PRODUCING GOVERNMENT-ORDERED GOODS

Pursuant to the contracts and orders placed, the suppliers of government goods and services, in both the public and private sectors, produce or otherwise obtain and then deliver the items previously obligated for. Government contracts usually contain delivery schedules. In the case of heavy equipment, however, production delays and delivery date extensions are commonplace and the amount of control by the Government over the speed of work on the contract depends on the ability of the procurement officer as well as the cooperation of the contractor.[17]

To the extent that production is carried on in the private sector, this stage of the Federal spending process is not usually reflected in the Federal financial accounts. The fact that disbursements to factors by government contractors do not appear in the government accounts at this stage but in the private accounts will be of considerable significance in the subsequent analysis of the economic effects of the governmental spending process.

In the case of production carried on by a government agency, the actual disbursements to factors in the course of production are reflected as expenditures in the Federal accounts. In the case of expenditures which are not for currently produced goods and services, such as transfer payments, interest payments, and the acquisition of land, the lag between obligations and expenditures is usually nonexistent or at a minimum, depending upon the nature of the individual program involved. Moreover, such expenditures do not involve the long production lead times that are characteristic of hard goods procurement.

MAKING PAYMENTS: THE CONCLUDING STEP

In accordance with private business practice, the Federal Government generally pays for the items it orders after they have been delivered, inspected, and approved. A number of agencies are authorized to make advance and progress payments.[18] These are usually confined to large orders for heavy equipment in the production of which the supplier requires considerable additions to his normal working capital.

Progress payments can usually be made up to 70 percent of the costs incurred or 85 percent of direct labor and material alone.[19] No interest is charged the contractor on such payments.

Advance payments are made, prior to the performance, under a contract and are expected to be liquidated from payments due the contractor as a result of performance. Unlike progress payments, advance payments are made under restrictive and selective conditions.

Only $47 million worth of advance payments by the Department of Defense were outstanding as of December 1959. In contrast, $2.6 billion of progress payments were outstanding on that date.[20] Such

[17] U.S. Commission on Organization of Executive Branch of the Government, *Task Force Report on Military Procurement*, Washington, Government Printing Office, 1955, p. 34.
[18] Armed Services Procurement Act of 1947, as amended, First War Powers Act, 1941, as amended.
[19] Department of Defense, *Armed Services Procurement Regulation*, 1960 edition, Washington, Government Printing Office, 1960, p. E49.
[20] U.S. Congress, Joint Economic Committee, *January 1959 Economic Report of the President*, Washington, Government Printing Office, 1959, p. 703.