

Mr. GOLDFINGER. Well, it certainly is important when you look at the situation from 1965 to 1966, and you see the rise in real GNP and the rise in military expenditures, and you can see the relationship there. I would agree with you on that.

Mr. MADDEN. If I may add a point, though, if the Vietnamese war is only 3 percent of the GNP, then one can with some confidence say, that in the light of our growth during the period from 1960 to 1966, at a rate of around 5 percent a year, and if we can assume that our policies are as sensible over the next half decade as they were during this period in stimulating growth—such things as the investment tax credit, the tax cut, and so on—that we can expect to see the disruption caused by a decline in Vietnamese spending, when the total is only 3 percent of the GNP, to be fairly minor.

Senator MILLER. Yes, but if we are concerned about how we are doing in a particular year, then we are interested in the increased GNP, the real increase.

Mr. MADDEN. Yes.

Senator MILLER. And if we find out that the war expenditures are taking 50 or 75 percent, or perhaps all of the increased GNP, then we have a pretty good indication of the nature of our economic advances.

Mr. MADDEN. Indeed so. I think you are absolutely right, and it is true on the downside as well. The question of how fast the expenditures taper off is essential in setting fiscal and monetary policy.

Senator MILLER. Do you have a comment?

Mr. GOLDFINGER. I was going to say that some of the things Dr. Madden just indicated are rather troublesome as I look ahead, particularly if and when we get a leveling off or a decline of military expenditures. I am firmly convinced, as I have stated to this committee a number of times in the recent past, that the policies of the past 12 or 13 years have placed undue emphasis on private savings and private business investment, which have generated two unsustainable capital goods booms, one very recently, where business investment as a percentage of GNP went far beyond any sustainable rate. This is one of the longer-run difficulties in the economy.

I am firmly convinced that one of the very important policy issues before us is the creation of a new balance in the economy between business investment and productive capacity on the one hand, and the demand for goods and services on the other hand.

Senator MILLER. Do I detect from your answer to Senator Proxmire's question, Mr. Goldfinger, that you are not particularly concerned about inflation?

Mr. GOLDFINGER. Oh, no; I am concerned about inflation in general, but I do not think that there is an inflationary threat in the leveling off or a decline of military expenditures.

I think that the possible problems related to a leveling-off or a decline of military expenditures are deflationary rather than inflationary; that the possible problems are inadequate demand relative to the labor force, productivity and productive capacity, rather than the reverse.

Senator MILLER. Why would you say that in face of what happened after World War II, as far as inflation was concerned?