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CARLISLE BARRACKS, PENNSYLVANIA

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# THE IMPACT OF THE VIETNAM CONFLICT ON THE ECONOMY OF THE UNITED STATES

by

Dr. Alwyn H. King

Hindsight, it has been said, is one of the few cheap things in this inflationary age. Even with hindsight, however, and with the help of numerous during and after-the-fact analyses, the economics of the Vietnam and post-Vietnam eras is still confusing. A major cause of the confusion has been the large number of economic influences acting, some in consonance and some in conflict, during the period. Inflationary forces such as military spending for the war itself, the massive increase in transfer payments representing The Great Society, and residual effects of the tax cut of 1964 led in the early stages of the US military buildup to a period of "demand-pull" inflation, characterized by an aggregate demand high enough to bring on price increases. This inflationary trend was further aggravated by demands for higher wages to offset the price increases, and the inflationary spiral was on. Even as demand subsided, as US involvement in Vietnam declined, inflation continued--now of the "cost-push" variety, in which industries justify further price increases on the claim that excessive labor and materials costs have exceeded productivity growth and thus raised cost per unit of output and reduced profit margins to an unacceptable level. Other factors, such as pollution control legislation and occupational health and safety regulations, also operated in various ways to reduce overall productivity growth, further beclouding the issue. Any attempt to single out the specific impact of the war on these economic developments becomes a formidable task, amenable at best to only partial resolution.

## GENERAL

All wars are characterized by periods of general economic dislocation, occasioned by rapid increases followed by sudden cutbacks in military spending. Patterns of defense obligations and expenditures, production activity and inventory management invariably experience disruptions. Accordingly, recent major political upheavals, such as the Vietnam conflict and the earlier Korean war, have created problems for the US government in financial planning as well as generating stresses throughout the economy at large. The problem for government and private industry planners alike is to attempt to anticipate changes and deal with them in a timely and appropriate manner. Although both government and industry know that military procurement and spending will increase, no one knows with certainty how large the increase will be or how it will influence specific sections of the economy.

Attempts to cope with this situation have met with varying degrees of success. In the business environment, some firms adjust their inventories and increase hiring in anticipation of new contracts. Other firms make no adjustments until funds for new work are actually committed. Government officials can also use alternate approaches in their financial planning. They can estimate the extent and rapidity of a build-up, and immediately request the appropriate obligational authority as a lump sum amount. Alternatively, they can wait, attempt to adjust existing obligational authority to meet new requirements, and base a supplemental request on later, more complete information.

## KOREA

During the Korean war, the Department of Defense (DOD) attempted, even during the early stages of the conflict, to anticipate the size and duration of US involvement. These attempts led to severe estimating problems. In the first year of the war, FY 1951, three separate supplemental budget requests were submitted by DOD to the Congress. Supplemental requests were also made in each of the following two years. The aggregate estimates of funds needed turned out to be considerably overstated, with the result that unexpended balances rose from $10.7 billion at the end of FY 1950 to $65 billion by the end of FY 1953. During the fiscal years 1955-58 no additional funds had to be appropriated for Army procurement; the Army lived off excess funds appropriated during the war. While these unspent balances would be unlikely to have any significant economic effect until used, the main problem with such a financial planning policy is that it is much harder for both the Congress and the executive branch to exercise effective budgetary control when the outstanding funds available for obligation greatly exceed actual needs.

## VIETNAM

In order to avoid the sort of problems experienced during the Korean war, a very different approach was taken for financing US military operations in Vietnam. While at that time, during FY 1966 and 1967 planning, the outlook was clouded by an equally high degree of uncertainty as to how rapidly US commitments would rise, or when they would level off, the decision was made in 1966 not to amend the 1967 budget based on inadequate estimates, but to operate with available funds. A supplemental request was submitted in

January 1967 based on a more dependable estimate of requirements than would have been possible earlier. In planning the 1968 budget, the basic assumption was that the war would continue indefinitely at a level of activity indicated in existing projections. At that time, it was apparent that the major portion of US force buildup was completed, and there was a much higher degree of confidence in projected plans and forecasts. Furthermore, attrition and consumption data were now available for Vietnam, and it was no longer necessary to use obsolete rates based on the Korean experience.

Despite the policy of postponing supplementary budget requests until more dependable estimates were available (or perhaps because of such a policy), the uncertainties inherent in anticipating and projecting military expenditures led to problems. A report of the Joint Economic Committee of the Congress, dated July 7, 1967, stated:

> Total spending on the war in Vietnam during the fiscal year just ended will double the administration's original estimates. And there are already signs that actual spending on the war in the present fiscal year may again appreciably outrun first estimates.
>
> While it is recognized that a degree of unpredictability is inevitable in estimating war costs, it became obvious in the course of the committee's consideration of the 1967 Economic Report of the President that the lack of accurate expenditure data during calendar 1966 handicapped the Congress seriously in reaching appropriate tax, spending, and other economic policy decisions.
>
> * * *
>
> It is probable that actual expenditures for the Vietnam war exceed the official figures by an appreciable margin. The Department of Defense has conceded that it is somewhat unrealistic to establish a definitive distinction between Vietnam outlays and other defense disbursements. As a consequence, the incremental estimates used for Vietnam expenditures should be considered an <u>understatement</u>. While the absence of any better guidelines makes it necessary to use these figures, it should be realized that the full effect is probably greater than they indicate.

