

dwarfed by the present military costs. So if we could stop the war in Vietnam the savings will greatly exceed the likely cost of reconstruction, at least on the basis of these figures.

Mr. SCHULTZE. Yes.

Chairman PROXMIRE. I would like to ask you whether the effect of the Vietnam war on the economy, whether it is jobs or prices or interest, would not be significant enough on the basis of your testimony to disturb the economy, provided we have the full information on it in advance and act prudently on the information. You testified that the President cannot do this himself, he is very limited, he is quite limited on the amount of spending that he can either cut down or expand. Therefore, it seems to me it is imperative that we get congressional cooperation on this.

Mr. SCHULTZE. I agree.

Chairman PROXMIRE. And you cannot get congressional cooperation very well if you don't give us the facts. The facts are just overwhelmingly significant. Now, is this a fair statement?

Mr. SCHULTZE. I will agree.

Chairman PROXMIRE. Now, looking at what happened after World War II—we have in that case a relatively economic catastrophic development—the Federal expenditures, Government purchases of goods and services in 1945 were \$82 billion. The following year, 1946, they were \$27 billion, less than one-third. Now, you were able to do that during a period when unemployment stayed below 4 percent—1.9 percent in 1945, 3.9 percent in 1947, 3.9 percent in 1948—and in 1948 we had a surplus of over \$8.5 billion. In 1954—1953-54—we were adjusting to the Korean war. We had a sharp cutback in military spending and in overall Government spending. And unemployment stayed down during every year except 1953 when it went to 5.6 percent, but in the other years it was well below 5 percent. What I am getting at is, how about the possibility of considering some debt retirement, in the event that we can secure negotiations and cease fire, and so forth, what are the possibilities in your judgment of being able to maintain a reasonable level of employment and cut back spending so that we can reduce the national debt?

Mr. SCHULTZE. Senator, I would go about that in a different way. I would ask myself what is the appropriate fiscal policy in combination with the monetary policy. The appropriate mission of fiscal and monetary policy is to make a smooth transition. To do that you have to take into account the strength of demand in the private sector. If you put all that together, and it comes out that the appropriate Government policy is to run, to pick a number out of the air, a \$5 billion deficit, then you want to think about a \$5 billion deficit. I would not start by saying, I want full employment and a smooth transition and debt retirement as an objective.

Chairman PROXMIRE. I did not start that way. I know no era of new economics should start that way, if you do you get zero in the classroom.

Mr. SCHULTZE. All I am saying is that I cannot answer that question except as a residual of the other question.

Chairman PROXMIRE. Let's get it as residual.

Mr. SCHULTZE. At this stage I am not prepared to answer it. That is precisely the kind of thing we are looking at in the Ackley com-