

United States Military Expenditure

by Jurgen Brauer*

Abstract: This paper reviews United States military expenditure for the past few decades. The major message is that use of federal budget-based military expenditure data should be avoided. The economically relevant data to use are those recorded in the U.S. National Income and Product Accounts (NIPA). For 2003, the difference between Department of Defense budget-based and NIPA U.S. military expenditure amounts to well over US\$100 billion dollar. Even the NIPA data are incomplete as they fail to include Veteran Affairs and fail to allocate a proportion of interest-payments on the federal debt to the national defense account.

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Introduction

This paper reviews United States military expenditure for the past few decades. The major message is that use of federal budget-based military expenditure data should be avoided. The economically relevant data to use are those recorded in the U.S. National Income and Product Accounts (NIPA). For 2003, the difference between Department of Defense budget-based and NIPA U.S. military expenditure amounts to well over US\$100 billion dollar. Even the NIPA data are incomplete as they fail to include Veteran Affairs and fail to allocate a proportion of interest-payments on the federal debt to the national defense account.

Measuring United States military expenditure

United States military expenditure is not large and rapidly growing; instead, it is *larger* and rapidly growing – larger that is than reported in the news media, and larger than the public appears to have in mind. The numbers the news media report come off the federal budget decision-making process, that is out of administration requests for and congressional debate on, appropriation of, and spending authorization for funds for the national defense function of the U.S. government. For government officials, either in the executive or legislative branch, it makes sense to look at budget requests and to debate, appropriate, and authorize funds for the national defense budget line item. But economists and the public-at-large have (or should have) a different objective. We need to look at overall military-related expenditure, regardless of whether this is budgeted in the national defense line item or budgeted elsewhere.

The details will be covered shortly, but just to provide the reader with an inkling of the order of magnitude of that difference, for 2003 think of roughly US\$400 billion national defense budgeted outlays versus US\$500 billion national defense outlays as recorded in U.S. National Income and Product Accounts (NIPA, for short). That is, the United States spent about 25 percent more on national defense – when looked at through economists' eyes – than the numbers one hears bandied about in the news media. And even the NIPA numbers are incomplete, as the accounting framework does not allocate a proportion of interest payments on the accumulated federal debt back to the military sector of the economy. In 2003, for example, that would add at least another US\$35 billion of federal spending that should properly be counted as military-related expenditure so that, for 2003, we approach US\$530 billion in national defense outlays as opposed to the US\$400 billion or so in budgeted national defense

outlays – a difference on the order of 33 percent.

In what follows, I provide some detail of where the media and the public ordinarily obtains its numbers and of where economists like to look for more appropriate numbers. I also take a look at a break-down of the numbers in terms of spending on personnel, procurement, operations, and other areas.

* * * * *

Prominent sources for countries' military expenditure include NATO, SIPRI, and the United States Department of State's Bureau of Verification and Compliance (US BVC).¹ NATO defines military (or defense) expenditure as follows:

“For NATO countries, military expenditures are from NATO publications and are based on the NATO definition. In this definition, (a) civilian-type expenditures of the defense ministry are excluded and military-type expenditures of other ministries are included; (b) grant military assistance is included in the expenditures of the donor country; and (c) purchases of military equipment for credit are included at the time the debt is incurred, not at the time of payment.”²

NATO figures are available from various issues of *NATO Review*. It turns out that the BVC uses NATO figures for its own publication, *World Military Expenditures and Arms Transfers*. Likewise, the Stockholm International Peace Research Institute (SIPRI) uses NATO figures to report US military expenditure.³ In a word, three of the world's best known comparative sources on countries' military expenditure use the same figures for United States military expenditure. This is of course good news. The bad news is that these figures do not match what the United States itself reports about its own military expenditure.

In the U.S. there are two primary sources on military expenditure data. One source is the United States Budget or, more precisely, the so-called *Historical Tables*, a document supplementary to the annual fiscal year budget request by the administration to Congress. This is issued annually to Congress by the Office of Management and Budget (OMB) from within the President's office. The *Historical Tables* capture for prior fiscal years not the budget requests, nor the appropriations, but the actual outlays. The other source is information contained in the aforementioned National Income and Product Accounts (NIPA), produced by the Bureau of Economic Analysis (BEA) in the Department of Commerce.

OMB's *Historical Tables* distinguish between two budget line items. Line

item 051 includes all Department of Defense (DoD) outlays. In contrast, line item 050 includes all “national defense outlays.”⁴ Since the latter include military expenditure in agencies other than the DoD – for instance, military-nuclear activities budgeted within the Department of Energy – the numbers for line item 050 are larger than the DoD numbers in line item 051, but still are generally slightly below NATO figures (see Figure 1).

FIGURE 1 HERE

The differences between NATO/SIPRI/BVC and the “total national defense outlays” measure of OMB’s *Historical Tables* are insubstantial. For 1996, for instance, NATO reports U.S. military expenditure of US\$271 billion (nominal), whereas the *Historical Tables* report US\$266 billion for total national defense outlays (and US\$253 for DoD outlays). The truly amazing difference occurs with respect to the NIPA data. For 1996 this amounted to US\$355 billion (nominal), a difference of US\$84 billion over the NATO numbers.

