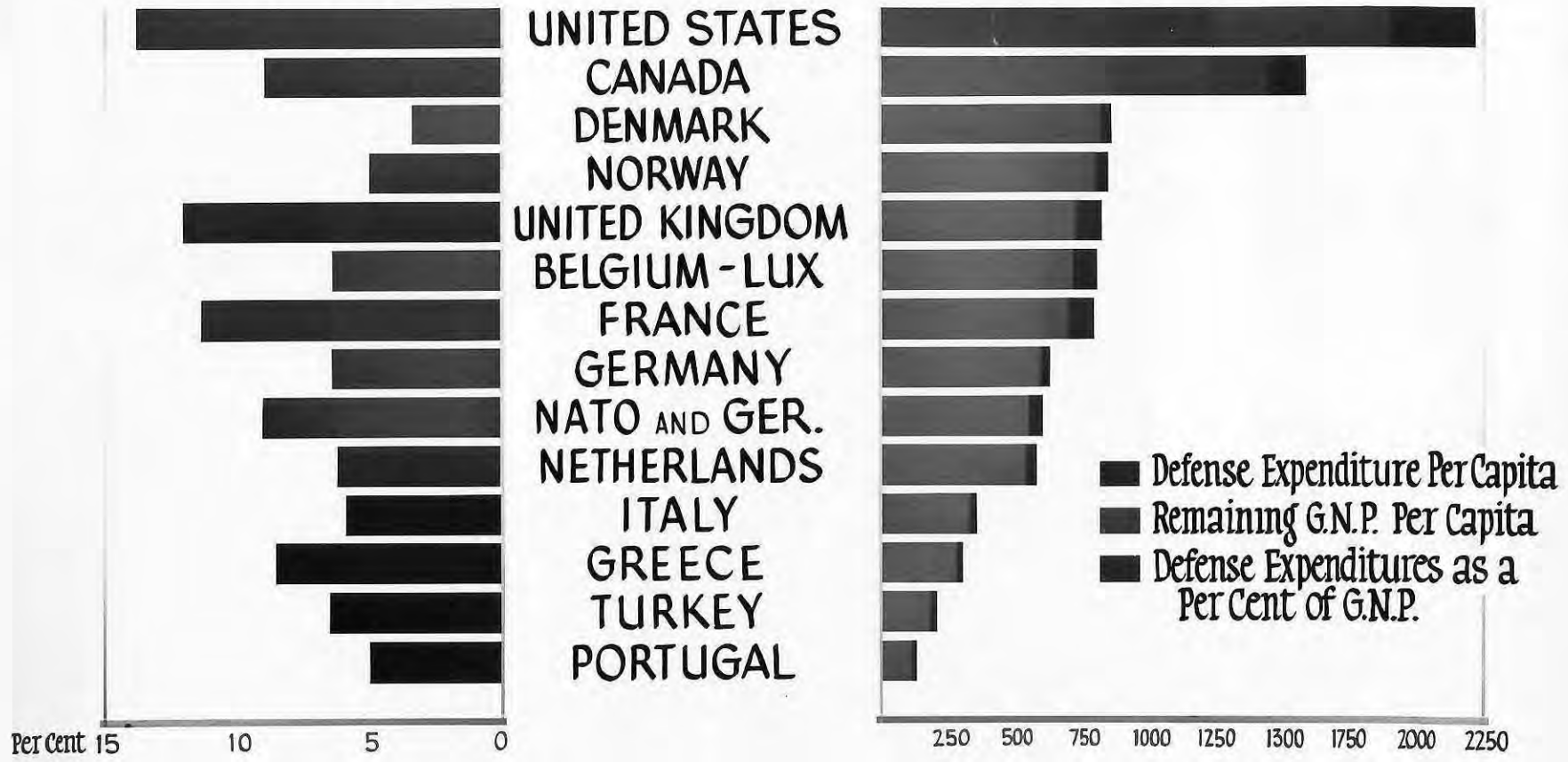
B12

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COMPARISON OF DEFENSE EXPENDITURES & G.N.P. PER CAPITA

DEFENSE EXPENDITURES (F.Y. 1953 Data) as % of G.N.P.

