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cent in 1952 without serious inflationary consequences. Wholesale prices decreased during 1952, and the prices of consumer goods and services rose only modestly (Chart 4).

Real government expenditures increased more than real gross national product between 1951 and 1952. More than half the increase in real government expenditures was offset by a substantial drop in real gross private domestic investment, and increased consumer expenditures accounted for 60 per cent of the increase in real gross national product (Chart 11).

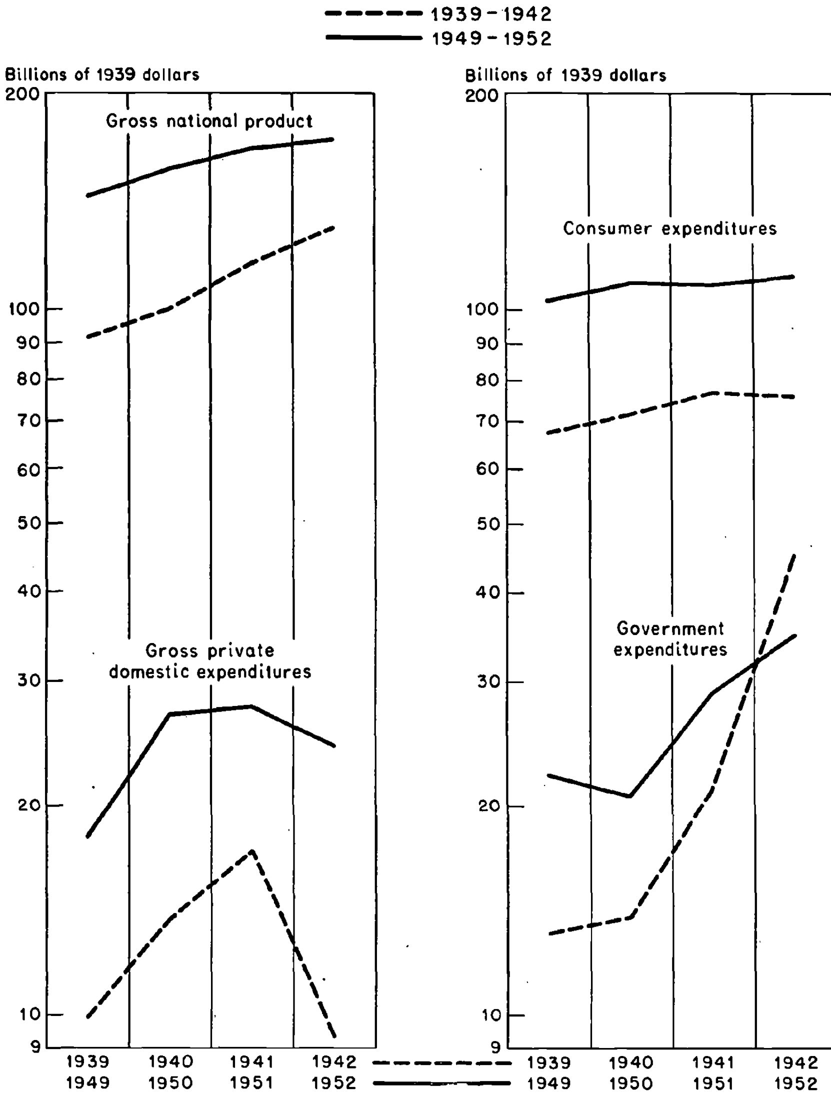
The decrease in gross private domestic investment was entirely due to a reduced rate of inventory accumulation. The quarterly data reveal that inventory investment declined from the third quarter of 1951 until the second quarter of 1952, and then increased once more in the third and fourth quarters of 1952 (Chart 6). By mid-1952 the stock-sales ratios of wholesalers and retailers had been substantially reduced from the abnormal levels of the previous year, and the increased inventory investment of the latter half of 1952 served only to maintain these ratios as sales increased (Chart 9). Thus the excessive stocks accumulated by distributors during and shortly after the inflationary phase were worked off by mid-1952, and the process of liquidation was in large part responsible for the ease with which the government share of the gross national product was increased. The rate of growth of government expenditures had tapered off by the time that the inventory liquidation was completed, and a simultaneous gradual increase of government expenditures, consumer expenditures, and private investment became possible without undue pressure on prices.

