

3. The partial rather than total mobilization of the economy, so that there was generally an ample supply of civilian goods and services.

4. The strong financial position of American consumers and businessmen so that they could make effective the resultant demands.

5. The excess capacity in the economy, so that much of the military demands could be added to rather than supplant civilian demands.

6. The slowing of the tempo of hostilities and, subsequently, the signing of an armistice, so that declines in military production were made possible.

7. The fact that nondefense government programs were not sharply increased when the declines occurred in military spending.

8. The lack of understanding of the timing of the economic effects of the mobilization, so that while experiencing the peak effects of the program the public (if not the Government, too) believed that the worst was yet to come.

EVALUATION AND CONCLUSION

In general, the application of this study for purposes of economic analysis and governmental administration are twofold: (1) a proper understanding of the operation of the Federal spending process is important in analyzing economic developments and government activity during periods of fluctuations in government purchasing, and (2) the measures of the early stages of the spending process are lead series which often quickly register changes in governmental demand and indicate future trends in actual governmental disbursements.

ANALYSIS OF ECONOMIC CONDITIONS

Because the early stages of the government spending process often show up in the private sector rather than in the public sector, it is a temptation, during periods characterized by sharp increases in government purchasing, to conclude that private rather than government demand is contributing the inflationary pressures. The following is an example of this shortcoming which often mars otherwise cogent analyses. The author is discussing the first year of the Korean mobilization program.

This great increase in private demand took place at a time when the federal budget was running at a surplus, and when the direct increase in expenditure for security programs was quite small. Thus most of the inflation in the year after Korea can be said to have been caused by the large volume of private spending * * * *The important point is that Federal fiscal policy cannot be held directly responsible for the inflation* * * * A major part of the remedy must be found in more effective monetary policy to curb private credit spending through curtailing money and credit creation.¹⁰⁴

It is not meant to single out the author of the above statement, because similar analyses were made by A. J. Brown and others.¹⁰⁵

Maintaining that Federal fiscal policy was not inflationary during a year when the rate of military orders was doubled and only a comparatively minor tax increase was enacted ignores the operations of the Federal spending process. To go on and state that the remedy

¹⁰⁴ W. Glenn Campbell and others, *Economics of Mobilization and War*, Homewood, Ill., Richard D. Irwin, 1952, p. 75.

¹⁰⁵ A. J. Brown, *The Great Inflation: 1939-1951*, London, Oxford University Press, 1955; 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.