

the January 1966 budget, it was estimated that this rate of making new commitments would rise to well over \$63 billion in fiscal year 1966. In retrospect, the January budget underestimated the rise in military demand during the fiscal year which was then in progress.

The actual amount of new obligations incurred during fiscal year 1966 was somewhat in excess of \$67 billion, or almost one-fourth greater than in 1965. Actual expenditures increased at a much slower rate during the same period—17 percent. In other words, *obligations* are the more sensitive or leading indicator. Unfortunately from the viewpoint of analyzing business conditions, the supposedly most sophisticated measure of government finance, the so-called national income accounts budget, uses a concept that even lags behind actual government outlays—the delivery of completed military equipment. To compound the problem, the national income accounts budget picks up government revenues on an accrual basis, which precedes the actual receipt of cash by the government.

As was pointed out earlier, much of the impact on employment, production, an income of a military buildup occurs primarily at the points in time that budget recommendations are made, increased appropriations are enacted, and orders placed with military contractors. *However, the statement of Federal receipts and expenditures on national income account—the national income accounts budget—confines the measurement to the actual delivery of completed weapons and other military “hard goods.”*

The policy implication of all this is that the official budget and economic reports were very slow to pick up the expansionary impact of the Vietnam buildup, but very quick to take account of the deflationary impact of the expansion in revenues. *The net result is that the Federal Government, though apparently following a non-inflationary economic policy in 1966, was actually a major source of inflationary pressure in the American economy during that time.*

Some statistical support for the foregoing is contained in Table 6.⁵⁴ On the far left in Table 6 is the officially reported surplus or deficit in the so-called national income accounts budget. This, the Administration economists have contended, is the best measure of the economic impact of fiscal policy. On that basis, the Federal budget shifted from a position of ease in the second half of calendar 1965 (a deficit of \$1.4 billion) to some restraint in the first half of 1966 (a surplus of \$3.1 billion).

TABLE 6.—Federal surplus or deficit: Some variations on the national income accounts budget

[Billions of dollars at annual rates]

Calendar year	Federal surplus (+) or deficit (–) official basis	Adjustments for defense obligations		Federal surplus (+) or deficit (–) adjusted basis	
		A	B	A	B
1964:					
1st half.....	–4.3	–0.1	–0.1	–4.4	–4.4
2d half.....	–1.8	–4.4	–2.2	–6.2	–4.0
1965:					
1st half.....	+4.4	–2.0	–1.0	+2.4	+3.4
2d half.....	–1.4	–5.2	–2.6	–6.6	–4.0
1966 estimated:					
1st half.....	+3.1	–8.4	–4.2	–5.3	–1.1
2d half.....	–2.0	–5.2	–2.6	–7.2	–4.6

Source: Data from U.S. Departments of Commerce and Defense. Adjustments are described in the text.

The next two columns in the table contain two alternative sets of rough adjustments for the fact that new contracts awarded may be a better indicator of the impact of a military buildup on the economy than delivery of completed weapons. The A series is essentially the excess of military obligations over expenditures during the period, seasonally adjusted and converted to an annual basis. One further change has been made. Over the years, about two to three

⁵⁴ For an earlier attempt along these lines, see M. L. Weidenbaum, *The Federal Budget and the Outlook for Defense Spending*, Washington University Working Paper 6610, November 1966.