> In terms of official figures, Vietnam's new obligational authority outran the original estimates by $14 billion in fiscal 1966, and $12 billion in fiscal 1967. The size of these increments and their promulgation after the fact, as it were, had a disruptive effect on the conduct of fiscal and monetary policy. For example, had it been known early in the spring of 1966 that $12 billion over and above the fiscal 1967 budgetary estimates would be appropriated for the Vietnam war, Congress certainly would have given more serious consideration to a tax increase or spending cut or quite probably would have enacted one or the other or both. Such action would have dampened the subsequent inflationary pressures and avoided the havoc caused by the excessive reliance on restrictive monetary policy in 1966.[1]

## CONGRESSIONAL HEARINGS

The report cited above was generated as a result of earlier hearings on the same subject before the Joint Economic Committee, in April 1967. These hearings took place over a four-day period, and involved testimony from public officials from the Department of Defense, Bureau of the Budget, US Arms Control and Disarmament Agency, and the Senate Armed Service Preparedness Subcommittee, as well as academic and other expert witnesses. Testimony was heard on the impact of Vietnam spending on firms and industries, as well as on regions and on the general economy. Information was also developed on the timing involved in military expenditure impacts, i.e., the relative lag or leadtime that must be taken into account in assessing events.

The hearings developed methods by which basic budgeting uncertainties could best be mitigated. Recommended were:

- greater efforts on the part of the administration to anticipate and project military expenditures,
- more timely conveyance to the Congress of latest budgetary estimates,

. a system of regular reporting by the Bureau of the Budget, with a report each July and another at the close of the annual congressional session, and

. regular monthly publication by the Department of Defense of a new report entitled Selected Defense Department Indicators, providing information on defense contract awards as a guide to estimating future expenditure changes and regional impacts to be considered in formulating economic policy.

Prominent among witnesses at the Joint Economic Committee hearings was Professor Murray Weidenbaum, chairman of the Department of Economics, Washington University, St. Louis, MO, whose testimony and detailed study of the subject provided an important basis for at least one session of the hearings.[2] Weidenbaum's contribution included a review of the Vietnam situation and brief history of the increasing US involvement, leading to an evaluation of the impact of US expenditures for Vietnam on the American economy.

Comparing events during the military buildups for the Vietnam and the Korean conflicts, Weidenbaum pointed out that, although the Korean buildup was on a much larger scale than the Vietnam military expansion, the rapid shift of resources from civilian to military use resulted in both cases, in strong inflationary pressures.[3] The relatively greater effect in the case of Vietnam was explained by the fact that, unlike Korea or World War II, the Vietnam military buildup was superimposed on an economy which was rapidly approaching full employment. A comparison of conditions in June 1950 and July 1965 shows that unemployment was higher in the earlier period

(5.4 percent versus 4.5 percent) and the operating rate of industry was lower (80 percent versus 90 percent).

During both the Korea and the Vietnam periods of military expansion, two important factors contributed significantly to the growth of inflationary pressures on the US economy. The first was the difficulty in predicting and projecting the magnitude and timing of the increase in defense spending. The second factor was the underestimate of the speed with which a military buildup affects the economy. Weidenbaum summarizes the influence of this second factor as follows:

> Another factor is a bit more sophisticated. It relates to the lack of understanding of how a military buildup affects the economy. The key point is that, under our private enterprise system, the great bulk of military production is carried on in the private sector of the economy.
>
> As a result, when there is a large expansion in military orders, as occurred in fiscal 1966, the immediate impact is not felt in the government budget. The initial impact--in terms of demand for labor, materials, and resources generally--is felt by the government contractors in the private sector. Hence, particularly during the early stage of a military buildup, we have to look at the private sector to see the expansionary effects. This is hardly a new phenomenon. This timing relationship was the factor that contributed so greatly to the inflation that accompanied the first year of the Korean mobilization.
>
> By just looking at the Government's budget during fiscal year 1951, it seemed that the public sector was following a policy of fiscal restraint. Policy officials generally overlooked the almost doubling in the volume of defense orders to private industry during that same period. Unfortunately, the same mistake was repeated during the first year of the Vietnam buildup. The most rapid period of expansion in military contracts to private industry occurred in 1966; so did the most rapid rate of price inflation in recent years. But that was the period when the Nation and particularly the Administration's economists were still congratulating themselves on the success of the 1964 tax cut and little need was felt, at least officially, for greater fiscal restraint.[4]

It is apparent that the delivery stage of a government expenditure program is not the time at which impact is registered on the GNP; the expansive effect of the government purchase occurs earlier, upon receipt of the government order and commencement of production.[5]

## LESSONS FROM HISTORY

Two lessons to be learned from the above discussion of the Vietnam experience are:

(1) Congressional action on fiscal policy (a tax increase and/or a cut in non-defense spending) should have been initiated as soon as it was known that the cost of the Vietnam buildup had been underestimated--even though the specific information necessary for action on military appropriations was not yet available.

