simply exists in curbing private spending and credit creation ignores the very reason for a good share (the nonspeculative share) of the expansions in economic activity. It was government policy of the time to encourage private spending for and financing of the production on government account and the necessary supporting investment.[106] General credit curtailment might have seriously interfered with the needed expansion in private production and investment. To be sure, the inflationary effects of consumer and business spending not directly related to the defense production program should not be ignored, nor need the pegging of the government bond market be defended.

An understanding of the operation of the Federal spending process can be useful in business cycle analysis, interpretation of current economic conditions, and evaluation of future economic developments, especially where changes in governmental activities play a dominant role in the period being covered.

In a more specific way, lead series on the government spending process can be used in a way similar to the lead series which have been developed for private economic activity. The lead series in the Federal spending process are new obligational authority and obligations incurred while series on expenditures are lagging, or at best, coincident measures. There is an intimate functional relationship between these series:

> Expenditures are merely the inevitable result of incurring obligations in the form of contracts and other commitments which are based on the appropriations and other authorizations granted by the Congress.[107]

This relationship seems quite clearly to meet the test of lags in economic developments—when certain developments are related to other developments as cause and effect, but the effect follows the cause with some time delay. Thus, the lead series are a form of "exceptational" statistics. Their similarity in use to statistics on business plant and equipment expectations can be seen in a study of the latter field by a group headed by George Terborgh:

> The importance of measuring plans and expectations, as distinguished from expenditures themselves, arises from the lead time involved. Capital goods have a long production cycle, especially buildings and structures * * * Here the lag of actual expenditures behind the commitments to undertake the project * * * must average several months * * * It follows that figures on expenditures run far behind the flow of commitments.[108]

This similarity between "expectational" statistics on private and government spending can also be seen in an analysis of the uses of the series on private new orders:

> * * * changes in new orders reflect directly or indirectly fluctuations in demand from producers and consumers. Long before a change in business activity, new orders will reflect the changed demands and will point to coming developments.[109]

The lead series on government spending may be of special value in forecasting the general levels of economic activity at times when

[106] *Cf.* Director of Defense Mobilization, *First Quarterly Report to the President*, Washington, Government Printing Office, 1951, p. 5.

[107] A statement by "a representative" of the Bureau of the Budget U.S. House of Representatives, Committee on Government Operations, *Limitation of Federal Expeditures, Report to Accompany H.R. 2*, Washington, Government Printing Office, 1953, p. 3.

[108] Committee on Business Plant and Equipment Expenditure Expectations, *Statistics on Business Plant and Equipment Expenditure Expectations*, Washington, Board of Governors of the Federal Reserve System, 1955, p. 2.

[109] Gibert and Paradiso, *op. cit.*, p. 43. "In any given business organization, the current and future business prospects are judged on a much broader base than production statistics. Order backlogs, incoming orders, and market opportunities which will produce a continuing flow of such orders receive much attention; the company's own production figures are given scant attention." Herbert V. Prochnow, editor, *Determining the Business Outlook*, New York, Harper & Bros. 1954, pp. 152–153.