



Operation Iraqi Freedom in the Economic Accounts

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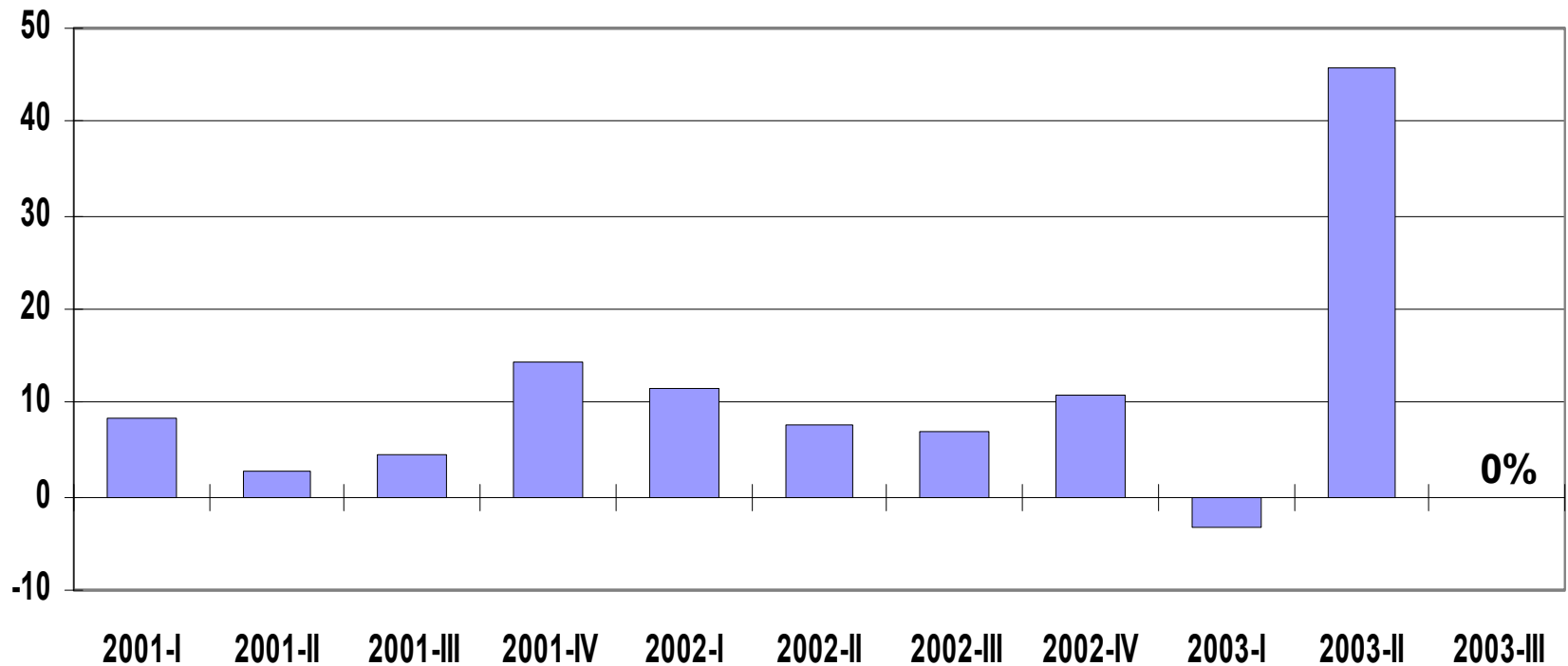
Transactions are in Two Places

- **NIPAs: Government Consumption Expenditures for National Defense**
 - Other services:
 - Support services for personnel, installations, and transport of materials
 - Military compensation
 - Additional reserves activated
- **U.S. International Transactions**
 - Exports of goods and services
 - Imports of goods and services
 - U.S. Government grants



NIPAs: Defense Expenditures Increase at 46% Annual Rate in 2003:II

Real Percent Change in National Defense Consumption Expenditures and Gross Investment
(annual rate)

