

of the Korean buildup we added 2 million men to the Armed Forces, almost exactly equal to the total increase in the labor force over the same period. In the comparable Vietnam period, the size of the Armed Forces increase was only one-third as large as during Korea, while the rise in the labor force was 50 percent larger. The point is that the economic impact of the present conflict has not caused anywhere near the economic reorientation and disruption that the Korean conflict did—and Korea followed quickly on the World War II period of shortages in nondefense investment and consumer goods, while Vietnam follows a period of great prosperity and productivity.

I do not use these percentages to imply that our Vietnam operations are not costly—simply that they take only a small percentage of our total output. The figures do give us an overall measure of the economic impact of the war and suggest the magnitude of the opportunities available and the adjustment to be faced when the war ends. Our experience between 1961 and 1965 and in other, earlier, periods clearly demonstrates that the American economy does not need the stimulus of a war to reach and maintain economic growth and prosperity. Shared widely among our people the bounty of abundance should be a pleasure and not a problem.

The economic adjustment to reduced defense expenditures poses three sets of questions:

First, to what end uses do we wish to put the resources freed by lower military demands—this we might call the end-use problem.

Second, how can we assure that aggregate demand in the nonmilitary sectors of the economy rises in step with the reduction in military demands, so that from the viewpoint of the total economy there is no transition pause or recession—this we might call the overall transition problem.

Third, what policies do we adopt to ease the transition problem for those individual areas and regions which are heavily dependent for their employment and income on defense installations or defense contracts—this we might call the regional and area transition problem.

As I stated earlier, these are the questions which Chairman Ackley's task force is studying in detail. At this point I can only outline the general nature of the problems in each of these three areas.

Turning first to the end use to which we put the resources, freed from military use, coming to maturity in the next 5 years are 10 million children born between 1947 and 1952. This compares with 15 million reaching maturity in the past 5 years, 12 million in the 1957-62 period, and 10 million between 1952 and 1957.

These young people bring with them a potential expansion in demand for housing, automobiles, electrical appliances, furniture, and other household durables—for all the items which are involved in family formation. In turn, this prospective increase in consumer demand will in turn require an expansion of our industrial capacity. In addition, fundamental State and local services—water, sewage, police and fire protection, schools, and so on—must expand even to maintain existing levels of public services.

There are other major current needs in the public sector. We face an almost desperate need to increase the quality of our air and water. We feel obligated—even compelled—to improve the quality of educa-