

From Make-Use to Symmetric I-O Tables: An Assessment of Alternative Technology Assumptions Jiemin Guo, Ann M. Lawson, and Mark A. Planting WP2002-03 October 10-15, 2002

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From Make-Use to Symmetric I-O Tables: An Assessment of Alternative Technology Assumptions

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Abstract

 Since the United Nations introduced the nonsymmetrical make-use input-output (I-O) tables in 1968, there have been on-going discussions about ways to translate them into symmetric I-O tables. The discussions have focused on secondary products that cause the asymmetry between industries and commodities and two alternative assumptions, the industry-technology assumption (ITA) and the commodity-technology assumption (CTA), which have been used for their transfer between industries. Despite much debate and discussion over the years, no definitive consensus has emerged as to which is superior.

For the 1992 Benchmark I-O Tables, the BEA prepared and published two sets of make-use tables, which provide alternative presentations of a large subset of secondary products. For one set of tables, the outputs and inputs of secondary products with distinctive production processes compared to those of primary products produced by industries were moved "by hand" to where they are primary, using the CTA. In this paper, the authors use the two formats to compare the different results of using two assumptions to derive symmetric I-O tables. The differences are then evaluated.

I. Introduction

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There are two kinds of input-output (I-O) models. The first is the Leontief I-O model, which was initially formulated by Wassily Leontief in the 1930s, the work for which he received the Nobel Prize in Economics in 1973. (Leontief 1936²) In the Leontief model, which is also referred to as the symmetric model, each industry produces only one commodity, and each commodity is produced by only one industry. The second model, which was introduced by the United Nations in its 1968 System of National Accounts (1968 SNA), expands upon the Leontief model by allowing industries to produce more than one product. Based on a recent survey by Japan, 83 countries around the world compile official input-output tables, of which 40 countries

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² Wassily Leontief (1936) "Quantitative Input-Output Relations in the Economic System of the United States." Review of Economics and Statistics 18, no.3, pp: 105-125.

have adopted the SNA make-use model.³

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Although this make-use model is more descriptive of the real-world economy, the Leontief model is more analytical in that it provides measures of the relationships between commodities and between industries through its multipliers. The Leontief model is widely used because it provides important tools for studying economic linkages and impacts, as well as economic structural changes. Because these tools are very desirable, it is necessary to convert the asymmetric make-use system to fit the symmetric Leontief I-O system. The 1968 SNA proposed alternative methods for the conversion, which were then followed by other proposals from outside researchers. Because the asymmetry of the make-use tables is caused by secondary production, most of the discussion over the years has focused on two alternative assumptions for dealing with it--the industry-technology assumption (ITA) and the commodity-technology assumption (CTA). However, despite extensive research and debate over the years, no definitive consensus has emerged as to which is superior. In this paper, the authors join this continuing discussion by first explaining how the BEA treats secondary products in preparing its I-O tables, and then by examining the two technology assumptions, using information from BEA's 1992 U.S. Benchmark I-O Tables.

This paper is divided into six sections. This is section I, which introduces the paper. Section II presents the two technology assumptions and summarizes the findings of several studies from over the years. In section III, the treatment of secondary products by the BEA in preparing its U.S. Input-Output Accounts is discussed. In section IV, the methods used in this research to assess BEA's approach to the two technology assumptions are presented. In section V, the test results are discussed. And finally, section VI presents a summary of findings and identifies areas for future study.

³ International survey by Statistics Bureau, Management and Coordination Agency, Japan, 2001.

II. Background, Issues, and Past Research

Description of the Two Input-Output Models

The Leontief model includes an intermediate transaction table (*Z*), which is a square matrix, a final demand vector (*Y*), and a value added vector (V). Total output (*X*) can be obtained by either adding intermediate output and final demand (*X=Zi+Y*), or by adding intermediate inputs and value added $(X=Z'i+V')$. The one-to-one relationship between industries and commodities defined by this framework implies that the direct-input-coefficient matrix $A = Z\hat{X}^{-1}$ and the total requirements matrix $[I-A]$ ⁻¹ produce both commodity-by-commodity (cxc) and industry-by-industry (ixi) matrices. That is, there is no distinction between commodities and industries in the Leontief model.