Two Mobilization Periods: 1940–1941 and 1950–1951

It is interesting to compare the economic developments of 1950–1951 with those of 1940–1941, the years of defense mobilization which preceded our entry into World War II. Either period is interesting in itself, since the study of historical episodes in which some strong and clearly identified new force impinges on the econ-

CHART II

GROSS NATIONAL PRODUCT AND ITS MAJOR COMPONENTS, IN CONSTANT DOLLARS, 1939–1942 AND 1949–1952



Source: *Survey of Current Business*, July 1953.

Ratio scales

omy is the economist's equivalent of the laboratory experiment, but even more interest attaches to a comparison of the two periods.

In May 1940 the Low Countries and France were invaded, and by the end of June, France had fallen. The Korean hostilities began in June 1950. The economic trends of the succeeding eighteen months in both periods were strongly influenced by mobilization programs of approximately equal relative magnitude (see pages 8–10 above). However, the economic environments in which the defense programs were carried out differed in important respects, and the reactions of the economy in the two periods were by no means identical.

The percentage rates of increase of all major components of *real* gross national product between 1940 and 1941 far exceeded those of 1950–1951 (Chart 11). Real gross private domestic investment rose in 1940–1941 eight times as fast as in 1950–1951, and real government expenditures one-third again as fast. Especially noteworthy is the very different behavior of consumption in the two intervals. Real expenditures for consumer goods and services increased in 1940–1941, but the annual total for 1951 was virtually the same as for 1950.

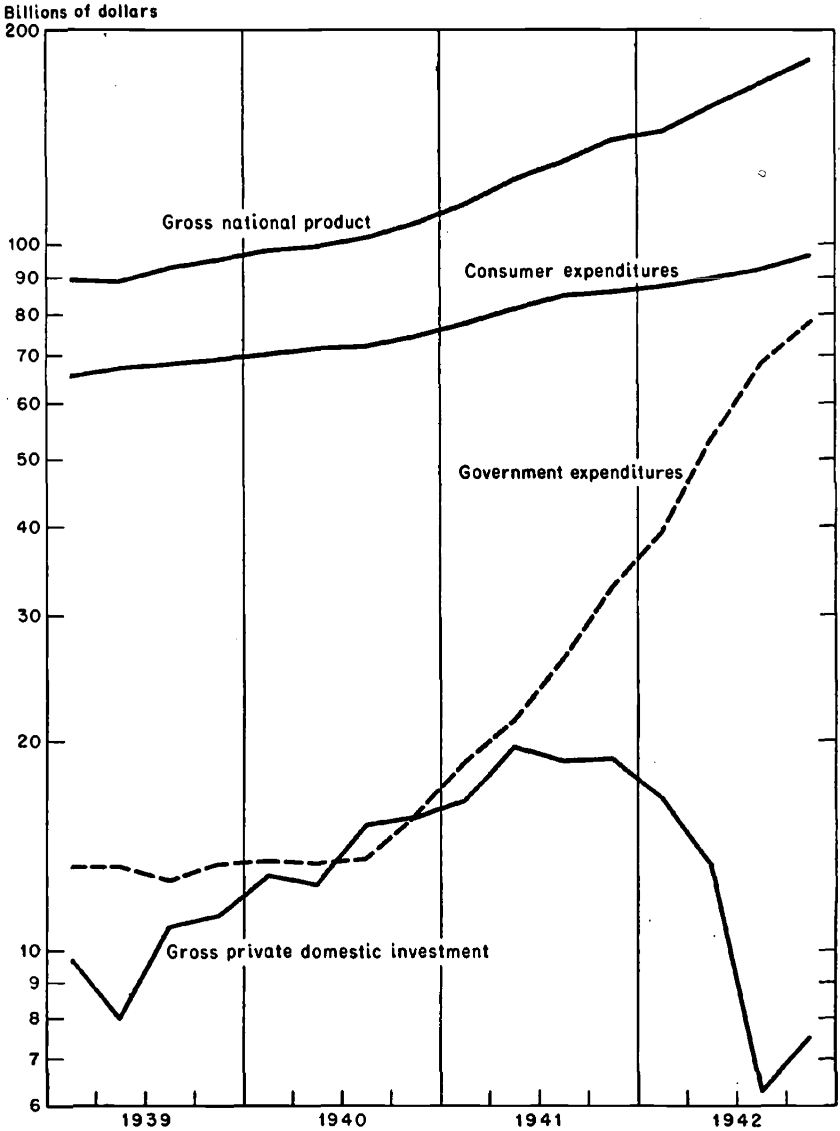
In the latter half of 1941 gross national product continued to grow at a percentage rate comparable to that of the preceding months (Chart 12), whereas in 1951 the rate of growth diminished after the second quarter (Chart 1). The vigorous growth of consumer expenditures throughout 1941 contrasts strongly with the vacillating movements of 1951. Government expenditures grew more slowly in the last six months of 1951 than in the preceding nine months, whereas they increased at an accelerated rate in the second half of 1941. Finally, the decline in private investment in the third and fourth quarters of 1951 was much more pronounced than in the corresponding months of 1941.