The Historical Tables

Let us take a closer look at the budget-based data. Under the heading of “Outlays by Function and Subfunction,” Table 3.2 of the *Historical Tables* shows budget line “050 - National defense.” Importantly, the *Tables* provide detail on the subfunctions included within national defense outlays. For recent fiscal years they include (with numbers in billions of nominal dollars):

	2001	2002	2003
051 Department of Defense - Military			
Military personnel	73,977	86,799	106,744
Operation and maintenance	111,964	130,005	151,408
Procurement	54,986	62,515	67,926
Research, development, test, evaluation	40,455	44,389	53,098
Military construction	4,977	5,052	5,851
Family housing	3,516	3,736	3,784
Other	1,085	-545	-1,492
051 Subtotal, Department of Defense - Military	290,960	331,951	387,319
053 Atomic energy defense activities	12,931	14,795	16,029 ⁵
054 Defense-related activities	1,609	1,809	1,572
050 Total, National defense	305,500	348,555	404,920

According to NATO/SIPRI/BVC, military aid to other countries should be included. Doing so yields

152 International security assistance	6,560	7,907	8,619
for a total of	312,060	356,462	413,539

For 2001 and 2002, these numbers are almost identical to those reported by NATO.⁶ The differences amount to about US\$6 billion. Since some of these outlays include legacy items – for instance occupational illness and radiation exposure compensation funds for employees at military-nuclear sites – it is unclear why the NATO/SIPRI definitions would restrict military expenditure mainly to *current* outlays and not include all of the *legacy* cost of past military activities. Thus, adding veterans benefits and services would result in

700 Total, Veterans benefits and services	45,039	50,984	57,018
for a total of	357,099	407,446	470,557

It is important to appreciate that veterans benefits are, with very minor exceptions, *non-retirement* benefits. Contributions to the United States' social security (retirement) system are funded by contributions out of the DoD budget while veterans were on active duty. Even with the addition of international security assistance and veterans benefits and services, the accounting is incomplete. For example, for budget FY2004, an "Iraq relief and reconstruction fund" and "operating expenses of the coalition provisional authority" are placed, at US\$7.006 billion, in line item "151 – International development, humanitarian assistance." So is a program called "Andean counter-drug offensive" – at US\$966 million. A "special defense acquisition program" of US\$3 million is placed under "155 – International financial programs." The same line item contains US\$759 million for the U.S. Export-Import Bank, whose web site reveals substantial support for the Iraq war. There are other millions and billions tucked away in other budget function line items. For instance, "armed forces retirement homes" is budgeted under "600 – Income security" at US\$66 million for FY2004. "DoD Medicare eligible retiree health care fund," at US\$5.171 billion, and US\$571 million for "biodefense counterdefense acquisition," both for FY2004, are put in line item "550 – Health." Likewise, "Naval petroleum reserve operations" are budgeted, at US\$18 million, under "270 – Energy." And one would think that a portion of the US\$22.291 billion budgeted for FY2004 for "250 – General science, space, and technology" will result in military applications. Thus, the US\$470 billion computed above for FY2003 understates total United States military, defense, and security outlays by several billion

dollars.

If one therefore takes a different tack and moves from the *functional* budget line items in the *Historical Tables* to the *agency* budget line items, one finds the following numbers (in billions; for FY2003 there are slight differences in the numbers for Defense, Military 051 but not for National Defense, 050):

	2001	2002	2003
Defense, Military	291,015	331,951	388,870
Veterans affairs	45,050	50,884	56,887
Other defense-civil programs	34,164	35,157	39,883
Total defense outlays by agency	370,229	417,992	485,640
versus functional line items 050, 152, 700	357,099	407,446	470,557

The “other defense-civil programs” line probably includes nuclear weaponry, international security assistance, and other defense and security-related programs and agencies, so that the total of US\$486 billion for FY2003 comes close to the functional accounting (US\$470 billion) were the additional items I hinted at included. For practical purposes, then, using the *agency* outlays as given in the *Historical Tables* would appear to be a workable approximation to the United States’ total federal military, defense, and security outlays, or military expenditure for short.⁷ Indeed, subtracting out the Veterans Affairs line yields the numbers NATO reports to within a few million dollars.

But as I argued before, surely military expenditure should include all legacy costs. Thus, if NATO/SIPRI include several billions of dollars in “environmental management” at military-nuclear sites – surely a legacy cost – why not include Veterans Affairs? On this argument one must also include a prorated portion of the national debt and, hence, a portion of the federal government’s annual net interest payment on the debt. If, for simplicity, one calculates the proportion of “total defense outlays by agency” of all federal government outlays and allocates a corresponding portion of federal net interest payments back to the military sector, one gets the following (in billions of nominal dollars):

	2001	2002	2003
Defense, Military	291.0	332.0	388.9
National defense outlays by agency	370.2	418.0	485.6
Total federal government outlays	1,863.8	2,011.0	2,157.6
Total federal net interest outlays	206.2	171.0	153.1
Allocated interest to national defense	41.0	35.5	34.5
Total national defense outlays	411.2	453.5	520.1

For FY2003, the outlays by the defense department of US\$389 billion understate the thus calculated total national defense outlays of US\$520 billion by about thirty-three percent (hence my earlier claim). Clearly, for FY2003 the largest components of the US\$131 billion difference stem from the inclusion of the Veterans Affairs budget of US\$57 billion and the allocated portion of net interest payments, at US\$34.5 billion.

