The second set of differences relates to the fact that, unlike Korea or World War II, the present military buildup was superimposed on an economy which was rapidly approaching full employment. Using June 1950 and July 1965 as the respective beginning points, we find that unemployment was higher in the earlier period (5.4 percent versus 4.5 percent) and the operating rate of industry was lower (80 percent versus 90 percent).

Summing these two conflicting tendencies, we may conclude that even though the current defense program utilizes a smaller fraction of the Nation's resources, it is more in the nature of—but certainly not entirely—displacement of civilian demand rather than resulting in a total addition to actual production of goods and services. Hence, in the absence of direct controls over materials, wages, and prices, it would be expected that inflationary pressures would accompany the rapid shift of resources from civilian to military use.

The Korean experience showed that the strongest inflationary pressures occurred during that first year of the buildup, while the economy was initially adjusting to the new level of military demand. The actual peak in defense spending a few years later occurred shortly before the onset of recession.[3] If there is any lesson to be gained from the Korean experience, it is that we particularly need to understand the timing of the impact of the different stages of a defense buildup (and subsequent cutback). Otherwise we can find ourselves fighting yesterday's inflation with a tax increase that will compound tomorrow's recessionary problems.

The Changing Mix: A Micro Viewpoint

Important changes also are taking place within the military budget. Such shifts in its composition are affecting the extent to which different industries and regions are participating in the defense program. The key to understanding these developments is analyzing the changing "product mix" of military spending. The fundamental change is the shift of emphasis away from developing and maintaining in being the potential capability to deal with hypothetical worldwide or general-war situations and toward operating a military establishment actually waging a difficult but limited war whose dimensions keep on evolving. Table 2 shows the extent to which funds for U.S. combat forces have been shifting from general war to limited war programs as the cold war has heated up. It is striking to note that general war forces now receive half of the share of the military budget that they received a few years ago.

However, a more detailed breakdown of the military budget is needed in order to get at the questions of regional and company impacts of this fundamental budget change. Table 3 shows the shifting product mix of military procurement (on an obligations basis). Three major shifts are taking place: (1) a more than doubling in the share of the budget going to tanks, weapons, ammunition and similar conventional battlefield ordnance; (2) a massive reduction in the relative as well as absolute importance of missiles; and (3) the reorientation of the military aircraft budget away from long-range strategic bombers and to tactical aircraft, particularly supersonic fighters and helicopters. The latter point, of course, emerges from

[3] M. L. Weidenbaum, "The Economic Impact of the Government Spending Process," *University of Houston Business Review*, Spring 1961, pp. 3–47.