(2) In assessing the possible inflationary effects of military spending, the cash budget should be used as a guide rather than the National Income Accounts Budget, since the former, according to Weidenbaum's analysis, presents a more accurate portrayal of the impact of a defense buildup or a defense cutback on the economy.

It is apparent that Secretary of Defense McNamara erred on the side of frugality in DOD estimates of budgetary requirements for the Vietnam military buildup. Likely explanations for the underestimates include a political desire to keep a low profile for the Vietnam war, a desire to avoid excess funding of defense activities which would lead in the post-war period to an excess war materials inventory and a surplus of funds available to the Pentagon, and McNamara's well-known penchant for the Planning, Programming and Budgeting System.[6]

Furthermore, the so-called rationalist approach exemplified by DOD policymakers of the McNamara era seemed to equate limited objectives with limited means, leading to a policy of gradual military escalation rather than the application of maximum force to accomplish the mission expeditiously. History thus illustrates both the economic and the military risks inherent in the intrusion of DOD policymakers into the realm of operational strategy.

## IN SEARCH OF OBJECTIVITY

A key concern in evaluating the economic impact of the Vietnam war is in finding objectivity. Whether discussing the military, social, economic or political implications of US involvement, most appraisals are strongly biased. In the economics area, opinions vary from those who consider all military spending immoral, and Vietnam spending doubly so, to those who view defense expenditures as an appropriate and effective fiscal policy alternative to stimulate a lagging economy.

Although it is beyond the scope--and the purpose-- of this paper to debate the many complexities of the economics of defense spending, two prevalent misconceptions should be corrected if a clear picture of the economic impact of the Vietnam experience is to emerge. The first fallacy is the popular premise that defense spending is more inflationary than other federal spending, is bad per se because of the opportunity costs involved, and has created our balance-of-payments problems by causing higher prices and lower productivity.* The second misconception is the notion that, even after all these years, our present economic problems somehow stem from the surge in spending for the war in Southeast Asia in FY 1966 and FY 1967. Although there is often a long delay between cause and effect in national economic trends, other more immediate factors now dominate the inflationary picture.

In considering the first of these issues, a dispassionate examination will reveal that all varieties of deficit spending by the Federal government, whether for defense, or highway construction, or family planning for

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*Critics have emphasized this latter point less and less, as OPEC continues to push oil prices higher.

welfare recipients, may be equally inflationary. It is the effect of the spending on the overall money supply which can drive up prices, not the initial use to which the funds are assigned.[7]

Furthermore, all moralizing aside, a tank or a combat aircraft creates at least as many jobs in its fabrication, its maintenance, and its operation, as does a firetruck purchased by a municipality for its protection, or even a Cadillac Coupe-de-Ville purchased by a doting father for his college student son (or daughter). And in each of these examples, if the purchase is not covered by equivalent income the overall effect may be inflationary.

Opportunity costs, the value of foregone opportunities, are involved in every financial transaction, purchase or investment. The opportunity costs associated with military expenditures have been compared to those of the man who works in a very hazardous occupation and must carry heavy life insurance to protect his family. That protection is afforded at the expense of some luxuries, and even a few necessities, the family could have enjoyed. It has been pointed out that the insurance premiums, like ICBM's, bring no tangible return "unless the main clause of the policy is actuated."[8]

Air Chief Marshal Slessor has expressed the thought as follows:

> It is customary in democratic countries to deplore expenditure on armaments as conflicting with the requirements of the social services. There is a tendency to forget that the most important social service that a government can do for its people is to keep them alive and free."[9]

On the issues of balance-of-payments and productivity, recent statistics belie the charges that defense expenditures are responsible for our problems. US inflation has been most severe since 1968, while many DOD programs were being cut back. Furthermore, inflation has been highest in sectors of the economy where defense procurement is least (e.g., construction). The aircraft industry, which is 20 times more dependent on defense contracts than

US industry in general, shows productivity increases nearly double the average, and has the best balance-of-trade record in the US economy.[10]

The notion that our continuing economic problems can still be related to Vietnam war expenditures has been accepted almost as gospel truth. Even the Economic Report of the President of January 1979 states:

> The current inflation has been gathering momentum for over 10 years. The acceleration began in the late 1960's, when the economic stimulus of the Vietnam war added pressures to an economy already approaching high employment. With the economy operating at very high rates of resource utilization, the rate of inflation rose from less than 2 percent in 1965 to about 6 percent in 1969.[11]

In actual fact, it takes a considerable exercise of the imagination to relate the current economic situation to military expenditures of 10-12 years ago. While it is true that National Defense spending increased by $26.9 billion (50%) between 1964 and 1968, it is also true that Federal social and economic spending increased by $28.8 billion (65%) and state and local spending by $33.1 billion (48%) during the same period.[12] It is therefore difficult to assign the major responsibility for inflation to defense spending. It becomes even more difficult if we recall that inflation has been most acute since 1968, with defense spending falling and then leveling off, while other public spending continued to rise sharply.