The make-use system, which is shown with its different components in Table 1, replaces the Leontief model with two matrices, including a make matrix (*V*) of outputs and a use matrix (*U*) of inputs.4 The make-use (*UV*) system was designed to better handle the growing diversity of industrial production in the economy. By relaxing the assumption of one-to-one relationships between commodities and industries, this system allows industries to produce more than a single commodity. The implication of this model for compilers of statistical data is that survey data collected from establishments can be used directly for preparing use-make tables; the model is consistent with how industry output is collected and tabulated—that is, as the sum of secondary and primary product outputs of all establishments in the industry. Since industries and commodities are distinct in this system, the numbers of industries and commodities can differ. The use matrix (*U*) carries the dimensions of the commodities-by-industries, while the make (*V*) matrix carries the dimensions of the industries-by-commodities, which implies that they are not necessarily square.

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⁴ See A System of National Accounts, Studies in Methods, Series F /No. 2 / Rev. 3, United Nations, New York, 1968.

	Commodities	Industries	Final Demand	Total Output	
	$1 \ 2 \ldots \ldots \ldots \ldots \ldots \ldots \ldots$	$1 \ 2 \ldots \ldots \ldots \ldots \ldots \ldots n$	12 k		
Commodities					
		Use Table			
$\overline{2}$			E_{C}	q	
		U			
m					
Industries					
	Make Table				
2				g	
	V				
n					
Value Added		W_I			
Total	q'	g'			
Input					

Table 1. Make-Use Input-Output Tables

U: Use matrix (intermediate part), commodity by industry (cxi);

V: Make matrix, industry by commodity (ixc);

q: Commodity total output, column vector (cx1);

g: Industry total output, column vector (ix1);

 E_C : Final demand, commodity by kind of final demand k (cxk);

 W_I : Value added, industry by kind of value added h (ixh).

Alternative Technology Assumptions

Since the make-use I-O model was introduced by the United Nations in its 1968 SNA, there has been a debate on how to best translate the make-use tables to a symmetric form. These discussions have tended to focus on two alternative technology assumptions: the ITA and the CTA. The ITA proposes that all commodities made by an industry share the same input structure. In contrast, the CTA proposes that each commodity has a unique input structure that is independent of the producing industry. The derivations of symmetric tables based on these alternative assumptions are provided in this section. This is followed by a summary of conclusions from several major studies related to this topic from over the past thirty years.

Using the notation from the make-use model in Table 1, the commodity-by-industry, direct

requirements matrix *(B)* is derived by multiplying the use matrix *(U)* by the vector for industry

total output *(g),* or

The ITA and CTA can each be used to transfer outputs and inputs through the B matrix to produce a symmetric matrix and coefficients of the commodity-by-commodity or industry-by-industry form.⁵

Industry technology assumption (ITA).—To create symmetric, total requirements tables under the ITA, a "commodity-output proportions" matrix *(D)* must be created. This is derived from the make table *(V)* and commodity total output vector *(q)* as

$$
D = V\hat{q}^{-1}
$$

The commodity-output-proportions matrix shows the shares of each commodity's total output that is produced by each industry. From *B* and *D*, the commodity-by-commodity, direct coefficient matrix (A_C) is then derived as

$I_{I}A_{C} = BD$

and the commodity-by-commodity, total requirements matrix (I_C) is derived as

 $I_{I} T_{C} = [I - {}_{I} A_{C}]^{-1} = [I - BD]^{-1}$ and the industry-by-commodity, total requirements matrix $(I_{I,C})$ is derived as $_{C} = D[I - BD]^{-1}$ $I_{I.C} = D[I - BD]$

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Commodity technology assumption (CTA).—To create symmetric, total requirements tables 
under CTA, and "industry-output-proportion" (C) matrix must be created. This is derived from 
the make table (V) and the industry total output vector (g) as
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$$
C = V' \hat{g}^{-1}
$$

