

coordinated and sometimes unrelated.

We have been making efforts to overcome our disjointed systems of government, by requiring more regional planning, by broadening categories of grants-in-aid, by encouraging coordination of local efforts in such programs as Model Cities, and by trying to find better ways to pull different agencies together within federal, state, and local government. All of these efforts have taken place against the background of citizen demands—from the ghetto to the suburb—for a greater voice in public policy. Plans for large-scale coordination are being challenged by voices who want to be heard and should be heard. We are learning again the importance of the democratic process in a democratic society, even when the requirements of complicated problems in crowded societies call for more administrative efficiency.

The goals of administrative efficiency and democratic procedures are not inconsistent. The one has to do with how we develop public policy; the other has to do with how we carry it out. To make both possible and compatible, we need to utilize the devices of automatic data processing, of communication, and of management techniques to sort out the volumes of information which threaten to inundate us. Having measured our needs and developed analyses of the alternative solutions available to us, we need to put that information in the hands of public policy-makers whose responsibility is to the electorate. Wherever possible we need to place the decisions on details as close as possible to individual voters, within the context of national goals and regional requirements. Finally, we must be prepared to implement public policy accurately and with dispatch.

We have a variety of techniques available to us to insure closer coordination of public and private institutions: from the Urban Affairs Council to rational federal agency regions; from regional planning agencies to community action agencies; from block grants to revenue sharing; and from public grants to public-private partnerships. We are not lacking in ingenuity to resolve the technical problems of making the system work.

Our greatest needs are the determination to make certain that peace does break out; the sense of purpose to keep our priorities straight; the commitment to devote our energies and our resources to the fulfillment of the promise of our democratic society. We can't return to the dreams of 1944 and 1945, but we can kindle the hope we had—and with better reason—if we have learned our lessons well.

AFTER VIETNAM

Our Vietnamized Economy

By MURRAY L. WEIDENBAUM

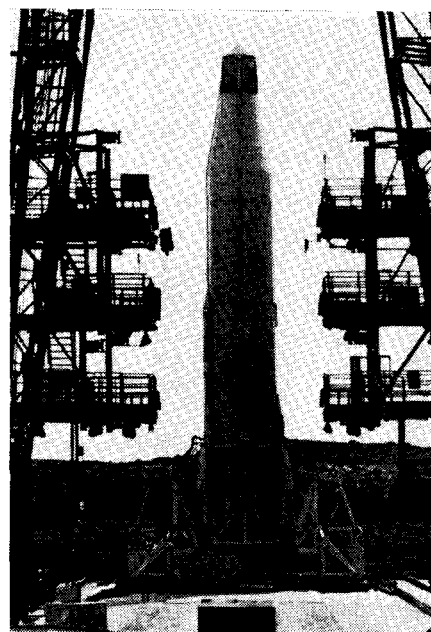
Although American troops have been stationed in South Vietnam since 1954, the major buildup occurred between the middle of 1965 and the middle of 1967. This substantial and rapid expansion in U.S. military spending—from \$50 billion before the buildup to \$80 billion now—has had many important effects. Fundamentally, it has altered the allocation of the nation's resources between the private and the public sectors. At the end of 1964, 20 per cent of the Gross National Product was purchased by government agencies and the remaining 80 per cent was available to the private economy. By early 1968, the government portion had risen to 27 per cent and the private share had fallen to 73 per cent.

The Johnson Administration consistently underestimated military expenditures, particularly during the crucial buildup period in late 1965 and much of 1966. Most economists and government administrators, moreover, failed to appreciate how quickly the military buildup was influencing the national economy—that the economic impact was occurring as soon as the defense orders were placed and, thus, substantially before the work was completed, paid for, and showing up in the federal budget. Furthermore, policy measures to offset inflationary pressures were not taken soon enough or in a substantial enough way. The January 1966 budget message of the President maintained that the United States could afford simultaneously to wage a two-front war without raising taxes: the domestic war against poverty and the war in Vietnam.