Physical activity increased along with expenditures throughout 1941. The rapid growth of industrial production and civilian employment during 1941 (Charts 13 and 14) is in sharp contrast to the plateaus of 1951 (Charts 2 and 3).

A comparison of price movements reveals what is perhaps the most interesting contrast between the two periods (Charts 4 and

Chart 12

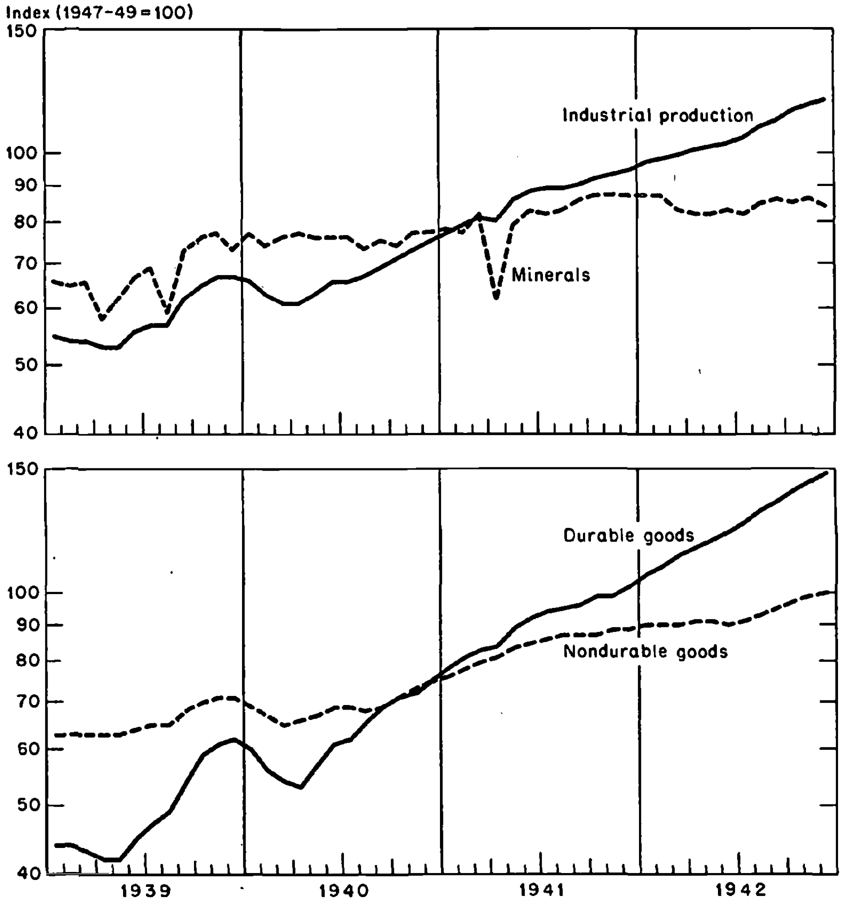
Gross National Product and Its Major Components, Seasonally Adjusted Quarterly Totals at Annual Rates, 1939–1942



