developed. Between June 1945 and June 1946, over 9 million men were released from the armed forces, about three times the present total of military personnel. Between 1945 and 1946, national defense purchases of goods and services were reduced by 75 percent. This reduction was equivalent to more than 25 percent of the GNP in 1945, about three times the present proportion of GNP represented by defense.

The end of the Korean conflict involved a much smaller reduction in defense spending, which in turn started from a much lower peak than at the end of World War II. Tax reductions helped to maintain aggregate consumer income and personal consumption spending. As the total of defense spending leveled off in 1963–64, the national unemployment rate declined, clearly indicating the capability of the American economy to adjust rapidly at least to moderate changes in defense expenditures.[75]

Numerous studies of the economic impact of arms control and disarmament have concluded that the United States is fully capable of making the necessary economic adjustment to fundamental reductions in the level of national security expenditures; the limitations are considered to be mainly in the political sphere—the willingness of the Nation to take measures of sufficient magnitude and promptness to utilize the resources that would be released in such eventuality. The termination of hostilities in Vietnam and/or the reduction in the level of U.S. military spending there would raise such questions once again.

The President's Committee on the Economic Impact of Defense and Disarmament stated, in its July 1965 report, "However, neither the shifts from one kind of defense spending to another (for example, from strategic weapons to weapons of limited war), nor the resumption of the gradual shift away from defense presents major problems to our economy. Even general and complete disarmament would pose no insuperable problems . . ." [76]

At this point, it is extremely difficult to speculate as to the dimensions of a cutback in U.S. defense spending following peace in Vietnam. Perhaps, it would be useful to recall an earlier study which sketched out the budgetary implications of a hypothetical limited war.[77] That study, published in 1963, analyzed a possible limited war beginning in the fiscal year 1965.

It was hypothesized that the assumed conflict occurs in an area somewhat peninsular or restricted in nature geographically. Moreover, an adjacent critical national boundary limited the freedom of action of our forces. It was further assumed that the conflict ended with a truce in 1967, followed by a continuation of high state of limited war readiness.

A rough approximation of the cost of additional military expenditures under these assumed limited war conditions was on the order of $18–20 billion for 1967, the peak year. This raised total national security outlays to about $72 billion (in terms of 1962 dollars). After the postulated truce in the hypothetical limited war, procurement of weapon systems would be reduced from the wartime peak (see Figure 3). However, maintenance and periodic replacement of a force-in-being larger than that prior to the conflict would be required because of an unstable international situation. If the general dimensions of this hypothetical war correspond to the Vietnam experience, it would be expected that U.S. military spending might decline about $15 billion during a 12 to 24 month period following the cessation of hostilities. The new level of military spending would then still be in excess of $50 billion a year and require a large industrial base to support it.

Along the lines of adjustment to a cutback in the military budget, the President, in the January 1967 Economic Report, instructed the Federal agencies to give increased attention to planning for the eventuality of peace in Vietnam. His instructions included the following six steps:

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[75] See M. L. Weidenbaum, "Could the U.S. Afford Disarmament?", in John R. Coleman, editor, *The Changing American Economy*, New York, Basic Books, Inc., 1967, pp. 172–174.

[76] *Report of the Committee on the Economic Impact of Defense and Disarmament*, Washington, U.S. Government Printing Office, July 1965, p. 1.

[77] 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.