was repeated during the first year of the Vietnam buildup. The most rapid period of expansion in military contracts to private industry occurred in 1966; so did the most rapid rate of price inflation in recent years. But that was the period when the Nation and particularly the Administration's economists were still congratulating themselves on the success of the 1964 tax cut and little need was felt, at least officially, for greater fiscal restraint.

To some extent, the inflationary pressures of the Vietnam buildup were accentuated by a rather liberal monetary policy in 1965, some of the results of which were continued to be felt in 1966 (the money supply rose by 6.2 percent from April 1965 to April 1966, a rate considerably above recent prior experience). Beginning in December 1965, the Federal Reserve Board undertook a series of steps to tighten the availability of credit. By April 1966, the steep rise in the money stock was halted and a slight decline occurred through the remainder of 1966.

Some positive impacts of governmental economic policy during this period also need to be acknowledged. The Nation achieved a large and rapid shift of resources from civilian uses to military programs. Direct controls over prices, wages, and materials generally were avoided. Moreover, economic growth and real improvement in the living standard of the average American continued despite the defense spending increases and inflation.

In a sense, this post mortem is too late. There is little that can be done about the 1966-induced inflation at this late stage. The demand-pull inflationary pressures of 1966 seem to have run their course. We do have a legacy of cost-push inflationary pressures which are likely to plague us later in 1967, particularly as major collective bargaining agreements come up for renewal.

However, it is quite likely that in the near future the Nation may once again find itself in a situation when aggregate economic and fiscal policy measures fail to take proper account of the timing of the economic impact of government spending, especially for goods produced in the private sector. If that turns out to be the case, avoidable inflation or recession may occur once again.

Should another major escalation occur in the level of the U.S. commitment in Southeast Asia, it would be important to *promptly* develop the *restraining* fiscal measures needed to offset the inflationary impacts.

Conversely, should peace come to Vietnam it would be essential to *promptly* put into action the *expansionary* fiscal measures needed to offset the immediate deflationary effects of a defense cutback. Most authorities are agreed as to the capability of the economy to successfully adjust to a defense cutback (or an expansion). The concern mainly relates to our political willingness and capability to act promptly enough.

STATISTICAL APPENDIX

Aggregate Measures of U.S. Military Spending

1. Measures of U.S. Military Spending, Billions of Dollars at Annual Rates.
2. Measures of U.S. Military Spending, Percentage Change from Previous Quarter.

Detail on U.S. Military Spending

3. Detailed Measures of U.S. Military Spending, Billions of Dollars at Annual Rates.
4. Detailed Measures of U.S. Military Spending, Percentage Change from Previous Quarter.

Geographic Measures of U.S. Military Activities

5. Distribution of Defense Employment and Labor Force by State.
6. Defense Dependency by State.
7. Percentage Distribution of Surveyed Defense Employment by State and Product Group.
8. Changes in Defense Generated Employment by State.
9. Surveyed Employment Generated by Defense Subcontracts by State of Performance.