That legacy payments due to prior-year military effort should not be disregarded in accounting for the country's military expenditure is made clear by an alternative way of thinking about budgeting. Economically, fully funded current-year military activity should include provision for future costs the current activity entails. This might be called "full-cost budgeting." In other words, future Veterans Affairs and net interest expenses incurred on account of current military activity would thus become part of a fully costed, budgeted, and funded current activity.

Adjusted total U.S. military expenditure

Military expenditure figures adjusted for "full cost budgeting" can be computed back to 1962. Figure 2 shows the comparison between DoD outlays and the calculated total U.S. military expenditure in nominal dollars.

FIGURE 2 HERE

Figure 3 shows the same in real dollars (2000=100). I applied the chain-type price index for federal national defense outlays (*Economic Report of the President 2004*, table B-7, p. 295, where the deflator for the year 2003 is taken from the average for the first three reported quarters). It is important to use the military-specific deflator because inflation within the defense sector has been much higher than inflation in the non-defense sector. For instance, between 2000 and the third quarter of 2003, prices generally went up by 5.87 percent but for federal national defense items prices went up by 7.66 percent.

FIGURE 3 HERE

In Figure 3 one sees the familiar post-Vietnam U.S. military expenditure reduction in the 1970s, the Carter/Reagan build-up of the late 1970s and the 1980s, the post-cold war reduction of the 1990s, and the post-9/11 build-up of the early 2000s. One also sees that the end of the post-cold war peace dividend

already occurred in 1996 when DoD and total military expenditure leveled off at about US\$275 and US\$400 billion, respectively (in inflation-adjusted dollars). Nonetheless, since GDP grew throughout this period, military expenditure as a percentage of GDP continued to fall (see Figure 5 later on).

Figure 4 shows the understatement of DoD outlays to total U.S. military expenditure in percentage terms. From this figure we see that the understatement of DoD outlays has grown worse over time, from between 20 to 25 percent in the 1960s to between 35 to 45 percent since the mid-1970s. In 1962, the gap between DoD and total military expenditure was on the order of US\$60 billion dollar in inflation-adjusted terms. By 2003 this gap has grown to just over US\$122 billion, also in inflation-adjusted terms.

FIGURE 4 HERE

The understatement of DoD versus total military expenditure results of course in a corresponding understatement of such spending with respect to United States GDP (Figure 5). For FY2003, for example, the DoD outlays amount to 3.6 percent of GDP but total military expenditure amounts to 4.8 percent of GDP, 1/3 higher.

FIGURE 5 HERE

U.S. National Income and Products Accounts (NIPA)

There is no intent here to artificially inflate total U.S. military expenditure. In fact, another United States federal government agency reports national defense numbers almost as large as mine. The Bureau of Economic Analysis in the Department of Commerce produces the United States National Income and Product Accounts (NIPA). For calendar (not fiscal) year 2003, NIPA reports total national defense outlays of US\$497.7 billion, which breaks down into US\$437.2 billion for consumption outlays and the remainder for gross investment in structures and equipment (US\$60.5 billion). This does not include an allocated portion of federal net interest payments (BEA, 1988, p. 4), nor Veterans Affairs. If these were allocated and included, NIPA's number for total U.S. military expenditure would be US\$497.7 plus US\$34.5 billion plus US\$56.9 billion, i.e., US\$589.1 billion, about US\$70 billion larger than even my estimate.

Of all official U.S. government data, it is clear that the NIPA numbers are the most comprehensive and conceptually complete (except for the interest payment allocation and Veterans Affairs). They are therefore the preferred data to use in

economic analysis and should be the preferred data to use in the national debate.⁸

The NIPA numbers on national defense outlays are extraordinarily detailed and, to my knowledge, have not yet been harvested by academic researchers. I provide a first descriptive look here. All data can be accessed and downloaded in ready-made spreadsheets from the BEA's web site. Detailed quarterly and annual figures on National Defense Consumption Expenditure and Gross Investment are available as from the first quarter of 1972 (I/1972). Even though this excludes most of the Vietnam-era years, over thirty years of quarterly data might permit researchers to test for example the degree to which national defense outlays may have been used as a tool in fiscal stabilization policy. (The complete list of defense-relevant line items in the NIPA tables is shown in appendix Table 1.) The following figures and discussion provide some examples of what is available. Where needed, items are inflation-adjusted and indexed to 2000=100.

FIGURE 6 HERE

Figure 6 shows that during the Reagan cold-war build-up and, again, during the post-9/11 period the *total wage bill* for military employees increased. For civilian defense employees an increase in the total wage bill for the post-9/11 years has not yet occurred. For the post-Vietnam and post-cold war years, compensation for both categories of employees fell drastically. This of course reflects changes in the underlying numbers of military and civilian personnel (Figure 7, for DoD only).⁹

FIGURE 7 HERE

Figure 13, placed in the appendix because of the size of the figure, consists of six bar charts, the price indices – indexed to 2000 – for gross investment in six types of military equipment, namely aircraft, missiles, ships, vehicles, electronic equipment and software, and other equipment. To ease comparison, all charts are drawn to the same scale. Price index reductions are especially evident in missiles and electronics since the early 1980s. The aircraft price index stabilized in the 1990s, perhaps because of the inclusion of electronic components. In contrast, the indices for ships, vehicles, and other equipment have risen steadily, but all three of these indices flatten out during the low-inflation period of the late 1990s.

