Even with a relatively much larger defense effort at the time of Korea, the problem of transition to a peacetime basis was not really serious or prolonged. The growth of gross national product was interrupted for about a year, but it did not fall more than 2% below its previous high. By the third quarter of 1954, gross product was increasing once again and soon exceeded all previous records. The unemployment rate rose to a peak of 6.1% in September 1954, but a year later it was down close to the 4% now accepted as a desirable norm. Prospects are that termination of the relatively smaller Vietnam effort should involve an even quicker and easier adjustment.

Another fact of consequence is that, even while Vietnam expenditures are still growing, we have experienced a mild economic slowdown in the first quarter of 1967. Perhaps some of the post-Vietnam adjustment has already occurred. In any case, it appears that growing defense expenditures are not a protection against a slowing down of economic activity. It seems reasonable to conclude that, by the same token, declining defense expenditures will not necessarily presage a recession.

Undoubtedly, there will be transitional economic problems for the American economy when the present conflict in Asia subsides. These will affect certain industries, certain occupations and certain localities, rather than the economy at large. The Federal Government has numerous programs for meeting such adjustment problems, whatever may be the cause that brings them about. These include manpower development and training, economic development assistance to localities, and the Labor Department programs for providing information on employment opportunities. In addition, we have seen numerous purely private efforts which have successfully met local problems. There is surely no reason to suppose that the problems of adjustment to the termination of the Vietnam War will be so different in nature, or so much larger in scope, that they cannot be handled by programs already in existence.

While most of the national and local readjustments may be readily surmounted, it is true, of course, that the reconversion period will present difficulties for individual corporations now largely engaged in production of materials and supplies for the Armed Services. Since many of these corporations are members of our Association, you may want our opinions on this subject.

To such companies, and to their communities, the wholesale termination of procurement contracts could be costly and disruptive. The NAM hopes that the principle of fair, fast and final settlement, which was successfully applied in the termination of World War II contracts, again will obtain. A specific problem of current concern is the tendency to deny profit allowances to suppliers for preparations made, and work already performed under subcontracts. In light of the increasing emphasis by the Government on firm fixed-price contracts, in which profit disallowances are most frequently encountered, the impact upon both prime contractors and subcontractors with work in progress in lower tiers could be of substantial proportions. It would seem that the higher risks under fixed-price contracts should require more equitable treatment and, when terminated at the convenience of the Government, such contracts should provide for allowance of a reasonable portion of the profit which the contractor would have earned had the contracts gone on to completion.

As far as broadgauge Government economic action is concerned, in our opinion it would be worse than useless to lay down in advance a program for "fine-tuning" the American economy when the Vietnam War ends. Our ability to forecast economic developments is limited at best. It becomes impossible when we are required to forecast the economic consequences of an event which will occur at an unknown time and under unknown circumstances. Prospects are that the transition to peacetime will not be too difficult, and by pre-planned intervention, we might make it more so rather than less.

We would urge that the thought and study you make in preparation for the end of fighting in Vietnam should be concentrated in another direction. Fine-tuning of the economy, although it seems to dominate current discussion, is not the fundamental purpose of fiscal policy. Fiscal policy is primarily the means by which concrete decisions are made as to what the Government will do and how the burden of paying for it will be distributed. The members of Congress are charged with the responsibility of embodying such decisions in legislation. The end of the Vietnam War would be an appropriate time for a reappraisal of fiscal policy from this point of view. Here are some questions you might consider: Have, or have not, past trends correctly reflected the Nation's preference as to