A comparison of two cycles of wartime finance, extracted from a DOD publication and presented as Appendix A to this report, provides interesting insights into the relationships between DOD and other public spending during the Korean and the Vietnam conflicts. With trends as described in the above

discussion and illustrated in Appendix A, and continuing through 1978 as illustrated in Figure 1, it is difficult to attribute our present condition to the aftermath of Vietnam, or to understand the following statement on defense expenditures from The Defense Monitor of June 1979:

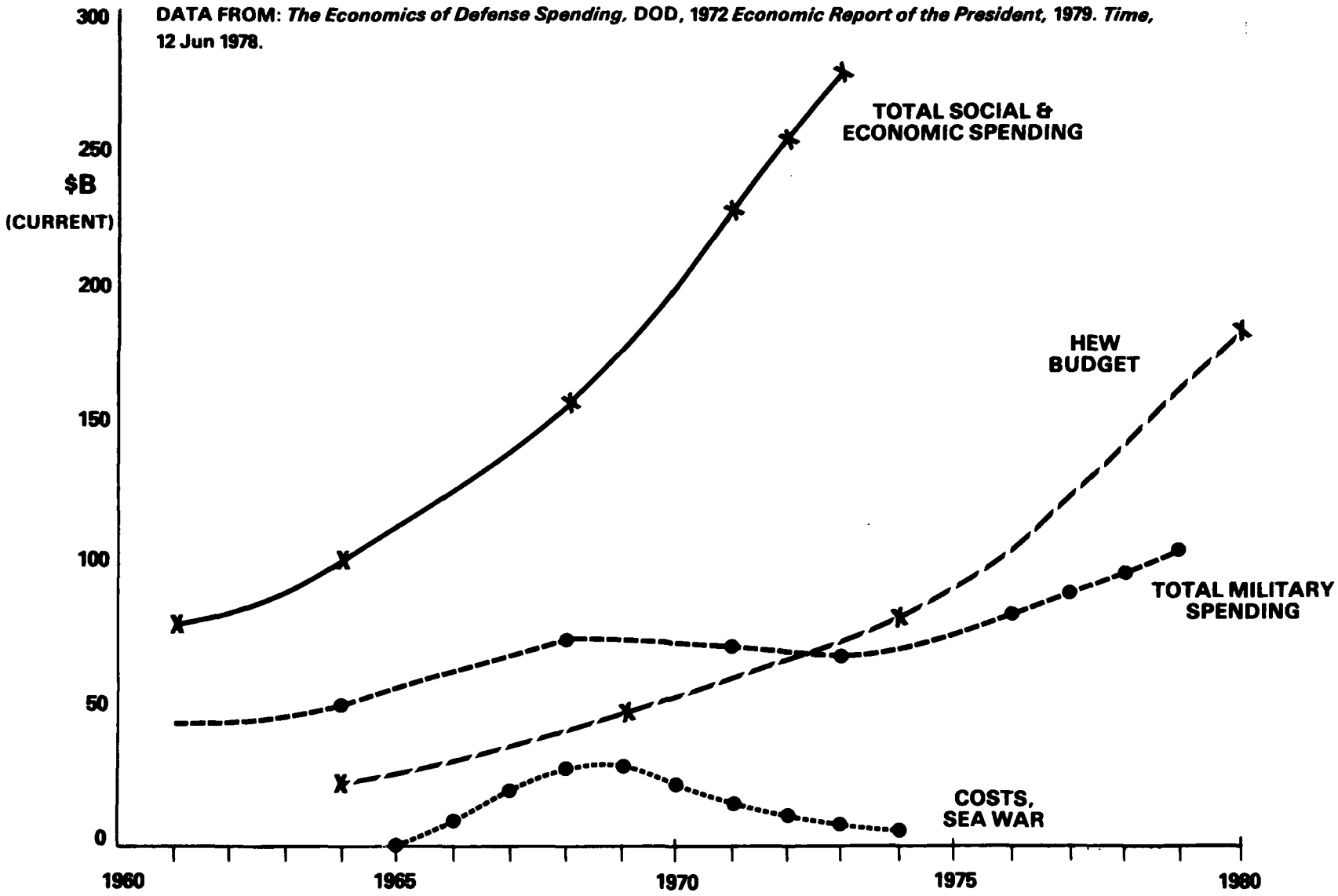
> . . .high military spending is the major cause of the huge federal deficit and a significant factor in fueling inflation.

