In summary, we are confronted with two sets of objectives: to direct the resources freed by a reduction in defense outlays toward the end uses we as a Nation desire, and to make the transition smoothly and quickly. The fact that some policy instruments are more uncertain in their effects and take longer to have an impact by no means implies that we need forgo their use. We should not, as a general rule, choose low priority Government programs over high priority ones, simply because the latter may be slower acting. We need not abandon tax cuts directed at increasing investment, because their magnitude or the timing of their impact is somewhat uncertain. Rather, we should aim for the use of freed resources in ways which yield the highest benefits from the Nation's standpoint. But we must, in developing and adopting a combination of policy instruments, take into account the timelags and uncertainties of various policies and make our plans accordingly.

There is one final point which is worth bearing in mind. We are dealing with a shift of resources amounting to perhaps $15 or $20 billion, with the shift most probably spread out over more than a year. But each year—year in and year out—the productive capacity of the American economy, measured in constant dollars, grows by some $30 to $35 billion. Each year, therefore, quite apart from any reduction in defense outlays, fiscal and monetary policy must aim at providing a $30 to $38 billion increase in demand to absorb this capacity, lest unemployment and excess capacity begin to mount. Over the past 6 years this task has been accomplished—not perfectly, of course, but all things considered, accomplished well.

Based on past experience, therefore, the economic transition to lower defense expenditures poses a problem well within our capacity to handle successfully.

Let us turn now to regional and area transition problems. There are some areas and labor markets which are currently much more heavily dependent than average for their employment and income upon defense procurement or defense installations. Even with overall fiscal and monetary policies which keep overall demand and production moving ahead steadily, there will be individual communities and areas facing particularly difficult transition problems.

An examination of recent data on the dispersion of Defense-generated employment may help to give some idea of the nature of the transition adjustment facing particular areas.

The Economic Impact Division of the Department of Defense has conducted surveys of employment generated by major defense contracts. In June 1966 this survey covered 2.4 million employees, representing about 3 percent of the total labor force. It included civilian employees at Defense installations. (Data for December 1966 are now being collected and tabulated but are not yet available.) Using this data, the Economic Impact Division analyzed the characteristics of the 292 labor market areas which had more than 500 defense-related workers, or in which the ratio of defense employment to the area labor force exceeded 5 percent.

Two of the more important aspects of the survey are shown in tables 1 and 2 below.