

information and contract sources. Information was sought that would allow the measurement of in-house effort by contractors in order to approximate value-added distributions. Generally the tracing efforts permitted identification of second- and third-tier suppliers of prime contractors responsible for the delivery of major end-items such as aircraft, missiles, ships, and tanks. Analyses of impact of the other appropriation categories (e.g., RDTE, military personnel, operations and maintenance) were also conducted. The completed estimates were transmitted to OASD(C); methodology and summary results were presented in a two-volume RAC publication.¹

With this work completed, the Office of Secretary of Defense (OSD)* requested that RAC integrate its efforts with interindustry economic research being performed by the interagency Growth Studies Project (whose central staff is in the Bureau of Labor Statistics), the Office of Business Economics (OBE), Department of Commerce, and the Office of Emergency Planning (OEP), Executive Office of the President.

A requirement for estimates of military final demand for use in interindustry (input-output) models of the U.S. economy was accorded high priority by representatives of these agencies. The need for military final-demand estimates had also been cited by the President's Committee on the Economic Impact of Defense and Disarmament.² The Committee identified the lack of such estimates as one of seven major gaps in impact information and recommended research to overcome this deficiency.

Because previous RAC work on stratification of procurement funding had provided the required data base, RAC was requested by OSD to develop estimates for the procurement portion of DOD final demand. RAC also provided preliminary bill-of-goods distributions—based on previous economic impact work for OSD—for the operations and maintenance, military personnel, and RDTE appropriations to be used in conjunction with other data in developing the complete military final-demand vector, but primary responsibility for estimates in these appropriation areas was assumed by the agencies involved in interindustry studies. Brief discussions of the interindustry economic models in which the final-demand estimates will be used and the programs of the agencies for which the final demand estimates were developed are presented in the following paragraphs.

INTERINDUSTRY ECONOMIC MODELS

The basis of interindustry analysis is the input-output table, which describes in quantitative terms the interdependencies existing among industries in the U.S. economy. The table shows how the output of each industry is distributed among other industries and sectors of the economy; at the same time it shows the inputs to each industry from other industries and sectors. The final-demand sector of the table represents expenditures by which goods and services are acquired for final use by consumers and the Government and for investment and exports. In the input-output tables, final-demand estimates are grouped to indicate where they originate (e.g., households, Federal Government, State and local government) and the industries on which they fall.

*Responsibility for OSD economic-impact studies was transferred from ASD(C) to ASD systems analysis (economics) in November 1965.