THE VIETNAM WAR: A COST ACCOUNTING *

By William Bowen

The Vietnam war is peculiarly expensive, far more so than is generally thought. Costs are running above $13 billion a year, and are headed up. *Fortune's* figures suggest that we're in for bigger defense budgets—and new economic strains.

What happens in the U.S. economy over the next year or two, what happens to demand and production and prices and taxes, will to a large extent depend upon the cost of the Vietnam war. If anyone inside the Pentagon knows the current cost, he is not telling, nor, of course, is anyone there telling about costs associated with future operations. Accordingly, *Fortune* has undertaken on its own to figure out the cost—present and prospective—of the Vietnam war. It is already costing a lot more than almost anybody outside the Pentagon imagines.

At present, with about 235,000 U.S. servicemen in South Vietnam, the U.S. costs are running at a yearly rate of more than $13 billion. Costs, it should be observed at once, cannot be translated mechanically into expenditures; a drawdown on inventories involves a cost, but may not involve an expenditure for quite some time. Still, if the war continues at only the present rate through fiscal 1967 (the year beginning next July 1), the resulting Defense Department expenditures will probably exceed the $10 billion or so that the hefty 1967 defense budget officially allows for the Vietnam war.

But the war, it appears, will get bigger. U.S. Senators who know what Defense Department witnesses say in closed congressional hearings have predicted a U.S. buildup to 400,000 men, or more. Gen. William C. Westmoreland, the U.S. commander in Vietnam, has reportedly requested a buildup to 400,000 by the end of December. With that many U.S. servicemen in South Vietnam, the cost of the war would run to $21 billion a year—even more if bombing and tactical air support increased in proportion to the buildup on the ground. At any such level the Vietnam war would bring on economic strains beyond what most economists appear to foresee, and beyond what makers of public policy appear to be anticipating. The strains would surely add to the pressure for higher taxes.

In its Vietnam cost accounting, *Fortune* had considerable help from outside economists, but no access to classified data. The basic sources were public documents—Federal budgets, Defense Department publications, transcripts of congressional hearings. Defense Department officials interviewed were persistently wary of discussing the costs of the war, although the department proved willing to pro-

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The cost analysis for this article was carried out by a team consisting of, in addition to Mr. Bowen: Alan Greenspan, president of Townsend-Greenspan & Co., consultants; P. Bernard Nortman, independent economic consultant; Sanford S. Parker, chief of *Fortune's* economic staff; and research associate Karin Cocuzzi.