In the case of military procurement programs, it is clear that the placement of orders with defense contractors and their commencement or expansion of production generate demands for resources, which are evidenced by the hiring of manpower and the acquisition and utilization of raw and semi-processed material. The key problem here, however, is that all such activity shows up in the private sector and not in the public sector.

The progress payments, of course, are recorded in the administrative and cash budgets at the time they are made. However, the newer and supposedly more sophisticated measure of Government finance—the so-called national income budget—takes acount, not of these progress payments, but only of the actual delivery of the completed weapons. Because this point is so basic to understanding developments in the American economy during the last few years, some elaboration seems desirable.

Table 2 shows the impact of a hypothetical government expenditure program involving the purchase of $50 million worth of goods produced in the private sector of the economy. For purposes of simplicity, the Gross National Product is divided among Government Purchases, Business Inventory Accumulation, and All other.[28]

TABLE 2.—*Illustrative impact of the major stages of the Government spending process ($50,000,000 procurement program)*

[In millions of dollars]

Stage	Government purchases	Business inventory accumulation	All other	GNP
1. Appropriation				
2. Contact placement				
3. Production		+50		+50
4. Delivery	+50	−50		

NOTE.—Only direct effects are shown.

Sources: Adapted from M. L. Weidenbaum, "The Timing of the Economic Impact of Government Spending," National Tax Journal, Mar. 1959, p. 82.

The process begins with a Congressional appropriation of $50 million. No direct effect occurs on the level of economic activity. The Federal agency receiving the appropriation then places a contract with a private firm, which prepares to produce the order.

Actual production then follows. The total cost (including profit)—here estimated at $50 million—initially shows up in business inventories. Progress payments do not change this because they are not entered into the GNP accounts. Such payments are excluded because they are not considered to represent the flow of resources but are merely financial transactions. When the work is completed and the items are delivered to the Government, the $50 million transaction is then recorded as a government purchase—*and* a corresponding decline occurs in business inventories. As can be seen in Table 2, *the delivery stage has no impact on GNP; the expansive effect of the government purchase occurred earlier, following the receipt of the government order and the commencement of production.*

B. *Problems of measurement and data availability*

Interpretation of the spending figures for a military effort such as the Vietnam buildup is particularly difficult because the great bulk of the publicly available detail on actual and prospective defense spending is in terms of standard budget categories, which do not show how much in each category is being devoted to the limited war (Vietnam). Similar problems occurred in the contemporaneous interpretation of Korean War developments.

[28] For analysis of indirect effects and more complicated cases, see M. L. Weidenbaum, "The Timing of the Economic Impact of Government Spending," *National Tax Journal*, March 1959, pp. 79–85.