

THE WHITE HOUSE  
WASHINGTON



January 23, 1958

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Cabinet Agenda for Friday, January 24

The following items are listed on the agenda for the Cabinet meeting tomorrow at 9:00 AM:

1. Measures with Respect to Economic Prosperity (Dr. Saulnier)

This is the basic item for Friday's agenda because it involves what undoubtedly is turning into a vital issue for the Fall elections. A fruitful Cabinet discussion of this question can help further in implementing your State of the Union Message since, as you said there, "the Federal government, constantly alert to signs of weakening in any part of our economy, always stands ready, with its full power, to take any appropriate further action to promote renewed business expansion." It is in the light of this pledge that Dr. Saulnier will make his presentation.

His talk will have two parts: The first will deal with economic facts and charts. You have not seen his latest figures and they will be completely new to the Cabinet. The second part will deal with action items and ways in which a program of action can and must be implemented. As proposed parts of this action program Dr. Saulnier will bring up:

- a) placement of military contracts;
  - b) military construction;
  - c) miscellaneous actions -- such as GSA, Post Office Department and Capehart Housing;
  - d) credit policy;
  - e) adequate public disclosure of what we are doing.
- (He will call upon Secretary McElroy and Postmaster General Summerfield for brief statements on this score.,

2.

2. The Highway Program

(Secretary Weeks)

Secretary Weeks has been anxious to place this item on the agenda in order to bring up several problems which now need advice and action from you and the Cabinet. By placing this item on the agenda your time will be saved from personal conferences on this very subject. Among the problems Secretary Weeks will raise are: questions affecting billboard advertising, the sudden increased cost of the program, and the charge that the road program will be "stretched out so that it becomes obsolete before it is completed."

3. Watches

(Director Gray)

This issue is a very sensitive and controversial political, as well as economic, problem. The Elgin Company has just announced the closing of its plant by June. It is important that this question come up at this time because the issue is growing in intensity. This must be somewhat in the nature of a preliminary discussion because the report of Defense's survey of U. S. watchmaking plants is not yet completed. Mr. Gray wishes to have you and the Cabinet review whatever action he takes on this explosive matter.

*Maxwell M. Rabb*

Maxwell M. Rabb  
Secretary to the Cabinet

MINUTES OF CABINET MEETING

January 24, 1958

9:00 A. M. -- 11:00 A. M.

The following were present:

## President Eisenhower

Vice President Nixon  
 Under Sec. Herter  
 (for Sec. Dulles)  
 Sec. Anderson  
 Sec. McElroy  
 Deputy AG Walsh  
 (for Mr. Rogers)  
 Deputy PMG Sessions  
 (for Mr. Summerfield)  
 Sec. Seaton  
 Sec. Benson  
 Sec. Weeks  
 Sec. Mitchell  
 Sec. Folsom

Deputy Director Stans  
 (for Mr. Brundage)  
 Mr. Gordon Gray  
 Dr. Saulnier

Mr. Leo Hoegh, FCDA  
 Mr. Bertram D. Tallamy,  
 Federal Highway Admin.  
 Col. Meek

Gov. Adams  
 Gen. Persons  
 Mr. Rabb  
 Gov. Stassen  
 Gov. Pyle  
 Mr. Siciliano  
 Mr. Randall  
 Dr. Killian  
 Mr. Hagerty  
 Mrs. Wheaton  
 Mr. Martin  
 Mr. Morgan  
 Mr. Larson  
 Gen. Cutler  
 Gen. Goodpaster  
 Dr. Hauge  
 Mr. Patterson  
 Mr. Minnich



Economic Situation - Dr. Saulnier presented a new set of charts designed to show the progress of the current economic movement in comparison with 1953-54 and 1948-49. He stated that statistics available about the beginning of September showed that the economy had reached a peak in July and had subsequently changed direction. On the basis of these several charts, month by month comparisons are being made of developments in relation to the preceding peak. Not until six months after the peak does a movement begin to show its character clearly. After commenting on the charts, Dr. Saulnier concluded that for the present the current recession appears to be no more serious than 1954, that if it follows the 1954 pattern the signs of a rise will begin to appear in April and be definite by mid-year.

