than an increase in government spending will be lasting, they may react, particularly in investment decisions, far more fully than if they regard such increases as merely transitory. In this relationship, Wallich concludes that:

> * * * one probably cannot assume that an increase in government orders will induce the same amount of private investment that might be called forth by higher private demand. This will be true, at any rate as long as government demand is regarded as less permanent than private demand.[54]

SUMMARY

The magnitude of changes in the various phases of the Federal spending process can have important economic effects under many circumstances; an awareness of these surrounding circumstances is essential to an adequate analysis of the changes in government spending patterns.

The very act of announcing and authorizing a new or increased spending program—the granting of new obligational authority—can sometimes give rise, by affecting expectations, to positive or even to negative changes in business and in consumer spending in advance of the actual letting of contracts or of the disbursement of government funds.

The act of placing contracts and incurring other obligations may not always signal the onset of production. The needed production facilities may not be readily available or backlogs of orders may first have to be worked off. Also additional working capital may be required. On the other hand, the government order may be filled out of inventory and no effect on economic activity would take place until some time later.

In addition to the direct effects of the government expenditure there will be the accompanying effects of the financing of this outlay. Automatic increases in personal and corporate tax collections may offset in part the effects of the rise in government expenditures, including the spendings out of the earnings from government orders. Government borrowing, likewise, may compete with private demands. Reductions in the level of government spending also work their effects through the economy in an analogous four-step process.

Although all of these complications may modify the effect on the economy of a program of government procurement from private industry, the basic relationships generally hold: The primary effect on productive activity (to the extent there is any) occurs in advance of the actual government expenditures. Under most of the circumstances that have been examined, the placing of orders induces (either immediately or after a delay) private production on government account, and such production remains in the private sector and does not show up as government expenditures until after it is completed and the goods involved delivered to the public sector.

THE GENERALLY USED MEASURES OF GOVERNMENT SPENDING

This chapter examines the measures of government spending which are generally available and currently used. The three most widely-known measures are (1) budget expenditures, based on the Federal administrative budget, (2) Federal Government payments to the

[54] Henry C. Wallich "Income-Generating Effects of a Balanced Budget," *Quarterly Journal of Economics*, November 1944, p. 89.