FIGURE 8 HERE

Figure 8 shows changes in the composition of inflation-adjusted national defense outlays from 1972 to 2003. The top line reflects spending on the overall defense-related wage bill (but not including those presumably covered under “services”). Oscillating between US\$150 and US\$200 billion per year, the dollar figure dropped somewhat post-Vietnam, rose during the Reagan build-up, fell post-cold war, and has risen again since 9/11. The line in the middle of the graph denotes real spending on service items. According to the NIPA tables, this includes research and development, installations support, weapons support, personnel support, transportation of material, and travel of persons. I suspect (but have not investigated this) that the “services” item includes expenditure on “civilian contractors” or private military or military-service companies. Consumption of hardware – durable and non-durable – is shown in the bottom two lines, also in billions of inflation-adjusted dollars. This reflects use and depreciation of previously acquired hardware.

It is useful to compare consumption of hardware with acquisition (gross investment) of hardware. This is done in Figures 9 to 12 for directly comparable items, namely aircraft, missiles, ships, and vehicles. For example, Figure 9 shows, in inflation-adjusted billions of dollars, consumption of and gross investment in military aircraft. Consumption appears to lead gross investment. Consumption grows in the Carter and Reagan administrations, with a particularly pronounced acquisitions drive in the Reagan terms.

FIGURE 9 HERE

FIGURE 10 HERE

Figure 10 shows consumption and gross investment (acquisition) for missiles, also in real terms. As for aircraft, there is a remarkable acquisitions drive during the Carter and Reagan terms. In both cases – aircraft and missiles – the figures reveal unusual plateau-patterns around 1991 and 2001-2003, i.e., around the Persian Gulf war, and the Afghanistan and Iraq wars.

FIGURE 11 HERE

Figure 11 clashes with preconceptions. As before, there is a notable acquisitions boom during the Carter and Reagan administrations, a post-cold war draw-down thereafter, and a renewed increase as from the mid-1990s. But it has been widely reported that the United States Navy has decommissioned a very large number of vessels since the Reagan dream of building a 600-ship Navy just

failed to be realized. It would appear that the decommissioning has not (yet) led to a corresponding depreciation and write-off and is thus not reflected in the consumption data.

FIGURE 12 HERE

Finally, Figure 12 shows the consumption and gross investment data for military vehicles. These, too, show a build-up during the Carter and Reagan years, the post-cold war reductions, and the renewed build-up since the mid-1990s. As for aircraft, vehicle consumption and gross investment are patterned reasonably close to each other, except for a sustained ten-year acquisition boom starting in 1995.

In sum, considerable detailed information is available on total United States military expenditure, but it does not appear that this has yet been exploited in the literature for developing and testing hypotheses about expenditure patterns and the impact of this spending on the U.S. and other economies. One question of particular importance is the degree to which these data can help to disentangle the role of private military companies and civilian contractors in U.S. military operations.

The cost of U.S. military expenditure

The inflationary cost

Beyond the budget and NIPA numbers, there are other costs. It is for example generally acknowledged that U.S. wars are inflationary. This may be tolerable in times of low capacity utilization but since the average U.S. war lasts longer than the average U.S. recessionary period in or during which wars have occurred, wars ultimately stimulate aggregate demand beyond what is needed to return the economy to its long-run growth potential. Wars would thereby be expected to contribute to inflation (erosion of purchasing power) via demand-side pressure (so long as they are deficit-financed, which they usually are).

Other costs

Periods of conflict and actual wars also tend to result in reductions in non-defense government spending (federal, state, and local) as well as in reductions of private consumption of durable and nondurable items (e.g., Gold, 1997). Furthermore, the Afghan and Iraq wars in particular rely to an unprecedented

degree on U.S. reservists that are pulled out of their normal, civilian-life occupations. Their employers need to cope, often by having to offer overtime pay to their remaining employees. (The posts that reservists leave are not necessarily filled by employing a second person since reservists usually have a right of return to the position they left, and employers do not want to be stuck with paying for two positions once the reservist returns.) Other costs of U.S. conflicts include for instance the massive structural adjustment in the transportation and tourism industry post-9/11, the effect of political uncertainty on businesses' gross private domestic investment, and even such nuisance costs as increased airport screening and wait times. In addition, a respectable argument can be made that the current conflict in Iraq and the Middle East is at least partially responsible for higher energy costs. Furthermore, a plausible argument can be made that other global commodity and financial markets are "rattled" by uncertainty in war, and uncertainty always increases costs as people engage in defensive and risk-avoidance behavior they would not otherwise undertake.

The benefits

Economists do not as a rule dispute that some degree of security, defense, or military expenditure is warranted to provide a country's citizens (as employees and investors) with credible assurance that makes them willing to invest in their own economy and thereby to contribute to the development of the quality and quantity of the labor and capital stock (human and physical capital) and to long-run economic growth potential.