Source: *National Income Supplement, 1951, Survey of Current Business.* Ratio scale

CHART 13

INDEXES OF INDUSTRIAL PRODUCTION: TOTAL, DURABLE, AND NONDURABLE MANUFACTURES, AND MINERALS, SEASONALLY ADJUSTED, MONTHLY, 1939–1942

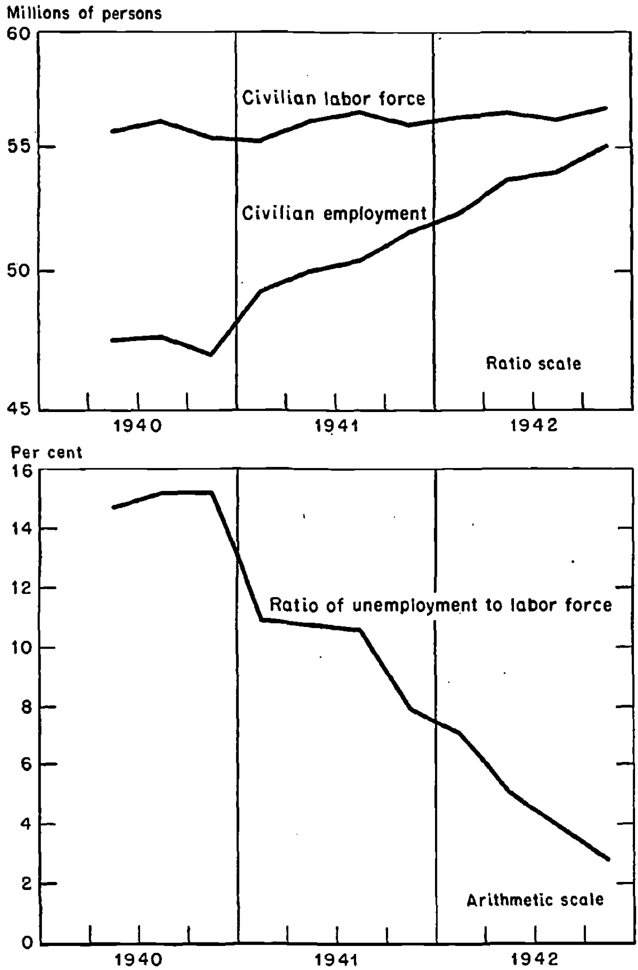


Source: *Federal Reserve Bulletin*, December 1953. Ratio scales

15). Wholesale and consumer prices rose much more slowly between the second quarter of 1940 and the first quarter of 1941 than between the first and fourth quarters of 1941. Thus, the major portion of the advance came in the last half of the period, whereas the reverse was true in 1950–1951.

