vide some missing bits of factual information that would otherwise have been unobtainable. It turned out that some costs—of ammunition, for example—could be easily calculated from published Defense Department figures. But getting at some other costs required elaborate calculations, and still others could only be estimated. Estimates and assumptions were in all cases conservative. The results, set forth by category below, represent what is probably the first serious effort outside the Defense Department to analyze the costs of the war.

The purpose of the undertaking was not to make a case against (or for) the fiscal 1967 defense budget, but to provide a basis for looking beyond the budget and assessing the potential economic effects of the war. In wartime no defense budget can sensibly be viewed as a hard forecast of defense spending. Actual expenditures during the fiscal year will be determined by unfolding events that no budgeter can foresee months in advance. So far as the economy is concerned, then, what counts is not budget projections but Defense Department orders and expenditures.

The costs and expenditures resulting from a war do not match up in the short run. They rise and decline in different trajectories. In the early phases of any war, the Defense Department can hold down expenditures by drawing upon existing forces and supplies, just as a business firm can temporarily reduce cash outlays by letting inventories dwindle, or a family can cut next month's grocery bill by eating up the contents of the pantry. Later on in the war, expenditures catch up with costs. It must be kept in mind that "expenditures," as used here, means *incremental* expenditures—those that would not be required if it were not for the war.

An idea of the movements of costs and expenditures and defense orders, and their changing economic effects, can be gathered from the following budgetary-economic scenario of a medium-sized war—i.e., a war not very different from the one in Vietnam.

## A WAR IN FIVE ACTS

*Act I.* It looks like a small war, and it requires only smallish incremental expenditures. The forces sent overseas are members of the existing Defense Establishment, and the Defense Department would have had to pay, feed, and otherwise provide for them if they were doing peacetime duties in Georgia instead of fighting guerrillas in a tropical republic. The weapons, ammunition, and equipment come from existing stocks. The extra expenses (hostile-fire pay, transportation) can be temporarily absorbed in the immensity of the defense budget, and the administration does not have to ask Congress for supplemental appropriations to finance the war. It is being financed, in effect, through "reduced readiness"—that is, the United States has fewer trained men and smaller stocks of war matériel to deploy or use in any *other* contingencies.

*Act II.* The struggle has expanded, and the Armed Forces need extra inflows of men and matériel to compensate for the unexpectedly large outflows to the war zone. The Pentagon places contracts for additional arms, ammunition, equipment; it expands draft calls and recruitment efforts. The administration asks Congress for supplemental appropriations. War expenditures are still only moderate, but with defense orders increasing and inflationary expectations