PER CAPITA GROSS NATIONAL PRODUCT



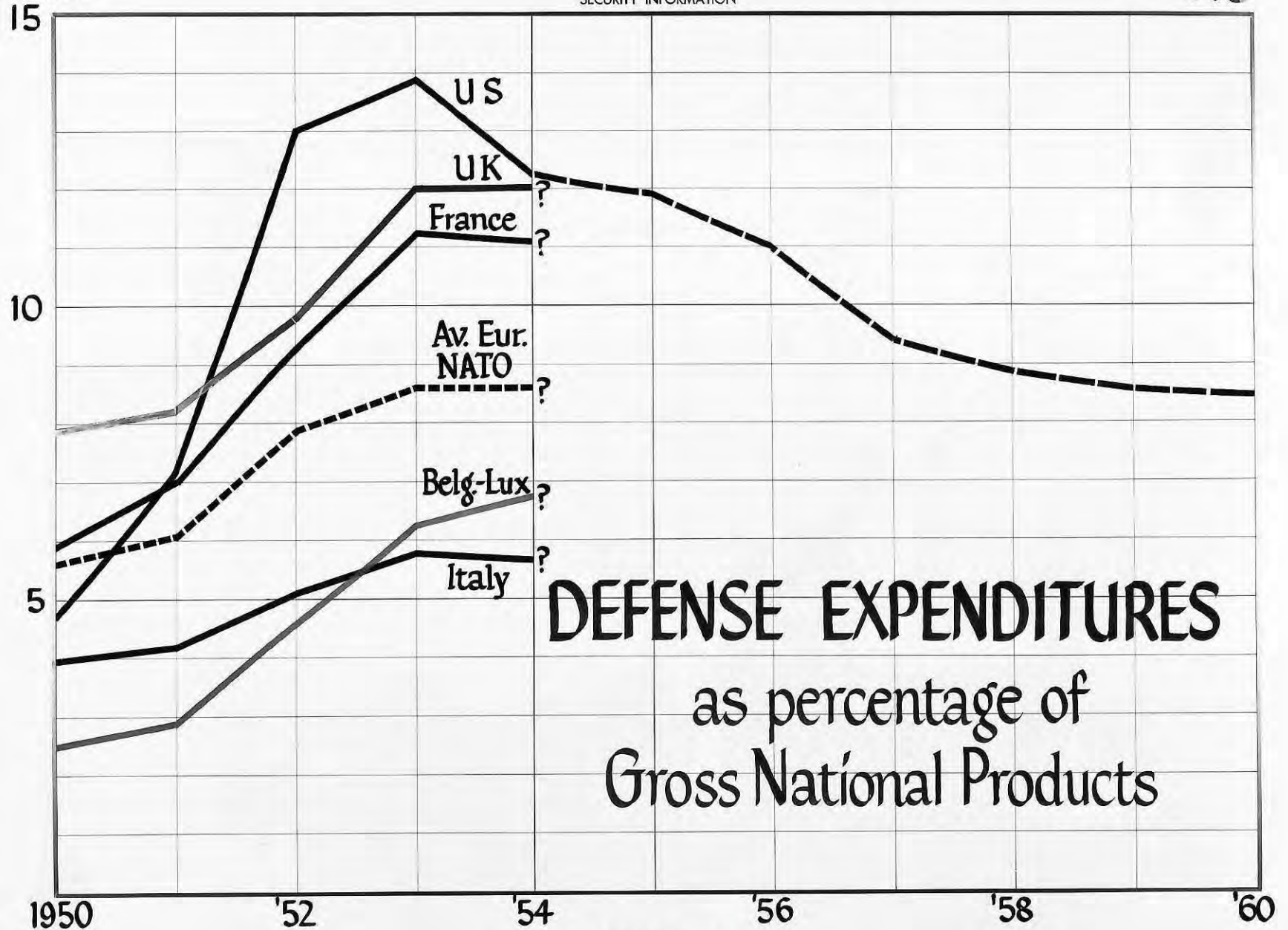
506

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Per Cent

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813



DEFENSE EXPENDITURES

as percentage of
Gross National Products

50c.

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normal capacity, there is any urgent economic argument for reducing the total of federal taxes. We recognize it may be desirable to change from one type of tax to another.

h. Task Force A, although given a general mission of advocacy of NSC 153/1, does not advocate all the tax policies implied therein. It recommends continuation of taxes at the present or higher levels. The United States seems certainly to have the tax structure, debt situation, and general fiscal capability to sustain any security load which seems likely under the program of Task Force A.

i. There remains, however, the problem of the completion of the military buildup and temporary "humps" in defense costs, such as might be occasioned by a rapid expansion in continental defense. One possible way of dealing with such a situation would be to accept, temporarily, deficit financing. Special taxation should be considered in connection with the financings of such "humps." Our Task Force was impressed by the fact that clearly demarcated temporary defense taxes, defined for specific purposes, such as continental defense, would serve the useful multiple purposes of (1) impressing on citizens the need for a particular type of defense, (2) emphasizing the citizen's responsibility in the defense of his country, and (3) helping to balance the budget.

