4. The completion of production of the goods and services ordered results in deliveries from the private sector to the Government. This is the stage where the government spending program shows up as government purchases of goods and services. With the simultaneous decline in private inventories of a corresponding amount, there results no net effect on GNP during this period. However, this is the point at which the Government generally makes its expenditures for the goods and services delivered to it—when this activity is recorded as a budget expenditure and a cash payment.

OTHER TYPES OF GOVERNMENT SPENDING PROGRAMS AND PROCEDURES

Without relaxing many of the simplifying assumptions made earlier, other payment and production procedures and other types of government expenditures can be examined.

Other payment arrangements. Many government contracts provide for partial payments as the work is progressing. This is frequently done on heavy equipment orders such as aircraft, where the production time may take several years and where privately obtained working capital is not normally sufficient during this period to cover the payments to factors.

Advance and progress payments reduce the contractors' need for outside financing. To the extent that some of the benefit of these payments is passed on to the subcontractors or suppliers, their need for additional financing is diminished. Government cash balances would be drawn upon during the production period rather than after delivery of the equipment, as would occur under more usual payment arrangements. Hence, a stream of borrowing from the public might be necessary instead of a single funding effort at the final payment stage (or similar adjustments in scheduled repayment of government borrowing).

Progress and advance payments show up as budget expenditures and cash payments to the public at the time they are made. In the case of the income and product accounts, such payments in theory are included in private inventory accumulation rather than in government purchases. The customary practice, however, of the business firms which receive progress payments against partially completed work is to list the goods in process as receivables from the Government rather than as inventory.[38]

The Department of Commerce attempts to adjust for this divergence, but does not have the necessary data in all cases. To the extent that the adjustment is made when necessary, production will be currently reported as increases in business investment; advance and progress payments, as well as completion payments, will show up as government purchases of goods and services at the time the delivery of the completed item is made.

Other production arrangements. A substantial segment of government purchases of goods and services is made directly from the public sector. Conventionally, this gross product of the public sector is taken as the compensation of general government employees.[39]

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[38] "Unbilled costs and fees under such (Government) contracts are ordinarily receivables rather than advances or inventory * * *" American Institute of Accountants, *op. cit.*, p. 93.
[39] "1954 National Income Supplement," *Survey of Current Business*, p. 53.