col. 3, Table III). [8] An industry that ships between 30 and 70 percent of its total output to meet direct requirements will be categorized as one with a *diversified* production base, and finally a *narrow* production base will be associated with an industry that ships over 70 percent of its total output to final users.

Of the 66 industries listed, thirty seven have broad production bases, five have narrow production bases. and the remaining twenty-four fall in the diversified class. Industries with broad production bases display a high degree of indifference to shifts in defense spending with respect to variations in total output even though the offset produces wide variations in direct requirements (see for example iron and steel, metal containers, metal stampings, or machine tools). This proposition holds even for broad production base industries with a strong residual dependence on defense procurement. For example, the adverse effect upon direct requirements for communication equipment and ships and boats under either offset considered is significantly diminished in one industry and leads to an expansion in output in the other with no significant variation recorded for policy choice.

The majority of industries with diversified production bases are neutral with respect to shifts in the composition of direct requirements. Industries that are oriented toward defense or are directly affected by the offset considered are sensitive to policy adjustments. For example, the decrease in aircraft and parts is minimized by increased expenditures for space assumed in the public offset but still records an eighteen per cent reduction in total capacity. The importance of the production base is evident when comparing the variation in impact between the aircraft industry and the ships and boats industry.

The five industries classified in the narrow production base category potentially represent the most volatile group with respect to shifts in the composition of demand. However, these industries show very little direct dependence on military procurement and hence display no adverse effects. On the other hand, the dependence on direct requirements is particularly evident when considering the expansion of output accompanying the private policy offset.

In general the results of the computations show that the shift from defense to nondefense expenditures has an expansionary impact on the majority of industries. The derived relationships appear to provide evidence for the argument advanced by Professor Fishman, concerning the expansionary impact of shifting defense expenditures.[9]

[8] In the technical sense an industry may ship nothing to final demand and yet have a very narrow production base, i.e., copper ore, and iron ore. These industries ship virtually all of their output to one or two other intermediate producing industries and have been eliminated from consideration in the 66 order enumeration based on the principle that two industries may be aggregated if one consumes substantially all of the output of the other.

[9] See Leslie Fishman, "The Expansionary Effects of Shifts From Defense to Nondefense Expenditures," in *Disarmament and the Economy*, pp. 173–181, and more rigorously discussed in "A Note on Disarmament and Effective Demand," *Journal of Political Economy*, vol. LXX, No. 2 (April 1962), pp. 183–186.