6. Public Will to Pay Taxes

a. The will of the people, as reflected through their elected representatives, to bear the tax burden is the principal determinant of the resources allocated to security over a sustained period -- unless our



country were to operate on a sustained unbalanced budget, a course which we do not recommend. Taxes are the minor part of the defense burden for many. Personal service, worry over sons away from home -- such intangibles hurt more than taxes.

b. Our Task Force is cognizant of the existence of a concern that continued high taxes will serve as a brake on expansion of production. This is a point hard to prove either way although the economic indicators for the last six years do not give a significant, if any, indication supporting the view.

c. The tax problem seems to us, in the context in which we are required to consider it, to be primarily a political and psychological problem. This makes it part of the problem of gaining public support for an adequate program for security. The main problem becomes that of convincing local leadership and the general public of the need to pay more taxes in order to pay as we go. There have been some negative forces affecting the public will to pay taxes and the will of Congress to enact them. We offer the following suggestions as being consistent with this report's overall approach that the U.S. should take a balanced and confident attitude in dealing with the security problem:

(1) Put the wastes and inefficiencies (there will always be some) in their proper perspective, so that newspaper headlines about a small sum will not create the impression that billions are being poured down ratholes.

(2) Place more emphasis on positive statements about the



general and increasing efficiency of our Government. The inefficiencies should be sought out and eliminated ruthlessly. The public should be informed of essential facts concerning the elimination of waste but such facts should not be treated in a sensational way, since such treatment reduces the public will to support security measures.

(3) Present the fact that each citizen, in deriving benefits from the security of our way of life, has a responsibility to provide means to the Government to do an adequate security job.

7. Evaluation of Economic Policy in NSC 153/1

a. Task Force A was given a mission of evaluation of current policy. We believe that the economic aspect of security policy and the need for a sound, healthy economy should be stressed continually. We do question, however, that the policy expressed in NSC 153/1 is based on a completely correct estimate of the true nature of the economic threat to the U.S. way of life under the policy contained in that paper. As stated previously, rather than the absolute cost of the sustained security program constituting the threat, we feel that the much more likely dangers lie in other areas. These other areas include the hazards inherent in a recession (even though the economy remained basically sound, healthy, and one of free enterprise), the dependence of the in-between world on the U.S. in economic matters, a possible growing executive unpreparedness for economic mobilization, and the political-economic problem of adequate tax legislation. We also question, as in the case of the military portion of the policy in 153/1 that the statement of the economic portion is as well

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integrated with other parts of the security policy as it could be.

b. If the United States is to succeed in the deterrent aspect of its security strategy, and Task Force A believes it can and will, the economic (and also the military) portions of the security policy will both be used primarily in support of the political aim of the policy. While guidance for improved integration is hard to set down in words and harder to indoctrinate throughout the huge administrative structure dealing with these matters, it is worth trying. Task Force A recommends that the economic portions of NSC 153/1 be restudied in light of the foregoing.

c. As part of our evaluation we should give some comparison with the probable costs of the programs studied by the two other Task Forces in the Task Group. Each Task Force has to allow for costs incident to the particular risks of general war under its proposed course of action and, in addition, must allow for costs to make the various aspects of its policy effective short of war.

d. Task Force A considers that its course of action in the short and mid-term is materially less costly than the other two courses. Task Force B (which, stated oversimply, "draws a line" and issues an atomic ultimatum) increases the risk of general war in the view of our Task Force. An increased cost, clearly apparent, lies in the necessity for having a higher degree of readiness. Otherwise, the Soviet Union (and our allies) probably would not consider the policy as meaningful, nor would the U.S. people be willing to live, without a very high state of continental defense,

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under a policy by which our own Government might pull the trigger on the Soviet atomic capability. As a sample of immediate increased readiness required, U.S. forces in Germany would have to have increased allied (and U.S.) support before any other nation would be likely to consider the policy meaningful or, for that matter, the U.S. people would be likely to support the policy.

e. As to Task Force C's policy, this would mean, in the opinion of our Task Force, an increased risk of war and a materially increased cost in the next few years. We are unable to reach a judgment on the long term costs if the policy were successful.

f. If either of the policies B or C prove unsuccessful, the United States may well be committed in the long term to expenditures of a magnitude which would threaten, through impact on our economy, the U.S. way of life. It is always possible to shift from Policy A to either B or C. But once shifted, our country could not turn back easily, if at all, and would be committed to the new course -- both more costly and more hazardous.

g. When the values being hazarded are those of the U.S. way of life, Task Force A considers that the lesser hazard should be chosen and that the policy of NSC 153/1 is both the lesser hazard and less costly.