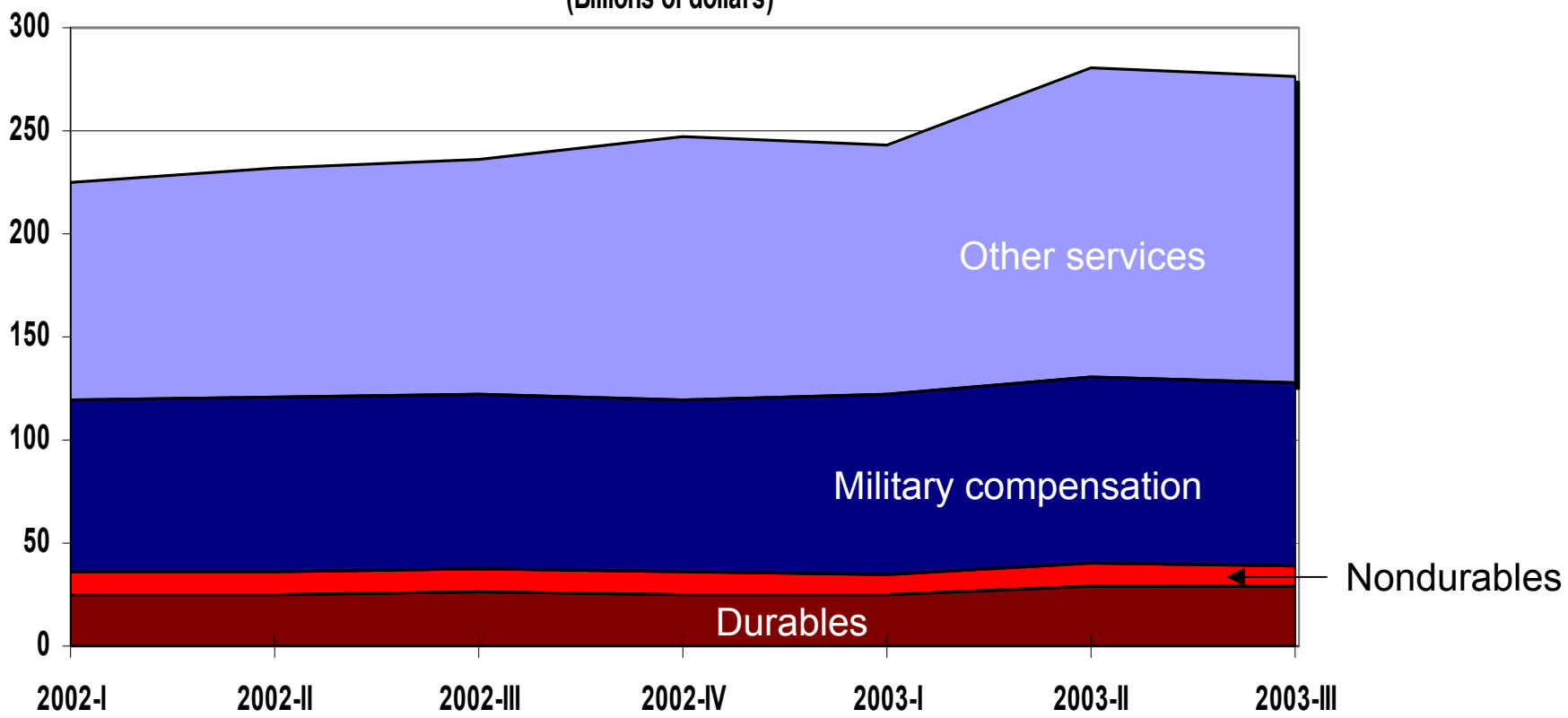


Source: U.S. Bureau of Economic Analysis. National defense expenditures include expenditures for U.S. military activity at home and abroad.