The difficulty lies in deciding when "too much" military expenditure results in diminishing (or even negative) returns. Economists long argued that U.S. military expenditure had reached the point of diminishing returns with adverse effects on the economy but the 11 September 2001 terror attack on the U.S. has made this clear also to politicians and lay-people alike that billions upon billions of U.S. military expenditure have not bought much security at all. As always in economics, the point is not about spending *per se* but about spending on what.

Conclusion

To conclude, let me simply restate the main finding. News media reporters and the public-at-large pay unwarranted attention to U.S. Department of Defense budget numbers. For FY2003, at about US\$390 billion, these understate the actual total U.S. military expenditure of US\$520 billion by about US\$130 billion. If one were to include Veterans Affairs and a properly allocated portion of

interest payments on federal debt, military expenditure might be as high as US\$590 billion. In that case, the “defense spending” number reported in the media would understate actual military expenditure by about US\$200 billion, a rather substantial sum.

Notes

1. Formerly the U.S. Arms Control and Disarmament Agency, ACDA.
2. Cited from p. 194 of WMEAT (1999/2000).
3. The *NATO Review*, the U.S. BVC, and the SIPRI data all are easily accessible online. SIPRI’s military expenditure definition is: “Where possible, SIPRI military expenditure include all current and capital expenditure on: the armed forces, including peace keeping forces; defense ministries and other government agencies engaged in defense projects; paramilitary forces when judged to be trained, equipped and available for military operations; and military space activities. Such expenditures should include: all expenditures on current personnel; military and civil retirement pensions of military personnel; social services for personnel and their families; operations and maintenance; procurement; military research and development; military construction; military aid (in the military expenditures of the donor country). Excluded military related expenditures are: civil defense; current expenditure for previous military activities; veterans benefits; demobilization; conversion of arms production facilities; and destruction of weapons.” This is taken from www.sipri.org [accessed 9 May 2004].
4. The easiest way to access time series for these numbers is via the statistical appendix to the annually issued *Economic Report of the President* (available online).
5. Figures for atomic-energy defense activities include operations as well as environmental management (remediation, restoration) at military-nuclear sites.
6. With a time-lag, they will eventually be reported by SIPRI and BVC as well. NATO numbers themselves lag behind the data revision in the U.S., hence the difference between the US\$414 billion reported for 2003 in the *Historical Tables* and the NATO estimate of US\$384 billion. In other words, the reporting sequence is from the budget data to NATO to SIPRI and BVC. Revisions in the budget data will eventually show up with a one or two year time lag in the other

data sources.

7. One cannot simply add up the *agency* items – defense, veteran affairs, other defense-civil programs, homeland security, international assistance, and so on. The reason is that only the budgetary break-down by *function* will show what proportion for instance of the Department of Energy budget should be allocated to national defense outlays. Within-agency military-related items appear to have been captured in the “other” line.

8. See Brauer (forthcoming) for an analytical paper that studies differences in economic model estimates when either budget-based or NIPA data are used.

9. It is not clear how the use of “civilian contractors,” i.e., the services of private military companies, is treated in the total wage bill. Presumably, this is captured under the “services” rubric. For example, “personnel services” increased from US\$22.9 billion in 2000 to US\$51.1 billion in 2003 (nominal dollars).

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Appendix Table 1: National defense consumption expenditures and gross investment itemization

1	National defense consumption expenditures and gross investment
2	Consumption expenditures \1\
3	Gross output of general government
4	Value added
5	Compensation of general government employees
6	Military
7	Civilian
8	Consumption of general government fixed capital \2\
9	Intermediate goods and services purchased \3\
10	Durable goods
11	Aircraft
12	Missiles
13	Ships
14	Vehicles
15	Electronics
16	Other durable goods
17	Nondurable goods
18	Petroleum products
19	Ammunition
20	Other nondurable goods
21	Services
22	Research and development
23	Installation support
24	Weapons support
25	Personnel support
26	Transportation of material
27	Travel of persons
28	Less: Own-account investment \4\
29	Sales to other sectors
30	Gross investment \5\
31	Structures
32	Equipment and software
33	Aircraft
34	Missiles
35	Ships
36	Vehicles
37	Electronics and software
38	Other equipment

Source: National Income and Product Accounts, Bureau of Economic Analysis, US Dept of Commerce (online).

Notes: 1. National defense consumption expenditures are defense services produced by government that are valued at their cost of production. Excludes government sales to other sectors and government own-account investment (construction and software).

2. Consumption of fixed capital, or depreciation, is included in government gross output as a partial measure of the services of general government fixed assets; the use of depreciation assumes a zero net return on these assets.

3. Includes general government intermediate inputs for goods and services sold to other sectors and for own-account investment.

4. Own-account investment is measured in current dollars by compensation of general government employees and related expenditures for goods and services and is classified as investment in structures and in software.

