

IV. CONCLUSIONS AND RECOMMENDATIONS

1. CONCLUSIONS

(1) A 50-percent reduction in defense outlays, offset by compensating increases in expenditures within either the private or public sector will affect the industries producing weapons substantially, but will have little effect on supporting industries. This is true since the production bases of the supporting industries are common to other elements of final demand besides the military establishment. Furthermore, within the classification system used there is a large amount of compensation in the indirect effects, and the net result is not very startling.

(2) The magnitude of the shift in final demand postulated (approximately 5 percent of gross national product) was not large enough to pose structural problems. Granted a more detailed aggregation would have produced more dramatic variations, the significance of these variations is doubtful with respect to the magnitudes involved. To be sure, a 400 order industry aggregation would have revealed and identified substantive impacts. But from the pattern of results shown in the 66 order aggregation, it was reasoned that further impacts would occur only in supporting industries closely allied to the aircraft and electronics industries.

(3) The derivation of the indirect pattern of demand shows that the economy is heavily consumer oriented. Indeed, this dependence is so strong that substantial shifts between other categories of final demand are dampened considerably.

(4) Industry sensitivity to variations in final demand patterns is diminished markedly by the pattern of accompanying intermediate demands.

(5) The effect of public policy is not significant to the output levels of industries supporting the military oriented industries. Furthermore, if expenditures for space are treated as defense outlays, it is doubtful whether policy variations have any effect.

2. RECOMMENDATIONS

The most important consideration in determining the impact on the economy of a large reduction in defense outlays is concealed in the assumptions made for the model. These relate to how the postulated compensating changes in demand will be initiated. The detail which would be made available by highly disaggregated regional input-output models would be a tremendous aid to the analysis of how aggregate demand could be maintained.

The leverage effects on investment of shifts in final demand would be of urgent importance in analyzing the effects on aggregate demand of given shifts in final demand. Very detailed product models on a regional basis, together with adequate measures of existing plant capacities, would afford a means of estimating the relative investment needs for different programs. It would also provide much needed information on potential imbalances in production that might then be corrected before becoming bottlenecks to a rapid shifting of production.