Most of 2003:II Increase was in Support and Transport Services

Real National Defense Consumption Expenditures by Type
(Billions of dollars)

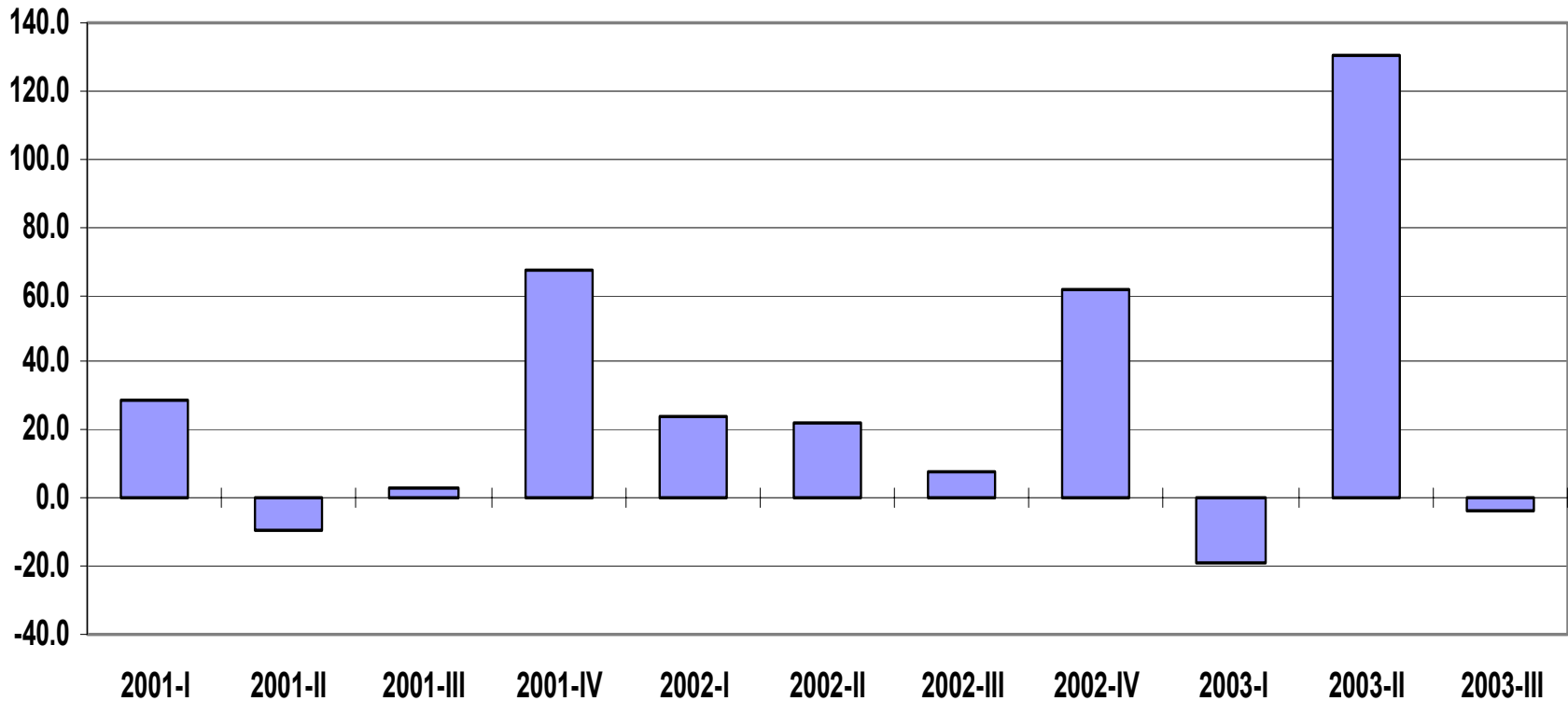


Source: U.S. Bureau of Economic Analysis.