But the program choices made were not as simple as the classroom dichotomy of "guns vs. butter." In a sense, we chose both more guns (military spending) and more butter (more consumer purchases). However, we also chose—in part as tight money began to affect specific parts of the private economy—less housing and fewer automobiles. Simultaneously, the

nation was voting for more social welfare programs—thus increasing both the military and the civilian portions of the public sector. As a result, 1966 witnessed what was then the most rapid period of price inflation since the Korean War.

Several major economic problems face the United States as a legacy of 1965-66. With the collapse of the stable price and cost situation prevailing prior to Vietnam, inflation is a major concern. Unusually high interest rates have been set in a thus far unsuccessful attempt to contain the inflation. Income taxes have been raised to reduce unprecedentedly large budget deficits (\$25 billion in fiscal 1968). Despite forecasts to the contrary, a serious balance-of-payments situation continues. More basic than all this, the public's confidence in the ability to "fine tune" domestic economic stabilization policies has been undermined. The basic information and analysis released by the federal government to justify its



—U.P.I.

" . . . traditional industries have become suppliers of war material."

policies has created more suspicion than trust.

There also have been, of course, positive impacts of governmental economic policy during the war. A fundamental imperative was successfully achieved; a large and rapid shift of resources from civilian uses or idleness to military programs was accomplished. At the same time—unlike either the World War II or Korean experiences—the nation managed to avoid direct controls over prices, wages, and materials generally (although relatively small amounts of copper and a few other metals were set aside for use by defense contractors).

Despite the increases in defense spending and the accompanying inflation, economic growth and real improvements in the living standard of the average American continued. Even after allowing for inflation, the average American has experienced a real growth in income, from \$2,123 in 1964 to \$2,473 in 1968. Also, expenditures for civilian government programs actually have increased by a larger amount than did the military budget—simultaneously with the \$30-billion rise in defense spending due to the Vietnam war, civilian agencies of the Government have increased their expenditures by \$35 billion since the war began.

The shift from cold to hot war

not only has raised the size of the military budget, but also has changed its composition drastically. The fundamental change was the shift of emphasis from maintaining the potential capability to deal with world-wide or general war situations, in favor of moving toward a military establishment actually waging a difficult but limited war whose dimensions kept evolving.

Three specific shifts in military requirements took place. The amount of funds going for tanks, artillery, rifles, ammunition, and similar conventional battlefield hardware more than doubled from the prewar level. The relative—as well as absolute—importance of missiles was reduced drastically. Meanwhile, the military aircraft budget was reoriented from new long-range bombers to acquiring smaller “tactical” aircraft, particularly helicopters and supersonic fighters, such as the F-4 Phantom.

Once again, the traditional manufacturing industries—automobiles, mechanical equipment, textiles, clothing, tires—have become important suppliers of war material. The most dramatic increases have occurred in ammunition (orders have quadrupled since 1965), artillery and small arms (more than doubled), clothing and textiles (doubled), tanks and vehicles (up 68 per cent), and food (up 66 per cent).

The highly specialized, science-oriented aerospace and electronics firms, although still very significant defense contractors, have found their shares of defense business declining. The ten firms with the largest amount of defense contracts in fiscal 1968—General Dynamics, Lockheed, General Electric, United Aircraft, McDonnell-Douglas, AT&T, Boeing, Ling-Temco-Vought, North American Rockwell, and General Motors—received 29.9 per cent of the total awards. This was down from their pre-Vietnam share of 32.2 per cent. It is interesting to note that nine of these ten giants of the military market are aerospace and electronics firms.

