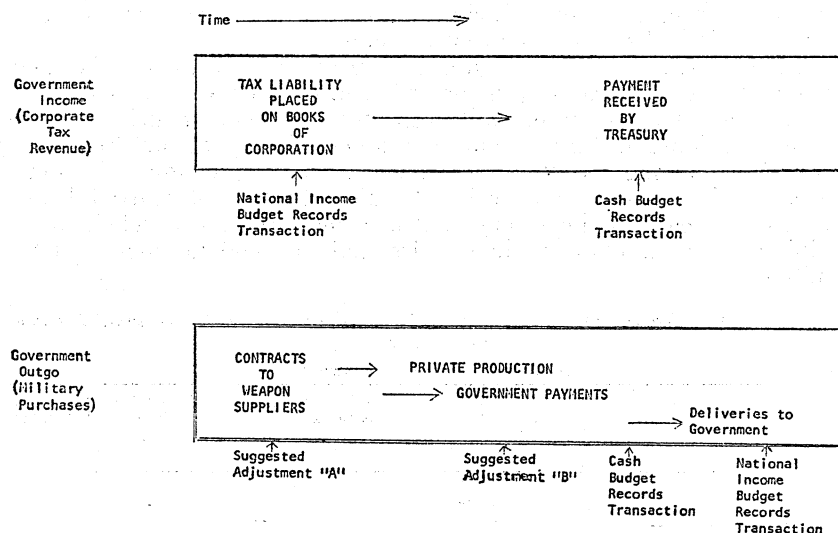


The actual amount of new obligations incurred during the past fiscal year was somewhat in excess of \$67 billion, or fully one-third greater than in 1965. Actual expenditures increased at only half that rate during the same period—16½ percent. In other words, obligations is the sensitive or leading indicator. 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 expenditures—the delivery of completed military equipment.² 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. (See fig. 1.)

On previous occasions, I have tried to point out that the impact on employment, production, and income of a military buildup may occur primarily at the point in time that budget recommendations are made, increased appropriations are enacted, and orders placed with military contractors. Although this may appear quite obvious to those acquainted with defense industries, the statement of Federal receipts and expenditures on national income account confines the measurement to the actual delivery of completed weapons and other military "hard goods." A considerable period of time often elapses between budget recommendations for military procurement and delivery of the completed items to the government and payment therefore. The primary effect on productive activity, to the extent there is any, normally occurs in advance of the actual government expenditures. Under most circumstances, the placing of orders induces private production on government account and such production remains in the private sector and does not show up as government

FIGURE 1

DIFFERENCES IN RECORDING GOVERNMENT INCOME AND OUTGO



² See my "The Inflationary Impact of the Federal Budget," *Financial Analysts Journal*, July-August 1966, and the sources cited there for detailed analysis of this point. The extent to which deliveries lag expenditures is shown graphically in William H. Chartener, *The Outlook for Defense Spending—How Great an Uncertainty?*, a paper presented before the Annual Meeting of the American Statistical Association, Los Angeles, Calif., Aug. 18, 1966.