

Captain Kinnier and Kenneth Lay visited you last year about this time to discuss a study they were doing for the Defense Department on the economic impact of 50 defense procurement contracts during the Vietnam build-up and on converting to an accrual accounting system in the Defense Department. You indicated that you would like to discuss the study in further detail when it was completed. They would like to come in in the next few weeks to discuss this with you if possible.

H.S.F.C. M. [unclear]

[unclear] [unclear] Also MF

OX 7-3385

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DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT)
WASHINGTON, D.C. 20350

6 JUL 1970

PM

2 July 1970

Dr. Paul McCracken
Chairman, Council of Economic Advisers
Room 312, Executive Office Building
Washington, D.C. 20506

Dear Dr McCracken:

Today I talked with your secretary and requested that Captain (Dr.) Gus Kinnear and I be granted an appointment with you in the near future.

You may recall that Captain Kinnear and I, along with two reserve Navy Captains, visited with you and Phil Cagen last summer concerning our efforts to estimate the timing of production on defense contracts. At that time, we advised that a detailed analysis of 50 procurement contracts begun during the Vietnam buildup period was being undertaken. You expressed interest in this analysis and asked that we provide our results to you when they were completed.

We have finished the analysis of the 50 contracts and believe we have some findings which would be of considerable interest to you. We would like to discuss these findings with you at your convenience, but preferably before 24 July 1970.

I will await a telephone call from your secretary on this matter. My phone extension is IDS 11-71944 or OX 7-1944.

Very sincerely,

Kenneth L. Lay
Deputy Director, Research
DOD Special Study Group on
Defense Contractor Constructive
Delivery (Accrual Accounting
Implementation)

July 8 - 3 pm ?

Key Recommendations In Interim Report
(September 1, 1969)

1. DOD implement an expanded document-on-hand system.
2. DOD support OBE/Census effort to estimate defense production directly.
3. Study Group conduct "birth-to-death" analysis of approximately 50 defense procurement contracts.
4. OASD (Comptroller) establish office to continue development of statistical estimators of constructive delivery after 1 July 1970.
5. Study Group be disestablished 30 June 1970.

DOD SPECIAL STUDY GROUP ON
DEFENSE CONTRACTOR CONSTRUCTIVE
DELIVERY

(Accrual Accounting Implementation)

Results of "Birth-to-Death" Contract Analysis

General Characteristics of Sample

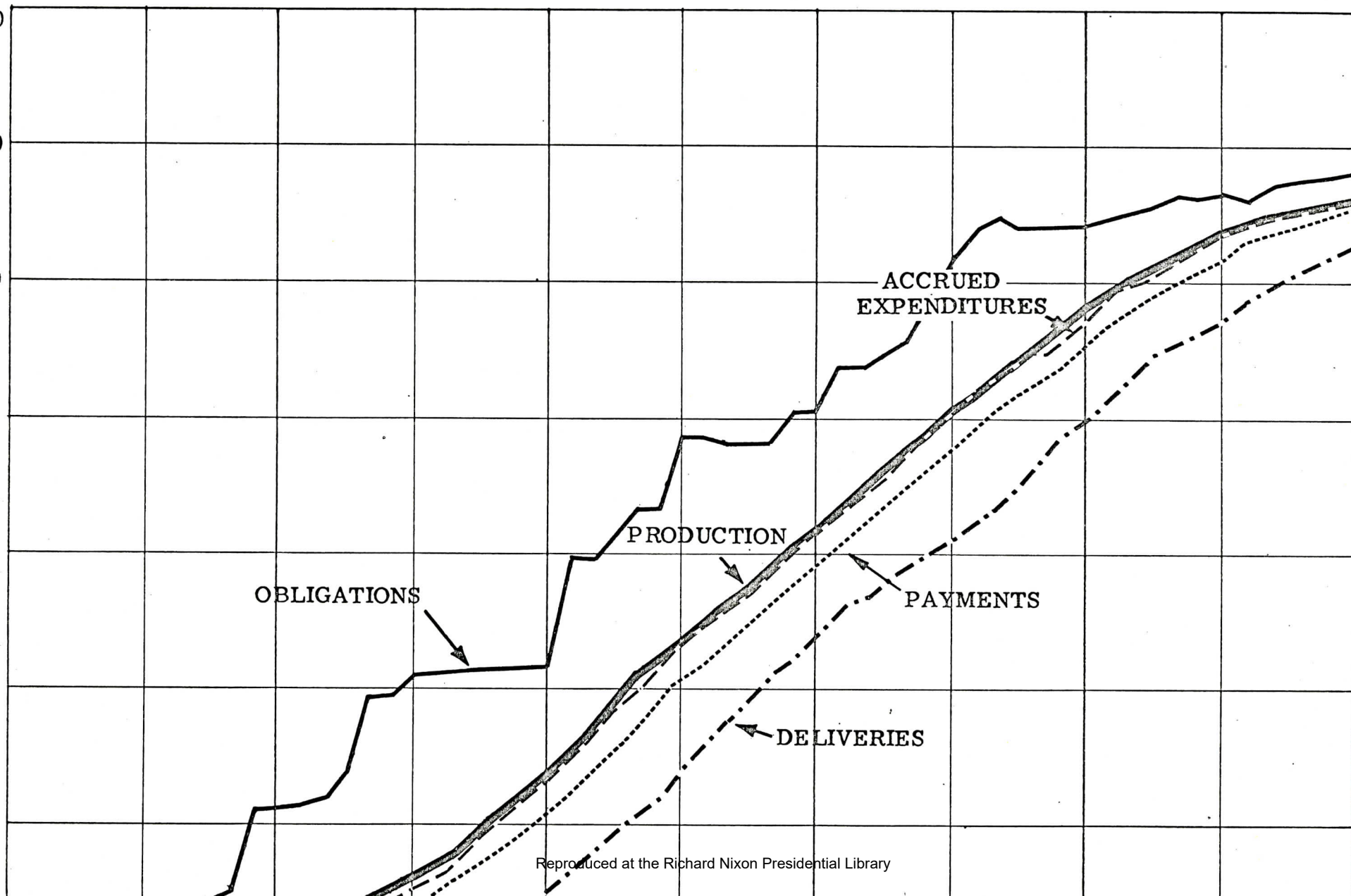
Contracts	51
Contractors	12
Plant Locations	16
Accounting/Disbursing Offices	9