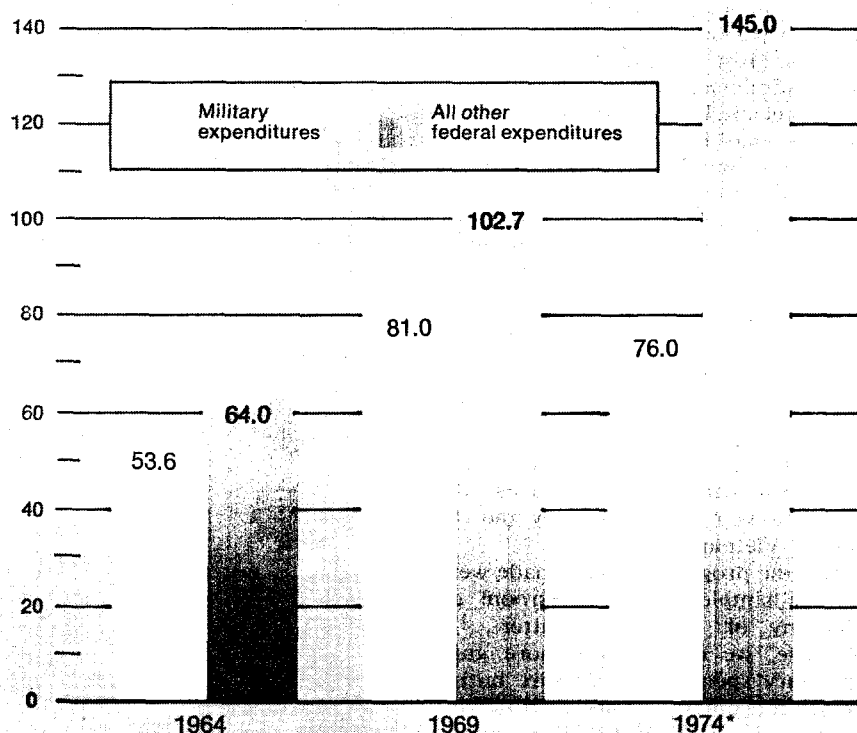
Unlike the period of production of large weapon systems—such as ICBMs, which could be supplied only by a few of the industrial behemoths with especially sophisticated capabilities—the economic demands of Vietnam involve numerous smaller contracts with a variety of medium-sized firms. “Small” firms increased their share of defense contracts from 15.8 per cent in fiscal 1963 to 18.4 per cent in 1968. (Companies that made the Pentagon’s list of the top 100 contractors in 1968, but were not in that roster earlier, include Atlas Chemical, Colt Industries, Lykes, McLean Industries, Automatic Sprinkler, Harris-Intertype, and National Presto Industries.) But many branches of the industrial economy—including leather, paint, plastic, paper, and furniture companies—have experienced virtually no increase in defense work in recent years.

Large proportions of the companies working on Vietnam orders are in the upper Midwest and in other relatively older industrial states in the East, all of which have long-standing positions in the industrial and consumer markets. The Far West, which since the Korean War had been receiving a dominant share of defense orders, has experienced absolute as well as relative declines as a military supplier. For example, Washington state firms (mainly Boeing) received \$530-million worth of defense contracts in 1968, compared to twice that amount in 1964 (\$1.1 billion). Colorado’s \$263 million of Pentagon orders in 1968 were down substantially from the \$390-million level of 1964, reflecting a decline in missile work by the Denver Division of Martin-Marietta. Similarly, in 1964 Utah received \$340 million in military contracts, down to \$263 million in 1968, reflecting lower levels of work on the Minuteman ICBM.

Eight states received defense contracts in 1968 at rates at least twice as high as the pre-Vietnam levels. They are Tennessee, Texas, Connecticut, Illinois, Alabama, Mississippi, Minnesota, and Wisconsin. Six other states were awarded defense contracts at

U.S. MILITARY BUDGETS

(1964, 1969, 1974*)
(IN BILLIONS OF DOLLARS)



*Projected, fiscal 1974, with no 10% surcharge, no wartime expenditures.
Source: Research Institute of America.

least 50 per cent greater than in fiscal 1965, before the military buildup in Southeast Asia—Florida, Indiana, Louisiana, New York, Ohio, and Pennsylvania. Most of these states, such as those in the upper Midwest, are major producers of Army ordnance and other battlefield hardware. The most dramatic expansions have been among helicopter manufacturers, notably Bell Aircraft in the Dallas-Fort Worth area, Sikorsky Division of United Aircraft in the Hartford region, and Boeing-Vertol near Philadelphia. A special case of expanding effort is the TFX (F-111) supersonic aircraft being built by General Dynamics in Fort Worth.

