APPENDIX

[Prepared by André Daniere]

The study compares the distribution of employment by sector, and of employment by region, corresponding to three alternative final demand vectors. The method of analysis is that followed in "The Economic Impact—Industrial and Regional—of an Arms Cut," published in *The Review of Economics and Statistics* of August, 1965. As in the earlier study, the "percentage change in employment" is in fact measured by the corresponding percentage change in the sum of labor earnings and income of unincorporated enterprises generated in each economic sector or region.

The three final demand vectors, described more fully below, include:

(1) Actual final demand estimated for the calendar year 1967.

(2) Alternate final demand I, consisting of—

Military (government) demand under (1) reduced by $19 billion of specific goods and services, on the assumption of de-escalation in Vietnam. This represents a 26% reduction in military demand;

Same non-military government demand (and same net exports) as under (1);

Private sector demand under (1) increased uniformly by 3.9% to bring total employment (earnings) back to their level under (1).

(3) Alternate final demand II, consisting of—

Military government demand under (1) first reduced by $19 billion of specific goods and services, on the assumption of de-escalation in Vietnam, then increased by $1 billion of general (mostly strategic) defense, for a net reduction of $18 billion, or 24.1%

Same non-military government demand (and same net export base) as under (1), plus $11.5 billion absorbed in Federal "Great Society" and Foreign Aid programs, representing an 11.2% increase in non-military government demand;

Private sector demand under (1) increased uniformly by 1.3% to bring total employment (earnings) back to their level under (1).

The estimate of GNP components for 1967 is based on extrapolation of recent National Accounts, published economic reports concerning the first quarter of 1967, and the U.S. Budget for fiscal 1967 and 1968. So as not to overemphasize the weight of Vietnam obligations, total of 1967 GNP was estimated at an optimistic $775 billion.

COMPOSITION OF VIETNAM DE-ESCALATION VECTOR

The 1967 military demand of $72.7 billion was decomposed into a "basic defense" bill of $53.7 billion and a "Vietnam de-escalation" bill of $19 billion. This does not imply that the Vietnam war consumes only $19 billion of goods and services. The $19 billion figure measures the amount by which annual purchases of goods and services could be reduced, were we to return to the 1965 level of military activity. The figure, and its breakdown by categories, were supplied by Mr. Daniel James Edwards, of the Joint Economic Committee's Research Staff.

The "basic defense" bill was assumed to have the same composition as the defense bill of 1963 (estimated by Clopper Almon).

The "Vietnam de'escalable" bill is specified in terms of the following components:

	Billion
Ammunition procurement	$3.0
Aircraft procurement	4.6
Weapons, vehicles, other support equipment	1.2
Electronics and communications procurement	.5
Contract transportation	1.0
Military personnel	3.5
Operations and maintenance (excluding contract transportation)	3.0
Overseas constructon	1.0
Research, development, test and evaluation	1.2
Total	19.0