Normally, transfer and interest payments only affect the level of output after a lag and indirectly, as they are respent by the recipients. This is the reverse of the situation obtaining in the case of government purchases where the effect on output levels normally precedes the government expenditure. Anticipatory effects could take place under certain circumstances, such as newly unemployed workers maintaining a certain level of spending in anticipation of the future receipt of unemployment compensation.

The accruals of interest can have some economic effect in advance of the actual payment. Some bondholders report interest on an accrual basis for tax purposes. Also, the knowledge that their net worth position is growing stronger may also influence the spending decisions of some investors.

Subsidy payments, to the extent that they have favorable repercussions on the expectations of producers, may evoke a positive effect in advance of the government expenditure. The prospect of a subsidy could encourage farmers to increase production. In some cases, such as where the Government is a major purchaser of the commodity, the subsidy may be an alternative to a price rise and the total level of government spending may be reduced. There might not be any change in real output, but a rise might be averted in its monetary value. This has been experienced in wartime in conjunction with the operation of a system of price controls.[41]

Grants-in-aid to State and local governments normally affect economic activity as they are utilized by the non-Federal governmental units. State and local purchases of goods and services with the Federal funds would have similar results as direct Federal purchases. Likewise, State and local transfer payments financed by Federal funds would have similar results as Federal transfers. However, circumstances can arise under which the very act of the Federal Government in embarking on a new or expanded grant-in-aid program, or even its anticipation, can evoke an important stimulus in private or State and local activities in advance of any specific payment or even pledge of funds to a State.

The expansion in 1956 of the program of Federal grants for highway construction furnishes such an example. In advance of the congressional authorization of a $38 billion program over a 16-year period, potential suppliers such as cement producers and manufacturers of road building equipment began to plan for expansions of capacity and markets. The States undertook advanced planning of highway projects with the result that every State had some qualifying projects either "well into the design stage or ready to go."[42]

As soon as the program was enacted into law, the Federal Government acted to achieve the expansive effects. The Secretary of Commerce immediately announced, "We are starting the greatest public works program in the history of the world. * * * Its favorable impact on the economy is already felt."[43]

The Commerce Department followed with a release claiming that 118,000 additional workers would be engaged in highway construction

[41] Office of Price Administration, *Problems in Price Control: Stabilization Subsidies*, Washington, Government Printing Office, 1947, pp. 18–22.

[42] "Can the States Meet the Challenge?" *Engineering News-Record*, July 5, 1956, p. 23. *Cf.* also issue of June 7, 1956 prior to passage of the bill, "Many States and cities have had their sights set on the expanded Federal highway program for the last 18 months. Speedup of existing programs will follow quickly upon enactment of the legislation" (p. 26).

[43] "Federal Highway Spending Termed a Quick Shot in Arm to Economy," *Wall Street Journal*, July 2, 1956, p. 4.