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Vain Hopes, Grim Realities

John Eric Fredland

Robert W. Stevens

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radiation poisoning while imprisoned at the city jail in Hiroshima. By using newly declassified sources, such as the records of the Manhattan Engineer District at the National Archives, the President's Map Room files at the Franklin Roosevelt Library, Henry L. Stimson's diary and papers at Yale University, and Prime Minister Churchill's official files at the Public Record Office in London, he fleshes out the skeleton of news reports, official documents, and technical information previously available to historians. Sherwin also performs a valuable service by reprinting in an appendix 17 key documents concerning the diplomacy and development of the atomic bomb.

A World Destroyed is a chronicle with a sobering theme: that while the United States may have developed the atomic bomb in part to achieve a new and peaceful world order, the fact that that technology was developed in secret and diplomatically utilized to achieve national ends meant that the effort helped to create the very situation it was intended to prevent. Such a thesis is difficult to prove as there is no way of knowing how the Soviet Union would have behaved if Stalin had been told of the bomb's secret in 1943 or 1944 and had been invited to join in an international control movement at that time. In fact, Sherwin's underlying assumption that the United States might have avoided much of the cold war if it had pursued different policies is perhaps the book's only real flaw. Nevertheless, Martin Sherwin has produced a study that answers to this writer's satisfaction the major questions about the role of the atomic bomb in World War II diplomacy.

DAVID A. ROSENBERG
University of Chicago

Stevens, Robert W. *Vain Hopes, Grim Realities*. New York: Franklin Watts, New Viewpoints, 1976. 229pp.

In a book written mainly for non-

economists, R.W. Stevens attempts to assess the economic costs of the Vietnam war. The book is billed as "the first complete analysis of the impact of the Vietnam war on the United States economy." The work has some strengths. Stevens examined a large volume of economic and political science literature and consulted with numerous authors and bureaucrats. The result of his efforts is a reasonably complete and balanced economic history of the 1964-1973 period, although some of his interpretations are arguable. For example, he underplays the role of monetary expansion in 1967 as the major cause of the subsequent inflation that monetarist economists believe it was. He does not mention at all the fact that the temporary (as opposed to permanent) nature of the 1968 tax surcharge was responsible, in the eyes of many analysts, for the observed failure of the tax to dampen significantly aggregate demand.

The book suffers from two major flaws. First, despite disclaimers to the contrary, Stevens blames everything on the war—the recession of 1970, the inflation, the failure of the War on Poverty to eradicate poverty, and the collapse of the international monetary arrangements set up at Bretton Woods in 1944. The war played a role in all of these, but in each case there were other contributing factors which were at least as significant. Particularly arguable is the attempt to link the collapse of the international fixed exchange rate system to the war. The seeds of the collapse of the system existed long before the war. Indeed, the system itself was built on a contradiction. U.S. balance of payments deficits were necessary to the expansion of world reserves, but U.S. deficits also eroded confidence in the dollar, which in turn made the dollar less acceptable as a world reserve. A case can be made that the war hastened the collapse. Increased military purchases and, mainly, inflation, which was induced in part by the war, worsened the U.S.

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balance of payments. Perhaps the system would have lasted longer without Vietnam, but few economists would argue that eventual collapse was not inevitable.

Stevens admits that the war was not "the only unfavorable economic factor operating on the economy in the 1960's and early 1970's." Yet, he calculates the cost of the 1970 recession at \$185 billion, which represents the difference between actual production and what the economy could have produced were it operating at full employment, and attributes the entire cost to the war! One might quibble with the particular methodology of the calculation, but the more important question is whether the cost of the recession is properly regarded as incremental to the war. Would the recession have occurred in any case? With what severity?

The second flaw is more serious. Through much of the book, Stevens quantifies various costs. In the final chapter he attempts to estimate the total economic cost of the war, which he calculates at \$882-\$925 billion. In economics, there are several different meanings of "cost," as Stevens mentions. He calculates a number of different types of costs, which are not compatible, then "yields to the temptation" (his words) to add them up. An economist ought to know better. The result is at best misleading. He makes no attempt to adjust his figures for inflation; he lumps transfer payments together with real costs; he fails to discount future values; he mixes sunk costs and incremental costs. Professor Stevens is aware of these shortcomings. He acknowledges, at least in passing, the correctness of using opportunity costs in a calculation of economic cost, of the need to discount, et cetera. He then ignores such considerations in making his calculations, dismissing, for example, the argument that discounting is necessary on grounds that "it would have produced a hodgepodge of price and time adjusted

figures that could have been compared with one another and with readily available figures only with great difficulty."