## THE PRODUCTIVITY QUESTION

An inadequate rate of productivity growth has been identified as one of the basic causes of the chronic inflation of the 1970's. Although many other factors also contribute to the inflationary trend, productivity growth has only recently been fully recognized as one of the most influential. During the 1960's, output per man-hour worked, the conventional measure of productivity, increased an average of about 3 percent per year, a rate which had been relatively constant since World War II. In the 1970's, however, productivity growth averaged only about 1/2 of the previous rate, and for 1978 the increase throughout the private business sector has been reported as only 0.4 percent.[13]

The significance of productivity growth in controlling inflation is clear. Increases in productivity allow employers to increase wages without increasing prices, because wage increases are offset by output increases. With inadequate productivity growth, on the other hand, almost every dollar of wage increases will be reflected in price increases, leading to more inflation. The higher prices reduce consumer purchasing power, reduce economic growth and, finally, increase unemployment.

**FIGURE 1**
**COMPARISON OF COSTS OF SOUTHEAST ASIA WAR WITH OTHER GOVERNMENT SPENDING**



Contrary to popular conception, productivity is not strongly dependent on the amount of effort the individual worker puts into his job. More important are such factors as increased capital investment, the degree of skill of the labor force, inexpensive energy sources, and efficient management practices. Our current and continuing productivity slump has been attributed to a number of factors, including:

- a drop in the rate of capital investment,
- excessive government regulation,
- reduced emphasis on research and development,
- high energy costs, and
- less productive labor, resulting from the influx of unskilled workers into the labor force in compliance with equal opportunity and affirmative action programs.

Significantly, most economists do not attempt to relate this important source of inflationary pressure to Vietnam war spending. In fact, a close examination of statistics reveals a slightly higher productivity growth rate from 1960-1968 than in the periods immediately before or since. Figure 2 illustrates clearly how the rate of growth of compensation per man-hour has exceeded that of output per man-hour since the late 1960's, a trend which obviously must be brought under control if continuing high rates of inflation are to be avoided. While the trend is unmistakable, the extreme difference in slopes of the two curves in Figure 2 is somewhat exaggerated, due to the inherent difficulty in measuring productivity increases in the rapidly growing service sector of the economy.