TOTAL OBLIGATIONS

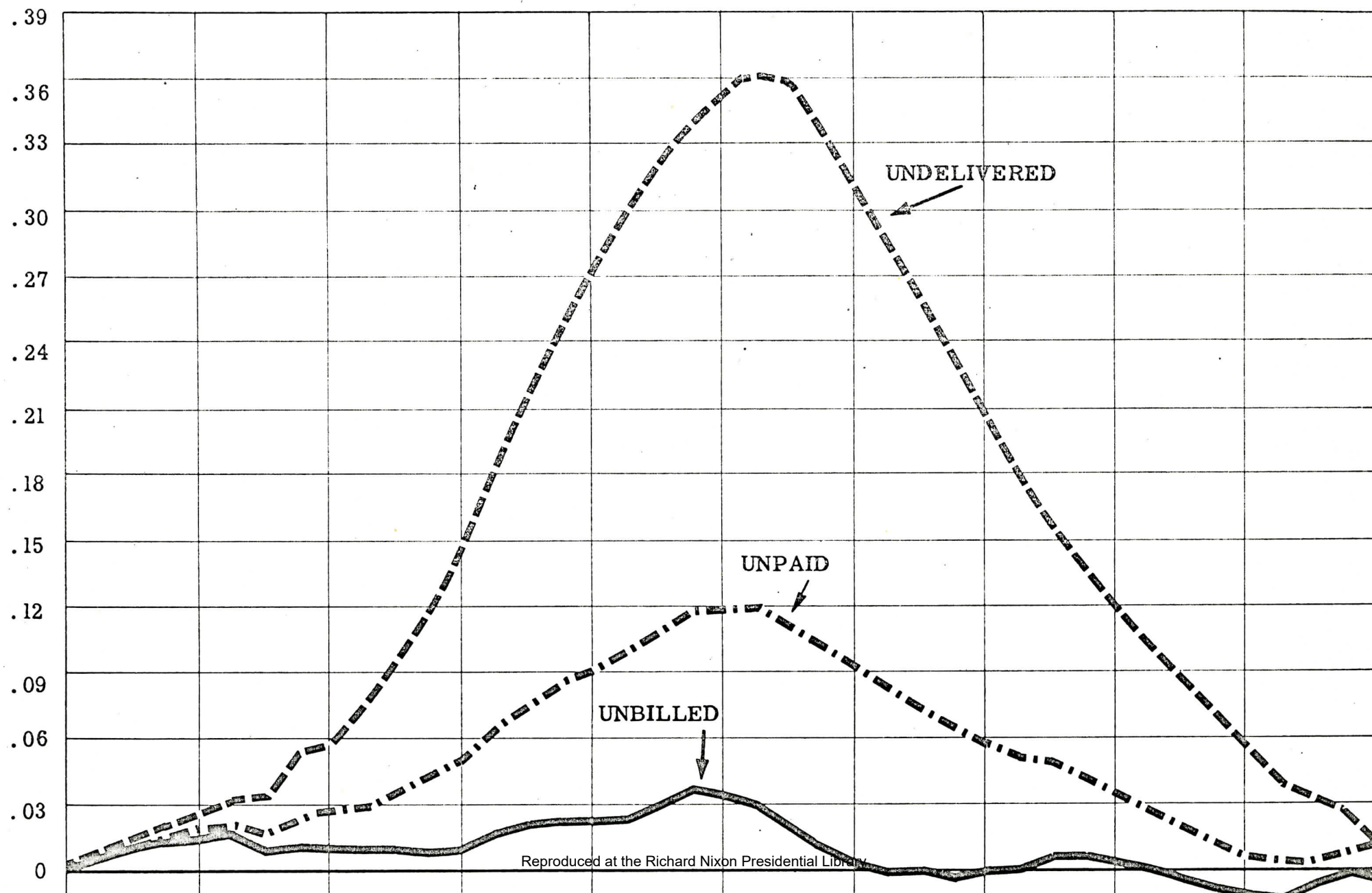
\$2.8 Billion

COMPARISON OF OBLIGATIONS, PRODUCTION, PAYMENTS AND DELIVERIES FOR ALL SAMPLE CONTRACTS BETWEEN 1964 AND 1968

(Millions)



COMPARISON BETWEEN CUMULATIVE VALUES OF UNPAID AND UNDELIVERED PRODUCTION MEASURED
AS PERCENTAGES OF FINAL OBLIGATIONS: ALL SAMPLE CONTRACTS
(3-Month Moving Averages)



COMPARISON BETWEEN MONTHLY PRODUCTION AND UNPAID OBLIGATIONS OUTSTANDING: (UO = OBLIGATIONS - PAYMENTS)