The industry-output-proportion matrix shows the commodity composition of each industry's total output. Finally, from *B* and *C*, the commodity-by-commodity, direct requirements matrix (cA_C) is

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⁵ BEA also produces industry-by-commodity total requirements matrices, which provide the multiplier impacts between commodities and industries.

derived as

$$
_C A_C = BC^{-1}
$$

and the commodity-by-commodity, total requirements matrix (cT_c) is derived as

$$
{}_{C}T_{C} = [I - {}_{C}A_{C}]^{-1} = [I - BC^{-1}]^{-1}
$$

and the industry-by-commodity, total requirements matrix (cT_{1C}) is derived as

$$
{}_{C}T_{I.C} = [I - C^{-1}B]^{-1}C^{-1}
$$

Overview of Past Research

When the United Nations first proposed the two alternative technology assumptions for translating the use-make tables into symmetric tables in its 1968 SNA, it did so without giving preference to one or the other. Each assumption has its own advantages and disadvantages. These tend to mirror one another—that is, the advantages of one tend to avoid or solve the disadvantages of the other.

Researchers have tended to characterize the ITA as implausible because of its inconsistency with some fundamental economic theories. (Almon (1970), (2000); ten Raa, et all, (1984); ten Raa, 1988; Steenge (1990)). Because of the ITA's failure to pass several tests of plausible behavior in the marketplace, many consider the CTA to be the preferred choice. (Jansen, and ten Raa. (1990)). Nonetheless, ITA has an important advantage over the CTA by always producing nonnegative results for its symmetric tables; in contrast, the CTA frequently produces negative coefficients. Also, unlike the CTA, the ITA can accommodate for make and use tables that are rectangular. This is a major advantage for data compilers, who must work with economic data with unequal numbers of commodities and industries.

Researchers who have advocated the CTA have tried to identify appropriate solutions for the problem of negative coefficients. Almon (1970, 2000) proposed an algorithm that removes

negative values resulting from CTA. However, ten Raa et al. (1984, 1988) criticized this method as "arithmetic manipulation ….," and then tried to modify cells of the make-use matrices so that negative values would not be produced. Rainer and Richter (1992) used the CTA and hybrid solutions to determine if rearranging the data and/or extending the matrix would reduce the negative elements; their results support the conclusion that much can be accomplished to transform the descriptive make-use tables to analytical, symmetric tables without imposing arbitrary decisions. The approach and the "activity assumption" proposed by Konijn and Steenge (1995), which reorganizes collected data based on the input structures of commodities (activities), are similar to the redefinition process used by the BEA to prepare its Benchmark I-O Tables for the United States.

Researchers disagree about the sources of the negative values, resulting from the CTA method. The negatives are generally considered the result of measurement errors in the source data and of combining commodities at higher levels of aggregation (ten Raa et al. (1984), Konijn, and Steenge (1995)). These researchers believe that if data are handled properly, that is to say, all commodities (activities) are homogeneously combined, then the CTA would not generate negative coefficients. More recently, however, Mesnard (2002) rejected these notions, based on his research that negatives can be expected since the CTA breaks the internal linkages of commodity flows.

III. Treatment of Secondary Product in the U.S. Input-Output Accounts

 The 1972 Benchmark I-O Tables for the United States were the first prepared by the BEA that incorporated the use-make table framework recommended by the 1968 SNA. In addition to the use and make tables, the BEA publishes three coefficient tables, including commodity-by-industry direct requirements, commodity-by-commodity total requirements, and industry-by-commodity total requirements.

For the 1972, 1977, 1982, 1987, and 1992 Benchmark Tables, the BEA has used a "mixed" or "hybrid" technology assumption to create the symmetric tables--that is, a combination of both the CTA and the ITA has been used for the conversion.⁶ This method involves a two-step process, in which some secondary products are first redefined or moved "by hand" to the industries where they are primary, based on the principle of homogeneity of the input structures of commodities. This step, which is called the "redefinition process," plays a role similar to that of the CTA. After the hand adjustments have been completed, all remaining secondary products are considered to have input structures similar to those of the primary products of their producing industries. The ITA method is used to transfer these secondary products mechanically, because it is considered to be most the appropriate choice.