Boost in Other Services in 2003:II was Substantial - 131% Annual Rate

Real Percent Change in Other Services (annual rate)

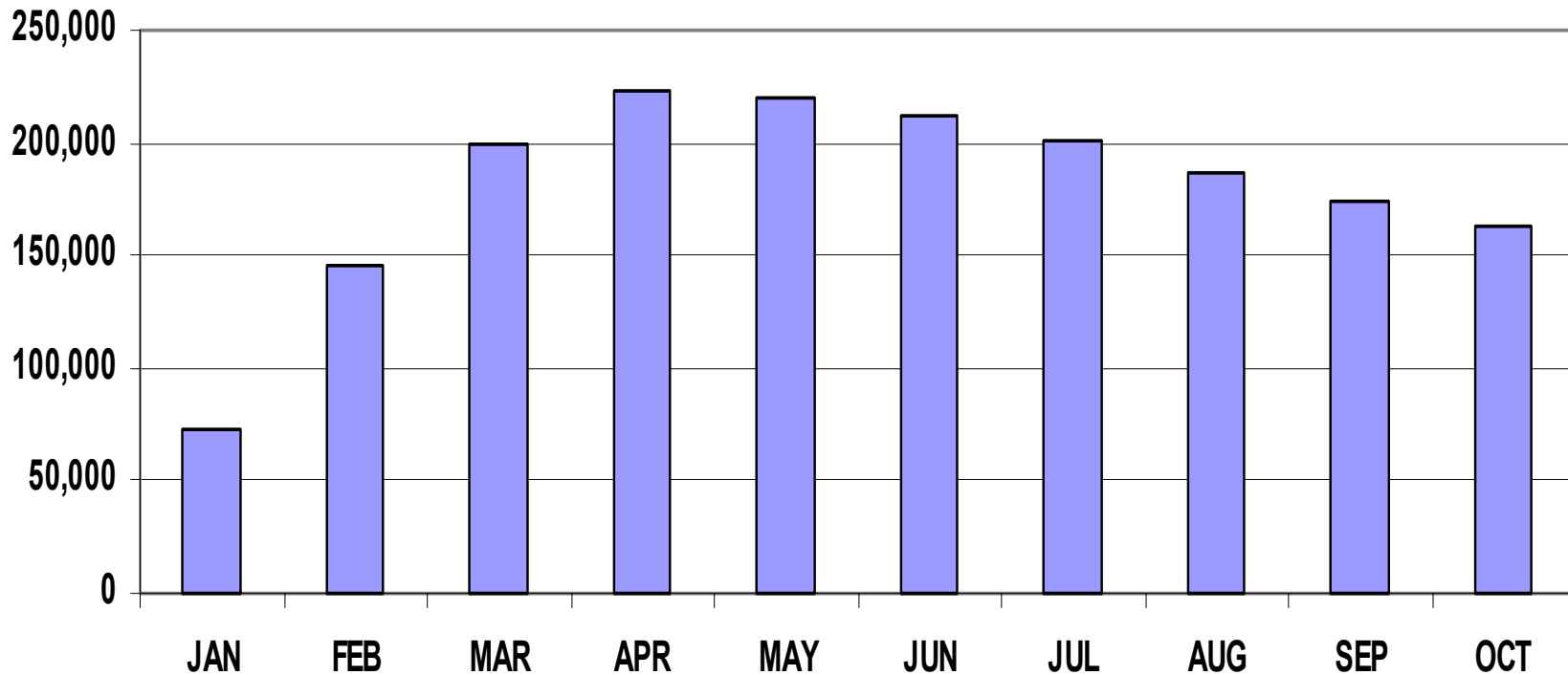


Source: U.S. Bureau of Economic Analysis. Other services--a component of national defense consumption expenditures--includes installations, personnel, and weapons support; travel; transportation, R&D, and other (sales).



