

adjustment to technological change and structural shifts in the demand for various labor skills.

This was one of the major conclusions reached in a national chamber of commerce study entitled, "The Economics of Defense Spending," published in February 1965, and subsequently verified by the report of the Ackley committee on "The Economic Impact of Defense and Disarmament" that appeared in July 1965.

Each of these reports recognized the regional and local economic dislocations precipitated by changes in both the level of defense spending and in the procurement mix. But each study also indicated that if there is a national problem associated with a decrease in defense outlays, it relates more to economic growth than to business cycle developments. A growing economy provides the best environment for an orderly transition from wartime to peacetime production for the more heavily involved communities.

Although these reports were written 2 years ago when defense spending played a smaller relative role in the economy than at present and the private sector was growing more rapidly, the conclusions arrived at still appear to be valid. This is because the current softness of the economy is traceable to developments in the private sector primarily—a slower rate of consumer buying in the housing and durable goods markets, an inventory overhead, and a sharp deceleration of fixed investment spending by business.

Mr. Chairman, I would like to submit for the record at this point a copy of the national chamber study, "The Economics of Defense Spending."

Chairman PROXMIRE. Without objection, that will certainly be very valuable to us.

(The study referred to follows:)

THE ECONOMICS OF DEFENSE SPENDING*

INTRODUCTION

During the past decade the American people as a whole and a segment of the economy in particular have grown accustomed to national defense expenditures ranging between \$48 billion and \$56 billion a year. An uptrend from 1960 to 1963 was partly reversed in 1964, foreshadowed by certain headline-catching program cancellations, especially the Skybolt and Dynasoar projects in 1963. Prospects are for a levelling-off, followed by a slow decline in defense spending in the next ten years or so.

Over time, society will benefit from having some of its scarce resources now devoted to defense transferred to the civilian economy to satisfy proliferating needs for more and better schools, housing, highways, medical service, and the like.

But it is understandable that questions have been raised about the economic effects of defense cutbacks. For example, how serious have the economic adjustments been so far? Will a levelling-off and possible decline in overall defense outlays precipitate a business recession? What of the implications for unemployment? Will companies and localities heavily involved in defense activities be able to adjust to civilian production? Can defense/space research and development resources and output be adapted to civilian uses?

This report, primarily the responsibility of Dr. Richard Landry of the National Chamber staff, is a summary of the views of leading authorities on the questions posed above, and it suggests the relative importance of the questions.

ROBERT S. MACFARLANE,

Chairman, Committee on Economic Policy.

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