June 1967. In effect, the Department of Defense had assumed an artificial cutoff in its underlying assumption. In August the Secretary indicated to the Appropriations Committee that funds were probably insufficient but that they were not in a position to make any estimates at the time on supplemental needs. While it must have been fairly obvious that costs of the Vietnam war were outrunning funds, Congress was not able to obtain an estimate of the additional amount required until late November 1966 when it was indicated that expenditures would be some $10 billion higher than originally estimated.

Now we are assured that the budget requests submitted for the fiscal year 1968 are based on more realistic assumptions. They do not have an artificial cutoff date. Even so, there are now rumors abroad—I should say charges—by very well-informed Members of Congress, that there will be a very sharp increase in our troop commitment in Vietnam with attendant increases in expenditures, so that this committee and other committees of Congress face the same old problem of trying to assess our economic performance and prospects in the face of highly uncertain figures on expected military expenditures.

Quite appropriately our hearings will start with the Department of Defense. Assistant Secretary Anthony is a most competent public official and I know that he has an impressive mastery over the facts and figures. We are pleased to hear from him now.

Mr. Anthony.

STATEMENT OF HON. ROBERT N. ANTHONY, ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

Mr. Anthony. Mr. Chairman and members of the Joint Economic Committee, I have a statement that with your permission, I would like to read.

Chairman Proxmire. Yes, it is a good statement, I wish you would.

Mr. Anthony. I am grateful for the opportunity to appear before this committee to discuss a topic of vital importance to the management of our economy. While always a subject of concern to policymakers, the economic impact of defense expenditures assumes a special importance during and immediately after our involvement in hostilities.

At first glance, defense expenditures may not seem to constitute a major factor in our economy. Expenditures of the Department of Defense, including the military assistance program, will amount to only 8.9 percent of gross national product in fiscal year 1967, which incidentally is exactly the same percentage as that in 1962. However, these expenditures have an importance beyond their absolute magnitude, for two reasons. One is the fact that defense expenditures have not only a direct effect, but also an indirect impact through the workings of the multiplier phenomenon. The other reason is that defense expenditures can be volatile, particularly when a sudden change in the level of defense activity is necessitated by changes in the world situation. At such a time, the Defense Establishment is required to make a rapid adjustment in its plans in order to meet the requirements of a new contingency. Such an adjustment has effects on employment, investment, and inventories in the economy at large. Moreover, this impact is uneven; there is a major effect on certain industries and