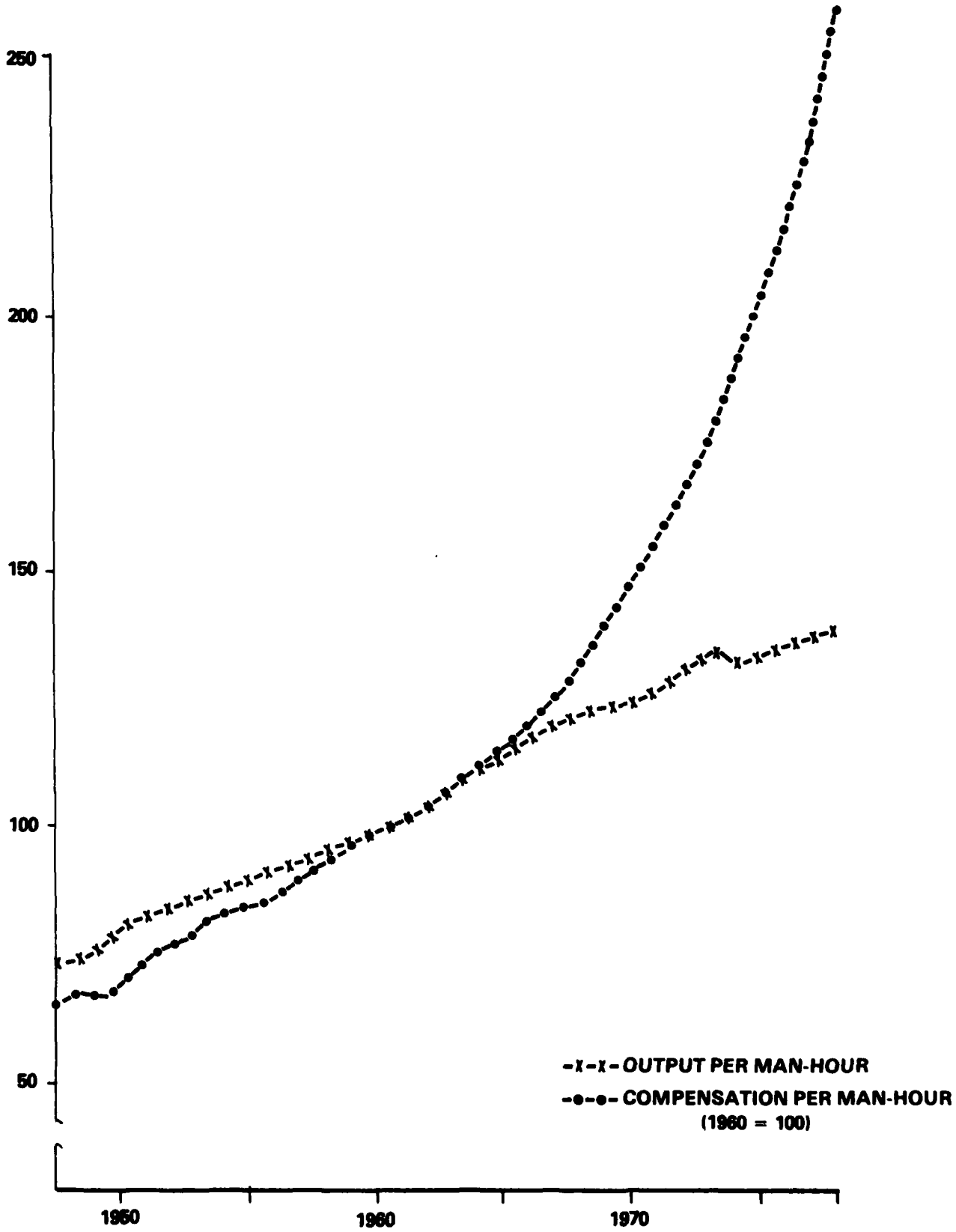



**FIGURE 2**
**US PRODUCTIVITY INDEXES**
**1947-1978**

DATA FROM: *Economic Report of the President,* Jan. 1979.

## CONCLUSIONS

The military buildup for the Vietnam conflict created a similar, if somewhat more intense period of inflation compared to that experienced during the Korean period of military expansion. In both cases, uncertainties as to the cost and duration of the conflict resulted in delays in instituting timely and appropriate fiscal policies to mitigate inflationary forces. In the Vietnam case, the situation was further aggravated by delays in submitting supplemental budget requests until more dependable estimates were available.

Review of events of the Vietnam era suggests strongly that the time-honored military maxim that forces committed piecemeal are likely to be defeated piecemeal is as applicable in the economic sphere as in the military. As the US graduated military response, and its associated incremental bombing policy, led to eventual military failure, so did the incremental supplementary budget requests serve to conceal the true costs of the war, and delay the imposition of fiscal or monetary policies which might have successfully controlled its impact on the economy of the United States.

History also reveals, however, that this delay in the application of economic adjustment measures is not unique to the Vietnam case. As we have seen, similar problems arose during and after the Korean war. The significant difference lies in the fact that in the Korean period corrective actions were largely successful in moderating economic problems after the war, whereas as the US Vietnam involvement wound down, later political and economic policy decisions created new problems in the postwar period which linger right to the present.[14]

It appears, therefore, that the greatest economic problems associated with the post-Vietnam period are not those directly related to the war itself, but have rather been generated by such factors as low productivity, uncontrolled wage and price escalation, a lack of balance in the imposition of governmental safety and environmental controls, faltering support for R & D, and high energy costs.

The principal economic lessons to be learned from the Vietnam war have been concisely summarized in the conclusions of a panel of outside experts in a report for The Center for Strategic Studies, Georgetown University. The report points out that, although it may represent only a small part of the total GNP under normal circumstances, military spending can have a substantial effect on year-to-year changes in the GNP during a major military buildup. Unless this effect can be evaluated in a timely manner, major national economic policies may be developed upon false premises. During the Vietnam buildup, economic information available did not fully reflect the defense costs being incurred. As a result, it was believed that both domestic programs and the Vietnam war could be fully funded without the necessity of direct economic restraints, nor a general tax increase. Credit restrictions which were imposed by the Federal Reserve Board in December 1965 were relatively late in the military buildup, and thus were not as effective as they might have been in mitigating inflationary pressure.

The Georgetown panel concluded that:

> The information base for major shifts in the private sector is stronger for economic planning and analysis purposes than the data available for military buildup situations. While the uncertainties of war are unavoidable, the flow of information can be, and should be, strengthened. This would permit the quicker identification of the need for corrective action in national policy--economic, fiscal, and monetary. Better availability of information would permit more rational decision making by the government and by the private sector of our economy.[15]

## ENDNOTES

1. "Economic Effect of Vietnam Spending," Report of the Joint Economic Committee-Congress of the United States, Report No. 394, July 7, 1967.

2. Murray L. Weidenbaum, Impact of Vietnam War on American Economy, Center for Strategic Studies, Georgetown University, Washington, DC, April 1967.

3. Expansion of US armed forces during Vietnam: about 500,000. Expansion of US armed forces between 1950-52: more than 2 million. US defense budget doubled during first year of Korean war. US defense budget increased by about 16 percent in FY 1967. (See Economic Effect of Vietnam Spending, Hearings before the Joint Economic Committee, US Congress, April 1967, page 202.

4. There are some economists of the opinion that the 1964 tax cut may have been considerably overrated; that a $10 B. cut was too small to move the entire economy from dead center (with a GNP of $870 B.) in the absence of other factors.
(personal communication, Robert G. Wertheimer, Professor of Economics emeritus, Babson College, Wellesley, MA)

5. For analysis of indirect effects and more complicated examples, see M. L. Weidenbaum, "The Timing of the Economic Impact of Government Spending," National Tax Journal, March 1959, pages 79-85.

6. Gregory Palmer, The McNamara Strategy and the Vietnam war: Program Budgeting in the Pentagon, 1960-1968. See Book Review by COL William O. Staudenmaier, USAWC, in Parameters, VOL IX, No 3, 1979, pages 99, 100.