 Table 3 provides a perspective of the relative importance of secondary products in the 1992 tables and the difference between the two sets of make-use tables that were prepared. Although both sets of tables show total industry and commodity output as being \$10,053 billion in 1992, they differ in their amounts of secondary production. The traditional tables show \$489 billion, or

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⁶ For the 1958, 1963 and 1967 Benchmark I-O Tables, a "transfer process" was used to move some secondary products between industries. The transfer process was replaced by mechanical redefinition, described in this paper, beginning with the 1972 Benchmark I-O Tables. For the earlier tables, secondary products that were not redefined by hand were treated as if sold by the industries producing them to the industries for which the products were primary and added to the outputs of those industries for distribution to users of those commodities.

about 5 percent, of total output as secondary production of industries. In contrast, the alternative tables show \$739 billion or about 7 percent of total output as secondary. Although the redefined secondary output comprises only 2 percent of total output, it accounts for 34 percent of all total secondary production (\$249 billion / \$739 billion). (See Table 3.)

Format of Make and Use Tables	Total output	Primary Output	Secondary output	
Traditional	10,053,978	9,564,735	489,243	
Alternative	10,053,978	9,315,355	738,623	
Difference	.)	249,380	$-249,380$	

Table 3.--Primary and Secondary Output in the Traditional and Alternative Use and Make Tables for 1992 [Millions of dollars]

 The \$249 billion in redefinitions made for the traditional make-use tables cover a wide array of industries, and are especially important in trade, including both wholesale and retail, services, and utilities. A list of all I-O industries and the changes in their outputs, resulting from these redefinitions, is provided in Appendix Table 2.

 The \$489 billion of remaining secondary output in the traditional make-use tables were redefined mechanically using the ITA to create the symmetric tables. These mechanical redefinitions also affected a wide range of industries, including State and local government enterprises, manufacturing printing and publishing, radio and TV broadcasting, and finance. These ITA redefinitions are made only for the symmetric tables released by BEA, including the commodity-by-commodity and the industry-by-commodity total requirements table. For the 1992 Benchmark I-O Tables, the BEA prepared and published two sets of make-use tables, both of which will be used later in this paper to evaluate the effects of the CTA and ITA on analytical results. The two sets of tables provide alternative presentations of a large subset of

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secondary products. For one set, the outputs and inputs of secondary products with distinctive production processes (nonhomogeneous) compared to those used to produce the primary products of industries were redefined or moved by hand to the industries where they are primary, using the CTA. For the other set, only own-account construction and real estate rental were moved to where they are primary; all other products were left in their originating industries. The BEA is making available the alternative make-use tables in order to provide users with a set of industry statistics that is consistent with other published industry data and that follows SIC definitions and conventions. No symmetric tables were produced from the alternative tables for official release.

IV. Tests to Evaluate Procedures Based on Alternative Technology Assumptions

 The availability of the two sets of make and use tables for 1992 provide the opportunity to systematically evaluate differences in the symmetric I-O coefficients resulting from the ITA and CTA, both with and without hand adjustments for redefinitions. We prepared four versions of symmetric tables, using different combinations of procedures applied to BEA's 1992 make and use tables before redefinitions and after redefinitions (see table 4).

 Table 4.–Alternative Procedures Examined for Redefining Secondary Products

	Form of mechanical redefinitions used to prepare symmetric tables			
Source data	ITA	CTA		
<i>Before redefinition</i> ${}^{\text{A}}U$ and ${}^{\text{A}}V$)	Procedure I_A	Procedure C_A		
After redefinition ${}^{\tilde{d}}U$ and ${}^{\tilde{T}}V$)	Procedure I_T (method used by BEA)	Procedure C_T		

Based on the resulting symmetric tables, we wanted to answer the following questions: How are output multipliers affected by BEA redefinitions? And does BEA's methodology for redefinitions improve the results from applying the CTA? The tests we conducted include the following:

- (1) Comparison of differences in total-output multipliers resulting from procedures I_A and I_T ;
- (2) Comparison of differences in total-output multipliers resulting from procedures C_A and C_T ; and
- (3) Comparison of numbers and sizes of negative elements resulting from C_T with to C_A in the total-requirement coefficient matrices.

