

INTRODUCTION

BACKGROUND OF ECONOMIC IMPACT STUDIES

This report presents a military procurement final-demand vector, or "bill of goods," developed by RAC for applications in interindustry studies of the US economy. The military bill of goods in an interindustry economic model is a statement of military requirements for material and services from the civilian economy in terms that are compatible with the industry definitions in the model. This introductory section discusses the background of the RAC economic impact project and describes the general characteristics of interindustry analysis and some of the uses for which the final-demand vector is intended. The major portion of this volume presents the final-demand estimates and methodology. A second volume will (a) present a comparison of the RAC results with estimates based on other sources of Department of Defense (DOD) procurement data; (b) discuss some of the methodological problems involved in deriving military final-demand estimates; and (c) indicate directions for future research.

Origin of economic impact studies

In a memorandum dated December 21, 1963, to heads of departments and agencies primarily concerned with national security and economic affairs, President Johnson directed the formation of a committee on the economic impact of defense and disarmament. In this memorandum the President stated:

It is therefore important that we improve our knowledge of the economic impacts of [defense] spending, so that appropriate actions can be taken * * * to minimize potential disturbances which may arise from changes in the level and pattern of defense outlays.

On March 31, 1964, Secretary of Defense Robert S. McNamara issued a memorandum to the heads of the military departments, initiating studies designed to measure the impact of current and future defense programs on US industries and geographic areas. A committee composed of representatives of each Service Secretary and chaired by the Assistant Secretary of Defense (Comptroller) [ASD(C)], was organized within DOD to monitor the economic impact studies. Financial contribution and representatives to the monitor group were also provided by the Arms Control and Disarmament Agency. Shortly after the committee was organized, RAC was asked to participate in the study program.

RAC economic impact project

The first task undertaken by RAC was the development of a methodology to quickly produce estimates of economic impact of the current 5-year program, i.e., rough approximations of the value added and employment that would be generated. This "rough-cut" approach was designed to provide DOD the first relatively complete picture of the economic impact of the 5-year force structure and financial program (FYFSFP). The research was organized in terms of appropriation categories. In the procurement category, to which primary attention was devoted, specialized military end-items were divided into major classes, and representative items or prototypes from each class were selected and studied, utilizing DOD component