

pressures. There is little doubt that the Second World War meets the foregoing specifications. In 1944, defense expenditures accounted for 41.9 per cent of the Gross National Product and 17.3 per cent of the labor force was in the armed forces. In 1952, at the height of the Korean War effort, defense programs absorbed 13.5 per cent of the GNP and 5.4 per cent of the labor force.

The demands imposed by the war in Vietnam are much smaller. In the fourth quarter of 1967, the entire defense effort—of which the Vietnam War accounts for less than half—absorbed only 9.2 per cent of the GNP and 4.3 per cent of the labor force. The Korean War, in which defense outlays rose from \$14.1 billion in 1950 to \$45.9 billion in 1952, a more than 200 per cent increase, placed strains upon our productive capacity and on the economies of other countries which had not yet fully recovered from the Second World War. But that has not been true of the Vietnam War, as is witnessed by the fact that there was a quasi-recession, a short-lived decline in the output of goods and service and a rise in idle productive capacity at the beginning of 1967.

Mr. Martin and other proponents of fiscal action assert that higher taxes will dampen inflationary pressures, but they seldom if ever review a highly relevant historical experience. With the outbreak of the Korean War in June 1950, President Truman appealed to the Congress for fiscal restraints and they acted promptly. Taxes were raised by \$9.3 billion in 1950 and by \$5.4 billion in 1951. As a result there was budgetary surplus—as measured in the national income accounts—at the annual rate of \$18.6 billion in the first quarter of 1951, the highest of the postwar period.

Surely Mr. Martin would approve of such resolute fiscal action. But what happened to prices? Despite the huge budgetary surplus, despite the imposition of mandatory wage-price controls in January 1951, consumers prices rose by 12.7 per cent between June 1950 and in July 1953 or at an annual rate of nearly 4.1 percent. Curiously, the price rise did not begin to level off until the second half of 1952, a time at which there was a large budgetary deficit.

The evidence suggests that fiscal policy had little if any effect on prices during the Korean War. What was relevant was monetary policy. In 1950-51, the stock of money was permitted to expand very rapidly—at an annual rate of nearly 5 per cent—and it was only after the growth of the money stock was slowed, at the end of 1951, that the inflation abated.

Mr. Martin and his colleagues, who now call for higher taxes while permitting the money stock to increase at an inordinately rapid rate, have something to learn from history.

Chairman PROXMIRE. I want to thank you gentlemen very, very much for excellent testimony. I want to apologize if my questioning seemed a little astrigent. I did not mean to indicate a lack of respect. I have the greatest respect and admiration for all of you. You are very competent men.

The committee will reconvene at 1:45 p.m. this afternoon to hear four more eminent economists.

(Whereupon, at 12:45 p.m. the committee was recessed, to reconvene at 1:45 p.m. on the same day.)

AFTERNOON SESSION

Chairman PROXMIRE. The Joint Economic Committee will come to order. We are starting a little earlier than 2 o'clock—we are starting at 1:45—because one of our witnesses has to leave early. We want to move along as rapidly as we can. Other members of the committee will be here later, and the other witnesses I am sure will be along shortly.

Mr. Saulnier, we would appreciate if you could start off, and we will move in alphabetical order. It must be a rare occasion that Saulnier is first in alphabetical order.