fiscal period. Obligations for hard goods procurement averaged $500 million a quarter for the first 9 months of the year, compared to expenditures on these programs at the rate of $4.2 billion a quarter.

Reductions in Federal tax rates, continued operation of the "automatic stabilizers," increases in State and local outlays, and high levels of business investment all served to cushion the decline. At the year's end, there were indications that the downturn would be a limited one. Continued low levels of new obligational authority and obligations, however, presaged no significant rise in Federal spending in the near-term future, barring an abrupt shift in the international situation.

By June 1954, the economy had generally adjusted to the impact of the military and economic mobilization program that the Nation had embarked upon 4 years previously. The Korean cycle had to a large extent worked itself out. From a comparatively "normal" position in the 1950 fiscal year, the economy had been in an expansive stage in 1951 and 1952. After reaching peak levels in 1953, economic activity declined in fiscal year 1954. Toward the end of 1954, there were indications that the bottom of the recession had been reached and an optimistic mood prevailed in business and government circles generally.

SUMMARY

Table 14 shows the relationships of the major phases of the Federal spending process to the overall trend in the American economy during the Korean mobilization period. It should be noted that the primary volatile component of all of the measures of Government activity was the national defense program.

TABLE 14.—*Relationship of measures of Federal spending to changes in economic activity*

[Percent changes from previous period]

Fiscal year	GNP	New obligational authority	Obligations incurred	Budget expenditures
1951	+19	+68	+92	+11
1952	+18	+10	+25	+15
1953	+4	−12	−6	+14
1954	+1	−24	−23	−9

Source: Table 12; Survey of Current Business, "1954 National Income Supplement," pp. 222–223; July 1956, pp. 26–27.

As can be seen, the large, initial increases in new obligational authority and in obligations were accompanied by a sharp rise in GNP, but there was a much smaller change in the government expenditure level at that time. In the absence of any other important developments, the rapid expansion in economic activity was based largely on anticipations arising from the early stages of the new government spending program.

As the expansions in new obligational authority and in obligations incurred slowed down, a similar reaction occurred in GNP. On the other hand, the expenditure rate accelerated somewhat akin to the increases in the other series during the earlier period.

Economic activity, as measured by GNP and other indicators, reached a peak in the third year of the Korean mobilization program,