

and price and wage increases accelerate, then raise the hobgoblin of recession later in the year. After all, the economy always looks weaker to economists 6 months from now.

But it's not enough to distort the interpretation of the current flow of economic information. The true holder of the monetary faith has to prove that heresy has never led to heaven. If the devil seduced us into fiscal actions in the past, prove that the economy had to pay for its sins until it repented. Just this past week we were treated to a fine example of such religious fervor displacing scholarly analysis. An analysis. An editorial in the Washington Post contended that fiscal restraint had been ineffective in the time of the Korean war, and that it wasn't until the money supply—that magic variable—was brought under control that inflation was curbed. The editorial concluded with an admonition to us—I use the editorial “us,” since it was addressed to “Mr. Martin and his colleagues”—to learn something from history.

Let me assure you that we have looked very carefully at the Korean experience, and have frequently revisited the statistics and the literature evaluating economic policy actions in this period. And let me assure you also that I find almost nothing in support of the editorial's position. It is true that consumer prices rose by almost 13 percent over the 3 years of the Korean war. But what the editorial failed to point out is that over half of this rise occurred in the first 7 months of the war, when the control apparatus was being created, and the rest of the price rise dribbled out over the remaining 30 months.

During the summer and fall of 1950, direct controls were imposed on consumer credit and mortgages, priorities were established for purchases of a number of materials, and voluntary and mandatory price and wage stabilization program were instituted. Income taxes were raised in two steps, the first effective in October of 1950 and the second in January 1951. It was in this period, when the fiscal and selective control mechanisms were just being established, that prices soared. The consumer price index rose at an 11-percent annual rate, and wholesale prices at a 25-percent annual rate, between June 1950 and January 1951. But after January, the CPI slowed down dramatically, except for one final spurt in the last half of 1951; the increase over the 30 months from January 1951 to July 1953 was at an annual rate of only 2 percent. The wholesale price index—never mentioned in the editorial—actually peaked in the first quarter of 1951 and declined thereafter.

All this occurred long before the turnabout in the magic variable on which the attention of the Washington Post seems to be riveted. In the first year of the war the money supply rose at a 4-percent annual rate. From June 1951 to December 1951 it hopped up to a 7-percent rate of growth, then fell back to a 4-percent rate through 1952. It didn't really decelerate until after December 1952, long after price pressures had been brought under control.

Admittedly, one can argue as to whether it was the tax actions or the selective controls that slowed the pressure of consumer demands—or, for that matter, whether it was simply a reaction on the part of consumers following an earlier spending spree. But I do think it's important to note that there was a moderating in a number of private sector demands, including inventory investment and business capital outlays, long before the significant slowing that occurred in the money