

be spent in the year for which the forecast is being made. In making each forecast, we do not simply read a figure off a graph of historical spending patterns. Rather, we make a judgment for each appropriation based on the recent trend of existing programs, the trend of the patterns from year to year, the changing composition of the program content and the urgency of the requirements. Summed together, the projections for the 76 individual appropriations provide an estimate of expenditures for the Department of Defense. Each year, the expenditure patterns for the individual appropriations are replotted to take account of the past year's experience. These forecasts are checked against similar forecasts prepared by the military departments and Defense agencies.

In recent years, the forecasts have proved to be quite accurate. In fiscal year 1966, for example, the forecast contained in the President's budget, including the increment projected for the supplemental appropriation, was \$54.2 billion, actual expenditures were \$55.4 billion. However, the model is no better than the inputs, that is the figures for new obligational authority, the unobligated balances from previous years, and the spending patterns. If, in any given year, the Congress should alter the scope or composition of requested funds, or should a contingency develop that requires a significant supplemental appropriation of funds, actual expenditures obviously would be thrown off from the original projections.

The Department normally makes three official expenditure forecasts for each fiscal year. Taking fiscal year 1968 as an example, the first estimate is the one contained in the President's 1968 budget submitted in January 1967; the second estimate will be made in the budget review document, which will be published in the fall of 1967 after the Congress completes its appropriation action; and the third estimate will be given in the President's fiscal year 1969 budget, submitted in January 1968, based on actual experience for the first 5 months of the fiscal year. In addition, the Department cooperates closely with other executive agencies by informally providing them with up-to-date estimates. Especially close contact is maintained with the Bureau of the Budget and with the Council of Economic Advisers.

An event such as the Korean war or the current Vietnam conflict creates problems in defense financial planning as well as bringing stresses to the economy at large. Disruptions occur in the patterns of defense obligations, expenditures, production activity, and inventories. Government and industry people alike know that defense spending will increase, but no one knows how large the increase will be, or how it will affect specific sections of the economy.

Many ways of coping with this problem have been used, with varying degrees of success. Some business firms adjust their inventories and hire new employees in anticipation of increased work. Other firms make no adjustments until they actually receive new contracts. Government financial planners similarly can adjust in either of two basic ways. They can make a guess as to the extent and rapidity of a build-up and immediately request the corresponding obligational authority as a lump sum amount. Alternatively, they can wait, internally adjusting available obligational authority to meet new requirements, and base a supplemental request on later, more complete information.