should be readied to cope with them. One important factor will be how long the buildup continues. The longer it does, the more long-term commitments people will make in the areas, commitments in business capital and housing, for example.

These are only tentative conclusions. It would be wise to study closely the areas which have recently received large increases in demand, to estimate the ease of their reconversion to other kinds of production. It is not just important to measure the regional impact, it is also necessary to assess the capability for various kinds of adjustment. Although the buildup's end is not yet imminent, a study to determine regional adjustment problems in advance would be very helpful. It would guide policies to assist adjustment when it is required. If areas can be efficiently reconverted to other production with certain Federal policies, such a study would suggest what is appropriate, given the comparative advantage of the area and the existing stock of business and public capital it has. And advance information would also help identify cases where labor mobility ought to be concentrated on and the area better allowed to decline in the long run.

Thank you.

Chairman PROXMIRE. Thank you very much.

Our last witness this morning, before we have our question period, is Dr. Daniel Suits of the department of economics, University of Michigan, who will discuss the impact of the general economy, of the current and past situation.

STATEMENT OF DANIEL B. SUITS, DEPARTMENT OF ECONOMICS, UNIVERSITY OF MICHIGAN

IMPACT ON GENERAL ECONOMY

Mr. SUITS. Like any other expenditures, outlays for defense have a multiplied impact on the economy. Not only does war production add directly to the gross national product, but the additional income received by workers and others connected with war production induces additional demand for consumer goods. A statistical analysis of these induced demands, conducted by the staff of the Research Seminar in Quantitative Economics at the University of Michigan, suggests that each dollar of war outlay stimulates about 85 cents of additional output of consumer goods. By the time all effects have worked themselves out, the addition of $20 billion to annual defense outlay adds a total of about $37 billion to the GNP.

At present prices, approximately one additional man-year of employment is needed for each additional $10,000 of GNP. By the time all effects have worked their way through the system, therefore, the initial $20 billion of defense expenditure together with its induced consumption impact is responsible for about 3.7 million additional jobs.

With this as background, we can now examine the course of events over the last 2 years. As shown in table I, defense expenditures, which had been nearly steady, began to rise in the second quarter of 1965, and continued to rise at an accelerated rate. The increased demand for war materials expanded total output and employment. The higher wages and profits paid by defense firms expanded household buying power and raised the demand for consumer goods. The generally high