\$

8

4

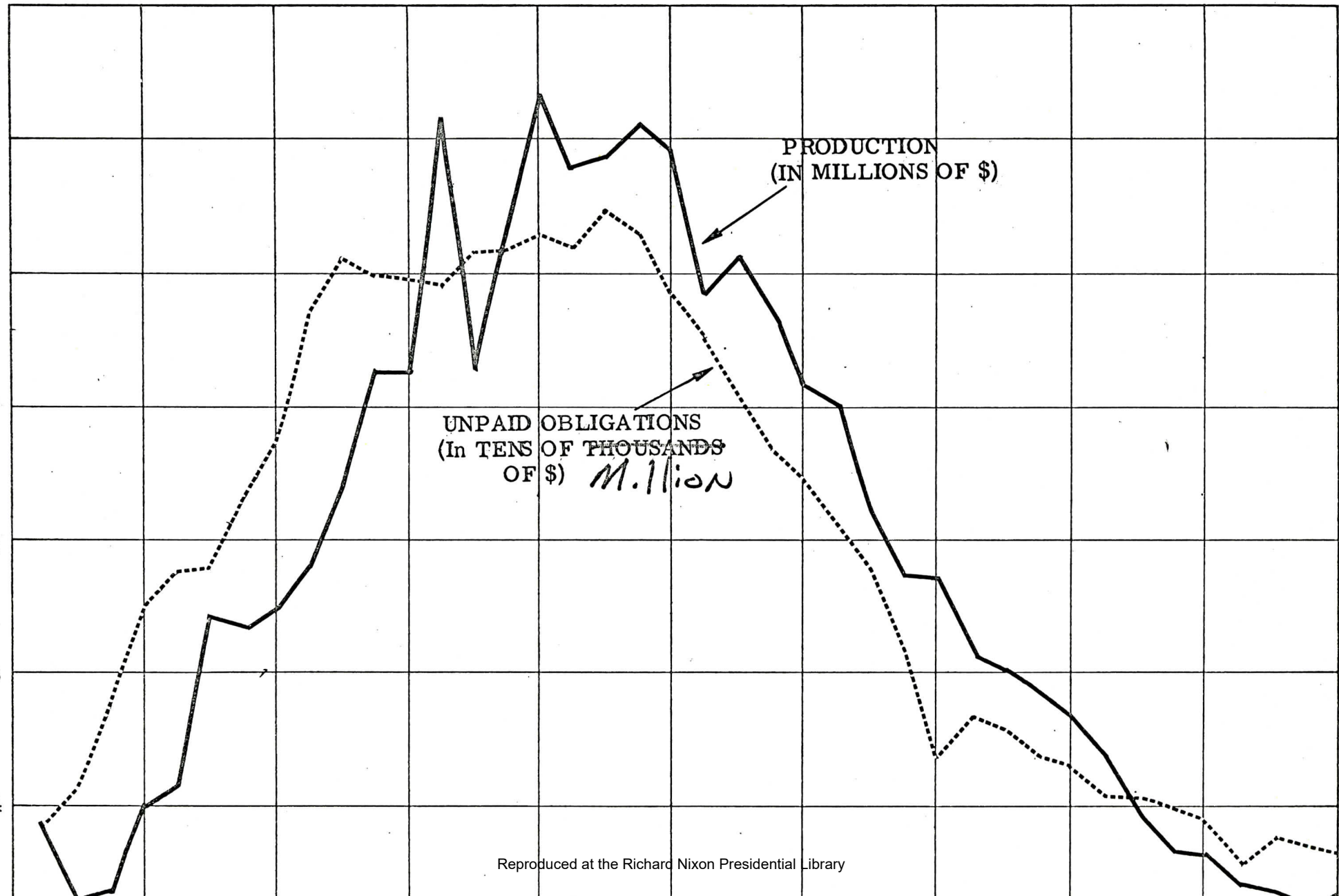
0

96

72

48

24



UNPAID OBLIGATIONS
(In TENS OF THOUSANDS
OF \$) *M.11ion*

PRODUCTION