5. Gross government investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in government consumption expenditures.

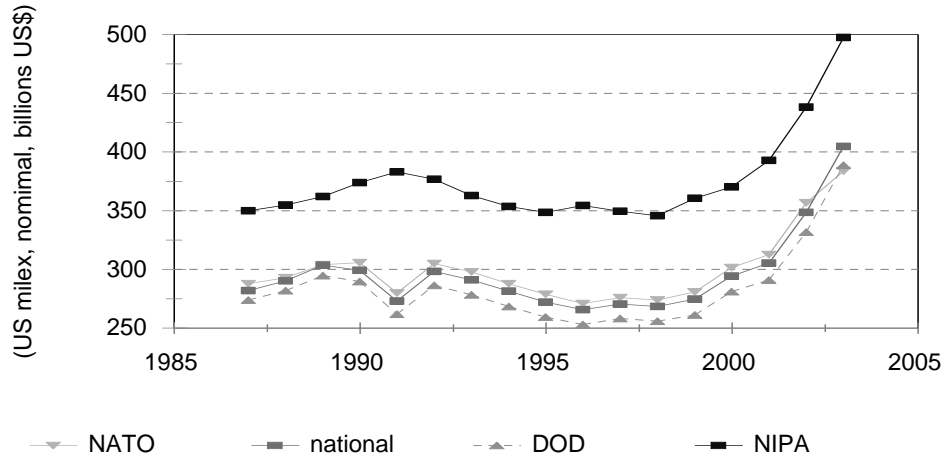


Figure 1: U.S. military expenditure, 1987-2003, according to NATO/SIPRI/BVC, the *Historical Tables* (total national defense outlays and DoD), and NIPA measures; nominal billions of U.S. dollars. NATO 2003 is an estimate.

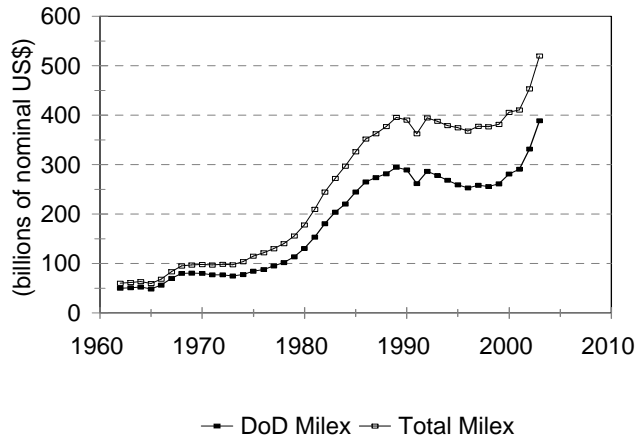


Figure 2: U.S. Department of Defense vs U.S. total military expenditure, nominal dollars.

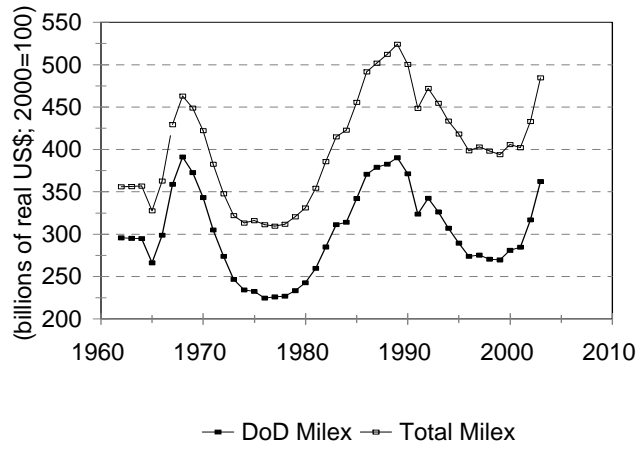


Figure 3: U.S. Department of Defense vs total military expenditure, real dollars (base year = 2000).

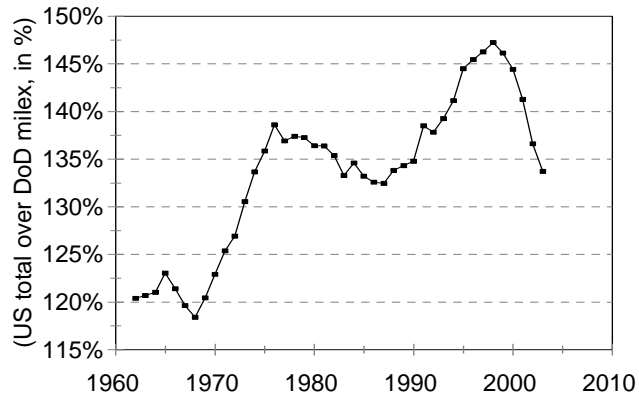


Figure 4: U.S. total military expenditure versus DoD outlays.

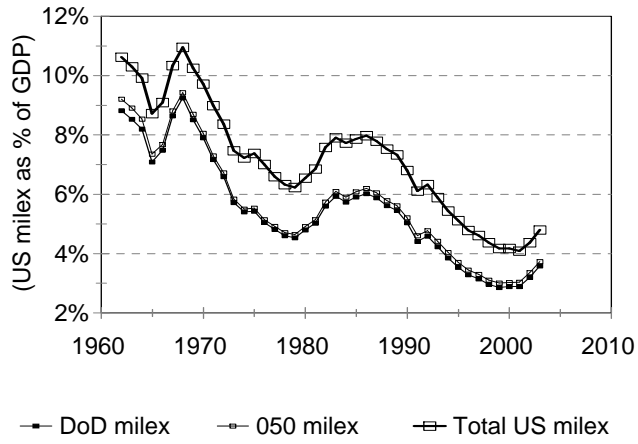


Figure 5: U.S. total military expenditure as a percentage of GDP (various measures).

