

sector of economic activity."⁴³ The armed forces, in adding more than 500,000 men during the year, took over two-fifths of the total increase in the nation's available manpower, contributing directly to the tightening of civilian labor markets. A substantial share of the remaining expansion in the nation's work force was absorbed by the many firms with rising backlogs of defense orders.

The surge of military demands was obviously a sharp spur to activity in a number of industries, especially aircraft, ordnance and electronics, where employment during the year rose between 10 and 20 percent. This in turn led to intensified pressures on productive capacity. These industries reported some of the most rapid increases in expenditures for new plant and equipment. The result was further stimulus to the already high level of capital spending.

Also, the rapid rate of business inventory accumulation during 1966 was in good measure related to the expansion of defense demand. *About one-fourth of the increase in manufacturers' inventories during the year occurred in the aircraft, ordnance and electronics equipment, industries alone.* (See Appendix tables.)

C. The underestimate in the military budget

One major factor helping to explain the emergence of inflationary factors in 1966 not anticipated in the January Budget and Economic Messages was the underestimate in military spending. The January 1966 Budget projected the cost of Vietnam at \$10.2 billion in the fiscal year 1967. The current official estimate is almost double that—\$19.4 billion (see Table 5).

TABLE 5.—*Estimated appropriations and expenditures for special support of Vietnam operations*

[In billions]

Fiscal year	Appropriations		Expenditures	
	Estimated in 1967 budget	Estimated in 1968 budget	Estimated in 1967 budget	Estimated in 1968 budget
1965.....	\$0.7	\$0.7	\$0.1	\$0.1
1966.....	14.0	14.9	4.4	5.8
1967.....	8.7	22.0	10.2	19.4
1968.....	(1)	20.6	(1)	21.9

¹ Not available.

Source: 1967 Budget, pp. 73-75; 1968 Budget, p. 77.

There are several facets to this substantial change in the direct expansion of Vietnam military demand. The January 1966 Budget Message contained what seemed at the time to be a very straightforward statement to the effect that "It provides the funds we now foresee as necessary to meet our commitments in Southeast Asia." The Message went on to state that if efforts to secure an honorable peace bore fruit "... these funds need not be spent." It appeared to the public observer that the U.S. role in Vietnam was fully funded. If there were any doubt about the matter, it seemed to be resolved by the statement, "... it would be folly to present a budget which inadequately provided for the military and economic costs of sustaining our forces in Vietnam."⁴⁴

In his testimony on the military budget, Secretary McNamara stressed that the budget was based on "... a somewhat arbitrary assumption regarding the duration of the conflict in Southeast Asia." This assumption—which was not mentioned anywhere in the January 1966 Budget—was that U.S. combat operations in Southeast Asia were to be budgeted only through June 30, 1967. "Should it later appear that combat operations will continue after that date at relatively high levels, it may be necessary to amend this budget request or supplement it later with additional funds," stated the Secretary of Defense.⁴⁵

⁴³ *Ibid.*

⁴⁴ 1967 Budget, p. 7.

⁴⁵ Same as footnote 40, p. 70. "The budget is not misleading once the rather sophisticated assumptions are understood, and the Administration has not made much of an effort to see that they are." William Bowen, "The Vietnam War: A Cost Accounting," *Fortune*, April 1966, p. 259.