available statistics and, hence, the amount of production carried on in the private sector on government account cannot be measured. Only a general idea can be obtained from series on contracts placed and deliveries made.

On the income side, increases will be registered in compensation of employees, corporate profits, rental income and, perhaps, earnings of unincorporated enterprises. Increases in consumer expenditures also occur as a result of these income payments.

This stage may last from one quarter up to two years or more depending on the production time involved.

PHASE IV. PAYMENT FOR GOODS

During phase IV the contractor delivers the Government the goods which have been produced during phase III. Following inspection and other processing activities, payment is made by the Government. Several economic effects of this activity can be discerned.

The delivery of the equipment shows up in the national income accounts as a decline in business inventories and, hence, in gross private domestic investment. It also is recorded as a government purchase of goods and services. These two movements tend to cancel each other out with no net effect on GNP. The government purchases do not represent payments to the factors of production but are more in the nature of intersectoral transfers—reimbursements to the government contractor for his outlays during the previous period.[36]

Following the payment by the Government, the contractor would repay the working capital loan. These actions tend to reduce the amount of private credit, reduce the Government's cash balances, and increase the cash position of the firm doing business with the Government. The contractor can now disburse dividends, or set aside funds for tax payments, future expansions or merely an improved cash position. The necessary public debt securities will be marketed during this time.

This is the period during which the government purchase shows up as a budget expenditure and a cash payment to the public.

RECAPITUALTION

Table 4 is an illustrative version of the relationship through time between the four major stages of the Federal spending process and aggregate economic activity. It is assumed that in stage 1, the Congress authorizes a Federal spending program of 50, with no immediate effect on GNP. During stage 2, contracts are let with private firms which begin necessary tooling up operations. The relatively minor production activity involved is reflected in GNP. During state 3, quantity production is carried on in the private sector on government account and this is the period during which the significant effect on GNP occurs. As yet, no government expenditures have been made.

[36] *Cf.* Samuelson and Hagen on theWorld War I experience: "The producer borrowed money or used his own funds to finance production; later, when the goods were delivered, the Government payment replaced the funds. The contribution to purchasing power had occurred earlier." Paul A. Samuelson and Everett E. Hagen, *After the War—1918–1920, Military and Economic Demobilization of the United States*, National Resources Planning Board Pamphlet, Washington, Government Printing Office, 1943, p. 23.