Introduction

The impact of government spending on the economy is generally measured at the point at which disbursements are made. However, depending on the nature of the program and the state of the economy, the economic impact may occur significantly earlier than the actual expenditures. This study analyzes the many important circumstances under which the economic impact occurs during the earlier stages of the government spending process. Because of the length of time involved in carrying out many government procurement programs, it is important to know if economic effects occur at the point where expenditures are made or if they occur also, or instead, at some other place in the process. Except for some limited treatment made with reference to other matters, this is a question which has not been dealt with in the literature.[1]

The outlays of the Federal Government in recent years have constituted by far the greater part of total government spending in the United States. The Federal Government has also become a major consumer of the Nation's economic output. Moreover during this time, fluctuations in the level of government spending have often exercised a dominant influence on the course of aggregate economic activity.

The concern with the government spending process and its measurement specifically arises in connection with these fluctuations and their ramifications. For many purposes of public policy and of fiscal administration, it is essential to have accurate instruments to record present movements and to understand their relationship to future trends. An inappropriate indicator of government spending may show an upturn when, in reality, the basic force of government spending is operating in quite the reverse fashion. An insensitive indicator may show little movement when in fact a great fluctuation is taking place. A lagging indicator may only show movement with considerable delay.

As will be indicated, adequate information on the government spending process together with an understanding of its operation can be important in the formulation and administration of governmental economic policy and in the analysis of economic developments.

The increased extent to which Federal expenditures are being made to acquire privately produced goods and services has complicated the analysis even of the direct effects on the economy of governmental outlays. The public and the private sectors have become intertwined. No longer does the greater part of Federal expenditures go directly to consumers in the form of wages and of salaries of government employees, of interest payments to holders of Treasury securities, or of transfer payments to the recipients of social welfare benefits. The Federal Government is buying an increasing proportion of goods produced in the private sector, mainly in the form of armaments and of other security-related objects such as atomic energy installations and as strategic and critical materials. The payments to the factors of production for these goods are being made by the government contractors and not, as in the case of other government spending programs, by the Government itself. Such purchases of goods and services from

[1] *Cf.* Morris A. Copeland, "The Defense Effort and the National Income Response Pattern," *Journal of Political Economy*, June 1942, pp. 415–426; C. Lowell Harriss, "Government Expenditure: Significant Issues of Definition," *Journal of Finance*, December 1954, pp. 351–364.