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and that if this movement is to be more severe than 1949 or 1954 it will be because of developments yet to come and not now possible to foresee.

Dr. Saulnier commented that retail sales in December probably did not measure up to many interpretations of improvement and that the seasonal correction factor ought to be revised because of the ever-increasing concentration of sales prior to Christmas. He noted particularly the Michigan University survey of consumer psychology which gives cause for concern pending receipt of the next survey in May. He stated that unemployment figures should increase in January and again in February to a peak of about 5 million -- roughly 7%.

Mr. McElroy then reviewed the procurement outlook and stated that it will increase from \$7.9 billion for July - December, 1957 to \$13.4 billion for January - June 1958, and then return to \$9.9 billion for July - December 1958, thus putting the entire increase for calendar 1958 in the first six months.

Sec. Weeks noted the optimism of the Business Advisory Council in its recent meeting where most groups saw encouraging signs, but the outlook for steel and automobiles remained poor.

Mr. Sessions noted the potential for increasing Post Office rentals and lease-purchase contracts where, by a capital investment of \$220 million in 1958, there can be a \$1 billion impact on the national economy.

Dr. Saulnier noted the forthcoming Treasury refunding whereby an improvement of the Government debt situation can be accomplished. He cautioned on the possible adverse effect on private investment if too much is done at this time.

Dr. Saulnier concluded that the interval between now and April should be used for preparing bolder Government programs that would be necessary if signs of improvement fail then to appear.

The President stated his close agreement with Dr. Saulnier's evaluation and conclusions. Adding a lighter note, he recounted a current story on psychological factors leading to otherwise unfounded possible retraction. He felt this was not a time for gloom and doom.

Modern Defense Weapons - In a brief exchange with Sec. McElroy, who noted that the pressures for accelerating new weapons procurement will increase as more knowledge comes from research, the President asserted that should research bring in better weapons much attention must be given to replacement of the old rather than mere addition.



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Interstate Highway Program - In his progress report, Mr. Tallamy stated that the program has proceeded on schedule up to now but that work involving \$600 million must be diverted to December, 1959, since the trust fund will not be adequate. Similarly, in FY 1961 the work level must be held to \$1.2 billion instead of \$2.2 billion. He also stated that increasing costs of construction threaten to run the program to a total of 23 years instead of the original 13 - 16 year program planned (16 years includes a 3-year "wind-up" period for the 13-year program). He stated that some States have planned on the full apportionment but will have to undertake a stretch-out for 18 months unless other arrangements are made.

The President ascertained that there had been no substantial departure of trust fund receipts from the estimates. Mr. Tallamy added that Congress failed to act on this problem last year when the Administration pointed it out.

Sec. Weeks amplified on the new cost estimates which show a \$10 billion increase over the original 1954 long-range estimates. He noted that Senator Gore is committed to a major effort to complete the program in 13 years by taking money from general funds if not available elsewhere.

Sec. Weeks then pointed to Budget Bureau proposals for certain reimbursements from the trust fund to other agencies for things like Treasury administrative services, forest roads, aviation facilities from aviation gasoline tax money. He cited also the proposal for a probable \$6 billion reimbursement for toll roads already built, a proposal the Administration has opposed. He stated his assumption that the Administration will continue to press for a provision controlling advertising on the System.

The President found it hard to see why aviation gas tax should go into roads when aviation facilities were so desperately needed, but except for this one distinct thing he did not immediately see why other withdrawals from the trust fund should be made. He recalled the major problem of inflation facing the country when the program was originally legislated. He saw great merit in completing the project on schedule and thought that the gas tax might be increased slightly if that could be done without adding another drag on the economy. He felt that a stretch-out of the program would mean that the country would need a new program even before this one would be completed.

The Vice President emphasized the need for pushing this program and the desirability of doing so in the light of the economic situation described by Dr. Saulnier. He felt this program to be one of the great contributions of this Administration and we should keep it up to the mark.


