which there were the largest increases in military personnel assigned, and thus the States where they spend at last some of their pay, were Texas, California, Georgia, Illinois, Hawaii, New Jersey, Missouri, Virginia, and South Carolina. In civilian and military payrolls, then, the Midwest has not participated nearly as much as it has in procurement. Their regional distribution has followed the traditional lines of concentration in the south and west.

What would happen if Vietnam requirements suddenly fell must remain partly conjecture, but some general observations can be made. First, it is clear that the adjustment problems of any area suffering a reduction in defense demand are eased if there is adequate demand in the economy generally. Monetary and fiscal policies must be strong enough and prompt enough to insure an overall balance. Other witnesses will speak to this, and, I trust, discuss the difficult problems of timing and the necessity to look at defense obligations and not only cash expenditures by the Treasury. Expenditures may be rising even as real demand is falling. Second, the heavy increase in demand in the Midwest may pose relatively few problems for adjustment in case the buildup is reversed. This region has a highly diversified base for the manufacture of consumer durables, capital goods, and the materials they require. Strong demand for the products of the Midwest would probably result from almost any combination of Federal policies to offset the decline in defense demand—decreased taxes, increased transfer payments, more grants to State governments, or lower interest rates to stimulate investment.

Certain other characteristics of the buildup, however, suggest some difficulties. Weapons, ammunition, and textile and clothing contracts are perhaps now stimulating production in areas which could not maintain the employment if the composition of demand changed. Weapons and ammunition are needed in only small quantities in the civilian economy, and the domestic textile industry has long had a rugged time of it with foreign competition. Some Southern and Plains States, and perhaps Vermont, have been affected by increases in these contracts and might face somewhat more difficult adjustment problems.

But in general, if the right aggregate demand policies were followed, the regional adjustment problems in a post-Vietnam situation would probably be less than they would have been following a general disarmament several years ago. Then, when disarmament was something we could hope for, concern was expressed about areas like California and the Mountain States whose economies were so dependent on defense production of a very specialized kind, with few civilian counterparts. Many of the workers indirectly dependent on defense demand there are not the highly educated, mobile scientists and engineers we hear about. If disarmament were to come now, this would still be of concern. But as far as the specific increment in spending for Vietnam, the problems would probably be less severe if the increment were suddenly eliminated and civilian demand substituted. By "civilian demand" I mean nondefense demand, public and private. This is because of the heavy expenditures on items similar to civilian goods, or which are produced in regions which also produce civilian goods. Even the specific localities which have suddenly expanded in very specialized military production might be helped by being close to areas which could make the changeover more easily. This is not to say there will not be some areas where unemployment will be a problem. Policies