

Table A-1 gives the industrial classification used. The aggregation of states into 19 regions was chosen to make the data collection and the computations of a manageable size, while maintaining sufficient detail to detect regional differences.

The "A" matrix consisted of a domestic-base 1958 80-order inter-industry coefficient matrix made available by the Office of Business Economics in November 1964 and aggregated to 60 sectors at the Harvard economic research project.⁷ New construction coefficients were removed from the endogenous sectors to form a final demand column. Row distributions of final demand were used to derive the final demand columns other than new construction and military.⁸

The next step was to estimate vector (m) of military final demands shown in table A-3. Since more specific data for the military final demand vector was unobtainable at the time this study was begun, the estimates for military final demand were developed working with adjusted control totals⁹ given for various sectors in military prime contracts¹⁰ and with the 1958 Federal Government vector itself. The military final demand vector was made so that military purchases from any industry did not exceed Federal Government spending for products of that industry. Whenever a degree of arbitrariness entered into the determination of components of military final demand the estimate was biased toward the metal industries.

All sectors with zero Federal Government final demand were assigned zero military final demand.¹¹ In the case of aircraft (36N) and ordnance (40N), the entire Federal Government final demand was put in the military final demand vector. For the remaining sectors, each item in military prime contracts which served as a control total for military purchases from a particular group of industries was distributed in the proportion the sectors were to one another in the total Federal Government bill of goods, or in the proportion that the Department of Defense payrolls were to other Federal Government payrolls.¹²

The three vectors of final demand are shown in tables A-2 and A-3.¹³ The next step (represented earlier as equation 3) was to establish the control total, μ , the aggregate level of direct and indirect labor earnings in 1958, which was to remain constant throughout the computations. This total included direct earnings in household, military, and nonhousehold civilian final demand categories, as well as the direct and indirect earnings received from the endogenous sectors. Earnings were defined to include wages and salaries and

⁷ The 60-sector classification is given in table A-1 distinguishing between national and local industries. A column of import coefficients also was obtained from the Department of Commerce for use in the calculations.

⁸ The row distributions are given in "The Interindustry Structure of the United States," *Survey of Current Business*, November 1964, table I, p. 21. The calculation of Household final demand is designated as vector (h), while the final demands of the Federal Government (other than military), State and local government, net inventory change gross private capital formation competitive imports exports, and new construction are referred to as a group called nonhousehold civilian vector (g). Refer to footnotes on table A-3.

⁹ The fiscal year was adjusted to a calendar year base; also, "Actions of less than \$10,000" were distributed proportionately over prime military contract figures. These adjusted figures were used as control totals in determining how much military spending there was within groups of industries.

¹⁰ *Military Prime Contract Awards and Subcontract Payments*, July 1962-June 1963, Office of the Secretary of Defense, tables 6 and 7.

¹¹ These include: Livestock (1N), coal mining (5N), tobacco (7N), oilfields (22N), finance (5L). Forestry and fisheries (3N) and lumber (12N) had negative Federal Government final demands, but were assigned zero military final demand since it appeared that the military would not provide inputs to these industries. Crops (2N) also was assigned zero military final demand since the large entry for this sector in the total Federal Government vector represented operations of the Commodity Credit Corporation. Since sectors (1N), (2N), and (3N) now had zero elements in the military vector, agricultural services (4N) also was assumed to have zero military final demand.

¹² When it could be assumed that military and nonmilitary expenditures would parallel closely the number of workers in each sector.

¹³ Households was separated from the other final demands, because in the later calculations this sector would become endogenous.