(IN MILLIONS OF \$)

TABLE 7

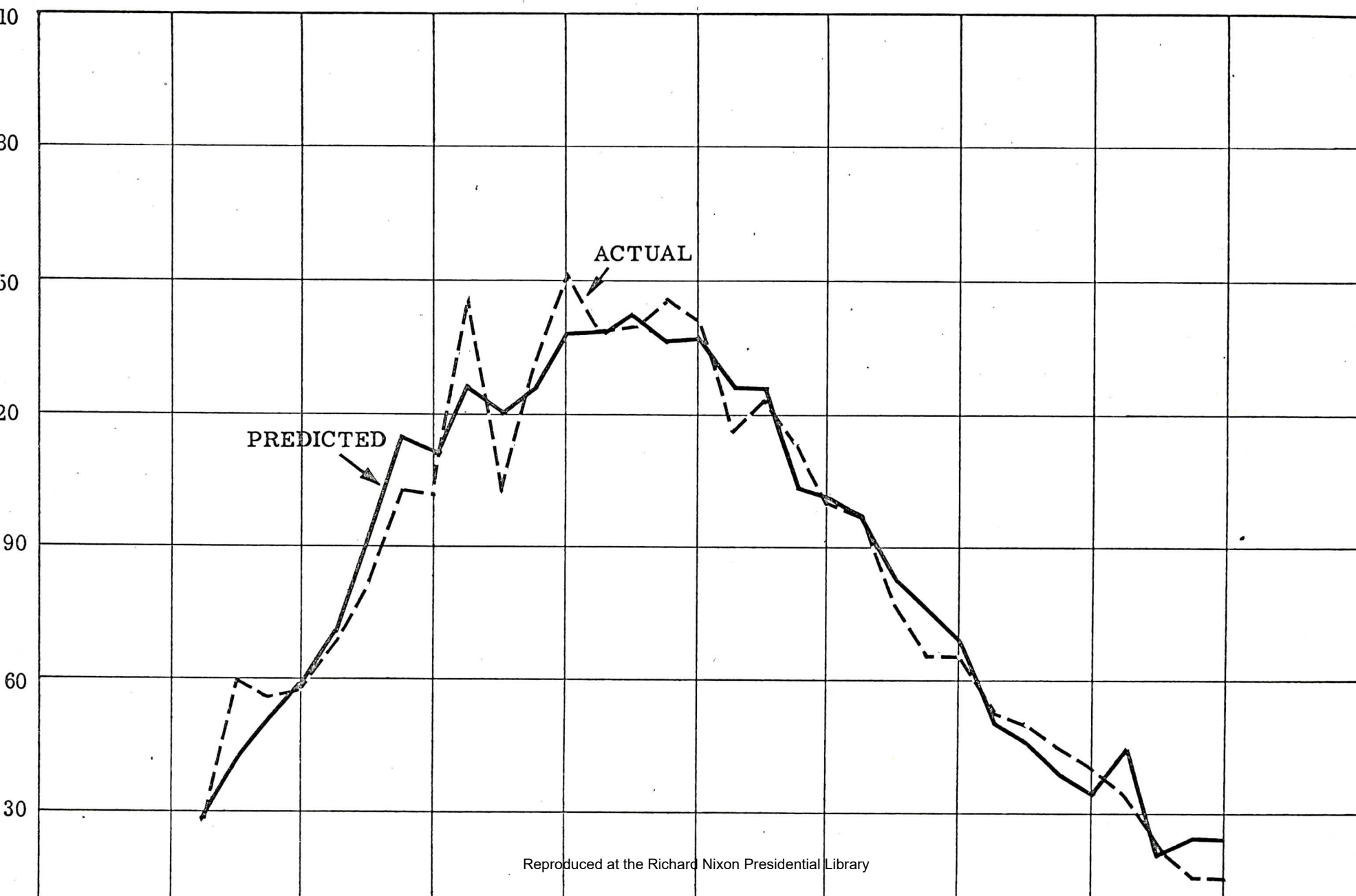
COEFFICIENT ESTIMATES OF THE MODEL USING UPO AS THE
SPECIFICATION OF EFFECTIVE DEMAND

