A war, by its very nature, demands a certain sacrifice on the part of the private sector of the economy. We have sought to conduct this war with a minimum pain on the private sector of the economy. And by doing so, we have risked and experienced excessive rates of inflation.

Chairman PROXMIRE. Let me interrupt at that point to say—all of us agree there is a terrible inequity of sacrifice—that American soldiers in Vietnam are making a terrific sacrifice, and the rest of us are not making any sacrifice at all. I suppose, unfortunately, some benefit from this situation.

At the same time if we look at it economically, it is awfully hard to see this is a war economy in the usual sense. I have before me the special analysis of the Budget, which shows that in 1956—certainly not a war year—we were spending 9.6 percent of GNP on defense; in 1958, 10.2 percent; 1962, 9.3 percent. This year, including Vietnam, we are spending 9.1 percent. That is 1968. And it would seem, unless there is a big escalation in Vietnam, it is unlikely we will spend more. Furthermore, defense indicators we are getting suggest that the impact of all military expenditures on the economy is lessening.

Under these circumstances does it really make economic sense to say we have to somehow take it out of our hide with a tax increase or some other sacrifice?

Mr. OLSEN. Yes. But I would measure the impact of the war not in terms of the defense expenditures as a percentage of total GNP, but rather in terms of the total size of the increase in Government expenditures over expenditures in previous years. Also the demands of the Government on the——

Chairman PROXMIRE. Then you get right back to the argument made by some people—I have not made it very much—that, Why shouldn't the Government make the sacrifices? The Government is making the big increase in spending.

Mr. OLSEN. I would certainly stress that. And I have, all along, felt that expenditure cuts should be achieved. The lamentable fact is that so far apparently the expenditure reductions have not been sufficient to satisfy the Congress. And in the meantime, with this impasse, time is passing, and we are continuing to incur for us a very high rate of inflation.

Chairman PROXMIRE. Mr. O'Leary?

Mr. O'LEARY. Well, your question is a very good one, and the general approach that it takes is one that I think has a good deal of merit to it, and certainly is part of this whole picture.

My own assessment of the situation is that in spite of the uncertainties that we face, the risks, I think, are all on the side of over exuberance in the economy. That is my feeling. So that——

Chairman PROXMIRE. Don't you think there are risks also in having unemployment rising next July and August, in view of the riots in our cities that occurred last July and August, in a nation in which we have 3 million unemployed, and in which the people who are hit hardest are the very people in the ethnic groups that are likely to be ignited by it?

Mr. O'LEARY. That is the difficulty. There are complexities to this. But the risks that I would put are these:

First of all, I think that we should have had a tax increase early in 1966. And I continue to feel this way. Because I think since early 1966