

the second adjustment will not occur either. The experience with depressed areas is sufficient evidence that this kind of immobility can be a problem. In recent years a very buoyant economy has eliminated the severe unemployment in many such areas, but this has not occurred without substantial inflation elsewhere in the economy, suggesting that this is necessary to break down the barriers of immobility.

If unemployment and inflation are things to worry about, then, the regional dimension of demand does matter. But asking the question, "Why?" does serve a useful purpose. It reminds us that the problem is not one of regions per se, but of the people in them. If their problems can be solved by encouraging movement elsewhere, this is more appropriate than giving artificial favors which allow inefficient production to continue forever in the region. In the long run, it may be quite proper that some regions and areas decline and die in the economic sense, as long as people do not remain in continued distress.

How this discussion applies to the subject of these hearings should be evident. The rapid Vietnam buildup and the required cutback in other things—such as highways, automobiles, and housing—constitute changes in the composition of aggregate demand, with regional effects. If the war ended and the appropriate fiscal and monetary policies were taken to stimulate new demands to replace defense demand, this would constitute another change in composition of demand by product and might result in a different regional distribution.

In the 1950's, when defense expenditures rose rapidly again after the post-Korean cutback, the composition of demand changed markedly. The new missiles and electronics items differed markedly from the conventional ordnance and equipment which had been needed in the Second World War and the Korean war, and they also differed from the civilian goods and services which would have been produced instead, if taxation had not cut the demand for them to make room for defense production. The shift was away from ordnance, ammunition, vehicles, and the routine supplies to support large forces in combat. The shift in regional distribution which resulted is well known and has been extensively documented. Defense demand shifted away from Middle West and Middle Atlantic manufacturing areas, which were suited for production of conventional equipment, and toward the southern and western areas of the country, which proved more suitable for manufacturing and testing the sophisticated new weapons. The Pacific coast and several Mountain States had their growth greatly affected as a result. The older manufacturing areas reconverted to civilian goods, following their natural comparative advantage. For some time after the temporary recession in 1953-54, nondefense demand was strong. In the late 1950's its growth slowed, excess capacity and unemployment began to persist, and the areas which had lost defense demand envied the success of the newer areas which were growing rapidly.

The more recent increases for Vietnam have also changed the geographical distribution of defense demand, partially reversing the trends of the later fifties and early sixties. The war is the more conventional type, and the needs for ordnance, vehicles, and combat supplies have grown much more rapidly than for missiles, ships, and electronics. Inspection of Defense Department data on commodity classification of prime contracts in fiscal years 1965 and 1966 shows very large increases in 1966 in the relative importance of vehicles, weapons, ammunition,