

(The rate at which we rearm) will obviously be greater than the \$31 billion that, as of mid-August, the administration has asked for fiscal 1951. Would it come to \$50 billion? Probably * * * In any case, a rearmament program of much greater proportions than the President had announced by the middle of August was clearly needed and is probably coming.⁸⁹

The *Harvard Business Review* contained a guess of "\$50 billion or \$60 billion" as the ultimate rate for military expenditures.⁹⁰

In September, supplemental military appropriations of \$17.8 billion were enacted and, on the same day, the Revenue Act of 1950 was passed, forecasted to yield an additional \$5.8 billion in Federal receipts at calendar year 1951 income levels.⁹¹ Also in September the Congress approved the Defense Production Act which authorized a broad program of production and stabilization controls.

A contemporary report illuminated the impact on the economy of government action during this period:

Since the Korean attack, the stepped-up defense program has been the basic influence in the expansion of business activity. For the most part the principal effects have been anticipatory, growing out of the projected expansion in Government spending in the year ahead.⁹²

Federal expenditures remained fairly stable during the fiscal year 1951. The automatic stabilizers tended to have the immediate effect of reducing nonmilitary Federal spending. Also, receipts increased substantially as a result of higher incomes and tax rates. The administrative budget yielded a \$3.5 billion surplus in 1951 while on a cash basis the surplus was \$7.6 billion. In contrast, the total amount of new obligational authority granted for the fiscal year 1951 increased 68 percent, rising from \$49.3 billion in 1950 to \$82.9 billion.⁹³

The amount of military orders and contracts let was virtually unchanged until the third quarter when it almost doubled, rising to \$16.1 billion. Contract letting was maintained at that rate for the final quarter of the year. The total amount of contracts let and other obligations entered into by the Federal agencies almost doubled in the first year of the Korean mobilization program, rising from \$44.1 billion in 1950 to \$83.1 billion.

The interplay during fiscal 1951 of the opposing tendencies of the various phases 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.⁹⁴

GNP rose each quarter of fiscal 1951, for a total increase of 19 percent over 1950. Consumer expenditures declined in the second quarter, subsequent to American victories against the North Koreans. Consumer spending rose again in the third quarter during the buying spree following the adverse turn of events in Korea in December 1950 when the Chinese Communists entered the conflict. Inventory accumulation continued through the year while total private fixed

⁸⁹ *Fortune*, September 1950, pp. 69-70.

⁹⁰ Ernest A. Tupper, "Guideposts to Industrial Mobilization," *Harvard Business Review*, November 1950, p. 41.

⁹¹ U.S. Secretary of the Treasury, *Annual Report on the State of the Finances for the Fiscal Year Ended June 30, 1951*, Washington, Government Printing Office, 1952, pp. 44-45.

⁹² *Survey of Current Business*, November 1950, p. 1.

⁹³ *Budget of the United States Government for the Fiscal Year Ending June 30, 1954*, Washington, Government Printing Office, 1953, p. 116. (Hereafter referred to as 1954 Budget.)

⁹⁴ U.S. Congress, Joint Committee on the Economic Report, *National Defense and the Economic Outlook for the Fiscal Year 1953*, Washington, Government Printing Office, 1952, p. 49.