I wonder if you could give us an evaluation of how much this performance is attributable to the war in Vietnam, and the increase in defense expenditures running up to $2 or $2½ billion a month?

Mr. MARTIN. I find the Vietnam economic problem a very confusing one. I couldn't agree more that it is not the relationship of the war to the gross national product that counts, but what concerns me is the disruption in the flow of production that comes from having to grab certain items of a strategic nature for the Defense Department under certain circumstances.

Now I don't know how you evaluate this type of thing. This gets into the broad problem of guns and butter, and it is a very difficult thing to be sure you are right on. I have been worried about the Vietnam war and rising expenditures, but not so much about that aspect of it as I have ben about what happens when somebody has a production line here and somebody comes and grabs from this production line some item that is vital to the war in Vietnam. War is a very, very "discombobulating" activity in the economy. Despite the people who say to you "Well, if we had peace in Vietnam wouldn't this cause a collapse in the economy?" I would far rather deal with the problems of peace in Vietnam than I would to have to continue to deal with the disproportionate, unbalancing factors in production that come from even a small—relatively small in terms of gross national product—war such as we have.

Senator MILLER. I am sure your view on that point is shared by all of us up here. But I thought perhaps you were hinting at the relationship between the greater defense outlays due to the war in Vietnam, and the economic facts you set forth early in your statement, when later you referred to the "acceleration in defense outlays which added to the stimulus in the private spending."

Mr. MARTIN. I think it did, you see, because it built up faster certainly than I anticipated it would, and faster than a good many of my colleagues at the Board thought this would happen. That is no criticism of the Defense Department. That is just a fact of life that it did build up very fast. But it made it very difficult to assess policy.

Senator MILLER. But without the $2½ billion a month of defense spending, certainly which has occurred in the last 12 months——

Mr. MARTIN. We would have had a very different situation than we have now.

Senator MILLER. You also made a statement that "As the pace of industrial activity has slowed, imports have begun to subside." That is the first full paragraph.

Mr. MARTIN. Right.

Senator MILLER. I don't quite follow that. I wonder if you would explain why.

Mr. MARTIN. Well, there was pressure to build up these stocks on the assumption that you would be able to sell them at higher prices. People were unable to get deliveries in this country, so they were going abroad and importing their goods. When they found that the stocks were larger than they could effectively handle, in some instances, they stopped the imports and went back to the domestic supplier.

Now this has certainly occurred here in the last couple of months. How long it will continue, I don't know.

Senator MILLER. If prices continue to go up, due to inflation, this would tend to counterbalance that.