Activation of Reserves Began in 2003:I

Number of Active U.S. Reserves in 2003

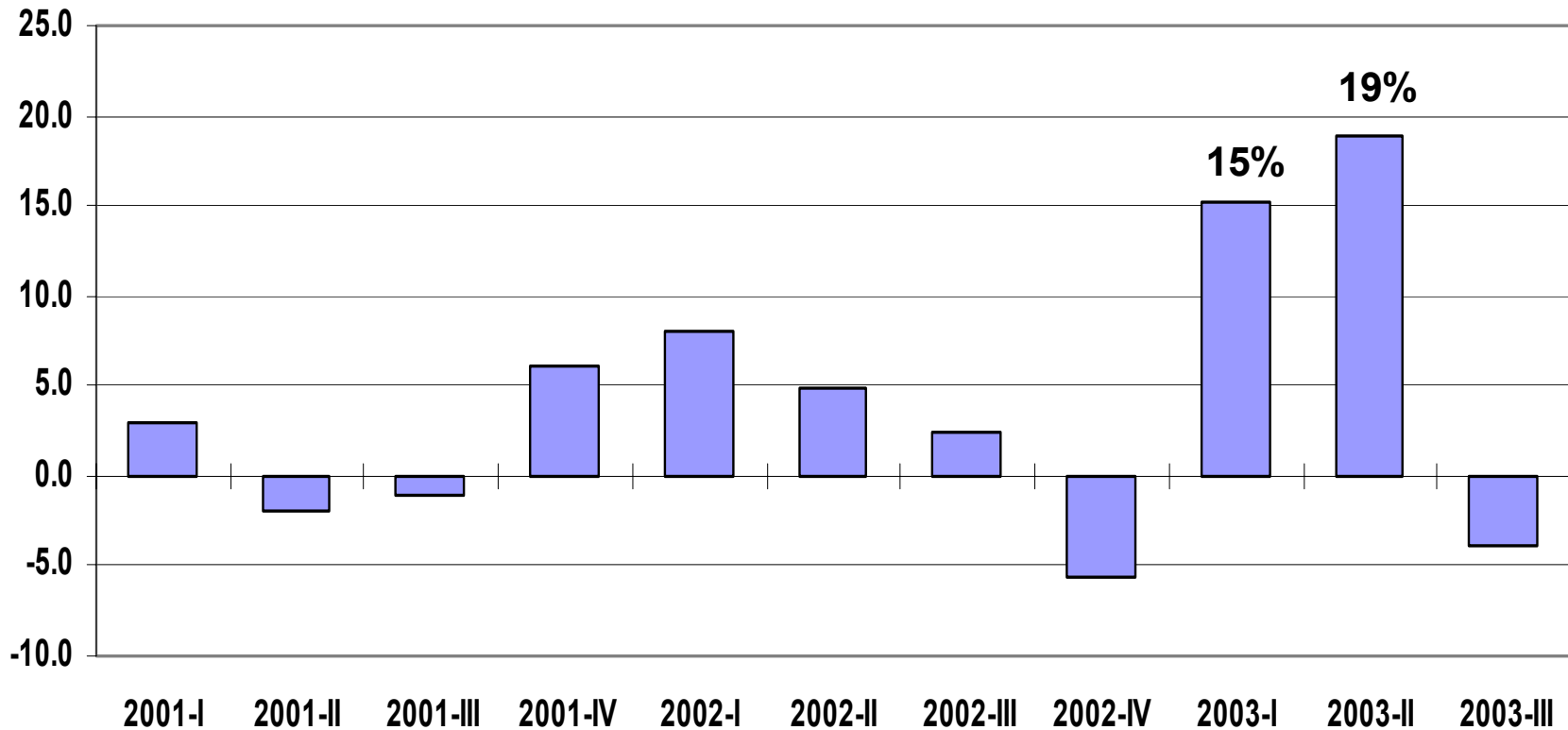


Source: U.S. Defense Department.



