In general, the period following the Federal-Reserve-Treasury accord of March 1951 was one of credit restraint and price stability. On the fiscal side, the budget surplus in 1951 was converted into a budget deficit of $4 billion in 1952. The provisions of the Revenue Act of 1951 were in effect during the last 8 months of fiscal 1952. Although the rise in personal income leveled off after the first quarter of the year, tax receipts in each of the first three quarters were about $3 billion higher than the corresponding period in 1951. The increase in military deliveries was even greater. As a result, Federal expenditures rose each quarter, reaching the height of $18.4 billion in the fourth quarter of the year.[97]

The total of new obligational authority enacted for the year increased 10 percent over the 1951 figure, compared to a 68 percent rise the previous year. The total for 1952, $91 billion, was the high point for the Korean mobilization. A similar dampening occurred in the obligations rate. Contrasted to an increase of 92 percent in the previous year, total obligations incurred by Federal agencies in the fiscal year 1952 rose 25 percent over the 1951 total to a record height of $105 billion.

The governmental trust funds continued to accumulate reserves and, on a cash basis, Federal receipts from the public in 1952 were in approximate balance with Federal payments to the public. According to this measure, the financial operations of the Federal Government for the year tended to have a neutral effect on the economy.

Gerhard Colm points out that most of the rise in national security spending during this period occurred after prices had roughly stabilized.[98] That is, the actual higher level of Federal spending followed the strong expansion in the economy rather than accompanying it. However, the rapid rise in defense expenditure may at least have supported the increased level of prices.

According to an analysis prepared in the spring of 1952:

"It could be argued * * * that the direct effects of defense production now being felt are not nearly so upsetting to the economy as were the anticipatory effects a year or so ago * * * The shortages failed to appear, prices declined, and inventory congestion plagued industry throughout most of the past year. In part, this reversal * * * stemmed from widespread misapprehensions about the impact and timing of the defense program." [99]

This misapprehension may be a serious indictment of the data available to the Government and private analysts for gauging the economic impact of government spending and also of the lack of ability to interpret properly the data that were available.

PEAK LEVELS OF OUTPUT: FISCAL YEAR 1953

The fiscal year 1953, the third year after the outbreak of hostilities in Korea, was the peak period of the Korean cycle. All sectors of the economy reached record highs.

GNP for the year was $358 billion, an increase of $21 billion over fiscal year 1952. The level of consumer prices held extremely steady during the year, rising to 114.5 in June, only four-tenths of a point higher than at the start of the year. After declining 2.2 points in the

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[97] *Treasury Bulletin*, August 1952, pp. 1, 7.
[98] Gerhard Colm with Marilyn Young, *Can We Afford Additional Programs for National Security?* Washington, National Planning Association, 1953, p. 9.
[99] "Production in a Defense Economy," *Monthly Review of the Feueral Reserve Bank of New York*, March 1952, p. 39.