

In a harmless display of budgetary plastic surgery, the administration made the total defense spending figure for fiscal 1966 appear smaller than was indicated in the January budget—by removing the \$2.4 billion for atomic energy from the broad defense category where it had been lodged previously. The figures used in this paper include atomic energy, to preserve historical continuity of the data.

I indicated earlier that defense spending on the budget basis seems headed toward a total of about \$66 billion in fiscal 1967. You may sense some inconsistency between this figure and the official budget estimate of only \$60.5 billion, especially in view of the contention that there has been no significant change in basic plan since last winter.

Much of the discrepancy can be explained by a special feature of this year's budget. Secretary McNamara described it in these words in his statement before the House Armed Services Committee on March 8:

* * * we have had to make a somewhat arbitrary assumption regarding the duration of the conflict in southeast Asia. Since we have no way of knowing how long it will actually last, or how it will evolve, we have budgeted for combat operations through the end of June 1967. This means that if it later appears that the conflict will continue beyond that date, or if it should expand beyond the level assumed in our present plans, we will come back to the Congress with an additional fiscal year 1967 request * * *

Because of this arbitrary assumption, the budget itself, and to an even greater extent the appropriation request, imply a tailing off of orders and expenditures for items that would not be delivered or consumed until after the June 30, 1967, cutoff date. Total obligational availability proposed in the budget is actually lower for fiscal 1967 (\$60.4 billion) than for fiscal 1966 (\$64.9 billion). The 1965 figure was \$50.1 billion.

At some point in the next few months, the Defense Department must revise its program to reflect a new assumption regarding the duration of the war in Vietnam. My own expectation, as of now, is that the revised assumption will involve continuance of hostilities within the present broad framework into fiscal 1968, that a 1967 supplemental appropriation of at least \$5 billion will be requested, and that fiscal 1967 budget expenditures will also be increased by slightly more than \$5 billion.

This adjustment reflects primarily the effect of a revised assumption on the duration of the war. It also includes some allowance for the results of the faster-than-scheduled expansion of uniformed personnel, the earlier-than-expected military pay increase, the impact of general price inflation on costs of defense orders, and the unanticipated costs of fighting a war whose dimensions are not entirely within U.S. control.

As indicated in the chart showing quarterly data, defense expenditures on the budget basis tend to fluctuate more widely than on the GNP basis and to move somewhat in advance. This is because the budget figures, as charted here, are not seasonally adjusted and because they include progress payments to contractors. In a time of rising defense expenditures, orders and production are reflected in budget expenditures because of these progress payments before they