

investment remained steady. After a slow start, Government purchases also began moving upward.

The fiscal year 1951 furnishes an example of the possible economic importance of the early steps in the Federal spending process. In the face of a budgetary surplus, the announcement of and authorizations and contracting for the Korean mobilization program set off the tremendous expansions in the economy that occurred during the year. As will be shown, the following year—the period of the actual major increase in Federal defense expenditures—was one of comparative stability in the American economy. By the time the peak in expenditures actually occurred, the necessary production facilities had already largely been put in place and had produced much of the output contracted for. The long awaited boom in Federal spending was in good measure discounted in advance—mainly in the fiscal year 1951.

RISING MILITARY PRODUCTION: FISCAL YEAR 1952

The second year of the Korean war—the fiscal year 1952—was a time of rapid increase in defense outlays. This was the period when the newly built production lines began to turn out completed military items in significant quantities. However, as the military situation in Korea greatly improved, consumers soon realized that the supply and price situation was not worsening either as much or as rapidly as they had originally feared. It was apparent that world war III was not in the offing.

Personal saving rose to 9 percent of disposable income in the first half of the year from a low of 2.7 percent in the first quarter of fiscal 1951. Retail sales slackened off appreciably. Continued expansion in defense outlays tended to be offset in part by declines in private investment.

Gross national product continued its quarterly rise, although at a slower pace than the previous year. The net expansion was primarily in the defense sector, as civilian output (GNP excluding defense purchases of goods and services) fluctuated between \$290 billion and \$293 billion a quarter at seasonally adjusted annual rates. Defense purchases increased almost 20 percent from the first to the fourth quarter of the year.

New obligational authority granted by the Congress for major national security programs totaled \$72.7 billion in 1952, an increase of 14 percent over the previous year.⁹⁵ Also the peak in contract letting and other forms of obligating defense funds was reached in 1952. Although the military obligation rate was lower in the first three quarters of the year than in the record second half of fiscal 1951, the yearly total of \$61.9 billion was the high for the entire Korean effort.

The beginning of fiscal year 1952 saw the industrial economy emerging from the "tooling up" stage on many military items and crossing the threshold of the period of volume production of hard goods. At the end of the first quarter, the Director of Defense Mobilization declared:

Military production is entering a new stage—a period when, on many of the new weapons, assemblyline production is beginning and the major problems will be in finding and breaking the bottlenecks that may be holding up the flow of arms off the lines.⁹⁶

⁹⁵ 1951 *Budget*, op. cit., p. 1090.

⁹⁶ U.S. Director of Defense Mobilization, *Third Quarterly Report to the President*, Washington, Government Printing Office, Oct. 1, 1951, p. 1.