Vietnam also has had important effects on the pattern of civilian employment. Overall, out of more than one million new jobs directly generated by the Vietnam war, the great majority has been in highly skilled and highly paid occupations—238,000 more professional and managerial employees vs. 30,000 more service workers (the latter being among the lowest-paid groups in the nation's labor force). While the war effort has resulted in 245,000 more skilled factory workers being hired, there have been only 65,000 more jobs for laborers, 178,000 more office jobs, and 29,000 more sales positions. Thus, indirectly, the war effort has intensified some of our domestic problems—by increasing jobs for the highly skilled and relatively highly paid, rather than for the lower-income, lower-skilled portions of the population. Only one out of every ten defense jobs bears a laborer's classification, while 22 per cent of civilian jobs do.

Early optimistic appraisals of the economic environment following peace in Vietnam have glowed with visions of tax reduction, negative income taxes, federal tax sharing with the states, and massive increases in nondefense governmental activities. However, decisions already being made are strongly shaping the nature of economic adjustments to peace. A return to the prewar dollar "base" of military spending no longer seems feasible.

One reason for this is inflation. Prices on military procurements, and wages and salaries for the armed forces and civilian employees, have increased. Under existing law, the pay of both military and civilian employees of the Pentagon is scheduled to rise by about \$2 billion in mid-1969. Several large weapon systems are in early production stages and the large expenditures will come in the next year or so. They include several nuclear carriers and destroyers (about \$4 to 5 billion), the Poseidon and Minuteman III missiles (about \$7 billion), and the Safeguard ABM system (estimated from \$5 billion to several times that amount).

Moreover, because the non-Vietnam portions of the military budget have been squeezed in recent years, considerable "catching up" is needed especially in deferred maintenance, inventory replenishment, and advanced research and development. In 1968, for example, the Department of Defense spent less money than in 1965 on research and development in army ordnance and combat vehicles (tanks, artillery, etc.) and in military science.

This is all aside from future consequences of any new decisions to bolster the nation's long-term arsenal of weapon systems. Two portents of future Congressional action are recent reports by the influential House and Senate Committees on Armed Services. After a year of detailed study and hearings on strategic forces—those designed for all-out nuclear warfare—the Senate Committee urged, "Prompt decisions should be forthcoming for the deployment of additional and more modern weapon systems and improvements to existing weapon systems." The Committee specifically recommended rapid development of a new long-range strategic bomber, and accelerated research and development on an advanced ICBM—each of which could cost \$5 billion or more to develop and produce in quantity.

The House Armed Services Committee issued a similar report on sea-power, again recommending new hardware. The committee chairman described as "irrefutable" the conclusion that the Navy's most urgent requirement is new ships (nuclear escort ships currently cost about \$125 million each, and nuclear carriers more than \$500 million).

In addition, a large civilian space program is being recommended for the 1970s. Simultaneous development of a permanent space station plus continued exploration of the moon—after this year's scheduled manned landing—carries a price tag of \$45 billion for the next decade. And development of a commercial supersonic transport, if carried out, will cost more than \$1 billion. Over the whole economic structure, meanwhile, hangs the threat of inflationary pressures—which, as of this spring, were substantial.

Hence, because of these built-in momentums, the economic environment is not conducive to easy selection of new or expanded domestic social programs, regardless of urgency. Rather, economic factors tend to indicate the need for hard choices among the many pressures for government spending. A tough-minded sense of priorities and a careful weighing of benefits against costs are very much needed.