1	2	Independent Variables*						9	10	11
		3	4	5	6	7	8			
1 Depen- dent Variable Prod.	UPO α^*	ΔUPO_t α_1	ΔUPO_{t-1} α_2	ΔUPO_{t-2} α_3	ΔUPO_{t-3} α_4	ΔUPO_{t-4} α_5	ΔUPO_{t-5} α_6	R ² of Equation	Durbin Watson Statistic	Sta Err Mea Dep
2 All Cont.	0.1014 (24.2)							0.747	0.67	0.2
3 All Cont.	0.1036 (38.6)	-0.1100 (-3.08)	-0.0685 (-1.95)	-0.0365 (-1.08)	-0.0315 (-0.93)	-0.0338 (-1.01)	-0.0385 (-1.16)	0.929	1.28	0.1
4 Navy Cont.	0.0923 (18.9)							0.660	0.52	0.3
5 Navy Cont.	0.0956 (25.8)	-0.1201 (-1.70)	-0.0447 (-0.83)	-0.0500 (-0.90)	-0.0760 (-1.27)	-0.0275 (-0.05)	-0.0327 (-0.07)	0.890	1.13	0.2
6 Air Force Cont.	0.1046 (.716)							0.603	1.99	0.3
7 Air Force Cont.	0.1099 (42.0)	-0.0735 (-4.19)	-0.0490 (-2.76)	-0.0308 (-1.72)	-0.0218 (-1.22)	0.1059 (5.94)	-0.1476 (8.36)	0.946	1.74	0.1
8 Air- Craft Cont.	0.0902 (19.6)							0.700	1.05	0.3
9 Air- Craft Cont.	0.0925 (73.1)	-0.116 (-7.43)	-0.0049 (-1.08)	-0.0326 (-0.77)	-0.0488 (-1.15)	-0.0047 (-0.11)	-0.0011 (-0.17)	0.850	1.54	0.2
10 Mis- sile Cont.	0.1198 (70.3)							0.699	0.85	0.3
11 Mis- sile Cont.	0.1253 (30.7)	-0.0749 (-3.33)	-0.0606 (-2.69)	-0.0530 (-2.37)	-0.0308 (-1.39)	-0.0155 (-0.69)	-0.0023 (-0.11)	0.898	1.64	0.1
12 Elec- tronics Cont.	0.0878 (16.2)							0.543	0.76	0.3
13 Elec- tronics Cont.	0.0930 (26.8)	-0.0113 (-0.67)	-0.0739 (-4.31)	-0.0518 (-3.01)	-0.0450 (-2.62)	-0.0434 (-2.98)	-0.0355 (-2.47)	0.857	1.18	0.2

*NOTE: In each case the independent variables represent UPO_t as defined for each sample or subsample.

