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The Vietnam War: Tax Costs and True Costs

By Peter B. Lund

The Common Man in the Street, on being interviewed and asked the question, "What is the cost of the Vietnam War?," might respond, "I understand it's about twenty-five billion dollars a year." Twenty-five billion dollars per year is the current estimate of the tax cost of the Vietnam War and a figure which is widely circulated in this country. However, one need not be an especially astute observer of the domestic and international effects of the Vietnam situation as it affects this country domestically and internationally to realize that the cost to the United States of conducting a war of the size and sort which rages now in Southeast Asia greatly exceeds the nominal dollar sum which is borne by the nation's taxpayers. Consequently, one would expect, or at least hope, that our Common Man would append to this response some qualifications such as, "But that twenty-five billion dollars doesn't include the trouble we have here at home with the peaceniks and the ruckus and fuss kicked up around the world and aimed at our embassies and maybe a few other things which a guy can't really put his finger on."

I would like to put a finger on those "other things" which are implied by the Vietnam War and which should be included in a comprehensive measure of the true costs to the American people of the Vietnam War, but which are not counted in the calculations of the Bureau of the Budget and the Department of Defense. As an incidental exercise, not unrelated to the task of pinning down elements of the cost of the War, I would like to delve briefly into the question of how the cost is distributed among the citizens of this country. Whether or not our Common Man can readily and exactly identify the costs associated with the War, he and his fellows bear them all. However, depending on just who he is, he may bear a heavy cost burden or a light one. The uncommonly heavily burdened Common Man, in particular, has an uncommon interest in learning of his situation. Those who are most directly concerned with determining how the costs are distributed should also have an interest. At least, all Common Men would hope they do. It will

facilitate matters to divide true costs into three categories and to discuss each separately: (1) Direct resource costs, (2) intangible and indirect costs, and (3) Net foregone benefits. What is included in each category will become clear as each is discussed.

Direct Resource Costs

The conduct of the Vietnam War requires the use of an endless variety and immense quantity of tangible physical resources. At any point in time more than half a million United States military men are in Vietnam devoting their efforts directly to the conduct of the war. Thousands more pursue the war effort at locations more or less remote from Vietnam itself: Thailand, the Phillipines, Hawaii, San Francisco, Washington, D.C. Countless tons of steel and millions of yards of cloth are expended annually in the war effort. A full listing of resources would comprise several pages of fine print.

According to federal government estimates the budgetary costs of all the resources amounts to approximately twenty-five billion dollars per year, currently. If we ignore such intractable accounting problems as those involved in dividing the costs of the San Francisco Hunter's Point Naval Shipyards between the Vietnam War and other defense efforts or the salary of the Secretary of Defense into discrete portions, one of which is allocated to the War, and if we further ignore the liklihood that some of these sorts of calculations are not even made by the budgetary cost estimators, we may agree with the Administration in Washington that taxpayers are coming up with approximately twenty-five billion dollars per year to sponsor the direct use of resources in the War effort.

However, we will not agree with the Administration, our common men, or with anyone else that twenty-five billion dollars represents the full direct resource costs of the War. Such costs are meaningfully measured by the dollar value of the resources in their alternative uses, the true value of the resources to the United States, not by nominal dollars which our government pays for them.

The measure of value in alternative use is simply the market price of a resource times the quantity involved. If the government buys one million single-edged razor blades

and pays the going market price for them, then the budget cost figure for single-edged razor blades satisfactorily represents the resource cost involved. The question is, does the government buy resources for the Vietnam War at market prices? For most resources it does, but for at least one very vital and, in dollar terms, very significant resource, it does not. Were he twenty-two years of age and just completing his college education in the spring of 1968, our Common Man could readily identify the resources involved, namely himself and the other draft-eligible men of this country.

The way in which the manpower resource costs of a draft army as reflected in the federal budget deviate from the value of the manpower resources in their alternative employment is an issue which has received modest attention over the years. In an excellent article published in the August, 1967, issue of the Quarterly Journal of Economics and entitled, "Economics of the Military Draft," Professors Weisbrod and Hansen of the University of Wisconsin provide some enlightening empirical observations on the subject. On the basis of certain reasonable simplifying assumptions and using 1959 income data and 1963 manpower data, Weisbrod and Hansen calculate that the average annual salary income which would have been received by military men who are draft-affected (most simply, draftees or those whose "voluntary" service was compelled by the threat of the draft) amounts to about \$3900. Average annual compensation for draft-affected military men, including fringe benefits such as housing, food, and so forth, is approximately \$2400. The discrepancy, then between the budget cost and the actual resource cost is \$1500 per man.