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Sec. Weeks indicated that Commerce was studying pertinent proposals. He commented on the major savings effected by truckers using modern highways and the possibility they would be willing to carry a heavier tax load for this purpose. The President felt such a move could well be in order. Sec. Benson, the Vice President and the President made additional comments on the desirability of moving this program on schedule.

Defense Essentiality of Horological Industry - Director Gray noted the decision he would soon have to make under Section 7 as to any essentiality of the watchmaking industry for defense purposes. He stated that he was awaiting a final report from the Defense Department on national security aspects. Mr. McElroy said that the study thus far was not encouraging for the industry. Mr. Gray commented on recent technological changes which have developed ~~in~~ capabilities elsewhere than in the watch industry. He outlined the various imponderables involved and his expectation that the outcome might go either way.

Sec. Herter observed that the watch companies seemed to anticipate an adverse decision and were mainly interested in getting a decision, whatever it might be, at an early date. Sec. Benson commented on the extensive agricultural exports to Switzerland, and Mr. Randall noted the favorable balance of our trade generally with the Swiss. Sec. Mitchell thought the decision, if on balance, ought to be in favor of American workers if any possibility existed that they would be needed in emergency defense production. The President recounted the Swiss success in getting around the restrictions imposed several years ago. He could not foresee any possibility of the United States successfully competing with the Swiss in watchmaking over the long term, and he did not believe that any effective long-term solution could be found by attempting to protect the American industry.

Sec. Weeks commented that he did not expect, strangely enough, that this decision would have any bearing on reciprocal trade legislation since the watch industry seemed resigned to its fate and would concentrate on importing Swiss movements to be put in American watch cases.

  
L. A. Minnich, Jr.



Copies to:

Mrs. Whitman (2) ✓

Mr. Rabb

Mr. Minnich

January 24, 1958

*File  
H.S. G.*Notes on Cabinet Meeting - January 24, 1958

*Notes  
Need to know*

Prior to entering the Cabinet Meeting Mr. Tallamy and I discussed employment. The figures that had been supplied him by the Bureau of Public Roads and those of which I am familiar (including our rule-of-thumb of 16,000 per man-year) were so divergent that I suggested he not discuss employment unless he was asked to. He readily agreed.

After the meeting we carried the discussion on and he said he would take immediate action to reconcile the discrepancies. I agreed to work with him and his staff until this is finished. I have since checked our figures and I feel reasonably confident that our figures are the more nearly correct than the ones that Mr. Tallamy had. Obviously there is some aberration and I feel sure that when discovered, it will evolve around sematics. *- Question has been resolved!! (3PM) J.G.  
our figures are ok*

Mr. Tallamy presented to the Cabinet from three charts a picture of the Interstate and Federal Aid Systems. (I will endeavor to get copies of these charts.) Essentially, he pointed out that all the programs were meeting the goals established when the programs were authorized. Actually, we are slightly ahead in some areas. Most of the data were in terms of dollars, some in miles. The most interesting chart was that depicting the amount of funds that could be apportioned to the States in relation to the amount of funds available from the trust fund. I could not see this

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chart to<sup>o</sup> clearly, <sup>and</sup> I am not sure of the years. However, next year (and I presume that to be calendar 1959 or fiscal 1960) there will be a short-fall in the amount that could be apportioned under the authorization which is \$2.2 billion. This short-fall is \$600 million. ~~And~~ Even the balance, \$1.6 billion, <sup>can</sup> could not be apportioned at the usual time in August but must be ~~developed~~ <sup>delayed</sup> to say the latter part of December. In the following year, calendar 1960, the short-fall will be \$1 billion from the \$2.2 billion. On this basis it will be necessary for States to delay almost 11 months the making of obligations which they had presumably planned to make under the authorized \$2.2 billion scheduled.

In short, instead of a 13-year program because of the short-fall in the dollar availability, the program is now up to 21 or more years. I am not sure but I presume this includes some increases in cost.

