By the end of 1964, the total of American troops in South Vietnam was a little over 23,000. A significant change in the nature of the conflict occurred in 1965—the intensification of infiltration of arms and personnel from North Vietnam. The buildup of U.S. troops then accelerated rapidly, reaching over 184,000 at yearend.

Since early 1966, American forces have been conducting the bulk of the offensive military actions against the Vietcong. The South Vietnamese are primarily responsible for the more passive missions, such as pacification. Total American troops in South Vietnam have exceeded 400,000 since the end of 1966.

In retrospect, the U.S. role changed from support to active combat when the South Vietnamese no longer could defend themselves against the combined onslaught of the Vietcong and massive infiltration of North Vietnamese equipment and manpower.

It is futile to speculate as to anyone's ability to have forecast these developments. The evolution of the U.S. role in Vietnam could scarcely be inferred from the day-to-day statements of administration spokesmen. On various occasions in 1963 and 1964, Secretary McNamara stated that the war was to be fought by Vietnamese, not by U.S. troops.

In 1965, after U.S. troops were in combat, he stated that the South Vietnamese would bear the brunt of the fighting. My purpose is not to criticize the inability to make accurate forecasts under extremely difficult conditions, but to emphasize the great uncertainty that existed in evaluating the impact on our domestic economy of the expanding U.S. commitment in Vietnam.

From the viewpoint of demands on the resources of the American economy, the Vietnam war really had its initial impact in fiscal 1966. Prior to that the Budget Bureau estimated that the additional costs of Vietnam were $100 million or less a year, a rather insignificant factor in a $50 billion military budget and a $700 billion economy.

The January 1966 budget message, in contrast, estimated that the Vietnam war would require $14 billion of appropriations in fiscal 1966 and $4 billion of expenditures. It appeared at the time, at least to many observers, that the Nation could wage a two-front war without raising taxes—the war on poverty and the war in Vietnam. That theme was enunciated in the budget message and in the President's January 1966 Economic Report, where he stated:

"The fiscal program I recommend for 1966 aims at full employment without inflation" and that "this budget provides for the maintenance of basic price stability."

In retrospect, things did not work out that way; 1966 witnessed the most rapid inflation since Korea. The basic explanation is that, despite the assurances of the Economic Report, the increases in goverment civilian and military demand, coupled with the continued expansion in business investment, exceeded the capability of the American economy to supply goods and services at then current prices.

Two key factors helped to explain what happened. The first factor was the underestimate in defense spending. The January 1966 budget projected the cost of Vietnam at $10 billion in fiscal 1967, and the current estimate is almost double that.

The second factor is the underestimate of the speed with which a military buildup affects the economy.