Exactly how many men involved in the Vietnam War effort are draft-affected is not known, but one can get an idea of the possible magnitude of the budget's understatement of resource costs by performing some simple multiplications. There are in excess of one-half million men involved in the War. If half of them are draft-affected, the understatement is \$375 million, or 1.5% of the total budget cost. If 400,000 men are draft-affected the understatement is \$600 million, or almost 2.5% of the War cost. Considering that Weisbrod and Hansen view their estimates as conservative and considering further that military pay raises over the past few years have not kept pace with increases in civilian salaries, the actual understatement of the War costs is probably considerably greater than the above figures indicate.

There is a possible further understatement of the direct resource costs of the War. For the period January 1, 1961, through the first week of March, 1968, United States casualties in Vietnam included 19,313 dead and 117,680 wounded. At current rates, the casualty toll in Vietnam exceeds 10,000 dead and 50,000 wounded annually. What exactly are the resource costs of war casualties and are they included in the federal budget cost estimate?

Consider the matter of war deaths. To put it in terms necessarily dispassionate and objective, in the case of a soldier's death society loses a substantial investment in a productive resource. An educated and trained human represents an investment which potentially will yield an amount of produce in the future. In principle, destruction of human beings who have training and education is no different in terms of loss of future material product than in the destruction of a machine. Estimates of the value of the productive capital represented by a trained and educated human are unavoidably somewhat speculative, but figures have been developed. Professor Becker of the University of Chicago, in a path-breaking work on the subject entitled Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education, has developed estimates which can be combined with Vietnam death figures to provide an indication of the War's destruction of human capital. Becker estimates that a male, age twenty-two and with a high school education, represents \$33,000 in productive capital. If it is reasonable to assume that in Vietnam we are losing annually 10,000 men whose average age is twenty-two and whose education is at the high school level, then our country loses annually \$330 million worth of human capital.

Whether or not this represents an additional direct resource cost which is not included in the twenty-five billion dollar budget figure depends on two considerations. One is whether or not the military death benefits paid the survivors of War dead are equal to the value of the capital lost. The second is whether the budget cost estimate includes death benefits.

Similar considerations apply to wounded soldiers. Depending on the nature of the injuries involved, destruction of a certain amount of human capital takes place when soldiers are wounded. Speculation on what dollar quantities are involved is not particularly fruitful, but it may fairly be concluded that a substantial loss occurs. Again, questions may be raised as to whether injury benefits equal to the capital loss are paid and whether such benefits are included in the budget figure.

In summary, our Common Man is well-advised to consider that the full direct resource costs of the Vietnam War exceed the quoted budgetary costs by an amount which, at a minimum, is probably at least 2% of the budget figure but which, at a maximum, may be four or five times as high.

Intangible and Indirect Costs

Unless our Common Man is uncommonly ignorant of what goes on in his country and elsewhere, he will be aware that not only are a great many tangible physical resources used up in the prosecution of the Vietnam War, but that a substantial number of other negative consequences of the War burden his and his fellows' existence. He will also be aware that these burdens are nowhere reflected in the budget estimate. The emotional suffering which a mother and father experience when their son is reported killed in action is not a material thing which can be measured in dollars and cents. The expenditure of human emotion in war-associated grief does not represent the exhaustion of a tangible resource valuable to the production of cigars, TV sets, or breakfast foods. However, that it is costly in terms of its effects on human well-being is undeniable. That it should be regarded as a cost of the Vietnam War is also clear.

Parental grief over the loss of a son is but one of the intangible and indirect costs which may be imputed to the prosecution of the war in Southeast Asia. Were our Common Man a close observer of foreign peoples and their attitudes toward the United States he would be able to tell us of the loss of international stature and position which his country has experienced as a result of the War effort. Were he a member of the Oakland Police Department he could describe the effort he and his fellow officers have spent in controlling anti-War demonstrations in the streets of that city. Were he an expert on resource use in the judicial process he could tell us what amount of resources has been devoted to the resolution of legal entanglements arising from citizen War protest.

It is clear that the measurement of such costs in terms which are useful in the making of decisions regarding the War effort is an exceedingly difficult proposition. In some instances the attempt would be simply impossible. However, it is equally clear that the existence of such costs cannot be ignored merely because they are not readily susceptible to measurement. Any decision on the War must take account of them in some way, because they are undeniably substantial.

Net Foregone Benefits

The Common Man often hears that the cost of our Vietnam involvement includes such things as the following: urban riots, racial strife in general, the weakening of the U. S. military posture in Korea and elsewhere, upward pressure on the dollar price of gold, and other various and sundry items. I would suggest that to relate these problems to the Vietnam War on a simple cost basis is incorrect. I would hasten to add, however, that the War and some of the crises which afflict our country are not unrelated and that the relationship should be viewed as follows.