Military Compensation Boost Began in 2003:I

Real Percent Change in Military Compensation (annual rate)



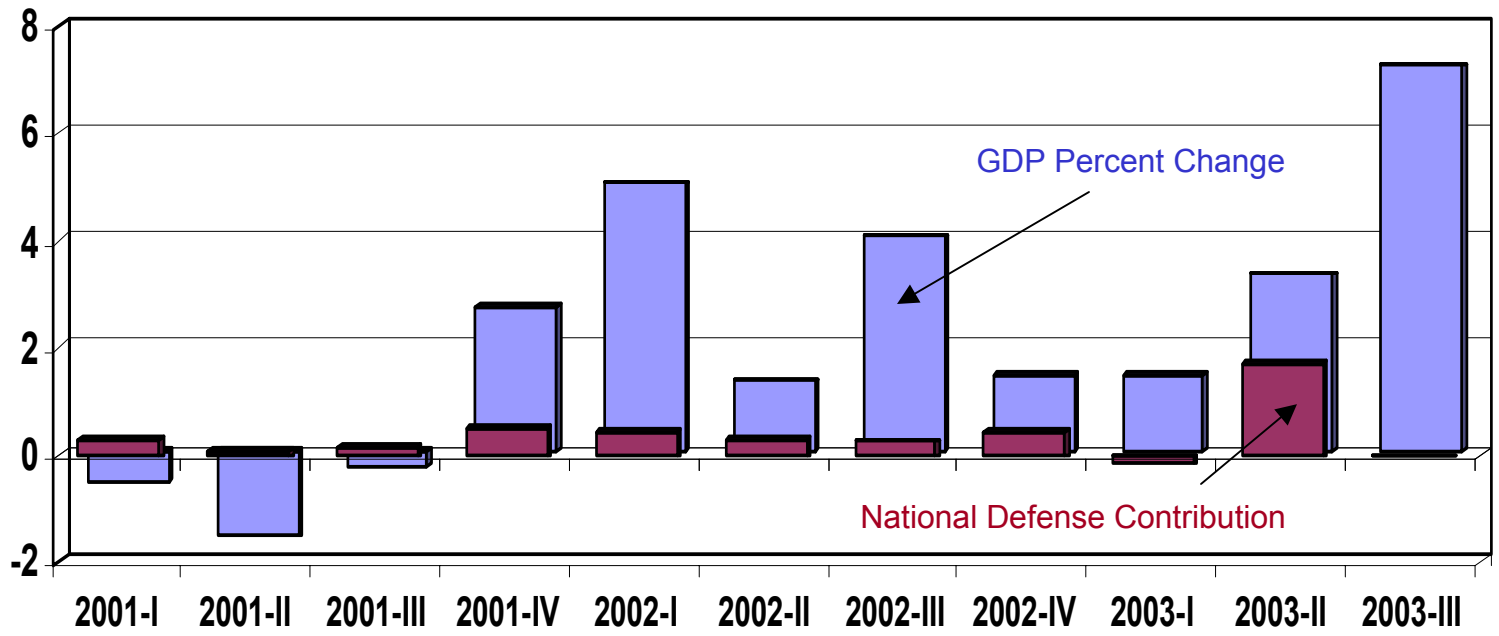
Source: U.S. Bureau of Economic Analysis. Military compensation is a component of national defense consumption expenditures.



Defense Role in GDP Growth Rate

- Contributes 1.7% to the 3.3% GDP growth rate in 2003:II
- Contributes zero to the 7.2% GDP growth rate in 2003:III

