

outlook immediately prior to the Korean outbreak is furnished by a contemporary analysis:

Expansion in economic activity continues to be reflected in the major economic series, with rising production requirements tending to advance prices of many important industrial raw materials in recent weeks. Employment has continued to move ahead in response to the basic trend of business * * *. The fundamental characteristic of the current upturn in the business cycle continues to be the sharp expansion in investment.⁸³

RAPIDLY EXPANDING ECONOMIC ACTIVITY: FISCAL YEAR 1951

The first year of the Korean effort—the fiscal year 1951—proved to be a period dominated by anticipatory actions of consumers and businessmen, engendered by a military campaign whose ultimate scope they could only dimly guess. On the military production front itself, this was a period of formulating strategy and plans, making ready, and tooling up.

In the first phase of transition to the defense program, a sharp and abrupt shift upward in business and consumer expectations began concurrently with the international developments which gave rise to the change of military policy. “* * * the public reacted very much as if in expectation of a World War III.”⁸⁴ Consumers bought most heavily commodities which had suffered quality deterioration in World War II. The larger volume of consumer buying contributed to increased demand all along the line.

Distributors' orders mounted as they attempted to maintain or build up stocks. Manufacturers' orders for raw and semifinished materials also rose substantially. Because there was little slack in the economy at the time, the effect upon prices and retail trade was prompt and vigorous. The Bureau of Labor Statistics wholesale price index jumped from 100.2 in June 1950 to 103.2 in July, and to 107.1 in September. Similarly, the consumers' price index rose from 101.8 to 104.4 during this period.⁸⁵

With the exception of the decontrol period following the close of World War II, this was described as “the most rapid and the most widely pervasive inflationary movement” in recent American history.⁸⁶ The general inflationary movement which gripped the economy during the quarters immediately following the Korean outbreak was unaccompanied by any significant increase in the volume of actual production on defense orders. Although near capacity operations were maintained in industries producing raw and semifinished materials, “on the whole defense output continues to represent a small fraction of the volume of total production.”⁸⁷

In July 1950, the President requested supplemental defense appropriations of \$10.5 billion.⁸⁸ The figure was increased by early August to more than \$15 billion to provide for heavier expenditures under the Mutual Defense Assistance Program and for additional naval aircraft. There was much speculation at the time as to the ultimate levels of defense spending. The following is an example of the more restrained reaction:

⁸³ *Survey of Current Business*, June 1950, p. 1.

⁸⁴ J. Frederick Dowhurst and Associates, *America's Needs and Resources: A New Survey*, New York, Twentieth Century Fund, 1955, p. 15.

⁸⁵ “1955 Statistical Supplement,” *Survey of Current Business*, pp. 26-27 (base of 1947-49=100).

⁸⁶ U.S. Congress, Joint Committee on the Economic Report, *Inflation Still a Danger*, Washington, Government Printing Office, 1951, pp. 12-13.

⁸⁷ *Survey of Current Business*, November 1950, p. 3.

⁸⁸ Message to the Congress of July 19, 1950.