7. Deficit spending is not per se inflationary, nor are some types of spending more inflationary than others; furthermore, although there is a historical correlation between rising money supply (M-1) and inflation adjusted for changes in output and productivity, there is not enough known about cause and effect -- i.e., does inflation lead to M-1 expansion, or does monetary expansion lead to inflation?

8. Murray Green, A Response to Professor Melman and Overkill, Research and Analysis Division, Office, Administrative Assistant to the Secretary of the Air Force, 1964, page 47.

9. Sir John Slessor, Strategy for the West (New York: Morrow & Co., 1954), page 75.

10. The Economics of Defense Spending, Dept of Defense, (Comptroller), Washington, DC: US Government Printing Office, 1972, Page 73-c.

11. Economic Report of the President, Washington, DC: US Government Printing Office, 1979, page 54.

12. Not to mention consumer spending and borrowing (mortgages, installment credit) and business expansion (new plant and equipment, inventory expansion.)

13. For the first quarter of 1979, the productivity rate decreased at an annual rate of 4.5 percent.

14. While its resolution is beyond the scope of this paper, the question which plagues economic theorists and practitioners alike still remains: Can monetary and fiscal measures ever successfully and reliably control inflation? The disturbing fact is that during the past seven years without war, we have had the same economic tools available with supposedly more sophisticated judgment , and inflation has continually worsened. The implication is that these tools either cannot be applied in war or peace, or that they just don't work!

15. The Center for Strategic Studies, Economic Impact of the Vietnam War, Special Report Series No. 5, Washington, DC: Georgetown University, June 1967, pages vii-x.

## APPENDIX A

FROM: The Economics of Defense Spending--A Look at the Realities, Department of Defense (Comptroller), July 1972, pp. 19-22.

### TWO CYCLES OF WAR FINANCE

As we have noted, there have been some dramatic shifts within the Defense budget that appear to be little understood, leading quite easily to a misinterpretation of the composition and trend of Defense programs. There have also been some radical changes in the relationship of Defense to other sectors of public spending and manpower, and to the labor force and the economy as a whole. These changes come into focus in comparing developments over two cycles of war finance: FY 1950-56 for the Korean War and FY 1964-72 for the war in Southeast Asia -- recognizing that war spending was completely out of the picture in FY 1956 while continuing to be a factor in FY 1972. First, let us consider what happened during the two buildup periods.

| | Changes | |
|---|---|---|
| | FY 1950-53 | FY 1964-68 |
| Defense manpower (including industry) | +5,481 | +2,007 |
| Other public employment | + 191 | +2,135 |
| All other changes | -2,933 | +2,665 |
| Total labor force (000) | +2,739 | +6,807 |
| NIA Defense purchases | $+ 40.1 | $+ 15.2 |
| Other government purchases | + 3.3 | + 18.4 |
| Other GNP increase | + 29.1 | + 89.9 |
| Total GNP (CY 58 $ bill) | + 72.5 | + 123.5 |
| National Defense outlays | $+ 37.3 | $+ 26.9 |
| Federal social and economic outlays | + 2.6 | + 28.8 |
| Other Federal outlays | - 5.9 | + 6.2 |
| State and local spending | + 5.9 | + 33.1 |
| Offsets | - .8 | - 9.7 |
| Net public spending (current $ bill) | + 39.1 | + 85.3 |
| Federal debt (current $ bill): | | |
| Total gross | $+ 9.1 | $+ 53.0 |
| Held by public | - .6 | + 33.0 |
| Interest on total gross debt | + .7 | + 3.9 |
| Wholesale price index (% increase) | + 12.1% | + 6.8% |
| Consumer price index (% increase) | + 12.7% | + 10.2% |

It is abundantly clear that Defense spending dominated the economy and public spending during the 1950-53 period; it is equally clear that this was not the case in the 1964-68 period. Defense took double the entire labor force increase, 1950-53, versus 30% in 1964-68 -- a difference in impact of about 7-to-1. Similarly, Defense took 55% of real GNP growth, 1950-53, versus about 12% from 1964 to 1968 -- a difference in impact of about 5-to-1. Defense accounted for about 93% of the public employment increase and 95% of the public spending increase from 1950 to 1953. The figures for FY 1964-68 are, respectively, 34% and 30%.

By the same token, it is clear that other areas of public spending and manpower had a minor impact in the 1950-53 period. In 1964-68, however, their impact was significantly greater than that of Defense.

