

Chairman PROXMIRE. It does not seem to be a lengthy statement. You may proceed.

Mr. SCHULTZE. Your committee is considering both the economic impact of our military expenditures in Vietnam and the economic policies which will be appropriate when peace in Vietnam is achieved. I would like to address myself particularly to the second part of your inquiry—the economics of adjustment to a reduced level of defense expenditures.

As you are well aware, the President has established a task force under the chairmanship of Gardner Ackley, Chairman of the Council of Economic Advisers, to develop economic plans for the post-Vietnam period. That task force has begun its work but has not yet completed any significant part of it. I am, therefore, in no position to discuss this matter in terms of specific conclusions or recommendations. I would be pleased, however, to consider with you today the general aspects of the problem and the types of policies that have to be considered.

No one can predict when peace in Vietnam will come. Despite a long and honorable series of efforts to find peace, the war continues. But peace will come. And its coming will bring both opportunity and challenge. An opportunity to use the resources now devoted to military operations for peacetime purposes—in raising living standards and meeting important national needs. A challenge to adopt policies which will swiftly and smoothly transfer to those other uses the resources freed by the reduction in military demands.

A reduction in defense spending releases resources of manpower, materials, and capital. Other spending must take its place if those resources are not to remain idle, thereby triggering even further reductions in spending, employment, and income. There is, of course, wide room for argument among reasonable men as to precisely what form the additional spending should take—whether for private consumption or investment or for Federal, State, or local programs. But there should be no doubt in anyone's mind that appropriate fiscal and monetary policies can insure an adequate level of overall demand and accomplish the transfer of resources to whatever end uses we as a nation desire.

Let us turn for a moment to the magnitude of the problem.

Although the number of men and the amount of material devoted to the Vietnam operation is large, the military effort there has quite obviously caused far less economic disruption to the American economy than World War II, and substantially less than the Korean war. Defense purchases of goods and services have risen by some \$20 billion (at seasonally adjusted annual rates) since mid-1965, when the buildup in Vietnam started. While this figure seems large, it represents less than 3 percent of our gross national product. Defense outlays constituted 9 percent of GNP in fiscal 1962 and 1963. They fell to 9.3 percent of GNP in mid-1965. The additional spending for Vietnam has simply restored this percentage to its 1962-63 level.

In contrast to the present situation, defense purchases during the Korean period rose from 4½ percent of GNP in mid-1950 to 12½ percent in the first quarter of 1952. In that period the increase in defense purchases absorbed nearly one-half of the increase in GNP. In the present case, the rise in defense purchases has taken only one-fifth of the increase in national output. During the first year and a half