

TABLE 4.—*Illustrative impact of the major stages of the Government spending process*

State of spending process	Business inventory accumulation	Government purchases	All other	GNP
1. Authorization				
2. Contract placement ¹	+5			+5
3. Production	+45			+45
4. Payment	-50	+50		

¹ Includes tooling-up expenses incurred prior to quantity production getting underway.

NOTES:

1. Assumes a hypothetical 1-shot Government spending program of 50.
2. Amounts shown are changes from the levels obtaining in period "O."
3. Only direct and primary effects are shown in the table.
4. Fluctuations in economic activity likely to arise from other causes are not shown here or in subsequent amplifications.

During stage 4, the government-ordered goods are completed and delivered. This is the period when government payments are made. However, while the total of government purchases of goods and services rises to reflect the payment, there is an equivalent reduction in business inventory accumulation. Hence, there is no net effect on GNP during this period.

In practice, the sequence is not always as simple as outlined above. While the Congress is considering a new appropriation for military procurement, the affected industry may be conducting preliminary discussions with the government agencies involved and may also be tooling up. Stage II may be quickened and an expansion in inventories begun as soon as the contracts are negotiated.³⁷ Also, after the initial lag between production and deliveries, there may be a steady stream of production in the private sector and deliveries to the public sector. This would result in no further need for inventory accumulation and the increases in GNP resulting from this government program would then show up in government purchases of goods and services, rather than in gross private domestic investment, as postulated above.

However, given the simplifying assumptions which have been made, the following is the sequence in which the various stages of the governmental spending process ordinarily enter into the movements of total economic activity.

1. The enactment of an appropriation indicates the size of a government spending program (for the period for which the funds are appropriated), but is not reflected in any measure of current economic activity.

2. The placing of government contracts with the private sector gives rise to the beginning of production and, hence, furnishes a measure of the early and potential impact of government spending (i.e., procurement) on the economy.

3. The actual production in the private sector on government account shows up in GNP as additions to business inventories. This is the stage when government contractors actually make disbursements for wages and materials. However, because of the lack of available statistics, we cannot measure the magnitude of these disbursements, which represent the amount of private production on government account. Increases in consumer spending also occur during this period as a result of the payments to factors.

³⁷ Gardner Ackley, "The Multiplier Time Period: Money, Inventories and Flexibility", *American Economic Review*, June 1951, p. 357.