

FRED® Learning Activity:

Government Spending During World War II

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For a detailed description of this activity and a list of standards, please visit <https://www.stlouisfed.org/education/learning-activity-government-spending-during-world-war-ii>



LEARNING Activity

Compelling Question

How did WWII affect domestic economic conditions during the early 1940s?

Procedure

1. Tell students that U.S. real gross domestic product (GDP) is a broad measure of economic activity. It is the dollar value, adjusted for inflation, of all the final goods and services produced each year within the U.S. Real GDP can be subdivided into consumer spending, government spending, private investment, and the difference between the value of exports from and imports into a nation.
2. Show the breakdown of GDP in the U.S. since 1929 by displaying the following graph: <https://fred.stlouisfed.org/graph/?g=1cKSH>. This graph is stacked, meaning that each component of GDP is added on top of the previous to show the total amount of spending. Ask students to identify the largest component of GDP. (*Personal consumption*)
3. Adjust the timeline and focus on the years 1938-1950. Ask students to describe what happened to government spending between 1941 and 1946. (*Government spending increased by nearly four times, from \$545 billion in 1941 to a peak of \$2.1 trillion in 1944.*)
4. Discuss with students what might have caused this sudden increase in government spending. (*Accept all reasonable answers regarding the war effort, such as paying troops or supplying them with weapons and other equipment.*)
5. Ask students if government spending during WWII had an impact on total GDP. (*The immediate need for war material increased the share of government spending, as is evident by the uptick in real government consumption expenditures and gross investment [green section]. This graph is stacked, so the increase in government spending also increased the total amount of real GDP between 1942 and 1945.*)
6. Now display the following graph that shows the percent share of each portion of GDP: <https://fred.stlouisfed.org/graph/?g=1cLaa>. Tell students that the data source is the same, but now the units are presented as a stacked percentage. Again, adjust the timeline to focus on 1938-1950. Ask students what happened to the percentage of government spending as part of GDP during the war years. (*It more than doubled, increasing from 30% of GDP in 1941 to 63% in 1944.*)

Post-Activity Discussion

- What was total real GDP in 1940? (*\$1.49 trillion: \$1,020.138 personal consumption + \$324 government spending + \$146.341 private investment*)
- What was total real GDP in 1944? (*\$3.332 trillion: \$1,127.231 personal consumption + \$2,131.131 government spending + \$74.271 private investment*)
- What was total real GDP in 1948? (*\$2.27 trillion: \$1,401.595 personal consumption + \$590.482 government spending + \$278.472 private investment*)
- What consequences did WWII have on real GDP in the U.S.? (*Spending on the war effort saw a dramatic increase in real GDP because of government expenditures. In the immediate years following the war, there was a decline in real GDP, in large part due to a lack of government spending on military campaigns; but, the total amount was still greater than from pre-war years, indicating overall economic growth—a prelude to the post-war economic affluence that emerged in the 1950s.*)