CHART 14

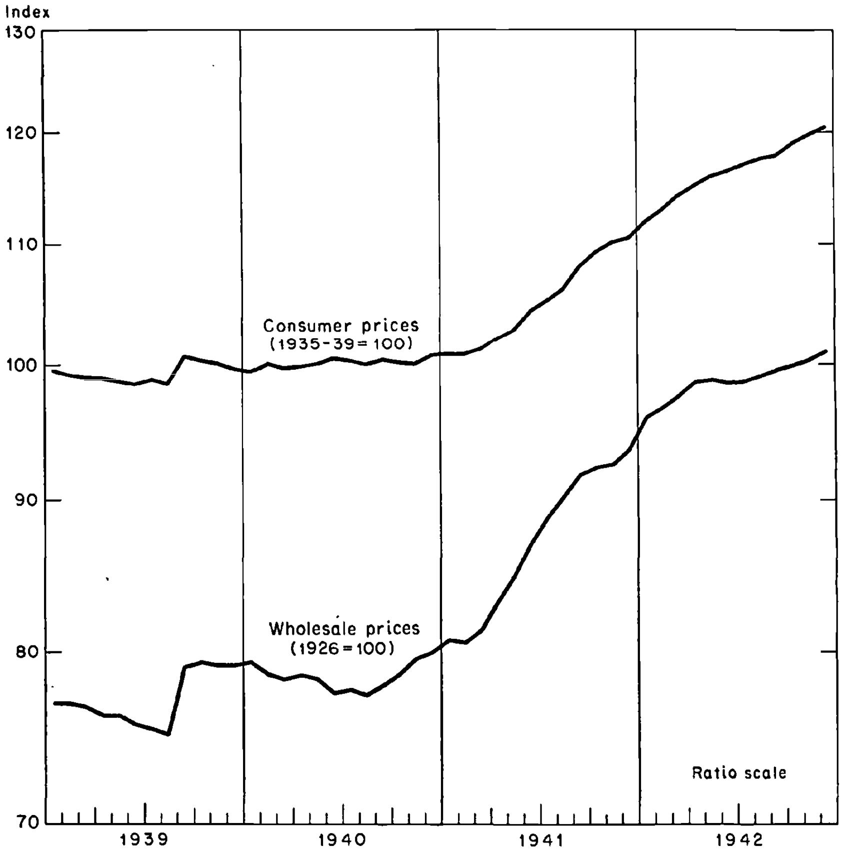
CIVILIAN LABOR FORCE, CIVILIAN EMPLOYMENT, AND RATIO OF CIVILIAN UNEMPLOYMENT TO CIVILIAN LABOR FORCE, SEASONALLY ADJUSTED QUARTERLY AVERAGES, 1940–1942



Source: Clorence D. Long, *The Labor Force in War and Transition: Four Countries*, National Bureau of Economic Research, Occasional Paper 36, 1952. Ratio of unemployment to labor force computed.

Chart 15

Indexes of Wholesale and Consumer Prices, Monthly, 1939–1942



Source: *Survey of Current Business*, various issues. Indexes constructed by Dept. of Labor.

Despite the fact that a recovery from the business cycle trough of mid-1938 had been under way for two years, the unemployment ratio stood at 15 per cent in the second quarter of 1940, so that a large pool of unemployed labor was available to feed an expansion in employment and production as the mobilization program progressed (Chart 14). In fact, 8 per cent of the civilian labor force was still unemployed at the end of 1941, notwithstanding the sharp increase in employment during that year. In contrast, only 5 per cent of the civilian labor force was unemployed at the time of the outbreak of hostilities in Korea; by early 1951 the ratio had dropped to 3 per cent—a low figure by peacetime standards—and remained at that level through 1951, as employment was virtually unchanged (Chart 3).

These facts are sufficient to explain why a much larger increase in real gross national product was possible in 1940–1941 than in 1950–1951. But why were inflationary pressures strong in 1941, despite large-scale unemployment, and weak in 1951, when the economy was operating at a high employment level? Part of this question has already been answered: it was the relaxation of consumer demand that permitted the transfer of resources to the government sector without serious inflationary consequences in 1951. Conversely, supply forces were in part responsible for the inflation of 1941, as will be shown presently. Serious shortages of resources existed in the latter part of 1941, notwithstanding the fact that a large fraction of the labor force was still unemployed.

Forward Buying in World War II

The buying waves of late 1950 had a historical precedent. Both production and prices increased after the invasion of Poland on September 3, 1939. The rise of industrial production and prices was rapid but short-lived (Charts 13 and 15). Note that wholesale prices advanced sharply in September and remained steady through the remainder of the year. Industrial production, on the other hand, continued to increase throughout the last quarter of 1939, before declining through the first four months of 1940.

Forward buying by businessmen was responsible for this surge of activity. Manufacturers' new orders and the sales of manufacturers and wholesalers increased sharply in September as buyers reacted to the coming of the war (Chart 16). Much of this increase in the value of sales must be attributed to the abrupt rise of wholesale prices during the month. The sales of manufacturers and wholesalers then dipped slightly in October and rose once again in November, as prices remained stable.

An increase in personal income accompanied the increase in