

There is no simple or generally agreed on method to measure or determine the "burden" of military programs on the economy, much less what, if any, economic ceiling exists on such programs. Yet, available economic analysis tends to support the Secretary's statement.

Using the GNP comparison, the portion of our national sources devoted to the production of military goods and services tended to diminish rather than increase prior to the Vietnam buildup, from 10.5 percent in 1957 to 8.4 percent in 1964. During much of that period, considerable unutilized or under-utilized capacity existed in the economy, far more than was generally desired. Price inflation was not particularly troublesome in those years; the wholesale price index fluctuated within the narrow range of 99.0 to 100.7 from 1967 to 1964 (base of 1957-50=100).⁷⁴

The real cost to society of allocating productive resources to military programs may be said to be that these resources are unavailable for other purposes. Yet, such resources may not be entirely diverted from other uses in practice. Some or all of the resources so used might have remained unemployed but for the expansion of defense activities. On the other hand, if there is any such sacrifice in a given time period, and if the loss is in investment, additional sacrifices will accrue in subsequent time periods as society forgoes the returns on the absent investment.

Even where resources utilized by defense programs are diverted from other sectors, the value of the resultant output does not necessarily measure the value of the output diverted from the civilian sectors. For example, when resources shift from production of comparatively low-valued products such as agriculture to high-valued products such as military research and development, the increment of GNP so absorbed exceeds in value the output yielded by the private sector.

Conversely, the Selective Service System tends to result in substantial economic losses to many men who otherwise would be holding higher paid positions in civilian life. The cost to the economy and to society as a whole is substantially above the direct cost to the Department of Defense of paying, feeding, and clothing these people; it is the opportunity cost of the higher priced goods and services which otherwise they would be producing.

Overall, analyses of the "burden" of defense expenditures have generally concluded that, if necessary for military or political reasons, the American economy could handle, with a minimum of dislocation or hardship, a far higher level of such spending than has been experienced in recent years. These studies or statements have been made by such diverse groups as the Committee for Economic Development, the National Planning Association, a panel of the United States Arms Control and Disarmament Agency, and a group of outstanding university and research economists appearing before the Joint Economic Committee of the Congress. However, many such analyses also concluded that the long-term growth and prosperity of the United States do not require even the current level of national security spending.

Hence, economic constraints do not appear to be an important limitation on the level of defense spending—directly. Indirectly, and essentially through the Federal budgetary process, financial constraints have and are likely to continue to restrict the portion of the Nation's resources devoted to these purposes. This, of course, reflects the fact that governmental appropriations for military items are not made in isolation, but result from the interplay of many conflicting requirements and demands, including those of numerous other Federal programs and of taxpayers who wish to reduce the portion of their incomes taken by the Federal Government.

B. Adjusting to changes in military spending: Peace in Vietnam

The Nation's past experience testifies to the ability of the economy to adjust successfully to major reductions in national security spending. Demobilization after World War II was extremely rapid, and no sizable unemployment problem

⁷⁴ An earlier version of this analysis appears in M. L. Weidenbaum, "Cost of Alternative Military Strategies," in David Abshire and Richard Allen, editors, *National Security, Political, Military and Economic Strategies in the Decade Ahead*, New York, Frederick A. Praeger, 1963, pp. 785-802.