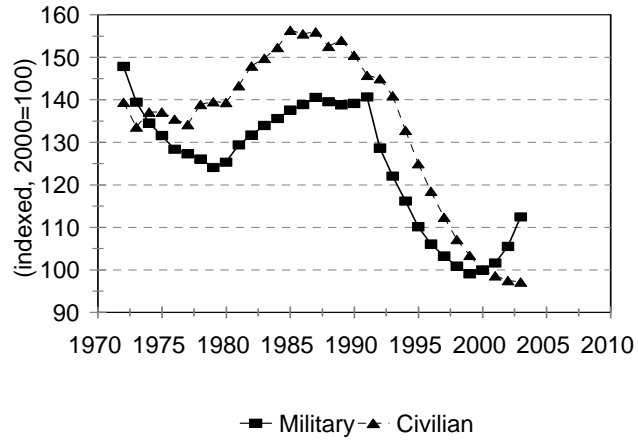


Figure 6: Total compensation, military vs civilian DoD employees (real dollars, indexed to 2000=100).

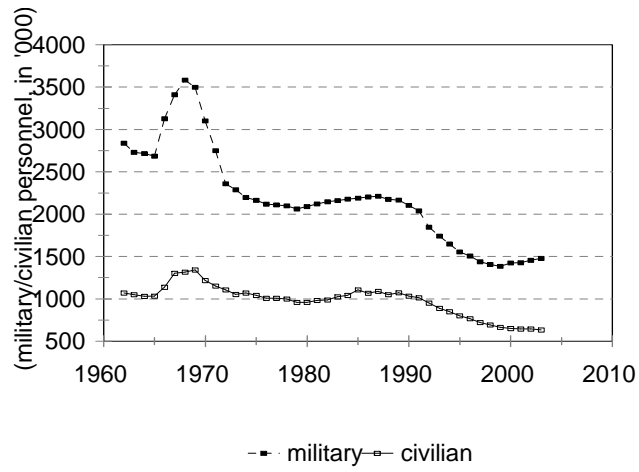


Figure 7: U.S. military and civilian DoD personnel, in thousands.

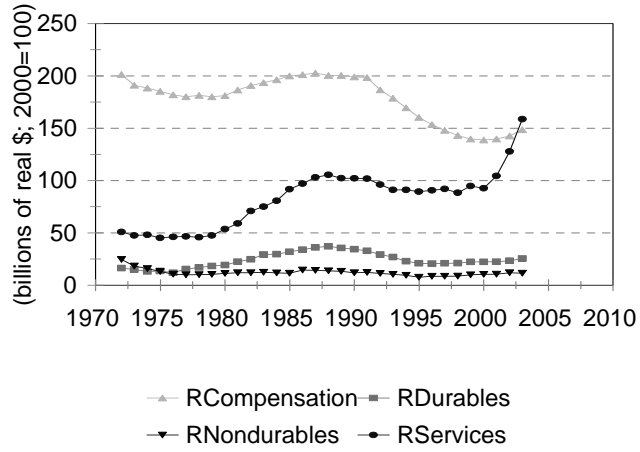


Figure 8: Major components of real defense consumption (billions of dollars; 2000=100).

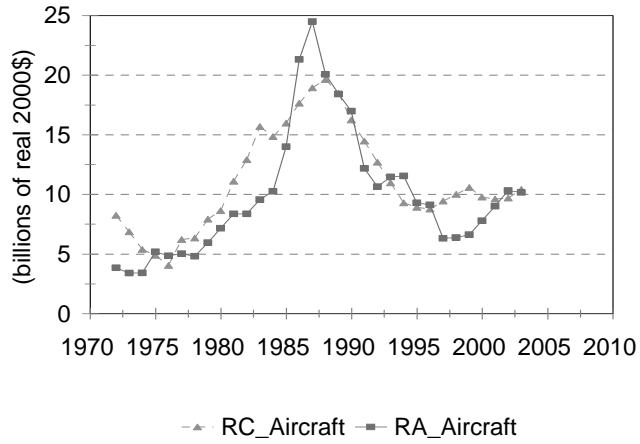


Figure 9: Consumption (RC) and gross investment (RA) in aircraft, real dollars (base year 2000).

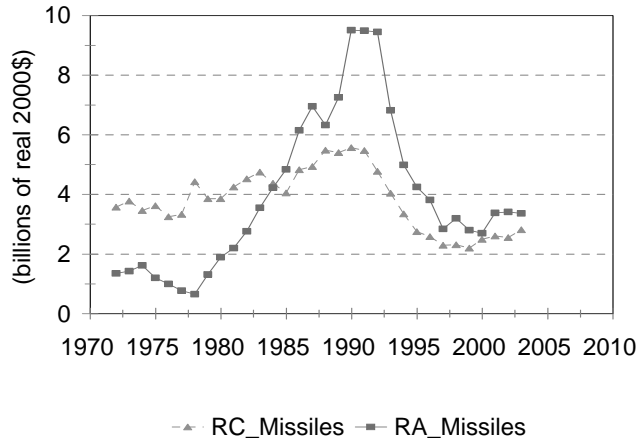


Figure 10: Consumption (RC) and gross investment (RA) in missiles, real dollars (base year 2000).

