

TABLE IV
Predicted Effects from Defense Spending on Components of GDP

Increase in:	Predicted effect on:				
	GDP	Consumption	Investment	Nondefense government purchases	Net exports
<i>g: defense</i>	+	—	—	—	—
<i>g*: defense news</i>	+	—	+	—	+

Notes. The table considers in the left-most column increases in current defense spending, g , or in news about future defense spending, g^* . The five columns to the right show the signs of the predicted changes in GDP and its four components: private consumption, gross private domestic investment, nondefense government purchases, and net exports. The effects on nondefense government purchases follow if we view these purchases as primarily consumption, rather than investment. In our empirical application, we identify consumption with personal consumer expenditure on nondurables and services, and we consider consumer expenditure on durables as a form of investment.