PREDICTIONS OF PRODUCTION FROM THE FORMULATION OF EQUATION (g) WITH
UO = OBLIGATIONS - PAYMENTS: ALL SAMPLE CONTRACTS

Millions



TABLE

ESTIMATES OF PRODUCTION AND ACTUAL PAYMENTS AND DELIVERIES
ON DEFENSE PROCUREMENT CONTRACTS FOR 1965 - 1969

(Billions of Dollars at Annual Rates)

<u>Year and Quarter</u>	<u>Production</u>			<u>Payments</u>	<u>Deliveries</u>
	<u>75%</u>	<u>80%</u>	<u>85%</u>		
1964 IV	13.81	14.73	15.65	13.68	13.32
1965 I	13.80	14.72	15.64	11.48	12.29
1965 II	13.71	14.62	15.54	11.02	12.47
1965 III	14.55	15.52	16.49	13.37	12.92
1965 IV	15.23	16.24	17.26	13.84	13.56
1966 I	16.10	17.18	18.26	14.60	12.83
1966 II	16.86	17.98	19.11	15.54	13.95
1966 III	19.03	20.30	21.57	17.57	15.90
1966 IV	20.41	21.78	23.14	17.06	17.02
1967 I	21.36	22.79	24.21	20.30	18.89
1967 II	21.67	23.11	24.56	21.13	19.74
1967 III	22.72	24.24	25.75	24.24	20.12
1967 IV	23.19	24.73	26.28	22.40	20.40
1968 I	23.04	24.57	26.11	23.47	21.22
1968 II	22.74	24.26	25.78	23.03	21.70
1968 III	23.55	25.12	26.79	22.87	21.50
1968 IV	24.52	26.16	27.79	24.32	21.89
1969 I	24.62	26.26	27.91	24.79	22.15
1969 II	23.31	24.86	26.41	24.34	22.15
1969 III	21.88	23.33	24.79	22.01	22.74
1969 IV	20.25	21.78	22.97	22.36	22.44

TABLE

ALTERNATIVE MEASUREMENTS OF UNPAID AND UNDELIVERED PRODUCTION
FOR ALL PROCUREMENT CONTRACTS FOR 1965 - 1969

(Billions of Dollars at Annual Rates)

