pressures may have subsided? Given the conditional tax increase recommended in the January 1967 Budget, to what extent does the Nation face the possibility of a tax increase coming after the major impact of the Vietnam buildup has occurred and the economy softened?

Perhaps more fundamentally, *the failure of the Nation either to understand how a military buildup affects the economy, much less to take prompt and effective action to curtail the excessive demand that results, does not augur well for a smooth economic adjustment to the hoped-for downturn in military spending after a successful termination of hostilities in Vietnam.* In such a case, the deflationary impact of defense contract cancellations and layoffs of defense workers might occur while defense expenditures and/or deliveries were still rising. If tax reduction or monetary ease or expansion in selected non-defense spending were to wait until sizeable declines in defense purchases showed up in the GNP, governmental economic policy once again would be too slow and too late.

IV. A CROSS-SECTIONAL ANALYSIS OF THE CURRENT MILITARY BUDGET

The 56 percent increase in the level of U.S. military spending scheduled to take place within the three-year period July 1, 1965–June 30, 1968 is, of course, dramatic and having a major impact on the national economy. No doubt less dramatic but of substantial importance to individual communities, companies, and workers is the simultaneous changes which are taking place in the composition of the military budget.

A. The changing composition of military spending

Changes taking place within the military budget have been affecting the extent to which different industries and regions are participating in the defense program. The key to understanding the developments is analyzing the shifting "product mix" of military spending. The fundamental change is the shift of emphasis away from (a) developing and maintaining in being the potential capability to deal with hypothetical world-wide or general-war situations and towards (b) operating a military establishment actually waging a difficult but limited war whose dimensions keep on evolving. Table 7 shows the extent to which funds for U.S. combat forces have been shifting from general war to limited war programs. It is striking to note that general war forces now receive less than half of the share of the military budget that they received a few years ago.

TABLE. 7.—*U.S military budget: General versus limited war (total obligational authority)*

Category of combat forces	Amounts (in billions)		Percent of total	
	Cold war (fiscal year 1962)	Vietnam (fiscal year 1967)	Cold war (fiscal year 1962)	Vietnam (fiscal year 1967)
General war capability:				
Strategic offensive forces	$8.9	$7.1	29.8	16.5
Continental air and missile defense forces	2.3		7.7	
Subtotal	11.2		37.5	
Limited war capability:				
General purpose forces	17.5	34.3	58.5	80.0
Airlift and sealift	1.2	1.5	4.0	3.5
Subtotal	18.7	35.8	62.5	83.5
Total [1]	29.9	42.9	100.0	100.0

[1] The remainder of the military budget is devoted to support of the combat forces, research and development, military assistance, and retired pay.

Source: U.S. Department of Defense.

A related development, but one not as readily discernible in the available data, is the capital-intensity of the U.S. military effort in Vietnam. The Congressional hearings present numerous instances of the tremendous amount of airborne and