C. Some prior experience: The Korean period

A previous military buildup—the Korean mobilization—posed problems of identifying the timing of the economic impact which provide a direct parallel to the current Vietnam experience.

Using conventional measures, Federal fiscal policy during the period of the initial buildup, fiscal year 1951, seemed appropriately restraining. Federal expenditures rose a modest 11 percent and the overall budget showed a $3.5 billion surplus. However, a different story emerges from an examination of the statistical data used to measure the earlier stages of the government spending process.

The amount of appropriations granted by the Congress in fiscal year 1951 was 68 percent above the 1950 total. The aggregate amount of contracts let and other obligations entered into by the Federal agencies in 1951 rose 92 percent above the level of the previous year.[30] The interplay during that period of the opposite ends of the Federal spending process was clearly brought out in the following comment on this period by the Joint Committee on the Economic Report:

"The ineffectiveness of the governmental cash surplus, normally a deflationary force, was, in large part, attributable to anticipatory forces on the inflationary side arising from the current or expected placement of orders for future deliveries." [31]

The Wholesale Price Index jumped from 100.2 in June 1950 to 103.2 in July. It reached 107.1 by September. The Consumer Price Index rose from 101.8 to 104.4 (1947–49=100) during this period. This was described as, with the exception of the decontrol period following the close of World War II, "the most rapid and the most widely pervasive inflationary movement" in recent American history.[32]

The following year, fiscal 1952, was the period of the actual major increase in Federal defense expenditures; it was one of comparative stability in the American economy. An examination of the Korean mobilization program discloses several interesting points:

1. The acceleration in economic activity occurred at approximately the *same time* as the announcement and authorization of the program, and while the most rapid increase in defense orders was taking place.
2. The acceleration in economic activity *ceased* when the rise in appropriations and obligations (new contract awards) ended.
3. The rise in economic activity *virtually ceased* when the level of appropriations and obligations began declining.
4. The major rise in government expenditures occurred *after* the most rapid expansion in economic activity and continued until after the decline in appropriations and contract awards.

As it turned out, the direct price, wage, and material controls were imposed after much of the inflationary pressures were over. We may speculate as to whether prompter imposition of tighter monetary and fiscal policies—during the fiscal year 1951—would have avoided much of the inflationary pressures, as well as obviating the need for direct controls.

However, in the Korean case the initial inflationary pressures were partly attributable to the overstocking in the civilian sector in the fear of renewed wartime shortages. As defense spending rose, a substantial correction of civilian inventories took place.

It has been fashionable to compare the Vietnam buildup with the Korean experiences in the hope of discerning parallels that would provide a firmer basis for forecasting purposes. However, important differences need to be acknowledged, although they tend to balance each other out.

The first set of differences relates to the smaller relative scale of the present buildup. The recent expansion of the armed forces from 2,700,000 to 3,200,000 seems modest indeed when compared to the spurt from 1½ million in 1950 to over 3½ million in 1952. Also, the defense budget doubled during the first year of the Korean War, while, as noted, the increase during the past year was about 16 percent. All this reflects the fact that Vietnam marks the first that the

[30] M. L. Weidenbaum, "The Economic Impact of the Government Spending Process," *op. cit.*, pp. 35–36.

[31] U.S. Congress, Joint Committee on the Economic Report, *National Defense and the Economic Outlook for the Fiscal Year 1953*, 1952, p. 49.

[32] U.S. Congress, Joint Committee on the Economic Report, *Inflation Still a Danger*, 1951, pp. 12–13.