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COST OF THE WAR IN VIETNAM

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15 November 1970

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SUMMARY

↙ The direct costs of the War in Vietnam will reach \$125 billion in FY 1971 and may reach \$150 billion before the end of hostilities. However, this substantial sum is but a fraction of the total cost of the war which must include special economic aid to South Vietnam, the cost of the dead and wounded, veterans benefits, the cost of conscription, interest on the national debt to finance the war, and the cost of inflation to the civilian economy. Excluding the social costs, such as rising crime and increasing use of drugs which are in part related to the war, the total costs will probably be in excess of \$750 billion. The extremely high overall costs of fighting a limited war with limited objectives indicates that the economic factor should loom large in policy considerations and strategic planning for the future. ()

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COST OF THE WAR IN VIETNAM

"We are the wealthiest nation in the world. . . We can, and will spend whatever is necessary to preserve our freedom."¹ In his Defense Message to Congress of 1965, President Johnson expressed a view traditionally held in the United States since the days of the American Revolution, that the security and freedom of United States citizens are of overriding importance and that any expenditure or any sacrifice is justified to preserve and defend this freedom and security. In 1970, after five years of important U.S. military action in Vietnam, few would question huge expenditures and the postponement of government programs in other areas if the security of the country were demonstrably threatened. However, because of the extended and inconclusive nature of the war, more people apparently agree with the thought expressed by President Johnson in the same speech when he stated:

"Arms alone cannot assure the security of any society or the preservation of any peace. The health and education of our people, the vitality of our economy, the equality of our justice, the vision and fulfillment of our aspirations are

¹ President Lyndon B. Johnson, Defense Message to Congress, January 18, 1965, as quoted in Raymond G. O'Connor, ed., American Defense Policy in Perspective (New York: John Wiley & Sons, 1965), p. 376.

all factors in America's strength and well-being."²

Thus, expenditures that might otherwise be allocated to the pursuit of the war or other security measures are of necessity being reallocated to domestic programs.

It is not the purpose of this paper to discuss the pros and cons of the Vietnam War. This war is complex and probably cannot be fully evaluated until the light of history has illuminated all aspects of it. At present it is not possible even to evaluate fully the economic aspects of the war, since expenditures are still being made. However, it is possible to develop some parameters of cost and gain some insights which might be useful in making decisions concerning limited wars of the future.

DIRECT MILITARY COSTS

Military defense expenditures in support of Southeast Asia operations for the period FY 1965 - FY 1970 are estimated at \$106.8 billion, as shown in Table 1. For the last three years of this period, these expenditures have been equal to about one-third of all U.S. defense costs and over 13 percent of the entire U.S. budget. Because of the expressed need to maintain security

² Ibid., p. 370.

Table 1

ESTIMATED SPECIAL SUPPORT FOR SOUTHEAST ASIA OPERATIONS
FY 1965 - FY 1970
(Millions of Dollars)

| <u>Fiscal Year</u> | <u>Military Defense</u> | <u>Economic Assistance</u> | <u>Total</u> |
|------------------------|-----------------------------|--------------------------------|------------------|
| 1965 | \$ 103 | --- | \$ 103 |
| 1966 | 5,812 | \$ 282 | 6,094 |
| 1967 | 20,133 | 424 | 20,557 |
| 1968 | 26,547 | 292 | 26,839 |
| 1969 | 28,812 | 380 | 29,192 |
| 1970 | 25,397 | 336 | 25,733 |
| Totals | <u>\$106,804</u> | <u>\$1,714</u> | <u>\$108,518</u> |

Source: The Budget of the United States Government, Fiscal
Year 1970, p. 74.

of U.S. withdrawal plans during FY 1971, expected defense expenditures in Vietnam are not available for the current fiscal year.³ However, it is probable that they are of the order of \$15 - \$20 billion, bringing the total cost of the war to about \$125 billion since the beginning of FY 1965.

The cost of future military expenditures in Vietnam and adjacent border areas cannot be estimated, dependent as they are on the success of U.S. peace initiatives and discussions in Paris. At present, however, it seems unlikely that direct costs will be less than \$135 - \$150 billion, making the War in Vietnam the longest war fought by the United States and save only for World War II, when U.S. territory was directly attacked and more than 10 million men were under arms, the most costly.

ECONOMIC AID TO VIETNAM

As a necessary adjunct to military operations in Vietnam, the United States has spent an estimated \$1.7 billion in special support economic aid during the FY 1965-70 fiscal period (Table 1). If the current fiscal year is included, these expenditures amount to about \$2 billion. Total economic aid to Vietnam during the

³ The Budget of the United States Government, Fiscal Year 1971
(Washington: US Government Printing Office, 1970), p. 81.

