

partment of Defense have been relocated within commuting distance of their homes. Of course, other agencies of the Federal Government have a whole array of programs for retraining, placing and providing financial assistance for displaced workers. Distressed communities can also receive help. In general, Mr. Garner Ackley's 1965 Committee on the Economic Impact of Defense and Disarmament gives all these Federal agencies good marks for their work.

At the beginning I suggested that I would also consider the problems of individual firms and industries. If there were substantial defense cutbacks, what could be done to alleviate the financial problems of particular firms and industries which supply the bulk of our defense products? There has been much testimony on this subject and the best of it has been very pessimistic. For example, in 1963 testimony before the Subcommittee on Employment and Manpower, Murray Weidenbaum showed that 80 percent or more of the sales of some of our largest defense contractors go to the Defense Department. He was also skeptical about the ability of these specialized corporations to compete effectively in private commercial markets. In most cases they are research and development oriented and do not have the ability to produce large numbers of items at a low unit price or to market them effectively. I suspect, however, that public discussion about the vulnerability of individual firms to defense cutbacks has caused many managements to diversify by developing new civilian products or, and this may be more important, by acquiring or merging with firms that already have commercial marketing and production capability. For example, the Raytheon Manufacturing Co. was almost 100 percent dependent on military business in 1960. Now about one-third of its sales are to the private commercial market. Much of their marketing capability has been obtained by buying out smaller firms. The Laboratory for Electronics has had a similar record. Another possible example is the aerospace industry. There the Government's share of the net new orders of prime contractors declined from 88 percent of the total in 1963 to less than 60 percent in the early part of 1966. However, I do not wish to pose as an expert in this specified field, and it is possible that if a thorough study were made on this topic, it would show that there has been little trend toward diversification in the defense-related industries.

In closing I want to make one or two additional cautionary statements. First, all of my optimistic comments about the ability of the economy to adjust to a 20-percent cutback in defense spending assumed that monetary and fiscal policies would stabilize the national economy. Our studies in the New England area indicate that the adjustments are relatively easy if we are working in an economy which has overall full employment. The adjustment problems would likely be extremely difficult if the country should move into a recession.

My second note of caution is this: I do not wish to leave the impression that I believe that a shift of \$10 billion or \$20 billion in Government spending would create no hardships. It obviously would, and some communities, particularly small, undiversified ones, would be seriously hurt. In these cases, the Federal and State governments should move in with all of their available resources to cushion the impact on the affected individuals. However, my principal point this morning has been that the total impact would probably be consider-