For each test, we also compared the relationship between the relative size of primary and secondary output and the negative elements in the total requirements table.

 The notation introduced earlier is extended as follows for the two sets of make and use tables. ^AU and ^AV are defined as the alternative use and make tables, and ^TU and ^TV as the traditional use and make tables, respectively. Generalizing, both sets of tables have the following components and relationships:

> $q^s = V^{s}$ '*i* $q^{p} = V^{p}i$, $g^s = V^s i$ $g^{p} = V^{p} i$, $g = g^p + g^s$ $v_{ij}^s = v_{ij}$ when $i \neq j$, $v_{ij}^p = 0$ when $i = j$ $v_{ij}^p = v_{ij}$ when $i = j$, $v_{ij}^p = 0$ when $i \neq j$ $q = q^p + q^s$ $V = V^p + V^s$ q^s: commodity secondary output q^p : commodity primary output q : commodity output g^s : industry secondary output g^p : industry primary output g : industry output V^s : Secondary product matrix V^p : Primary product matrix V : Make matrix U : Use matrix ij s $v_{ij} = v_{ij}$ when $i \neq j$, $v_{ij}^p = 0$ when $i =$ ij p $v_{ij}^{\text{p}} = v_{ij}$ when $i = j$, $v_{ij}^{\text{p}} = 0$ when $i \neq j$

 To compare the relative size of primary and secondary products, an index is introduced that measures the complexity of a commodity in terms of its primary and secondary product composition. Index *Ki* describes commodity *i* in terms of its dominance in its primary producing industry and in other industries. It is expressed as

 $Ki = q_i/g_i$

If $k_i = 1$, it means that commodity *i* is produced uniquely by a single industry with only one product. If $k_i > 1$, it means that the total output for commodity *i* (q_i) is greater than that of commodity *i*'s primary producing industry (*gi*); or, alternatively, that the secondary production of commodity *i* by other industries (q^S) is larger than the secondary production of *i's* primary producing industry (g^S) . On the other hand, if $k_i < I$, it means that the total output for commodity i (*qi*) is smaller than that of the primary producing industry (g^S) ; or, that secondary production of commodity *i* by other industries is less than secondary production by commodity *i*'s primary producing industry. The further K_i moves from 1--either smaller or larger--the more diverse the production involving the product; that is, either the more secondary production that is occurring by the primary producing industry, or the more important its production is by other industries as a secondary product. From a practical perspective, this index is designed to locate the sources of many of the negative values, resulting from the CTA, in the source data.

V. **Empirical Results**

This section provides the empirical results from the tests identified in the previous section.

Differences in Total Output Multipliers

 Table 5 provides a summary of the differences in total output multipliers, resulting from Procedure I_A compared with I_T and from Procedure C_T compared with C_A. The results indicate that BEA's hand adjustments to a subset of secondary commodities before using the ITA to mechanically redefine all remaining secondary commodities made only small differences to most 1992 Benchmark total output multipliers. For three-fifths of the total multipliers, the differences fall in the range from -0.5 and +0.5 percent. The results were similar for both the commodity-by-commodity (CxC) and the industry-by-commodity (IxC) total requirements tables. Also, when the CTA procedures are applied, three-fourths of the multipliers show differences in

the range of –0.5 and +0.5 percent--again for both the commodity-by-commodity (CxC) and the industry-by-commodity (IxC) total requirements tables. These results suggest that the transfer by hand of about 2 percent of total output (and inputs) for secondary products does not greatly change the total multipliers for economic impact analyses.

