The third product matrix specified total requirements by industry based on the 50-percent reduction in military procurement offset by compensating increases in Federal, State, and local nondefense procurement. 25 percent of the offset was directly allocated by the Federal Government—one-half for space exploration and one-half for increases in all other Federal projects. The remaining 75 percent was transferred to State and local governments for metropolitan development and urban renewal, State hospitals, education, and construction.

Table II summarizes the total direct industry output requirements and the total direct and indirect industry requirements for the armed economy and the two offsets considered. A few general observations may be made concerning the output levels presented in this table. First, a more extensive variation in direct requirements is recorded by each industry than the variations recorded for its total requirements. This may be explained in part by the level of aggregation. A 66 order aggregation attributes a broad enough production base to the firms classified within each industry to meet the change in the composition of demand consistent with the shifts in defense hypothesized. Second, direct industry requirements are more sensitive to policy alternatives than total requirements. Again the level of aggregation may influence these results, but more likely, the degree of dependence on direct requirements. For example, approximately 50 percent of the livestock and poultry industry's output is necessary to meet the demand of final buyers. The modest increase in direct requirements brought about by the disarmament alternatives leads to a modest increase in total requirements. The livestock and poultry industry is highly independent with respect to shifts in the composition of final demand accompanying a shift in defense expenditures. On the other hand, the iron and steel industry displays a much higher dependence on the demands of other industries. Hence the stipulated variation in direct requirements is dampened when the pattern of intermediate output is generated.[7]

The degree of an industry's interdependence and its sensitivity to shifting defense expenditures is given by the relationships presented in Table III. The ratios relate the new level of requirements stipulated and generated for each alternative to the level derived for the armed economy in each industry. The first two columns show the stipulated first round impacts on direct output, and the following three columns indicate the significance of the impact when related to the original total output. The last two columns show the variation in total output brought about by pursuing either policy.

Taken together industry by industry, these relationships permit a useful classification for measuring the extent of structural impact. The criterion for classification is the level of an industry's production base relative to its direct requirements. Industries may be grouped into three categories using the criterion on an arbitrary basis. An industry with a *broad* production base will be defined as one that ships less than 30 percent of its total output to final buyers. (See

[7] This generalization holds true for all similar industries except the grain and feed crops industry.