outstanding contracts, such as the payment of damages to the contractor for the unrecoverable costs which he has incurred, or the loss of interest on the part of business firms in bidding on future government contracts. This factor is a limitation both at the legislative and agency levels. In the case of such activities as public works projects, the desire to protect the government investment already made may be decisive in continuing expenditures on a going project in the face of a general effort towards curtailment of government spending. Most supply and construction contracts permit the contracting officer to order certain changes in the performance of the contract. The order of the contracting officer, so long as it is within the scope of the changes clause involved, does not require the consent of the contractor.[29]

SUMMARY

The Federal Government spending process can be viewed as a continuous stream of activity. Four major stages may be highlighted because of their importance in terms of the impact of government spending on the economy: (1) the granting of congressional authorizations to let contracts and make expenditures; (2) the placing of contracts by government agencies; (3) production of the goods and services ordered by the Government; and (4) delivery of the finished product and the government payment.

The granting of financial authorizations by the Congress and the letting of contracts by the agencies are basic control points over the amount and rate of spending; the actual production generates the direct effect on the level of output in the economy (in those cases involving government purchases of goods and services). The flow of expenditures has important financial effects, including the use of Federal tax or debt receipts and the increase in the liquidity of the private sectors of the economy; it also measures the completion of the government spending program.

Subsequent chapters will explore the impact on the economy of each of these stages under varying circumstances and for different types of governmental spending programs.

Effects on the Economy of an Increase in Government Spending

In this chapter four phases of the Federal Government spending process are highlighted: (1) enactment of appropriations, (2) placement of government contracts with the private sector, (3) production in the private sector to meet these contracts, and (4) delivery to and payment by the public sector.

A number of simplifying assumptions are made so that the effects on the economy arising directly from an increase in governmental spending can be more readily examined. More complicated situations are dealt with in the following chapter.

An increase in government spending is assumed which consists entirely of expenditures for goods and services currently produced in the private sector of the economy. It is assumed that these expenditures are financed by borrowing idle funds.

It is also assumed that there are sufficient idle resources and mobility in the economy to produce the goods and services ordered by the

[29] *Ibid.*, . 70pl.