	I_T vs. I_A				C_T vs. C_A			
Range of difference	IxC		CxC		IxC		CxC	
	Number	Percentage	Number	Percentage		Number Percentage Number Percentage		
Less than -5.0 percent	4		4		8	2	8	2
-5.0 to -1.0 percent	13	3	13	3	18	4	18	
-1.0 to -0.5 percent	4		3		13	3	13	
-0.5 to 0.0 percent	102	21	103	21	124	26	124	26
0.0 to 0.5 percent	183	37	186	38	232	49	232	49
0.5 to 1.0 percent	87	18	86	18	50	11	50	11
1.0 to 5.0 percent	91	19	89	18	28	6	28	6
Greater than 5.0 percent					3		3	
Total	491	100	491	100	476	100	476	100

Table 5.–Differences in Total Output Multipliers Resulting from Procedure I_T (BEA **Method) vs. Procedure** I_A **and from Procedure C_T vs. Procedure** C_A

 These results do not necessarily imply that these same hand adjustments of secondary products do not have relatively large effects on some multipliers. Indeed, in cases where secondary products are concentrated, the effects can be large. To generalize, where secondary production either represents a large share of a commodity's total output or a large share of an industry's total output, the differences between the two total output multipliers can be large. This is particularly the case for the IxC matrix, which shows larger differences than the results from the CxC matrix. (See Table 6.) For these commodities and industries, these hand redefinitions using the CTA result in changes to the structure of the commodity-to-commodity and commodity-to-industry relationships at the detailed level. For analysts studying industries with

large shares of output from secondary production or industries that use commodities produced in

large proportions by several industries, this can be valuable information.

Changes to Negative Cells

 As has been said earlier, a significant drawback from applying the CTA is that it can generate negative values in transforming the use-make tables to symmetric tables. There is little argument that these negative values are unacceptable. They are particularly problematic for statistical agencies using the CTA, unless effective, low cost methods can be found to solve the issue.

 The process used by the BEA to move some secondary products by hand follows the CTA. By comparing the results from applying Procedure C_A with those from Procedure C_T , the effects of this process on negative values can be assessed. One school of thought is that the negative values are the result of the nonhomogeneity of the production processes used to produce a commodity. Therefore, if the classification of the commodity can be changed to reflect its input structures, then the negative values will be reduced or even eliminated. Based on data from the 1992 Benchmark I-O Accounts, the frequencies of negative values are reduced by 10 percent for the CxC and IxC total requirements matrices, when secondary products are redefined by hand before the CTA is applied mechanically (Procedure C_T), compared to results when these hand adjustments are not made (Procedure C_A). (See Table 7)

Matrix								Difference
	Procedure C_A		Procedure C_T		Difference		(percent)	
	Number	Value	Number	Value	Number	Value	Number	Value
Cx C	18.774	-10	16,868	-10.5	-1.906	-0.5	-10	
I x C	42,932	-83	38,612	-77.2	$-4,320$	5.8	-10	۰.

Table 7.--Numbers and Sums of Values of Negative Coefficients in the Total Requirements Matrices Resulting from Procedure C_A and Procedure C_T

 Although the roles that other factors play in producing negative values are still unclear, the results suggest that BEA's hand adjustment process using the CTA before applying the CTA mechanically is a workable approach to reduce the frequency of negative values in the total output requirements matrices.

It should be stressed that the purpose of identifying a subset of secondary products to be

redefined by hand to where they are primary is based on the goal of achieving homogeneity for each product—that is, it is not an attempt to reduce or remove the negative values resulting from the CTA. On the contrary, it is believed that the input structure of the remaining secondary products after hand adjustments **should** be relatively homogeneous with their respective primary products. Therefore, using the ITA to mechanically adjust the remaining secondary products is the appropriate choice compared to the CTA.