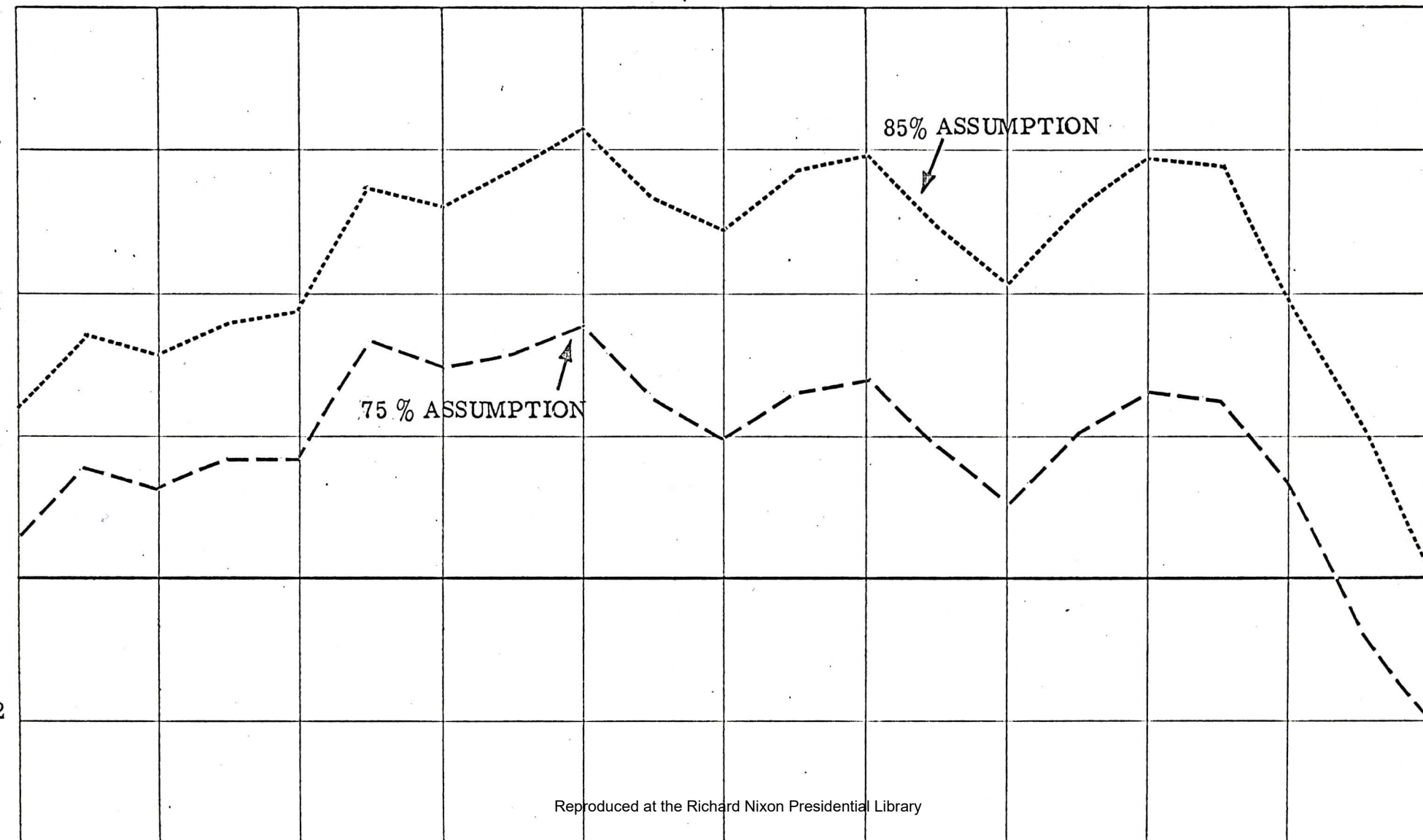
<u>Year and Quarter</u>	<u>Unpaid Production</u>			<u>Undelivered Production</u>		
	<u>75%</u>	<u>80%</u>	<u>85%</u>	<u>75%</u>	<u>80%</u>	<u>85%</u>
1964 IV	+0.13	+1.04	+1.97	+0.44	+1.36	+2.23
1965 I	+2.32	+3.24	+4.12	+1.51	+2.43	+3.35
1965 II	+2.69	+3.60	+4.51	+1.24	+2.15	+3.07
1965 III	+1.19	+2.15	+3.12	+1.63	+2.80	+3.57
1965 IV	+1.38	+2.40	+3.42	+1.87	+2.67	+3.70
1966 I	+1.50	+2.58	+3.62	+3.27	+4.32	+5.40
1966 II	+1.36	+2.48	+3.60	+2.91	+4.03	+5.46
1966 III	+1.46	+2.73	+4.01	+3.12	+4.39	+5.66
1966 IV	+3.36	+4.72	+6.07	+3.52	+4.98	+6.25
1967 I	+1.07	+2.49	+3.95	+2.47	+3.89	+5.32
1967 II	+0.54	+1.98	+3.43	+1.93	+3.37	+4.82
1967 III	-2.05	0.00	+1.51	+2.60	+4.12	+5.63
1967 IV	+0.79	+2.33	+3.89	+2.79	+4.34	+5.88
1968 I	-0.47	+1.10	+2.64	+1.82	+3.35	+4.89
1968 II	-0.29	+1.23	+2.87	+1.04	+2.56	+4.08
1968 III	+1.06	+2.63	+4.20	+2.05	+3.62	+5.19
1968 IV	+0.20	+1.84	+3.47	+2.63	+4.27	+5.90
1969 I	-0.16	+1.48	+3.12	+2.47	+4.11	+5.76
1969 II	-1.03	+0.52	+2.06	+1.16	+2.71	+3.73
1969 III	-0.13	+1.32	+2.78	-0.86	+0.59	+2.05
1969 IV	-2.82	-0.70	+0.97	-2.19	-0.66	+0.03

Source:

QUARTERLY PREDICTIONS OF UNDELIVERED PRODUCTION FOR ALL PROCUREMENT CONTRACTS,
1964 - 1969 (ANNUAL RATES)