FY 1966-71 period is estimated at \$2.7 billion.⁴ By way of comparison, U.S. nonmilitary assistance to Korea amounted to \$759 million from FY 1945 to FY 1953.⁵

In future years, economic aid to Vietnam is likely to be continued, perhaps for a decade or more, and also increased in magnitude. In recent months, several massive economic programs to develop both South and North Vietnam have been considered should hostilities cease and such programs be acceptable. During FY 1971, an AID program of \$474 million has been budgeted, an increase in program level of nearly \$100 million over FY 1970. One element of economic assistance, the commercial import program, has been increased from \$240 million to \$320 million to combat increasing inflationary pressures.⁶

A conservative estimate of \$5 billion might be placed on the ultimate cost to the United States of economic aid to Vietnam and border areas growing out of U.S. military participation in

⁴ Ibid., p. 93.

⁵ Henly M. Ogburn, Jr., U.S. Economic Aid to Korea Thesis (Carlisle Barracks: US Army War College, 8 March 1953), p. 34.

⁶ The Budget of the US Government, FY 1971, p. 94.

that region.⁷

COST OF THE DEAD AND WOUNDED

As of mid-May 1970, American deaths in the Vietnam War had amounted to more than 50,000. By the time the war is terminated, the total will probably be between 55,000 and 60,000. As in other wars, the dead are primarily young men with their full economic potential in front of them; about 53 percent of those killed between 1961 and 1969 were under 21 and 75 percent had less than 2 years service.⁸ Most of the dead, then, are not military professionals and could have been expected to have contributed to the civilian economy.

The average lifetime income potential of a young American is currently estimated at \$232,000.⁹ Thus, the lost income of 55,000 military personnel killed in Vietnam amounts to nearly

⁷ The increased role of the military in political, social, economic, and cultural activities of Vietnam and other countries has already resulted in the reorganization of the John F. Kennedy Center for Military Assistance at Ft. Bragg, N.C., and presages an enlarged role for the military professional in nonmilitary programs in future years. See Tad Szulc, "Many U.S. Civilians Roles in Asia May Go to Military," New York Times, June 10, 1970, p. 1.

⁸ "U.S. War Dead -- Half Were Too Young to Vote," U.S. News & World Report, April 28, 1969, p. 10.

⁹ Leonard S. Silk, "Marxist Saws Die Hard," New York Times, July 15, 1970, p. 49.

\$13 billion.

Although the United States has maintained an outstanding record in military medicine during the Vietnam War, its prolonged nature and the effects of modern weaponry have resulted in mounting battlefield casualties many of whom must be given medical attention for many years. To date, the number of wounded in Vietnam has exceeded 200,000, double the number wounded in the Korean War and slightly exceeding the number wounded in World War I. Military personnel with service-connected disabilities from Vietnam now total 145,000. By the end of the war, this total may reach 160,000. At an average disability rate of 35.5 percent, medical costs for the treatment of these servicemen are expected to add an additional \$13 billion to the cost of the war.¹⁰

VETERANS BENEFITS

Traditionally, the United States offers many benefits to ex-servicemen including education, training, and rehabilitation; readjustment benefits; medical care; and pensions and income security. Moreover, if previous wars can be used as yardsticks, these benefits to veterans and their dependents will continue

¹⁰ Ibid.

for several decades and will ultimately exceed the total direct costs of the war itself. For example, it has been calculated that veterans benefits for the Spanish-American War cost \$5.3 billion, or 13 times the original cost of that war. Projected veterans benefits for World War I, World War II, and the Korean War will increase the cost of those wars by 290 percent, 100 percent, and 184 percent respectively.¹¹

Veterans benefits for the American Revolution, War of 1812, Mexican War, and Civil War (Union only) did not stop until 128, 131, 116, and 113 years after the end of hostilities. By this yardstick, veterans benefits may still be paid to veterans of the Vietnam War and their surviving dependents through the 21st century, approximately to the year 2100 A.D. Estimated at 175 percent of direct military expenditures, veterans benefits for the Vietnam War will amount to roughly \$250 billion.

COST OF CONSCRIPTION

The opportunity cost of shifting several hundred thousand men from civilian to military employment during the Vietnam War is another factor that might be included in the overall

¹¹ U.S. Congress, Joint Economic Committee, The Military Budget and National Economic Priorities (Washington: US Government Printing Office, 1969), p. 149.

costs of the war. According to one estimate, the difference in lost earnings of these men during the 1965-70 period is \$82.5 billion.¹² Total lost earnings during the entire war may, therefore, amount to about \$100 billion.

