

ing psychological ones, may inhibit popular spending. Employed young men about to be drafted and older men awaiting a call from the reserves may not be inclined to go into debt to buy durables.

The other half of the increase in the Defense Department's present spending will have a somewhat more positive effect on business, for it will go mainly for construction, ammunition, ordnance, and aircraft. At least \$150 million is programmed for construction in South Vietnam, much of it to make Camranh Bay into a great port. A good deal of this money will be spent in South Vietnam, whence part of it (along with some troop pay) will find its way to France, still one of South Vietnam's big suppliers, and may there ironically add to the U.S. balance-of-payments problem. But outlays at home for ammunition and ordnance (not counting missiles), which exceeded \$1 billion in fiscal 1965, may more than double in fiscal 1966.

During the past few years Defense has been laying out between \$6 billion and \$7 billion annually on planes, and the caption on page 121, which describes some of the craft being bought or considered for Vietnam, suggests the figure will rise considerably. Except for helicopters, however, most planes on order or on the list will have a long lead time. Defense, for example, is expected to order some 60 of the new C5-A giant transport planes, and spend about \$2.2 billion on them. Deliveries will be spread over 5 or 6 years.

For all its impact, spending on ammunition, ordnance, and aircraft does not stimulate the economy as much as, say, a tax cut of comparable dimensions. When consumers are handed buying power in the form of a tax cut, their suppliers build up inventories to accommodate the new level of demand; the economy thus gets a double direct boost. It also gets an indirect boost when private capital is spent to expand factories and stores to take care of the new demand. But the Defense Department may supply a military contractor with machine tools from its stockpile, in which case the economy gets no stimulus, direct or indirect. Or Defense may advance him dollars in the form of progress payments to take care of working capital and equipment needs. In that event, the economy may get only a one-shot boost, for the contractors' suppliers are not likely to build up their stocks permanently until more orders come in.

All in all, to repeat, military spending as now scheduled may be insufficient, if a slowdown is in the cards, to keep the U.S. economy growing at its recent rate of about 4.5 percent a year (in constant dollars). Appropriately enough, the President's fiscal advisers, including the Council of Economic Advisers, are seriously discussing future tax cuts. "Indeed, we are still worried about slack in the economy," says one of the CEA staff members.

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The slack may be a short-lived worry. Next January the Defense Department will ask Congress for more supplemental appropriations and will make public its preliminary estimates of needs for fiscal 1967. Suppose it requests not \$5 billion or \$6 billion but \$10 billion or so more in supplementals, to be spent over a few years; and suppose it follows this with an estimate of more than \$55 billion for 1967. Such figures would almost surely portend average annual military outlays of around \$60 billion, or \$10 billion above the current level, perhaps