FIGURE U

illions



TABLE

ADJUSTED SERIES ON NIA DEFENSE PURCHASES
OF GOODS AND SERVICES FOR 1965 - 1969

<u>Year & Quarter</u>	<u>Published Defense Purchases of Goods and Services</u>	<u>Estimates of Undelivered Production</u>	<u>Adjusted Defense Purchases of Goods and Services</u>	<u>Change in Published Defense Purchases</u>	<u>Change Adjust Defens Purchas</u>
1964 IV	48.5	1.4	49.9		
1965 I	48.2	2.4	50.6	-0.3	0.7
1965 II	49.1	2.2	51.3	0.9	1.3
1965 III	50.7	2.8	53.5	1.6	2.2
1965 IV	52.5	2.7	55.2	1.8	1.7
1966 I	55.3	4.3	59.6	2.8	4.4
1966 II	58.6	4.0	62.6	3.3	3.0
1966 III	63.0	4.4	67.4	4.4	4.8
1966 IV	65.4	5.0	70.4	2.4	3.0
1967 I	69.9	3.9	73.8	4.5	3.4
1967 II	71.9	3.4	75.3	2.0	1.5
1967 III	73.0	4.1	77.1	1.1	1.8
1967 IV	74.6	4.3	78.9	1.6	1.8
1968 I	76.1	3.4	79.5	1.5	0.6
1968 II	77.9	2.6	80.5	1.8	1.0
1968 III	78.8	3.6	82.4	1.1	1.9
1968 IV	79.3	4.3	83.6	0.5	1.2
1969 I	79.0	4.1	83.1	0.3	-0.5
1969 II	78.5	2.7	81.2	0.5	-1.9
1969 III	80.3	0.6	80.9	1.8	-0.3
1969 IV	79.2	-0.7	78.5	-0.9	-2.4

Source:

TABLE

ADJUSTED SERIES ON NIA CHANGE IN
PRIVATE BUSINESS INVENTORIES

(Billions of Dollars at Annual Rates)

<u>Year and Quarter</u>	<u>Change in Published Business Inventories</u>	<u>Estimates of Undelivered Production</u>	<u>Change in Adjusted Business Inventories</u>
1964 IV	7.4	1.4	6.0
1965 I	9.5	2.4	7.1
1965 II	7.6	2.2	5.4
1965 III	8.7	2.8	5.9
1965 IV	10.4	2.7	7.7
1966 I	10.9	4.3	6.6
1966 II	15.4	4.0	11.4
1966 III	12.8	4.4	8.4
1966 IV	19.8	5.0	14.8
1967 I	9.0	3.9	5.1
1967 II	3.4	3.4	0.0
1967 III	7.8	4.1	3.7
1967 IV	9.5	4.3	5.2
1968 I	1.6	3.4	-1.8
1968 II	9.9	2.6	7.3
1968 III	7.2	3.6	3.6
1968 IV	10.5	4.3	6.2
1969 I	6.6	4.1	2.5
1969 II	6.9	2.7	4.2
1969 III	10.7	0.6	10.1
1969 IV	7.8	-0.7	8.5

TABLE

ADJUSTED SURPLUS OR DEFICIT IN FEDERAL SECTOR OF NATIONAL INCOME
AND PRODUCTION ACCOUNTS FOR 1965 - 1969

(Billions of Dollars at Annual Rates)

<u>Year and Quarter</u>	<u>Published Surplus or Deficit</u>	<u>Estimates of Undelivered Production</u>	<u>Adjusted Surplus or Deficit</u>
1965 I	4.4	2.4	2.0
1965 II	4.7	2.2	2.5
1965 III	-3.1	2.8	-5.9
1965 IV	-1.1	2.7	-3.8
1966 I	1.4	4.3	-2.9
1966 II	3.0	4.0	-1.0
1966 III	-1.2	4.4	-5.6
1966 IV	-4.1	5.0	-9.1
1967 I	-12.0	3.9	-15.9
1967 II	-13.2	3.4	-16.6
1967 III	-13.4	4.1	-17.1
1967 IV	-12.3	4.3	-16.6
1968 I	-8.4	3.4	-11.4
1968 II	-9.5	2.6	-12.1
1968 III	-2.8	3.6	-6.4
1968 IV	-.1	4.3	-4.4
1969 I	+10.1	4.1	+6.0
1969 II	+13.5	2.7	+10.8
1969 III	+7.7	0.6	+7.1
1969 IV	+6.6	-0.7	+7.3

Source:

Billions of
dollars at
Annual
Ratios

Estimates of Production For 1965-1972 Compared with
Actual Payments And Deliveries For 1965-1969 And Forecast Deliveries
For 1970-1972 - All DOD Procurement Contracts

