business expectations. Consumers may not foresee any adverse repercussions on the availability or price of commodities, or they may believe that their stocks of hoardable commodities are adequate to meet any temporary shortages that may occur. Also, their purchasing power, including the availability of credit, may be severely limited. All of these circumstances would dampen any advance wave of consumer buying.

Businessmen may also believe that there is no need to alter their plans. The magnitude of the government program may not be very great, the duration may be limited, or the government program may be a part of a large stabilization policy. Under these circumstances, there may be no significant change in expectations, although in the absence of the governmental stabilizing action business expectations might have become less optimistic.

The Government's act of embarking on a large new program can have a positive "announcement" effect on consumer and business expectations. Such was the case in the early stages of the Korean mobilization program when memories of World War II price rises and shortages set off a wave of private ordering and buying in advance of government purchasing.

TABLE 5.—*A new Government spending program, giving rise to favorable private expectations*

Stage of spending process	Consumer expenditures	Business inventory accumulation	Government purchases	All other	GNP
1. Authorization	+10	+10			+20
2. Contract placement		+5			+5
3. Production	+35	+45			+80
4. Payment	+5	−50	+50		+5

NOTE.—Amounts shown are changes from the levels obtaining in period O and are based generally on table 4.

Table 5 shows, in an idealized fashion, how favorable expectations on the part of business and consumers resulting from the Government embarking upon a spending program can be superimposed on the direct effects of such a program. The present case includes an "announcement" effect of the government authorizations on consumer spending and business inventory accumulation. The subsequent developments are similar to those in table 4, except that the "second round" effect on consumer spending is specifically indicated here.

Private business investment may sharply accelerate in advance of any large increases in government ordering. If the Government embarks on a program to alleviate recessionary conditions, businessmen's hopes for an upturn may be raised. As Hamberg points out, under these circumstances:

> * * * the marginal efficiency of capital may rise sufficiently to provide an increase in private investment independent of the immediate effects of rising current spending (public and private). The extent of this upward shift in the investment *schedule* would depend on the confidence that businessmen had in the success of the government's efforts.[47]

The reaction of businessmen to this new government spending program may be negative. They may fear that such activities are a

[47] D. Hamberg, *Business Cycles*, New York, Macmillan, 1951, p. 357.