I. CONDITIONS WHEN KOREA WAS INVADED LATE IN JUNE

A. Employed in June . . . 61.5 million
   " a year before . 59.6 "
B. Industrial production index . . 199
   From . . . . . . . . . . . . . 169 a year before
C. Credit had been expanding
D. Prices rising

II. EFFECTS OF KOREA

A. No unused capacity as in 1939
B. Rapid increase in planned Government expenditure for defense
C. Immediate impact
   1. Increased expenditures of business
   2. Increased expenditures of consumers
      (Read release of Friday)

III. NATURE OF INFLATION

A. Excess of demand over supply
B. Many sectors on the front
   1. Produce more
   2. Save more - spend less
   Wage demands and offers     Wage policies of unions ) self-
   Price demands and offers     Pricing " " mfrs. ) discipline
C. Types of public controls

IV. LIMITING CIVILIAN DEMAND

A. Taxation
B. Over-all monetary controls
   1. Money supply increased $2 billion to $172 billion in third quarter alone
   2. Velocity outside New York at 21 - highest in over a decade
   3. System actions in making reserves more expensive
C. Selective credit controls - where expansion has been greatest

1. Consumer durables - instalment credit

   (a) Increase in third quarter .... $1.2 billion
       Third quarter - 1949 .... $0.8 billion

   (b) Amount: End of September .... $13 billion plus
       Up about 1/3 in a year

2. Housing

   (a) Number of starts
       1948 .... 800,000
       Rate this year .... 1,300,000

   (b) Credit
       New loans - 9 months 1950 .... $11 billion
       Yearly - 1947-49 .... 11 billion

   (c) Outstanding - new minus repayments
       (1 to 4-family houses)
       Third quarter .... $2 billion
       1949 .... $4 billion

(Order L-41)

V. DIRECT CONTROLS

Long 15% defense
vs. shorter 50% war

In real terms - a war/defense must be paid for as we go.