

prelude to government interference and competition with private enterprise.⁴⁸ The announcement effect of government spending is too diffuse and elusive to be measurable. We simply do not know what the actions of businessmen and consumers in a given period would have been in the absence of the anticipatory effect of government activity.

Measures of the magnitude of the new government spending programs may prove helpful in gauging the anticipatory reactions of the private sector. Although there is no precise relationship between the granting of new obligational authority and anticipatory reactions, sharp and sizeable changes in the magnitude of this measure can throw light on some of the early reactions to changes in government programs.⁴⁹

AVAILABILITY OF RESOURCES

In the examination of the simplified situation in the preceding chapter, it was assumed that the placing of contracts by the Government would, in effect, start the wheels of industry turning. Resources, however, may not always be present. Substantial amounts of new investment may be necessary before production commences.

In this case, the production by private business would include additions to private plant and to equipment needed to produce the government-ordered goods as well as including actual production on the goods destined for government use.

There are several important distinctions between these two activities. Although both groups of expenditures would show up initially in gross private domestic investment, the capital expenditures would be included as additions to plant and equipment and would remain in the stock of private business assets. The production on government account, on the other hand, would initially show up as business inventory accumulation but, as the production is completed, would be transferred from this segment of business investment to government purchases of goods and services and the items produced would become part of the stock of government assets. Table 6 shows the operation of these two different types of production activities arising from government orders.

TABLE 6.—A new Government spending program requiring additional private investment

Stage of spending process	Consumer expenditures	Private fixed investment	Business inventory accumulation	Government purchases	GNP
1. Authorization.....					
2. Contract Placement.....					
3a. Investment.....		+10	+5		+15
3b. Production.....	+35		+45		+80
4. Payment.....	+10		-50	+50	+10

Note: Amounts shown are changes from the levels obtaining in period 0 and are generally based on Table 4.

Under a situation of relatively full utilization of resources, the letting of additional government contracts may simply result in accumulations of backlogs and unfilled orders. Given the limitation of resources, this problem cannot be remedied by additional investment

⁴⁸ Cf. Hayes' statement on the 1937 recession, " * * * who could tell where the experimenters would turn next?" Douglas A. Hayes, *Business Confidence and Business Activity: A Case Study of the Recession of 1937*, Ann Arbor, University of Michigan Press, 1951, p. 120.

⁴⁹ See ch. VII for details of recent experience along these lines.