Among the misleading inclusions and questionable cost calculations, two stand out because of their size. The most serious error in the entire book involves his treatment of inflation. Inflation, as he notes, involves no opportunity costs. It redistributes resources—some people lose, others gain. Having noted that inflation is not a real cost, he calculates "excess" inflation for 1965-1973, which he defines as the difference between actual GNP in current dollars and the GNP that would have prevailed had the rate of inflation been 2 percent per year for the same level of real output. The total cost he finds to be \$141 billion. This figure and its methods of calculation are meaningless. It is the redistribution that is significant. The "costs" of inflation can be assessed only by identifying the gainers and losers and somehow weighting the social value of their gains and losses. As misleading as is the calculation itself, it is even more misleading to add this figure to other, real costs of the war.

A second inclusion in the total cost of the war, veterans benefits, is likewise misleading, although not as conceptually incorrect as Stevens' inflation component. Veterans benefits are usually regarded as transfer payments—gainers (the veterans) are matched by losers (the taxpayers) without any actual resource cost. In this light (which is in keeping with the treatment of veterans benefits in the National Income Accounts), the benefits are not economic costs at all. However, one might also regard veterans benefits as deferred compensation to participants in the war (an argument that Stevens does not make), in which case their inclusion would be theoretically correct. If so, however, the benefits should be discounted to some present value. Further, one of the costs which Stevens correctly

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includes is the foregone earnings of draftees in excess of their actual compensation as soldiers. If veteran benefits are viewed as deferred compensation, an adjustment must be made in the foregone earnings calculation to avoid double counting. At \$223 billion, veterans benefits are the largest single component of Stevens' \$900 billion estimate. Including them at all is questionable.

A third large component of his cost estimate was mentioned above—\$185 billion lost production resulting from the 1970 recession. The cost concept is correct in this case, but attributing this cost to the war is questionable in the extreme.

Other misleading inclusions are of less quantitative importance. For example, he includes military aid to France for Indochina during the 1950-54 period; military aid to Laos, Thailand, and South Vietnam for the 1950-1966 period (as well as for the war period itself); military aid to Cambodia for 1950-1974. Even U.S. economic aid to Southeast Asia for 1946-1974 is included! All of these are costs of U.S. foreign policy in Southeast Asia, but they are hardly incremental costs of the Vietnam war. As tenuous as these inclusions are, they amount to "only" about \$15 billion.

In short, what is the reader to conclude about Stevens' calculations of the costs of the war? The term "economic cost" is usually reserved for fully discounted, real, incremental, opportunity costs. By that definition, less than \$200 billion of his cost estimate qualifies. All of the other factors the author discusses have some link to the war and involve costs to society. However, it is incorrect to call them economic costs, and it is even more incorrect to add quantifications of them together.

In spite of these criticisms, there is something to be gained from reading Stevens' book. He has written a short, interesting economic history of the

Vietnam war period designed for the nonspecialist. It provides a reasonably good introduction to the literature. He calls attention to the many economic consequences of the undertaking. If only he had not attempted to add up the costs.

JOHN ERIC FREDLAND
U.S. Naval Academy

Wilkinson, David. *Revolutionary Civil War: The Elements of Victory and Defeat*. Palo Alto: Page-Ficklin, 1975. 229pp.

Professor Wilkinson has performed a singular service with this thoroughgoing case analysis of revolutionary civil war. Much has been written in the contemporary literature concerning revolutionary warfare, wars of national liberation, and the poorly articulated concepts of insurgency and counterinsurgency. This book, which is a natural reference for courses in strategy, cuts to the core, and through a brilliantly analyzed series of models sets forth clearly working paradigms for students and teachers of the subject.

The book centers on a carefully selected series of eight historic cases of revolutionary warfare from Rome in 83-82 B.C. through England, 1642-46, Mexico 1914-15, Russia 1918-20, Spain 1936-39, China 1926-28, 1930-34, and 1946-49. The selection of cases is itself refreshing, avoiding as it does the usual, overworked examples of the Philippines, Malaya, Algeria, and Vietnam. The author reflects thought and understanding in his overview and this is amply reflected in his carefully researched and documented appendices, notes, and bibliography wherein he describes history's range of revolutions and insurgencies, putting our most recent national insurgent involvements in much better perspective.

One dominant point stands out when one sees revolutionary warfare spread over 20 centuries. There is little new