Our commitment of resources to Vietnam entails the cost of the resources and certain intangible and indirect cost consequences as described above. In addition, as a result of the War effort there are, in principle at least, certain benefits created. The commitment of the same resources to alternative programs, whether public or private, domestic or international, would entail the same direct resource costs, would possibly give rise to tangible and indirect costs, and would presumably provide benefits. Consider the following alternative to the Vietnam War. The President's National Advisory Commission on Civil Disorders suggests that a program for solving problems of urban riots in this country would cost approximately two billion dollars per month. Let us assume that the direct resource costs involved in the expenditure of this two billion dollars per month on an "Urban War" just equal those involved in the Vietnam War. Let us assume, further, that some intangible and indirect costs would be associated with the Urban War. Certain individuals might suffer grief at having their personal freedom impinged upon by increasing federal government involvement in the urban area. Protest movements concerning the Urban War might require police and judicial action. And finally, let us assume that the Urban War would produce some benefits.

Compare, now, the two alternatives, the Vietnam War and the Urban War. If the total benefits of the Vietnam War minus its costs (direct resource costs plus tangible and indirect costs) fall short of the total benefits of the Urban War minus its costs, then we may conclude that the country has been disadvantaged by the decision to pursue the Vietnam War rather than the Urban War. In this sense one may attribute domestic crises to the pursuit of the Vietnam War.

Again, because it is imperative that decision-makers be possessed of complete information, we are faced with the question of evaluating this additional sort of cost in a way

which is meaningful and useful. The problem of cost measurement in this case is well-nigh insuperable, however, because what must be attempted is not only the evaluation of direct resource costs, intangible costs, and indirect costs, but also the evaluation of benefits. One can only say that the evaluation of benefits is a contentious matter of the highest order. What may a public decision-maker conclude when he hears on the one hand from the Common Bearded Hippie in the Street that the benefits created by the Vietnam War are equal to zero and on the other from the Common John Bircher in the Street that the value of prosecuting the War is surpassed not even by life itself? Despite the dilemma, though, it is clear that significant net benefits may be foregone as a result of pursuing the war in Vietnam and that decision-makers must do no less than their best in trying to determine if this is so.

Cost Distribution Considerations

I would like to consider one final sort of cost which is often improperly imputed to the War. The total cost of the War is distributed in some fashion among the citizens of this country. Many observers, making their best estimates of that cost distribution, conclude that it is a distinctly inequitable distribution. The major contention is that those individuals who are most directly involved in conducting the war, the soldiers on the firing lines in Vietnam, along with their families, bear an unusually and inequitably large share of the War's cost.

Given the highly intangible nature of many of the costs which rest on such persons, a close estimate of the differential cost burden on them is difficult to make. There is, however, some empirical evidence relating to a part of the differential burden. We have seen that a significant extra-budgetary cost appears because military pay rates are substantially less in many cases than alternative civilian rates. It is clear that this cost rests squarely on the draft-affected soldiers whose military salaries fall short of their civilian alternatives. As indicated above, the amount by which the average military compensation for draft-affected men fell short of their average alternative civilian salary was \$1500. In effect, the military draft causes an implicit tax of \$1500 per man to be levied on substantial numbers of our nation's military men.

Such a tax clearly is inequitable. Were a tax of similar magnitude placed on another minority group in our society to finance some other public endeavor, such as the building of

the spaceport at Cape Kennedy, the outcry from both the minority and the majority would be immediate and loud. This is because our society in the United States has long been more or less firmly committed to the general principle of equity. For a society which views equity as a virtue, the sacrifice of equity is a cost. It is incorrect, however, to attribute the loss of equity in the distribution of Vietnam War costs to the War itself. The differential tax placed on draft-affected soldiers who are involved in the Vietnam War effort is due, not to the War, but to the institution of compulsory military service. The same may be said for all the other War costs which may or may not be distributed in an equitable fashion. The War gives rise to the costs, but our society's institutional structure gives rise to the pattern of distribution. However, it should be noted that given the institutions which might lead to an inequitable distribution of war costs, the inequity need never arise if wars never are fought. If we are rid of the Vietnam War, we are rid of the inequitable cost distribution.

Conclusion

It would be erroneous to conclude from the preceding discussion that our Common Man is now armed with sufficient guiding principles, concepts and data to march on Washington to inform the decision-makers in the Pentagon, the State Department and the White House what the true costs of the Vietnam War amount to. Rather, the lesson is that in considering the costs of the Vietnam War one must realize that some aspects of the War situation represent War costs and others do not; some cost elements may objectively be agreed upon regarding their quantitative significance and others require subjective valuation; and considerable thought and effort must be devoted to the question of War costs before a rational and enlightened estimate can be made. Unless the people of this country are willing and able to devote such thought and effort, we cannot be sure that the democratic processes which they have agreed upon as regulators of their common business will produce an appropriate decision with respect to the continuance of the war in Southeast Asia. I would suggest that the potential cost of improper decision-making on this country's conduct of international war is sufficiently great that no citizen can afford not to dwell seriously and at length on the subject of this essay.