. . . *While Defense Production Soars*

Both lines of this chart show quarterly changes, seasonally adjusted. Arms production as measured by the Federal Reserve Board "defense equipment" index (main components: military aircraft, ordnance, Navy ships) rose during 1961, the first year of McNamara's stewardship, remained on a bumpy plateau in 1962 and 1963, declined in 1964, then moved into a spectacular upswing beginning in the first quarter of 1965. By January, 1966, the index had reached 126 percent of the 1957-59 average, indicating that the Vietnam war has already had a substantial impact on the economy. Contracts normally precede production, and so the commitment line normally moves up (or down) months ahead of the production line, but in 1965 there was an extraordinary switch in this relationship. The reason is that arms production was pushed upward by a surge in precontract "letter contracts" from the Defense Department—a sign of urgency.