

It is clear to me that we would have reduced spending and/or increased taxes—possibly both—if we had better and more accurate information.

When you take this \$10 billion of spending which we did not know about, or were not informed about, and apply a 2.2 multiplier which I think is fairly logical because this has a multiplier effect as you know, it would have an effect on the economy of \$22 billion in increasing GNP. The results of this, it seems to me, are, to begin with, a tight monetary policy which seems to many people to be essential under these circumstances to restrain inflation, monetary policy that in your own terms, in your own report, resulted in a reduction of spending in credit-financed expenditures—homes, particularly—of \$8 billion. It also resulted, of course, in a painful burden on part of our economy, a 3.3 rise in the cost of living which was the greatest rise we have had in a number of years; and altogether a year in which, I think, Mr. Dale, of the New York Times, reporting in his column on January 9, was borne out when he said: "History is likely to record 1966 as the year of the big goof in Government economic policy."

Now, under these circumstances, I wonder if you can tell me what was the basis for this error. Was it based on the assumption that the war would be over by July 1, 1967?

Mr. ACKLEY. Mr. Chairman, you are undoubtedly correct that defense expenditures were underestimated for 1966. I think, however, your measure of that underestimate is perhaps somewhat misleading. So far as calendar 1966 is concerned—which is what we should be talking about—we estimated a rise of \$6 billion in defense expenditures and it turned out to be \$10 billion. Our estimate was not \$10 billion low but \$4 billion low.

Chairman PROXMIRE. Wait a minute. I am talking about fiscal 1967.

Mr. ACKLEY. Yes.

Chairman PROXMIRE. July 1, 1966 to July 1, 1967.

Mr. ACKLEY. Yes, and I am talking about calendar 1966, which is the period to which your question related. You spoke, I think, about the economic policies that were in effect during 1966.

Chairman PROXMIRE. Well, no. My question was directed to the assumptions which we were given in January of 1966 and corroborated again in March of 1966 that we would have 400,000 men in Vietnam and, therefore, we would have a cost of Vietnam war of \$10 billion during fiscal 1967.

Mr. ACKLEY. Well, it was certainly recognized fairly early in the year, Mr. Chairman, that defense expenditures could run higher than had been estimated. It was made clear early in the year at the time the Federal budget was submitted. The budget was submitted on the basis of the assumption that the war would be over by June 30, 1967. It was made clear that if that assumption turned out to be incorrect that other plans would have to be made.

It seems to me we have to recognize the fact that when defense expenditures were first estimated, it was at a time when military activity in Vietnam was increasing at an incredibly rapid pace. Under those circumstances, it was impossible to have a precise estimate. This was made clear, I believe, by the Secretary of Defense.