Most of the increased spending went for military equipment and other goods and services bought from the business sector. Reduction in 1953–54 by $11 billion in this type of spending was a leading factor in the 1954 recession. So concern about a recurrence of a similar business setback following cessation of hostilities in Vietnam is both understandable and justifiable.

But there were significant differences during our Korean engagement compared to Vietnam that greatly reduce the likelihood of such a recurrence of recession following termination of the "hot war." The list of these differences is quite impressive. The pace of military buildup was considerably faster during the Korean conflict, causing severe shortages. Despite last year's acceleration of defense spending, our buildup in Vietnam has been gradual and has not as yet precipitated any drastic economic dislocations, aside from some inventory pileup and skilled manpower shortages.

Consumer prices rose more sharply during the Korean war, despite the controls enacted early in 1961. Increases in industrial production were also more marked as compared to the period since mid-1964. Corporate profits and business capital spending fell during the third year of the earlier conflict, while both of these important economic variables have recently only begun to level off. Personal income, on the other hand, has behaved in a similar fashion—rising steadily during both escalations. Finally, compared to a Korean war peak of 13.5 percent, national defense expenditures are still only about 9 percent of gross national product, despite the intensification of hostilities in Vietnam. This ratio has been rising—but only slowly—since early 1964.

In short, barring a considerably greater commitment of resources to defense purposes than seems likely, our growing economy should be able to handle comfortably both the economic demands of the war in Vietnam and a deescalation. An orderly adjustment to military deescalation will be even more likely if, as is widely anticipated, a Marshall plan type of foreign aid to Vietnam is substituted for military expenditures following the termination of the war.

The Dislocation Problem

The foregoing does not mean that the national chamber of commerce is unmindful of dislocations in particular communities and regions heavily dependent on defense orders that would necessarily result from order cancellations or cutbacks. This is the 'disaggregated" kind of deescalation effect that certain cities and regions went through with varying degrees of success following cancellation of the Skybolt and Dyna-Soar projects in 1963, the phaseout of production of the F-105 fighter-bomber, and the closing of many military installations.

Subsequent studies done for the U.S. Arms Control and Disarmament Agency[1] have borne out the earlier conclusion, arrived at by general economic analysis, that these kinds of adjustment differ only in degree from those constantly facing the economy in connection with

[1] See attached list.