In contrast, defense expenditures accounted for 41 percent of gross national product in 1944, during World War II, and 13.4 percent of GNP in 1953, the year the Korean war ended.

After the end of World War II, the massive economic adjustments were accomplished without a recessionary drop of economic activities and precipitous rise of unemployment. The sharp decline of defense expenditures and the size of the Armed Forces was offset by the backlog of pent-up demand for goods and services—by consumers, business, States and local governments—backed up by wartime savings.

In addition, the GI bill succeeded in helping large numbers of veterans in upgrading their education, vocational, and technical skills. The economic problem was an inflationary rise of civilian demand, with a premature elimination of wartime controls and regulations, rather than a lack of sufficient demand relative to productive capacity.

However, the adjustments to the end of the Korean war ran into greater obstacles, despite the much smaller economic impact of that conflict. By 1953–54, there was little backlog of demand that could be supported by earnings and savings. Output declined and unemployment rose from 2.9 percent of the labor force in 1953 to 5.6 percent in 1954.

Moreover, the end of the Korean war was followed by three successive recessions, relative economic stagnation and a rising trend of unemployment and underemployment. Between 1953 and 1960, real GNP increased at an average yearly rate of only 2.4 percent—substantially less than the potential growth rate of approximately 4 percent. Actual growth of the economy was merely about three-fifths of its potential. On a per capita basis, real GNP increased only about seven-tenths of 1 percent per year. Social and economic problems festered, along with rapid technological change in agriculture and industry, urban growth, and the rising trend of joblessness.

The deflationary gap of 1954 was unnecessary. The $7.5 billion reduction of defense expenditures, in that year, was accompanied by a moderate tax reduction in January, under previously adopted legislation—which helped to offset part of the deflationary gap. But the drop of military expenditures was also accompanied by a $2.2 billion decline of nondefense expenditures, rather than the increase that was needed to meet the requirements of a growing population for improved public facilities as well as to create job opportunities.

And the tax revisions of mid-1954 placed major emphasis on the savings of business and wealthy families—which contributed substantially to the lack of balance between productive capacity and lagging demand for goods and services in the ensuing years.

Moreover, the relative economic stagnation that followed these events was likewise unnecessary. With idle manpower and productive capacity, the task of national economic policy should have been to add sufficiently to private and public demand to reach and sustain full employment and balanced economic growth. Instead, there was a concentration on balancing the administrative budget, with little regard for the impact of restrictive fiscal policy—and restrictive monetary policy, as well—on the level of economic activities.

We know a good deal more about the management of the national economy, at present, than we did in the 1950's. But the improved in-