

THE FEDERAL BUDGET AND THE OUTLOOK FOR DEFENSE SPENDING.¹

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That perennial whipping boy of economic analysis—the proverbial man in the street—seems to be right once again. Sophisticated economists have been contending that Federal fiscal policy has been one of restraint in recent periods and that the inflationary pressures have arisen in good measure in the private sector, especially from rapid expansion in business capital investment. In contrast, just try asking our wandering pedestrian what is causing the present inflation. The odds are he will reply to the effect that “Don’t you know that there’s a war on, buddy?” This paper says that he is right, and has properly, although intuitively, analyzed the current economic impact of the Federal Budget.

Some perspective may be helpful. In a sense the United States is engaged in a war; but, we do not have a war economy. Ours is truly a mixed economy; we are literally concerned with social security as well as national security. We do not have the controls or runaway inflation often associated with war-time experiences. Yet, we do find an economy pressing very closely to the limits of available capacity and we are making choices somewhat analogous to guns versus butter but not quite so. In a sense, we are choosing both more guns and more butter. However, we are also choosing less private housing and fewer automobiles while we are voting for more urban redevelopment and additional public transportation—thus simultaneously increasing both the military and civilian portions of the public sector in both relative and absolute senses.

Let us first examine the impact of the Vietnam military buildup on the economy as a whole and on the Federal budget; subsequently, I will indicate the effects on various types of companies and regions and then hazard a few projections.

THE TIMING OF THE IMPACT: A MACRO VIEWPOINT

The escalation in the U.S. commitment in Vietnam can, to some extent, be translated into economic impact by looking at the changing pace of military demand. As a benchmark, let us recall that in the fiscal year ending June 30, 1965, total contracts placed, orders let and other “obligations” incurred by the Department of Defense were a shade over \$50 billion. I use the concept of obligations because it is a generic term, including both government payrolls and contracts with private firms. In the January 1966 budget, it was estimated that this rate of making new commitments would rise to well over \$63 billion in fiscal year 1966. Actually, the January budget underestimated the rise in military demand during the fiscal year which was then in progress.

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