

Government without new fixed business investment or price or wage increases and without displacing any private demand. Also postulated is the availability of adequate financing for the government contractors by the private credit market. It is further assumed that this increase in government spending will generate no indirect psychological effects on consumer or business expectations nor any changes in other government programs.

PHASE I. APPROPRIATION OF FUNDS

It is assumed that the President transmits to the Congress a supplemental appropriation request which it enacts after due deliberation. Under the assumed conditions, there is no immediate effect on the economy as measured by any indicators of economic activity, such as GNP or the index of industrial production or any of the lead series, such as the volume of new orders. Neither is there yet any change registered in any of the measures of government spending.³⁰ This stage may take one to two quarters of a year, on the average.

PHASE II. PLACEMENT OF CONTRACTS

The government agency to which the appropriation is made negotiates and places contracts with business firms in the private sector of the economy. The following are some of the events that would flow from the receipt of a government order by a manufacturer.

He finds that he cannot fill the order out of inventory or from existing production lines. He determines that this additional volume of production can be obtained through more intensive utilization of existing capacity, but that it will require substantial increases in inventories of materials and increased working capital which will have to be obtained outside of the firm.

On the basis of the company's past performance and the government order, the contractor obtains a working capital loan from his bank. He begins to place orders for materials, to hire additional workers, and to subcontract parts of the order to other firms. These suppliers or subcontractors will be going through a similar process at this time, in some cases involving another tier of suppliers or subcontractors.

The first effect on the volume of economic activity will now be taking place. As deliveries begin to be made on raw materials, and as wages are earned by the first of the newlyhired workers who are tooling-up, the contractor will be drawing upon his loan authorization and making small amounts of payments to the various factors of production. An increase will be registered in the outstanding loans of the commercial banks and, *cet. par.*, in the total money supply of the economy. Also, an increase will occur in gross private domestic investment. This latter item is the component of GNP which contains the inventory accumulation resulting from the increased amounts of goods in process.

The economic activity represented by contract placements is not reflected in any of the generally used measures of government spending. These contracts are included, but not identified separately, in the monthly reports by the Department of Commerce on new orders received by business firms.

³⁰ As is pointed out in ch. V, the series on budget expenditures, cash payments, and government purchases all measure essentially the payment stage of the spending process (phase IV).