Mr. Weeks pointed ~~out~~ <sup>to</sup> the question of revised estimates for the Interstate System. He mentioned an increase of \$10 billion or a 37% increase. He took the time to quote from Senator Gore -- "I will wage a relentless battle to provide funds to complete the System in 13 years." Mr. Weeks discussed the matter of taking \$68 million? out of the highway trust fund for other purposes, such as labor statistics, the treasury administration of the <sup>trust</sup> fund, and other overhead items and indicated that this question was going to be what he termed a "hassle." He also touched on the question of reimbursement for the free and toll roads that would be taken on the Interstate System estimated at about \$6 billion and pointed out that the

170000  
170000



Administration position was in opposition to this reimbursement. He also touched on ~~the~~ <sup>outdoor</sup> actual advertising -- billboards, and indicated that he thought there was a good chance of obtaining control in this area. He summarized by saying the program is moving along fine and both Administration personnel and the Congress were ~~very closely~~ watching it <sup>closely</sup> and were keeping their fingers in it. In his summary he outlined three problems:

(1) The extra cost of the system and remarked that this matter could coast along awhile before it became an issue.

(2) The reimbursement for roads taken over. He observed that it would be necessary that the Administration take a position on this pretty soon.

3 (3) (Elaborate<sup>d</sup> on the "hassle" over withdrawals.

The President remarked that he thought the withdrawals <sup>from</sup> and the trust fund insofar as they represented income due to aviation was proper since those funds could be applied to aviation, but he wasn't sure of the reason for any of the other withdrawals. He went on to say that since the gas tax was now only 3 cents and it was many, many times that amount in other countries, why not raise it one-half cent to help make up the deficit. He talked a moment on the need to find a way to finish the program on the 13-year basis since that was the original ballyhoo, the original promise to the people. He said he wanted to get back to the original schedule for

many reasons, one of them being to finish the roads, ~~since~~ in his opinion they would have to be rebuilding within 25 years, he thought they should be finished before they started the rebuilding. Secretary Weeks observed that he would like to study the problem.

Mr. Nixon interjected that if the Administration didn't get on top of this problem that Congress would; that there was considerable feeling as to the down-turn in the economy; and that he, Mr. Nixon, felt that the Administration had not received the credit<sup>due it</sup> for conceiving the Road Program that it should have; and that they should take the lead right now. Mr. Nixon said that it was important that the President do this, taking the lead, before Gore did; that the Administration needed the credit.

Mr. Weeks interjected a story about ~~a~~ savings to truckers based on some studies on the New York Thru Way where repair bills were cut in half and insurance cost reduced in this instance by \$50 thousand, whereas the ~~total~~<sup>falls</sup> paid ~~was~~<sup>were</sup> only \$48 thousand.

The President at this point wondered if there was any way in getting more taxes or funds from the truckers. Secretary Weeks replied by repeating his story of the truckers and observed that these facts might make it easier. The President, becoming more specific, asked whether there was not some method of taxing by weight, wheels, tires, or licenses. Someone replied that these were normal State areas of revenue.

Mr. Nixon posed the question to Secretary Weeks based on what had been said before to the effect that the program was going to fall behind

and stated -- "I assume you (Secretary Weeks) will have a new proposal for the Administration to push, particularly in view of the economic situation."

Secretary Weeks -- "I will study some ways to find more funds and means to step up the program. I point out that this year's expenditure is going to be about \$2 billion, which is a large amount."

Secretary Benson interjected -- "Let's get back on the 13-year idea!"

Mr. Nixon discussed a presentation by Dr. Saulnier and referred to a chart which evidently showed ~~the~~ consumer spending ~~and a chart of~~ *falling off sharply.* ~~fall off.~~ (I believe this is what he referred to. It was not clear.) He then cited the *problem* ~~question~~ of lack of *confidence* ~~competence~~ *it to an* relating ~~the~~ experience at ~~the~~ Bankers' Luncheon and reiterated "Let's get something specific that can be looked to by all and that will reflect credit to the Administration. Fiscal measures are good and may be adequate, but they are hard to see -- Highways is a good place to start and we should start."