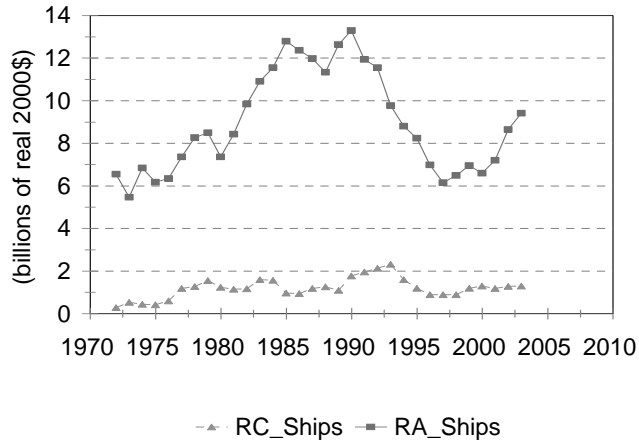


Figure 11: Consumption (RC) and gross investment (RA) in ships, real dollars (base year 2000).

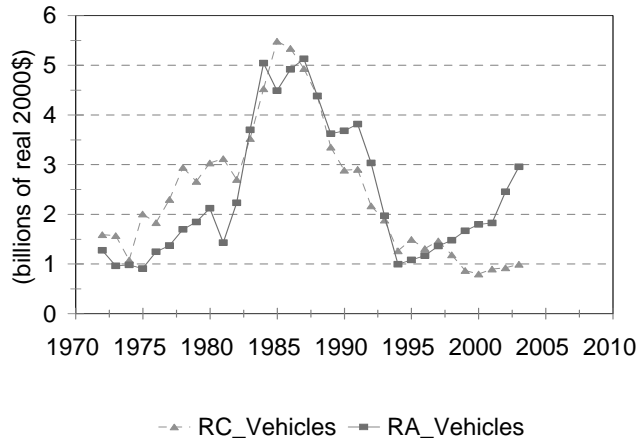


Figure 12: Consumption (RC) and gross investment (RA) in vehicles, real dollars (base year 2000).

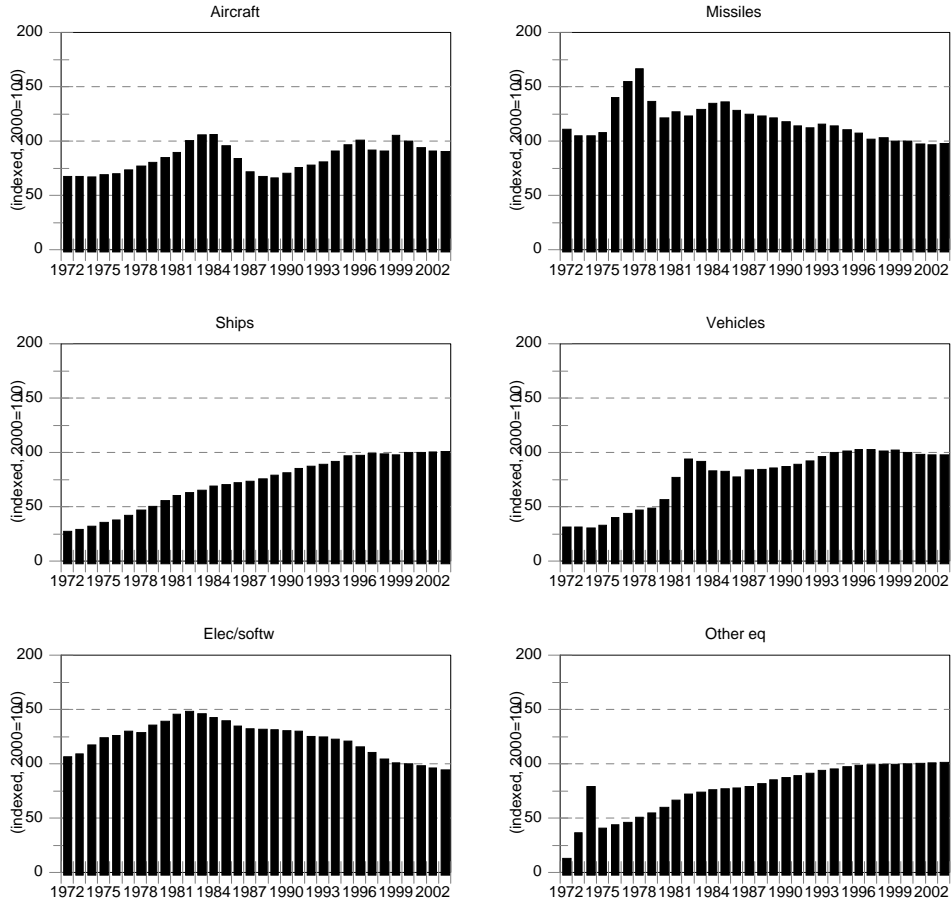


Figure 13: Price indices, gross investment in military equipment (indexed: 2000=100).