

In quoting odds on the outlook for defense spending, I do not mean in any way to minimize the gravity of the war in Vietnam or the seriousness of its implications for the U.S. economy. My purposes are two:

(1) To observe that the business forecaster does not discharge his obligation when he characterizes an important set of determinants of his forecast as "uncertain" without providing some guide to the probable configuration; and

(2) To emphasize that, in being bemused by the less likely extreme courses the war in Vietnam and defense spending *can* take, one may lose the practical economic advantages and the psychological security that are apt to flow from confident action premised on the more probable central range.

From this point our analysis will concentrate on what seems to me to be a narrowing degree of uncertainty regarding the dimensions of the war in Vietnam and total defense spending in 1967.

THE PATTERN OF ESCALATION

Special costs of the war in Vietnam accounted for only 10 percent, or \$5.8 billion, of total budget expenditures for defense in fiscal 1966. But most of the increase in defense spending occurring in 1966 and anticipated for 1967 results from Vietnam. Both in dollar amount and in percentage of total defense spending, Vietnam outlays will probably be at least twice as great in fiscal 1967 as in 1966.

Escalation of the U.S. military effort in Vietnam has been gradual, over a period of a dozen years and three presidential administrations, beginning with the assignment of military advisers and now including intensive bombing of military targets in North Vietnam and the demilitarized neutral zone. Escalation on the part of the Vietcong and North Vietnam, both on their own initiative and in response to U.S. efforts, likewise has been gradual.

Despite the gradual nature of this progression, two points in time can be identified as involving major shifts in the scale of the U.S. effort in Vietnam and major changes in the prospective magnitude and pattern of defense spending.

The first shift came in the summer of 1965, when U.S. forces assumed direct and open responsibility for combat operations in Vietnam. The President then requested a supplemental defense appropriation of \$1.7 billion and promised to return for more in January 1966. (Vietnam, incidentally, had come in for scarcely any mention at all in the January 1965 budget.) At the time of this change in scale of effort, the *outlook* for defense spending changed from essentially flat to a rise of at least a billion dollars a quarter.

The second important shift came last winter when the President and the Defense Department gained a fuller appreciation of the costs of achieving their objectives in Vietnam. The President then requested a \$12.8 billion supplemental appropriation for Vietnam and budgeted a large increase in defense outlays. On the basis of the January 1966 budget and other official statements last winter, the *outlook* for defense spending changed again, implying a rise at a rate of about \$2 billion a quarter for several quarters. It was then that the figure of 400,000 began to be mentioned as the target for deployment of U.S. military personnel in Vietnam by the end of 1966.