

your judgment, with the presently available labor supply and plant facilities?

Mr. EISENMINGER. This buildup would create structural problems and maybe "structural inflation" because it would increase demand in the Middle West, our industrial heartland, the more sophisticated manufacturing centers in New Jersey, New York, and New England, and probably the Far West. These are the areas that are already growing very rapidly and that have relatively high wage rates in order to pull in people from other areas.

So I think it is quite clear that, more than just an increase in aggregate demand in general, this escalation would create pockets of excess demand where some inflationary problems and wage rate pressures would appear.

It is for this reason that I may not be quite as concerned as Mr. Bolton about a possible decline in Vietnam spending, because I think the result would be a more reasonable distribution of Government spending across the country. You wouldn't have defense spending causing such differences in regional growth as you now have at the present time.

Chairman PROXMIRE. Would you care to pinpoint this, Mr. Bolton? You indicated the Middle West has had a particular increase because of the Vietnam war situation, in the demand for more conventional supplies and equipment, and less emphasis on the missiles, and so forth, which are produced on the coast.

Mr. BOLTON. I think it is certainly true if the buildup took the form of another 50,000 in combat troops that the same kind of regional distribution would occur as we have had in the previous buildup. You have two main types, the purchase of a lot of ordinary weapons, ammunition, and combat supplies in the Midwest, and you would also have extensive expenditures in the South and West for operation of training bases, and so forth, which this would require.

I think especially in the Midwest that this would be an addition to demand in an area which is already pretty much at full capacity. We know of the labor shortages, I think in areas like Milwaukee, for example, and in certain special occupations.

I think that if this additional increment were put on—perhaps Mr. Suits should really deal with this—but I would hazard a guess that we would be adding to the inflationary pressure, unless we reduced other demands in the economy below what we now anticipate they would be.

Now this may simply require keeping them at the present level. It is not necessary to cut down other demands in order to free capacity for defense demand, because the capacity of the economy is growing very rapidly at all times, about 4 percent a year.

Chairman PROXMIRE. You see, if we are going to increase capacity, and perhaps we are going to have to if we are going to have a continued escalation, and it may be more rapid than was suggested with 50,000 troops, it could be more, we have the alternative of either reducing spending or increasing taxes and hoping that the increase in taxes will be translated into less pressure by the private sector of the economy. The kind of spending that we might reduce is in the space program, public works programs, other areas that would involve some substitution of the resources that would go into the Vietnam situation.