 However, as suggested by many researchers, one reason that negative values occurs using the CTA due to measurement error (or misclassification of products). Therefore, it is worth investigating further where negative values--especially large ones--are located in the total requirements matrices and to link them back to the source data. Table 8 lists the largest 50 negative values in the commodity-by-commodity, total requirements matrix, resulting from procedure C_T , together with the K index introduced in section V. Figure 1, which compares the K index for all products before and after the redefinition process, provides the information for the analysis used in this part. The largest negative total requirements coefficient is –0.7663, Radio and TV broadcasting requirements from Commercial Printing. The smallest value in the top 50 is –0.0318, which is the input from Electric services (utilities) to Nonferrous rolling and drawing, n.e.c. K values are provided for both the "providing" commodities (rows) and "receiving" commodities (columns). The results indicate the following:

 \Box Almost all of the 50 biggest negative values are linked to products that have either very high or low K values. A very high K value means that the secondary production of the commodity is much larger than what is produced by the primary industry. An example is provided by Advertising with a K value of 5.84 before redefinitions and 4.64 after redefinition, where the largest producers are not the Advertising industry, but instead include the Radio and TV broadcasting industry and the Newspapers industry. A very low K value means that secondary production by its primary producing industry is much larger than the secondary production of the commodity itself. An example of such a commodity is Radio and TV broadcasting with a K value of 0.09 both before and after redefinitions.

20

In this case, the output of Advertising as a secondary product by the Radio and TV broadcasting industry is much larger than the industry's primary production of Radio and TV broadcasting.

- \Box There is a concentration in the input sectors (columns) with the largest negative coefficients. Radio and TV broadcasting and Newspapers account for a little less than one-third of the 50 largest negative input sectors--11 and 5, respectively. Their supplying sectors (rows) are concentrated among such products as Commercial printing, Photofinishing labs, and Commercial photography paper related products (Paper and paperboard mills, and Paper coating and glazing). Also, all of these products have K values less than 1.0.
- \Box The sectors with larger than one K index values most likely appear in the rows (supplying). More than half of the row sectors have larger than one K values, which only 6 out of 50 are in the columns (before redefinition).
- \Box Although we found some row sectors have K values close to one, it is most likely that their respective receiving sectors have either very small or large K values. For example, the input from Industrial inorganic and organic chemicals with K value of 1.03 to Chemical and Fertilizer minerals with small K of 0.51, and Copper ore $(K=0.97)$ to Primary Nonferrous metals, n.e.c (K=2.38).

 From the above analysis, the large negative values in the total requirements matrix derived using the CTA are traced back to the source data, using the K index as a guide. Although it is not clear why these negatives occur, the index can help to identify those products with either very high or very low K values, and hopefully find ways to remove or get rid of the negative values. As stated earlier, if the negative values are the result of measurement errors, the analysis can be used as part of an error checking process. However, negative values may still persist when applying the CTA--even after correcting for errors in measurement and classification, because some secondary products do follow a homogenous industry structure. This could also be a source of negative values, if the CTA process is forced upon such data.

Figure 1. K index before and after redefinition

VI. Conclusions and Recommendations for Future Study

 This paper discussed the two primary methods for transforming the make-use I-O tables to the symmetric Leontief model. BEA's method was described as a hybrid of the two methods, which has been used for all tables prepared by the BEA since the mid-1970's. Specifically, the method involves a two-step process where the commodity-technology assumption (CTA) is first used to redefine about one-third of all secondary products to their respective primary products, and then the industry-technology assumption (ITA) is used to mechanically shift the remaining products.

For the 1992 Benchmark I-O Accounts, the BEA prepared two sets of make-use tables. The two sets differed in their treatments of secondary products—the first with selected secondary products redefined using the CTA, and the second with all secondary products shown in their originating industries. Using the two presentations of tables, a series of tests were performed to evaluate the different results from applying the ITA and CTA for redefining secondary products. The conclusions from the study include the following:

- For 1992, the U.S. Benchmark I-O Accounts show that secondary products represented only about 7 percent of total gross output (\$739 billion out of total \$10,054 billion); of these secondary products, approximately one-third are moved or redefined by hand to the industries where they are considered to be primary, using the CTA, and the remaining two thirds are moved mechanically, using the ITA.
- For most industries and commodities examined, the differences between total output multipliers (IxC and CxC), resulting from the two-step, hybrid process used by the

United States to transfer secondary products compared with a one-step, mechanical process were not significant. This suggests that, because of their overall, relatively small size, the choice of method does not greatly affect the total multipliers for economic-impact analyses.

