

income of unincorporated enterprises, with a fixed markup of 20 percent in all but a few sectors to account for consumer expenditures by those with incomes from sources other than employment. Such an even markup does not affect the role of earnings as a measure of labor input.

Since ν was to remain constant, the drop in total labor earnings caused by the decrease in military spending had to be offset by an increase in the other components of final demand which would produce a compensating increase in labor earnings. The postulated value for α was 0.8; then using equation (4), β was determined to be approximately 1.02.¹⁴ Earlier, the output and labor earnings generated by the three components of final demand were calculated to determine what the requirements actually were in 1958 (referred to as before the shift); now, the new requirements associated with the new final demands (referred to as after the shift) were estimated. The next step was to calculate the regional distribution of labor earnings both before and after the shift.

By including households as an endogenous sector in the subsequent computations, the repercussion effect of household incomes and expenditures on the rest of the industries could be taken into account. Matrix A^* had to be constructed separately for the base year 1958 and for the situation after the level of living was increased by 1.81 percent as part of the compensation for the arms cut. In both cases, it was formed by adding a row of labor coefficients and a column of consumption coefficients.

The labor coefficients were obtained by dividing wages and salaries plus income of unincorporated enterprises, inflated by 20 percent, for each industry by output in that industry.¹⁵ The column of consumption coefficients for 1958 was obtained by dividing the deliveries from each industry to households (h) by the total amount of labor earnings for the country as a whole (ν).¹⁶ The elements of this column of consumption coefficients were multiplied by 1.81 to obtain the adjusted column. The new diagonal element of the labor coefficient row and the consumption coefficient column was obtained by dividing direct earnings in households, (ν_H), by the figure ν .

Then, the two new A^* matrices—one matrix containing the original consumption coefficients, the other the adjusted consumption coefficients—were partitioned into four submatrices by dividing all industries into two categories: National and local.¹⁷ In the classification used, there were 41 national industries and 17 local industries, including households.¹⁸

¹⁴ Therefore, a reduction of 20 percent in military expenditures was compensated by an approximate 2 percent increase in the household and nonhousehold civilian components of final demand.

¹⁵ See table A-2, col. 2. Sources for labor earnings are given in table A-10.

¹⁶ See table A-2, col. 1. Consumption coefficients after the shift can be obtained by multiplying each element of this column by 101.8 percent.

¹⁷ The division was based upon the data given in charts 17 and 19, pp. 144 and 146, of Wassily Leontief (Ed.), *Ibid.*, showing the proportion of the output of different industries which is consumed within a region and that which is exported for two types of regions: States and census divisions. A diagram of the partition is shown in sec. II.

¹⁸ See table A-1. Since business travel and entertainment and the office supply sectors are "dummy" sectors, their assignment to local industries is arbitrary.