8. Conclusion

a. Task Force A has not stated unqualifiedly that our country should spend more on security although, at least in the short run, some increase in currently programmed expenditures seems necessary to do the job

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envisaged in NSC 153/1 as developed by this Task Force. Any unqualified statement would imply an accuracy of estimating which is beyond our capability. Our Task Force is convinced that the United States can spend more than now contemplated, if necessary, and still maintain over an indefinite sustained period a sound, healthy, free enterprise economy. The United States can and should reduce the deficits in the annual budgets, should not have a policy of operating continuously on an unbalanced budget, and should achieve those objectives by paying more taxes as we go forward in this age of danger. Task Force A has no fears, of the order of our concern over the Soviet threat, for our sustained economic future under the policy the Task Force advocates to the National Security Council.

b. Stated in one sentence: The United States can afford to survive.

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ANNEX I to
SEC III B

BASIC DATA UTILIZED IN ECONOMIC CHARTS

YEAR	: National Sec:															
	: GNP		: urity less		: Foreign		: Other		: Total		: Federal		: National		: Civilian	
	: \$: %	: \$: %	: \$: %	: \$: %	: \$: %	: \$: %	: \$: %	: \$: %
1941	125.3	6.4	5.0	---	---	6.4	5.0	12.8	10.0	12.8	10.0	49.0	39.1	112.6	90.0	
1942	159.6	26.0	16.3	---	---	6.7	4.2	32.7	20.5	12.8	8.0	72.4	45.4	130.9	79.3	
1943	194.3	72.1	37.1	---	---	6.1	3.2	78.2	40.3	22.3	11.5	136.7	70.2	116.1	59.7	
1944	210.6	87.0	41.3	---	---	6.7	3.2	93.7	44.5	44.1	20.9	201.0	95.5	116.9	55.5	
1945	215.2	90.0	41.8	---	---	14.0	6.5	104.0	48.3	46.4	21.6	258.7	120.2	111.2	51.7	
1946	211.1	45.0	21.3	1.0	.5	17.7	8.5	63.7	30.3	43.0	20.2	269.4	139.1	147.4	69.7	
1947	233.3	14.7	6.4	2.2	1.0	25.6	10.9	42.5	18.3	40.2	17.2	258.3	121.3	190.8	81.7	
1948	259.1	10.9	4.2	5.2	2.0	22.9	8.8	39.0	15.0	42.2	16.3	252.3	97.5	220.1	85.0	
1949	258.2	11.9	4.6	5.6	2.2	22.6	8.6	40.1	15.4	38.2	14.8	252.8	98.9	218.1	84.6	
1950	284.2	12.3	4.3	4.6	1.6	23.3	8.2	40.2	14.1	37.0	13.0	257.4	90.5	244.0	85.9	
1951	329.2	20.5	6.2	4.5	1.4	19.6	5.8	44.6	13.4	48.1	14.6	255.2	77.6	284.6	86.6	
1952	350.0	39.7	11.4	5.0	1.4	21.4	6.1	66.1	18.9	62.1	17.6	259.1	74.0	284.0	81.1	
1953	363.0	44.4	12.2	5.8	1.6	24.4	6.7	74.6	20.5	65.2	18.0	268.5	74.0	288.4	79.5	
1954	376.0	43.4	11.5	6.5	1.8	24.3	6.5	74.2	19.8	71.0	18.9	271.7	72.2	301.8	80.3	
1955	390.0	40.0	10.3	6.3	1.6	24.2	6.2	70.5	18.1	70.5	18.1	271.7	69.7	319.5	81.9	
1956	404.0	39.2	9.7	5.0	1.2	23.9	5.9	68.1	16.8	68.1	16.8	271.7	67.2	335.9	83.2	
1957	418.0	36.4	8.7	3.0	.7	23.7	5.7	63.1	15.1	63.1	15.1	271.7	65.0	354.9	84.9	
1958	433.0	35.4	8.2	3.0	.7	23.7	5.5	62.1	14.4	62.1	14.3	271.7	62.7	370.9	85.4	
1959	448.0	35.4	7.9	3.0	.7	23.7	5.3	62.1	13.9	62.1	13.9	271.7	60.6	385.9	86.0	
1960	463.0	35.4	7.6	3.0	.6	23.7	5.1	62.1	13.3	62.1	13.4	271.7	58.5	400.9	86.4	

- NOTES:
1. All dollar figures are in billions of dollars.
 2. All percentages are % of gross national product.
 3. The statistical abstract of the United States was used as the source of G.N.P. data for years 1941 to 1951.
 4. The G.N.P. projection for years 1952 to 1960 was based upon an annual increase of 3.6%. This factor is slightly lower than the actual percentage increase of gross national product in constant dollars for the years 1946 to 1951.
 5. Expenditure and receipt data were extracted from annual volumes of the Budget of the U.S. Government for previous years and on informal advice of Bureau of the Budget for forward years.

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