- The results show that for some commodities and industries, the choice between BEA's two-step method and a one-step method does make a large difference. For analysts interested in studying these related areas of the economy, it is important to understand the potential effects from estimating methods on input structures and total multipliers.
- \Box Although many researchers favor using the CTA for transferring secondary products, there is no consensus about what causes negative values to occur and what methods can be used to produce "ideal" results without negative values.
- Empirical results based on the 1992 U.S. Tables suggest that hand redefinitions of nonhomogeneous secondary products, using the CTA, can reduce the frequency of negative values, compared with using the CTA to transfer all secondary products mechanically.
- Empirical results based on the 1992 U.S. Tables indicate that most large negative values in the total requirements matrices, resulting from the CTA, are related to secondary products that represent either a large proportion of an industry's total output or of a commodity's total output. This finding is important, because it can provide valuable information for tracing negative values to the original data set, and for removing negative values by making appropriate adjustments to the original data.

 The results of the current research raise additional questions and issues to be addressed by future studies. Two of the more important include the following:

- \Box Has the BEA identified those secondary products that require hand adjustments, using the CTA, from all other secondary products that require only a mechanical transfer, is appropriate, using the ITA? If the hand adjustments, using the CTA, results in only a 10 percent reduction in the frequency of negative values, is this an indicator that additional secondary products require hand adjustments?
- If a hybrid solution is optimal for handling secondary products, is there an effective test to distinguish between those secondary products that require hand adjustments, using the CTA, and all other secondary products for which the mechanical transfer, using the ITA, is more appropriate?
- Are large negative values resulting from the CTA indicators that classification and/or measure errors have occurred in the original data—that is, that the source data should be re-examined?

BEAN (SIC)
Big Difference (SIC)

140105 Poultry slaughtering and processing 13.1396 3.1396 3.1396 3.1396 3.0269 3.0269 3.12% 3.72% 3.72% 3.72%
140200 Creamery butter 1.01% 1.01% 3.1380 3.1380 3.1380 3.1066 3.1066 1.01% 1.01% 1.01% 140200 Creamery butter 3.1380 3.1066 3.1066 1.01% 1.01% 140300 Natural, processed, and imitation cheese 3.1569 3.1569 3.1371 3.1371 0.63% 0.63% 140400 Dry, condensed, and evaporated dairy products 2.6599 2.6599 2.6287 2.6287 1.19% 1.19% 140500 Ice cream and frozen desserts 2.6939 2.6939 2.6710 2.6710 0.86% 0.86% 140600 Fluid milk 3.0015 3.0015 2.9521 2.9521 1.67% 1.67% 140700 Canned and cured fish and seafoods 2.3460 2.3460 2.3385 2.3385 0.32% 0.32% 140800 Canned specialties 2.2862 2.2862 2.2763 2.2763 0.44% 0.44%

141000 Dehydrated fruits, vegetables, and soups 2.2308 2.2308 2.2236 2.2236 0.32% 0.32% 141100 Pickles, sauces, and salad dressings 2.1272 2.1272 2.1239 2.1239 0.16% 0.16% 1412 Prepared fresh or frozen fish and seafoods and seafoods 2.5103 2.5103 2.5103 2.5061 2.5061 0.17% Prozen fruits, fruit juices, and vegetables 3.4064 2.4064 2.4064 2.4064 2.4094 2.4094 2.4094 2.4094 2.4094 2.4094 2.4094 141301 Frozen fruits, fruit juices, and vegetables 2.4064 2.4064 2.4094 2.4094 -0.12% -0.12% 141302 Frozen specialties, n.e.c. 2.3808 2.3808 2.3514 2.3514 1.25% 1.25%

Canned fruits, vegetables, preserves, jams, and jellies

Flour and other grain mill products

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