

constitute only approximately 2.5 percent of the GNP. By comparison, an indication of the Korean war's impact on the economy is the fact that the Department of Defense expenditures increased from 6.7 percent of GNP in fiscal year 1951 to 12.2 percent in fiscal year 1952. An additional important reason why the post-Vietnam adjustment will not be so relatively large is that by keeping a tight rein on aircraft and ammunition procurement, to cite two major examples, we have handled our finances in such a way as to moderate the impact of the military buildup on the economy. All this effort is for naught, though, unless careful attention is given to the task of conversion to peacetime uses for resources. Thus, the most important assurance we have that a smooth transition can be accomplished is that the thorough planning effort needed is already underway.

I can give a preliminary idea of what the magnitude of the planning problem is. We have made a rough estimate that the incremental cost to support our role in Vietnam will be \$21.8 billion in fiscal year 1968. By incremental costs, I mean the costs over and above the normal costs of the defense establishment. These so-called "normal" costs are assumed to be the annual costs as they existed at the end of fiscal year 1965, adjusted for price changes and changes in activity not related to Southeast Asia. The increase of \$1 billion in our strategic forces program from \$7.1 billion in fiscal year 1965 to \$8.1 billion in fiscal year 1968 is a good example of the latter type of adjustment. Of this \$21.8 billion, we estimate that operating costs will be \$11.4 billion, split \$5.1 billion for military personnel and \$6.3 billion for other operating costs. Ammunition consumption we estimate at \$4.8 billion, aircraft and helicopter attrition at \$1.7 billion, equipment and spares consumption at \$3.1 billion, and construction at \$800 million.

I am sure you understand that it would be completely fallacious to subtract this \$21.8 billion from the \$73.1 billion expenditures for 1968, and conclude that the posthostilities budget of the Department of Defense will be \$51.3 billion. Obviously, future Department of Defense expenditures will be a function of developments in requirements for our non-Vietnam programs. It is impossible to predict now how these requirements will change. Furthermore, the posthostilities budget will be affected by wage and price changes. Wage increases have added a billion dollars a year to personnel costs in recent years. Payments to retired personnel increase approximately \$200 million annually, quite independently of current activities of the Department. Prices of purchased goods and services have risen an average of almost 4 percent annually since fiscal year 1965. For these reasons, the task of making posthostilities estimates is much more complicated than a matter of subtracting one figure from another.

There are problems and challenges involved in trying to determine economic policy while we are engaged in or disentangling from a major military conflict. During such periods, the timing and scope of policy adjustments assume critical importance, while projections upon which the policy recommendations must be based are unusually difficult to make. The financial planners at the Department of Defense face similar problems, and our estimates reflect similar uncertainties. Our objective is nevertheless clear. It is to manage the financing of the Vietnam conflict in such a way that, while providing full support to our forces, we minimize the financial risks to the Government and the taxpayer.