expenditures until it is completed and the goods involved delivered to the public sector.

Conceptually, production on government order is not reflected in government purchases of goods and services at the time the work is performed. This activity, as measured by the cost incurred, is currently included, in the gross national product, in the change in business inventories. When the government contractor delivers the finished items, the transaction shows up in the national income accounts as a decline in business inventories.

It is also then recorded as a government purchase of goods and services. These two entries tend to cancel each other out, with no net effect on GNP. At the time it is recorded in the national income accounts, the government purchase does not represent payments to the factors of production; it is more in the nature of an intersectoral transfer—a reimbursement to the government contractor for his outlays during earlier periods.

It is at the order stage that the government action normally will have its initial and often major impact on the markets for labor, raw materials, and financial resources. The contribution to economic activity is made during the production period prior to the actual government "purchase." Indeed, the recording of the government purchase may coincide in time with a reduction in governmental impact on total demand and in repayment of working capital loans by the government contractors.

This may seem like a statistical tempest in a teapot (or a crackpot). However, the upshot is that the official budget and economic reports are very slow to pick up the expansionary impact of the Vietnam buildup, but very quick to take account of the deflationary impact of the revenue speedup. The net result is that the Federal Government appears to have been following a noninflationary economic policy in 1966 when actually it has been a major source of inflationary pressure in the American economy during the past year. I shall try to present some statistical support for that statement.

In table 1, I have assembled a few variations on a theme, the theme being the net Federal surplus or deficit in recent periods. On the far left, I have placed the officially reported surplus or deficit in the so-called national income accounts budget. This, we are repeatedly told from on high, is "our 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 1.—*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
2nd half	−1.8	−4.4	−2.2	−6.2	−4.0
1965:					
1st half	+4.4	−2.0	−1.0	+2.4	+3.4
2nd 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
2nd half	0				