INTEREST ON THE NATIONAL DEBT

Major expenditures for national defense are financed by deficit spending, causing an increase in the national debt and higher interest costs. Except for some \$15 billion in general relief and recovery funds during the depression years of the 1930s and some large-scale loans for postwar foreign aid, the substantial increases in federal debt have all been occasioned by wars,¹³ as shown in Table 2. Moreover, in recent years, there has been an increasing tendency for the Federal government not to repay the principal on the national debt readily, thereby lengthening the period of debt payment and increasing overall interest costs.

It has been estimated that interest payments on Civil War debt amounted to 37 percent of the direct cost of that war to

¹² Silk, op. cit., p. 49.

¹³ Lawrence H. Smith, "The Monetary Costs to the U.S.A. of World War I, World War II, and the Korean War," Congressional Record, June 8, 1954, appendix, pp. A 4313 - A 4314.

Table 2

PUBLIC DEBT OF THE FEDERAL GOVERNMENT AND INTEREST PAID
1790 - 1970
(Millions of Dollars)

| <u>Year</u> | <u>Gross Debt</u> | <u>Interest Paid</u> | <u>Year</u> | <u>Gross Debt</u> | <u>Interest Paid</u> |
|-------------|-----------------------|--------------------------|-------------|-----------------------|--------------------------|
| 1790 | \$ 75 | \$ 2 | 1890 | \$ 1,122 | \$ 36 |
| 1795 | 81 | 3 | 1895 | 1,097 | 31 |
| 1800 | 83 | 3 | 1900 | 1,263 | 40 |
| 1805 | 82 | 4 | 1905 | 1,132 | 25 |
| 1810 | 53 | 3 | 1910 | 1,147 | 21 |
| 1815 | 99 | 6 | 1915 | 1,191 | 23 |
| 1820 | 91 | 5 | 1920 | 20,299 | 1,020 |
| 1825 | 84 | 4 | 1925 | 20,516 | 882 |
| 1830 | 49 | 2 | 1930 | 16,185 | 659 |
| 1835 | -- | - | 1935 | 28,701 | 821 |
| 1840 | 4 | - | 1940 | 42,968 | 1,041 |
| 1845 | 16 | 1 | 1945 | 258,682 | 3,617 |
| 1850 | 63 | 4 | 1950 | 257,357 | 5,750 |
| 1855 | 36 | 2 | 1955 | 274,374 | 6,370 |
| 1860 | 65 | 3 | 1960 | 286,331 | 9,180 |
| 1865 | 2,678 | 77 | 1965 | 317,274 | 11,346 |
| 1870 | 2,436 | 129 | 1970 | 353,720 | 16,588 |
| 1875 | 2,156 | 103 | | | |
| 1880 | 2,091 | 96 | | | |
| 1885 | 1,579 | 51 | | | |

Sources: Historical Statistics of the United States, Colonial Times to 1957, pp. 720-721. Statistical Abstract of the United States, 1970, p. 392.

the Union, and interest payments on the national debt occasioned by World War I amounted to 42 percent of the direct costs of that war.¹⁴ Interest payments on World War II and the Korean War are still being made and could amount to 50 percent or more of the direct expenditures for these wars. If 50 percent can be assumed as a reasonable estimate of interest costs for the Vietnam War, the total interest cost would amount to about \$75 billion.

COST OF INFLATION

Inflationary costs of the Vietnam War have been heavy, and have touched every family. In his State of the Union message of January 1970, President Nixon indicated that the Federal government spent \$57 billion more than it realized in taxes during the 1960s and that this deficit spending raised the cost of living for the average family of four by \$200 per month.¹⁵ While it might be argued that some of the deficit was accounted for by nonmilitary programs and military programs unrelated to Vietnam, most of the deficit can probably be traced

¹⁴ U.S. Congress, Joint Economic Committee, op. cit., p. 149.

¹⁵ U.S. Congress, House of Representatives, State of the Union. 91st Congress, 2d Session, 1970. H. Doc. 91-226.

to the effects of the Vietnam War.

From an economic point of view, the escalation of the war in 1965 came at precisely the wrong time. In that year, the nation's economy was rapidly approaching full employment in the wake of the stimulation provided by the substantial tax reduction of 1964. The escalation of the war at that time undoubtedly bred inflation, deprived the economy of resources needed for housing, education, and other social expenditures, and reduced the effective income of the average American family.¹⁶

Between 1965 and 1970, the average worker's spendable income declined by about 2 percent, whereas an increase of about 10 percent might have been expected during this period without the inflationary effects of the war.¹⁷ In essence, then, the loss in spendable income amounted to about 12 percent of \$550 billion, or \$66 billion.

From 1965 to the first quarter of 1970, corporate profits, adjusted for inflation, fell by 16.8 percent; during the 1961-65 period, corporate profits rose by 61.2 percent. Similarly, the

¹⁶ Silk, op. cit., p. 60.

