we are particularly interested in the timing when things are going to affect the economy.

Chairman PROXMIRE. Is not the NIA budget on an accrual basis?

Mr. CAPRON. No, sir; it is not.

Chairman PROXMIRE. The cash budget is not an accrual budget, but to the extent possible, the NIA budget is.

Mr. CAPRON. The cash budget is not. The NIA budget has some accrual features in it, but many important expenditure activities are not on an accrual basis, since as of now we just do not have the data to permit anyone to put the budget on an accrual basis.

Chairman PROXMIRE. Can you help us by giving us an example of how this would give us a better economic analysis understanding?

Mr. CAPRON. Yes. Defense spending is the clearest case in which you have relatively long leadtime items. There are several steps in which we record or can record a decision to procure a given number of aircraft, for example.

The contract is let; funds are obligated. Then progress payments are typically made to the contractor. And finally the equipment is delivered to the Government.

Now, if my understanding is correct, under the NIA budget, the transaction is essentially recorded as a Federal expenditure at the time that delivery is accepted by the Government of the item. This is typically long after the impact of that decision on the economy.

Chairman PROXMIRE. And with the cash budget it would be reflected at the time the payments are made—checks are written.

Mr. CAPRON. Yes. Essentially the cash budget is on a checks-written basis.

Chairman PROXMIRE. Under the proposed budget, it would be on the basis of when the obligation was incurred.

Mr. CAPRON. No. It would be as the work is done for the Government's account. It would be comparable to accounting which is typical in private industry now which will——

Chairman PROXMIRE. How do you measure when the work is done? How do you determine the date when the work is accomplished?

Mr. CAPRON. Well, it is—the attempt is made, and fairly successfully in modern accounting——

Chairman PROXMIRE. Can you give an example?

Mr. CAPRON (continuing). As various man-hours and various raw materials are put together in fabricating, say, the airplane or the tank, the accounts of the firm will reflect when that work is done, and they will begin to create an inventory account of work in process. And as that inventory builds up, this is transferred in the firm's books to a Government account. Under the accrued expenditure estimates recommended by the Budget Concepts Commission, that would be reflected as the plane began to take shape as a Government expenditure

Chairman PROXMIRE. Month by month there is a certain amount of the material, labor, and so forth, that goes into the plane.

Mr. CAPRON. That is right. And this would then be taken as an accrued expenditure by the Federal Government. This would be quite separate from when progress payments happen to be made, and you wou d certainly not wait to record this as a Government activity until the time that the plane was actually completed and delivered to the Government. And this is particularly significant in the case of defense procurement and construction activity.