Now I shall try to muddy the waters. The next two columns on that table contain two alternative sets of rough adjustments for the fact that new contracts awarded may be a better proxy for the impact of a military buildup on the economy than delivery of completed weapons. The A series is essentially the excess of military obligations over expenditures during the period, seasonally adjusted and converted to an annual basis. One further change has been made. Over the years, about $2 to $3 billion worth of obligations each year do not seem to result in actual expenditures. A number of technical factors are at work here, including some double counting of contracts awarded by one military agency in behalf of another military agency. Such a case might be Air Force procurement of aircraft for the Army, which may show up as an Army obligation to the Air Force, as well as an Air Force obligation to the airplane manufacturer. In computing both the A and B adjustment series, the annual obligation figures were reduced by $3 billion in each case to take account of the double counting. My intent, of course, is to err on the conservative side.

It can be seen, referring to the A column on the right hand side of table 1, that adjusting for defense obligations results in some significant changes in the "best" measure of Federal fiscal impact. The second half of 1965 is now seen to be a period of much more substantial ease in the Federal budget than shown on the official basis. Of greater interest, of course, is the indication that the first half of 1966 was not a period of fiscal restraint but also one with a substantial excess of outgo over income.

The B adjustment is an attempt to satisfy the more timid. It is a statistical compromise between the two approaches, the result of an arithmetic averaging of military obligations and expenditures for each period. The theoretical rationale that could be offered is that perhaps a more proper counterpart to the liability basis of the corporate revenue computations would be somewhere between the extremes of contract placement and governmental disbursement.

As would be expected, the B results are somwhat more moderate than the A series. The adjusted Federal deficit for the latter part of 1965 is rather large, but, on this basis, the first half of 1966 witnessed a deficit of somewhat reduced proportions. I would suggest that even the B series provides a very weak case for the widely made claim that fiscal restraint occurred during January–June 1966.

Another Korea?

It has been fashionable to compare the Vietnam buildup with the Korean experiences in the hope that some parallels would provide a firmer basis for forecasting purposes. However, important differences need to be acknowledged, although they tend to balance each other out.

The first set of differences relates to the smaller relative scale of the present buildup. The current expansion of the armed forces from 2,700,000 to 3,200,000 seems modest indeed when compared to the spurt from 1½ million in 1950 to over 3½ million in 1952. Also, the defense budget doubled during the first year of the Korean war, while, as noted, the increase during the past year was about 16 percent. All this reflects the fact that this is the first time that the United States has entered a major war with a very large existing Defense Establishment.