Next, let us turn to the postwar phasedown periods, using FY 1972 as the terminal year since we are lacking certain data beyond that date.

| | Changes | |
|---|---|---|
| | FY 1953-56 | FY 1968-72 |
| Defense manpower (including industry) | -2,204 | -2,633 |
| Other public employment | + 777 | +1,599 |
| All other changes | +4,354 | +7,444 |
| Total labor force (000) | +2,927 | +6,410 |
| NIA Defense purchases | $- 14.5 | $- 16.2 |
| Other government purchases | + 3.4 | + 15.0 |
| Other GNP increases | + 48.6 | + 68.1 |
| Total GNP (CY 1958 $ billions) | + 37.5 | + 66.9 |
| National Defense outlays | $- 10.1 | $- 2.5 |
| Federal social and economic outlays | + 3.3 | + 55.2 |
| Other Federal outlays | - .1 | + 8.3 |
| State and local spending | + 8.2 | + 61.5 |
| Offsets | - .4 | - 24.2 |
| Net public spending (current $ billions) | + .9 | + 98.3 |
| Federal debt (current $ billions) | | |
| Total gross | $+ 6.8 | $+ 86.0 |
| Held by public | + 3.8 | + 53.2 |
| Interest on total gross debt | - .1 | + 6.3 |
| Wholesale price index (% increase) | + 1.6% | + 13.8% |
| Consumer price index (% increase) | + .8% | + 21.3% |

There are obviously immense differences between these two periods, and they do not derive from difference in Defense budget trends. In real terms (manpower or constant price purchases), the Defense cutbacks are somewhat greater from 1968 to 1972 than from 1953 to 1956. But the 1953-56 Defense cuts were enough to match increases in other sectors of public spending, so that net public spending grew hardly at all from 1953 to 1956. The somewhat greater 1968-72 Defense cutback, on the other hand, was overwhelmed by a $100 billion increase in other areas of public spending. (The much greater pay increases and purchase inflation of the 1968-72 period kept Defense spending from falling as much as it did in 1953-56, in current prices, but even this tends to be overshadowed by the other developments noted.)

It is especially important to note that the trend of general tax and economic policies was reversed during these periods. Controls were removed, and taxes eased, in the 1953-56 period. A surcharge was in effect for a time in the 1968-72 period, as were tighter monetary policies, and controls were

imposed last summer -- all these developments coming well after Defense spending had peaked. Defense accounted for a much smaller share of the labor force, and of GNP, in 1968-72 than in 1953-56.

Taken together, the facts make it difficult to ascribe the recent deficits and inflationary pressures to Defense spending.

Additional perspective is provided if we consider the two war cycles as a whole.

| | Changes | |
|---|---|---|
| | FY 1950-56 | FY 1964-72 |
| Defense manpower (including industry) | +3,277 | - 626 |
| Other public employment | + 968 | + 3,734 |
| All other changes | +1,421 | +10,109 |
| Total labor force (000) | +5,666 | +13,217 |
| NIA Defense purchases | $+ 25.5 | $- 1.0 |
| Other government purchases | + 6.8 | + 33.4 |
| Other GNP increases | + 77.7 | + 158.0 |
| Total GNP (CY 1958 $ billions) | + 110.0 | + 190.4 |
| National Defense outlays | $+ 27.2 | $+ 24.4 |
| Federal social and economic outlays | + 5.9 | + 84.0 |
| Other Federal outlays | - 6.0 | + 14.5 |
| State and local spending | + 14.1 | + 94.6 |
| Offsets | - 1.2 | - 33.9 |
| Net public spending (current $ billions) | + 40.0 | + 183.6 |
| Federal debt (current $ billions) | | |
| Total gross | $+ 15.9 | $+ 139.0 |
| Held by public | + 3.2 | + 86.2 |
| Interest on total gross debt | + .7 | + 10.3 |
| Wholesale price index (% increase) | + 13.9% | + 21.6% |
| Consumer price index (% increase) | + 13.5% | + 33.7% |

If one can ascribe inflation in the 1950's to Defense, he can just as clearly ascribe the 1964-72 trends to non-Defense spending. Defense added 3.3 million men in the former period, including industry, and non-Defense public employment grew by 3.7 million in the latter. Other public employment grew by a million from 1950-56; Defense actually dropped from 1964-72. In this way, one can note the criss-cross pattern between the two columns. The dominant figures were on the Defense lines in the 1950-56 period, while they appear on the domestic spending and manpower lines in FY 1964-72. Conversely, the domestic figures were relatively insignificant in the 1950-56 period; the Defense figures are even more so in 1964-72. For example, Defense purchases (in CY 1958 prices) grew by $25.5 billion from FY 1950-56; other government purchases grew by $33.4 billion from FY 1964-72. In the 1950-56 period, other government purchases grew by $6.8 billion. From 1964-72, Defense purchases have dropped by $1 billion. Defense spending grew by $27.2 billion in 1950-56 -- other public spending grew by $160 billion, 1964-72.

Finally, it should be noted that the Federal debt grows by $139 billion (the public-held portion by $86 billion) from 1964 to 1972, when the budget was clearly dominated by non-Defense spending; this is roughly 9 times as much growth (or 28 times as much growth in the case of the public-held portion) as took place in the 1950's, when Defense dominated the spending picture. Debt interest cost rose nearly 15 times as much in the latter period as in 1950-56.

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This paper reviews the key events and government policies during the Korean and Vietnam conflicts, to compare government initiatives to control the adverse economic effects of rapid military buildup and subsequent cut-back in military spending in both cases. Lessons to be learned from successes and failures of these two experiences are discussed, and claims that Vietnam military spending has been the root cause of the continuing inflationary spiral in the United States are evaluated.

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