within 5 years and that the demand for steel for highway construction during that period would expand by 86 percent, that for cement by 79 percent, and that for explosives by 60 percent.[44]

The reaction in the supplying firms was similarly optimistic. The Associated General Contractors of America stated that the program would generate $200 million of additional highway construction during the first 2 months following its passage and an additional $200 million during the following 4 months.[45]

Federal loan programs provide a number of variations in the timing of the economic impact of government spending. The main effect of the government loan would normally rise from the subsequent purchases made by the recipient of the loan. For example, housing loans can be used to finance new private residential construction; production loans can be made to business firms and to farmers for inventory accumulation and, ultimately, for sales to consumers, to governments or to other private businesses; and loans can be made abroad for net foreign investment.

In some cases the Government may merely take over existing loans and increase the liquidity of private firms or individuals. The secondary mortgage operations of the Federal National Mortgage Association are of this nature. However, in assuring commercial lenders that there will be a standby secondary market, FNMA undoubtedly has encouraged commercial lending for housing mortgage purposes. Also, through the device of advance commitments, FNMA has at times functioned virtually as a primary lender.[46]

In some circumstances, the expansive effect of governmental lending would precede the government disbursement. This would be true if private firms order goods and services, hire additional employees, and begin production on the basis of the Government's commitment to make the loan at a later date. In many instances, private production may take place soon after the making of the loan by the Government. In the case of agricultural production, the loans would be used to acquire implements, feed, and other items needed before production could get under way. Here the expansive effect on economic activity would normally follow the making of the loan by the Government.

Government purchases of land and other existing assets merely add to the liquidity of the recipients. Only to the extent that the proceeds are used to purchase current output rather than other existing assets will there be any resultant increase in the level of economic activity.

Effects on the Economy of a Change in Government Spending: Relaxing the Simplifying Assumptions

Some of the possible effects on the economy of the operation of the various phases of the governmental spending process are examined under more complicated circumstances than in the previous chapter.

ANTICIPATORY EFFECTS

In the simplified situation it was assumed that the new government spending program would be neutral in its effects on consumer and

[44] Department of Commerce, Bureau of Public Roads, release dated July 25, 1956.
[45] *Wall Street Journal*, July 2, 1956, p. 4.
[46] Leo Grebler, *The Role of Federal Credit Aids in Residential Construction*, National Bureau of Economic Research, 1953, Occasional Paper 39, pp. 36–49.