This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: The Korean War and United States Economic Activity, 1950-1952

Volume Author/Editor: Bert G. Hickman

Volume Publisher: NBER

Volume ISBN: 0-87014-363-8

Volume URL: http://www.nber.org/books/hick55-1

Publication Date: 1955

Chapter Title: Balanced Expansion during 1952

Chapter Author: Bert G. Hickman

Chapter URL: http://www.nber.org/chapters/c2913

Chapter pages in book: (p. 32 - 33)

ernment fiscal operations were inflationary after the first quarter —but less inflationary than if higher rates of taxation had not been imposed. In fact, the major contribution of the government to economic stability in 1951 was to slow the rate of growth of income and thus help provide the setting in which the rise of consumer saving had such important anti-inflationary consequences.[24]

If consumers can claim the major share of the credit for promoting economic stability in 1951, they must in fairness admit that they had considerable help from the government and from businessmen, and they must also accept a large share of the responsibility for the instability of late 1950 and early 1951. Had government fiscal operations been more inflationary during 1951, and had private fixed investment been uncontrolled, consumers might not have been able to resist the lure of increased consumption made easy by rising income. Had consumers not bought heavily during the inflationary phase, they would not have saved as much later. Had businessmen not ordered and produced so heavily in 1950 and early 1951, the decline in inventory investment in the second half of 1951 might not have occurred to moderate the growth of income. The neat balance of inflationary and deflationary forces in 1951 was in no small part the consequence of developments growing out of the inflation of 1950.

Balanced Expansion during 1952

The balance between defense and civilian needs that was struck in mid-1951 was maintained through 1952. The share of gross national product (in current dollars) devoted to national security expenditures was increased from 11.3 per cent in 1951 to 14.1 per

---

sale of new securities (*Federal Reserve Bulletin,* February 1952, pp. 118–119). Hence the impact of the surplus was somewhat reduced during the first part of the year by the return of a portion of the surplus to nonbank holders of government securities and, conversely, the impact of the deficit may have been softened in the last six months as the Treasury drew down its cash balance, since the sale of additional securities probably would have increased the private money supply.

24 Consumers saved larger percentages of their incomes in 1941 than in 1951, but disposable income was rising so rapidly in 1941 that consumer expenditures mounted along with personal saving (see below, pp. 46–51).

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-