Essentially, what we have to engage in is a cost-benefit analysis, which I suppose is a fashionable word now, and what we try to do is to apply the cost-benefit analysis to the problem of allocating resources between military and civilian uses.

The cost of materiel, military materiel of weapons, all kinds of supplies, of moving with supplies a long distance, of maintaining manpower; military and associated manpower, of course, are essentially not simply dollar costs, but are costs in labor-hours spent in various parts of the American economy, in tools, in plants, in natural resources, such as oil pumped out of the ground, and so on.

The costs can more meaningfully be described in terms of things which we do not do because we allocate our resources to military needs. In other words, these costs can be described in terms of a private consumption which does not take place because military consumption takes over. By "public consumption" I mean allocation of resources destined to serve public needs of different kinds, which very often are satisfied directly out of public budgets.

The story which I have to tell can be best presented if one does not read in detail the rows of figures which are included in our written report, on these four charts, and from now on my comments really will be comments on these four charts.

The basis of our computation was an assumption which I received essentially from your committee that the military expenditures might be reduced by a certain number of billions of dollars. We took a reduction of expenditures on the Vietnamese operation by $19 billion, and we computed through implication of two alternative policies, so far as the alternative use of these resources is concerned.

One is, I must admit, not a realistic one, at least not in my opinion, although, of course, there are some people, some very prominent people in this country, who I think would favor that alternative. For example, Professor Friedman of Chicago would, I think, be very happy with it.

Let's look at this chart. (See chart, exhibit 1, p. 248.) The base line, the length of which represents really the total output based on the use of all resources. We are more or less in a full employment situation now in the American economy in the year 1967. That long stretch is private consumption, household consumption, and investment by private business. This is what is governed by private business. This is Government. This is the nonmilitary part of the Government. This is the military, this stretch, and this is divided, the general military versus the Vietnam operation as such.

Now with this going up and down in each case described in percentage figures, it shows what would happen in case you do have a shift.

First of all, the downward movement here means reduction. Now this column had to be terribly long, were it to represent the reduction of $19 billion, so I just cut it off here. Actually, it would be rather long. As a result of that, we can push up on the other side. The first thing is essentially where you allocate these resources essentially to the private sector.

Let them through fiscal policy, tax policy, and so on, permit them to buy more. Private consumers, if their income taxes are reduced, and