"Do you ever get that feeling—that while we're sitting here, oblivious, the Dow Jones Industrial Average may be falling?"

How Much Money For Plowshares?

By JOHN R. STARK

Achievement of peace in Vietnam would provide material resources and manpower that could be directed toward important civilian goals. There is little argument on this issue. What is problematic is the extent to which resources would be made available. There is an unfortunate tendency to exaggerate the possibilities for Vietnam "savings" and application of freed resources to the resolution of our urgent domestic problems.

Our economy is presently producing at a level of more than \$900 billion a year in goods and services, including additions to our capital assets. Total military expenditures are now about \$80 billion a year—about 9 per cent of the Gross National Product. The Vietnam war portion of the defense budget is approximately \$30 billion, or about 3.33 per cent of the GNP. Contrary to Marxist dogma that war is an indispensable stimulus to a capitalist economy, our involvement in Vietnam has been a drain on resources needed for im-

provement of our standard of living and for mitigating social problems that bedevil us, as well as weaken our prestige throughout the world.

Were we to assume that cessation of hostilities and achievement of some kind of peace in Vietnam suddenly eliminated the need for spending the \$30 billion, there would undoubtedly be depressive effects. Despite many proposals for increased federal expenditures in the social sector, we do not have enough of a backlog of programs sufficiently worked out to be put into effect at once. Nor do we have the trained personnel needed to staff undertakings of this dimension.

The dangers of this kind of dislocation are remote, however. At best, there will be a gradual decline in our Vietnam expenditures, and increases in other military expenditures will partly offset the reduction. Thus, we are not likely to face the economic adjustment problems that accompanied demobilization after World War II or the Korean conflict.

The possible economic effects of ending hostilities in Vietnam were assessed

in some detail by a special Cabinet committee, first convened by President Johnson in March 1967. Made up of the Secretaries of Treasury, Defense, Commerce, and Labor, the Director of the Bureau of the Budget, and the Chairman of the Council of Economic Advisers, it had the stated objective of developing recommendations for sustaining prosperity during the Vietnam demobilization, and for assuring the best utilization of resources for other high-priority programs. For purposes of analysis, it was assumed that a genuine peace would be secured within six months after cessation of hostilities and that a full withdrawal of troops could then be started. In the opinion of these officials and their expert advisers, the assumptions represent the most rapid demobilization conditions that can realistically be projected. If Paris negotiations offer any criterion, a less rapid wind-down seems more likely.

The demobilization scenario called for a decline in the armed services of about 800,000 people over a twelve-month period beginning six months after the cease-fire. There would be a concomitant decline in Defense Department civilian personnel of some 170,000 between the third and the sixth quarters. These changes would reduce expenditures by \$7 billion annually; other military operating expenses might decline by \$4 billion, and there would be a drop in expenditures for procurement by some \$8 billion at the end of ten quarters. In toto, the annual rate of defense spending would decrease by \$8 billion at the end of one year, \$16 billion at the end of one-and-a-half years, and \$19 billion at the end of two-and-a-half years.

This decline in expenditures, then, would be about \$11 billion less than the \$30 billion a year we are now expending for Vietnam. This margin allows for the increase in general military expenses that would follow a Vietnam close-out; replenishing equipment; resumption of presently curtailed activities; refilling supply pipelines; and probably some residual surveillance in Southeast Asia. In addition, there would be increases in military pay scales and anticipated increases in the goods and services purchased by the Defense Department—costing another \$1 billion each quarter, according to Cabinet committee estimates. Thus, over ten quarters, this would come to \$10 or \$11 billion solely for what might be called "going concern" increases, excluding any current proposals for new weaponry or improved equipment.

If we accept these assumptions about military increases — relatively modest in view of the current discussion of new weaponry — then public policy must deal with an aggregate decline