¹⁷ Ibid.

value of corporate stocks fell 36.5 percent during the past five years, compared with a 48.5 percent rise in the years 1961-65.¹⁸ The decline in corporate profits during the intensified period of the Vietnam War is calculated at \$67 billion (\$13 billion a year for five years), excluding any consideration of possible increases that might otherwise have occurred during that period. Stock prices, of course, reflect both this decline and the belief that these depressed economic conditions will prevail as long as the war continues.

The total economic effect of the Vietnam War has likely been to deprive wage earners and companies of income of more than \$130 billion to date, and possibly \$150 billion or more by the end of hostilities. In so doing, it has also had the effect of depriving Federal, state, and local governments of income which might have been allocated to other military, economic, or social programs.

SOCIAL COSTS

The social costs of the Vietnam War are unmeasurable. Undoubtedly, though, they have been substantial. President Nixon recently pointed out that the decade of the 1960s, during which

¹⁸ Ibid.

the Vietnam War has been fought, has witnessed the greatest growth of crime and the greatest social unrest in America in 100 years.¹⁹ Although it would be difficult directly to equate the rise in crime and social unrest directly with the Vietnam War, it is also true that these social problems are difficult to explain unless the Vietnam War is considered.

Spending by the Federal government for human resources (education and manpower, health, income security, and the like) rose \$28 billion (nearly 80 percent) during the years FY 1965 to FY 1969; during the FY 1969-71 period, spending for these programs is budgeted to increase \$18.4 billion to an annual rate of \$81.9 billion, thereby consuming 41 percent of the federal budget compared with 37 percent for national defense.²⁰

TOTAL COSTS OF VIETNAM WAR

If all the costs excepting social costs enumerated in the preceeding paragraphs were added, their total would reach more than \$750 billion, as compared with something less than \$150 billion in direct war costs. Although some of the costs are

¹⁹ U.S. Congress, House, State of the Union. 91st Cong., 2d Sess., 1970. H. Doc. 91-226.

²⁰ The Budget of the US Government, FY 1971, pp. 77-79.

partially overlapping, and only a portion are costs to the government, the total is clearly substantially greater than direct cost estimates. Veterans benefits and interest on the national debt incurred to fight the war triple the original cost, and other factors can bring the total to more than 5 times the original direct defense expenditures.

By way of comparison, \$750 billion is equal to about 76 percent of the total estimated 1970 gross national product; approximately equivalent to the total value of all new construction, public and private, of all types during the past decade; equal to $2\frac{1}{2}$ times the value of all agricultural assets, including farms, farm machinery, livestock, crops, household furnishings, and other financial assets; equivalent to $3\frac{1}{2}$ times the invested capital of the 500 largest U.S. industrial corporations; and 15 times greater than the total U.S. currency now in circulation. Truly, the cost of the Vietnam War is enormous.

POLICY IMPLICATIONS OF THE COSTS OF THE VIETNAM WAR

In view of the huge costs of the Vietnam War, it no longer seems reasonable to approach a potential limited war situation lightly (as in the words of the World War I music hall song):

'We don't want to fight
But, by Jingo, if we do,
We've got the men, we've got the ships
And we've got the money, too.'²¹

Because of the magnitude of the direct military expenditures necessary, and the multiplier effect of related costs, it is increasingly important that decision-makers explicitly consider the costs of fighting a limited war like Vietnam and weigh these costs against the possible gains to be achieved.

While it is recognized that it is difficult to measure war costs against the political stakes in homogeneous units, it does appear imperative that the ultimate decision not depend on the emotional impact of the alternative courses of action,²² but upon clear deliberations which include a detailed consideration of long-term economic consequences.

The Korean War which was far less costly than Vietnam led to a reassessment by the Eisenhower Administration of defense policy and the strategy of massive retaliation under which the U.S. would presumably obtain more for the defense dollar spent. Although this strategy was later reassessed in view of changing

²¹ Quoted in Frank Allaun, The Cost of Suez (London: Union of Democratic Control, 1959), p. 1.

²² Paul Kecskemeti, Strategic Surrender (New York: Atheneum, 1964), p. 19.

views and world conditions, thus permitting a flexible response to limited wars such as Vietnam, it is probable that a further reassessment of long-range strategic policy is now necessary in view of the huge costs and the political lessons learned in Vietnam.

If it is true that "in the nuclear age the powers must accustom themselves to thinking in terms of relatively small political payoffs,"²³ we must either reassess the political values at stake in limited wars or be prepared to accept huge expenditures which may affect the American economy and way of life for many decades.

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²³ Ibid., p. 257.

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