

in productive facilities. Placement of contracts by the Government would not immediately affect private production. Attempts by the Government to bid away resources from private uses could result in rises in prices. However, there would not be any real increase in the total production of the economy, except that resulting from changes in the product mix.

Where the Government resorts to material controls and allocation systems to obtain the output it needs, the backlogs may accumulate in the private sector rather than in the work on government contracts.

Table 7 illustrates the full employment situation in which the Government utilizes direct economic controls to draw resources away from private uses. As full utilization of resources is postulated, there would be no effect on the aggregate level of economic activity during any part of the government spending program. The authorization of the new spending program could not give rise to any changes in consumer and business outlays (resulting from changes in expectations) nor could the contract letting lead to any expansion in the volume of production. As a result, when production of the government-ordered goods is completed, there would be an increase in government purchases and an equivalent decline in consumer expenditure and/or business fixed investment depending on which private demands were displaced.

TABLE 7.—A new Government spending program requiring compulsory transfer of resources

Stage of spending process	Consumer expenditures	Private fixed investment	Business inventory accumulation	Government purchases	GNP
1. Authorization.....	-----	-----	(1)	-----	-----
2. Contract placement.....	-----	-----	(1)	-----	-----
3. Production.....	-----	-----	-----	-----	-----
4. Payment.....	-40	-10	-----	+50	-----

¹ Although the total level of inventories would be unaffected by the new Government spending program, the portion devoted to Government-ordered production would be increased during these periods (and decreased in the subsequent period).

NOTE.—Amounts shown are changes from the levels obtaining in period 0.

There is also the special case where the government contractor can fill the order out of existing inventory. Here production would not commence until the firm hires labor and other factors to replace the depleted inventory. The government payments in this case would initially add to the supplier's working capital and would constitute income only with a lag—when they are paid out to the factors of production for replacement of the depleted inventory.

As could be seen in the above cases, the usefulness of the measures of the early phases of the government spending process in analyzing current economic developments varies with the surrounding circumstances. The volume of government orders affords an insight into the Government's demand for current private production and future production. However, the relation between new orders and the ensuing production depends on the availability of resources. Here, unliquidated obligations (unfilled government contracts) are an indicator of future production on government account.