The President interjected by saying "I think we should get back on our original schedule."

Secretary Anderson observed if the reimbursement to the Treasury for ~~entering~~ *administering* the trust fund ~~were~~ *was real* a point of issue, let's forget it for the time being in the interest of amity.

Secretary Weeks and the Budget representative immediately spoke up saying we couldn't back out now, we have already presented it to the

Congress.

Secretary Folsom queried the group as to whether or not in the original planning for the Highway Act it was not indeed a plan<sup>ed.</sup> to increase gas taxes as the program proceeded. No one could recall such. The President discussed this and referred to the bonding idea as proposed by the Clay Report which was not adopted, saying this would have provided ~~and would have built up~~ cash when we wanted it. (However, it would not have taken care of the increased cost any easier than any other system.) ~~(These are not his actual words, they are his thoughts.)~~

Mr. Nixon again restated his thoughts on let's get started and get back on schedule and <sup>repeated</sup> related an anecdote relating to the subject.

Mr. Tallamy and I left the Cabinet Meeting at this point. We discussed the labor question <sup>again</sup> slightly, but more the question that he, Tallamy, now had the go ahead to develop a reorganized financial plan and physical plan that the Administration could propose that would complete the system ~~as~~ under the original 13-year basis. Tallamy remarked that both the President and the Vice President remarked so strongly on this point that he was "in business."

At some time during the discussion the President observed that in relation to the financial aspects that he was not perturbed over deficit financing if it was indicated in view of what he called "other problems."

It was <sup>my</sup> impression that Tallamy will go ahead full steam, although he may be subdued somewhat by Weeks who if he caught the implication

of the President's and Vice President's remarks, did not respond to them, at least visably.

**CABINET PAPER—PRIVILEGED**

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January 25, 1958

The White House

Washington

## THE CABINET

Record of Action

The following is the action taken on the items presented at the Cabinet meeting of Friday, January 24, 1958:

1. Measures With Respect to Economic Prosperity

## ACTION:

- a) The Cabinet noted with care the charts presented by the Chairman of the Council of Economic Advisers comparing the economic decline since July 1957 with four earlier economic declines, and in particular the graph depicting a statistical estimate of current consumer attitudes.
- b) The President indicated his agreement with the analyses and conclusions presented by Dr. Saulnier, i. e., that:
  - i) On the basis of presently available evidence, this recession is developing much like 1953-54, in severity and rather like the 1948 decline, but that some features of the current decline are distinctively less favorable.
  - ii) From the economic point of view, the policies now being followed by the Administration (e. g., credit, acceleration of military procurement and construction, housing, etc.) should, in general, be continued. The Chairman expressed the hope for a progressive easing of credit, more marked than has so far been achieved.
  - iii) The period between now and early April should be used to prepare for bolder measures which should be adopted if signs of improvement are not apparent.
- c) Particular attention was called to the impact which public debt refinancing decisions (affecting the long-term capital market) can have on current anti-recession objectives.
- d) Emphasis was placed on the leadership which the Administration can give to economic revival by making clear the positive actions it has taken, and is taking, which have a beneficial economic impact.



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2. The Highway Program

## ACTION:

- a) The Cabinet noted the chart presentation by the Federal Highway Administrator, and his statement that, up to now, contracting and construction progress on the highway program is on schedule.
- b) The President indicated that it was his desire to carry through this program within the scheduled 13-year period. The Secretary of Commerce is to prepare proposals to accomplish this.
- c) The desirability of legislation to control highway billboard advertising was reaffirmed.

3. Watches -- Preliminary Discussion

## ACTION:

- a) Upon receipt of the forthcoming report from the Secretary of Defense, the Director of the Office of Defense Mobilization will advise the President concerning watch imports, pursuant to Section 7 of the Trade Agreements Extension Act of 1951, as amended.
- b) Note was taken of the points offered in the discussion by the several members of the Cabinet and by the President.
- c) Note was taken of the feeling that there was need for a prompt decision.

Maxwell M. Rabb  
Secretary to the Cabinet