National Defense Contribution to Percent Change in Real GDP

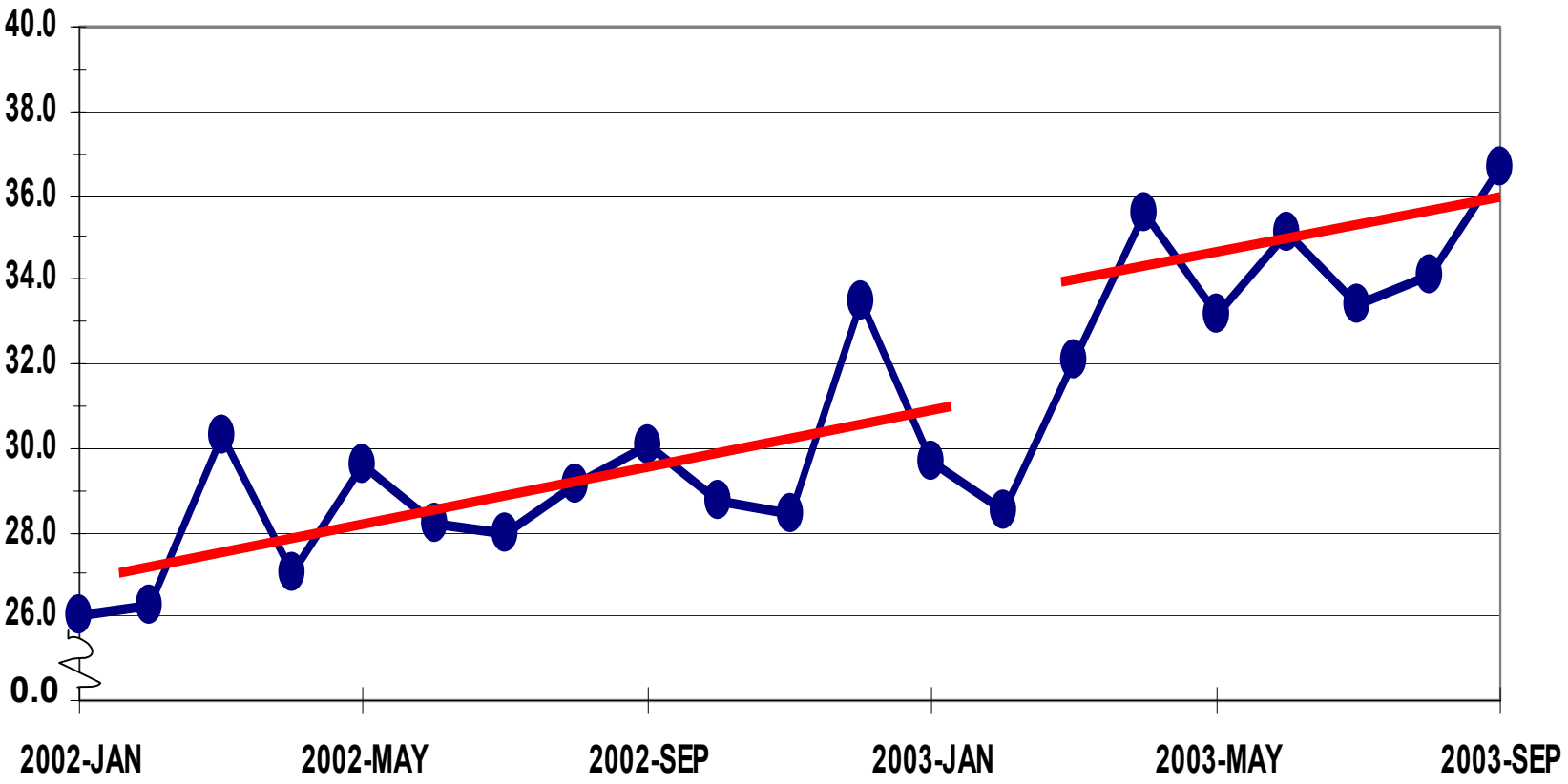


Source: U.S. Bureau of Economic Analysis.



\$4 B./Month Boost in Spending Can be Seen in Source Data

Monthly Treasury Statement: Defense-Military Outlays (Billions of dollars)



Source: U.S. Treasury, Monthly Treasury Statements (adjusted by U.S. Bureau of Economic Analysis).



Treatment in the NIPAs of Ordinance Expended

- That is not part of current production.
 - Spending for the production of ammunition--small ammunition and bombs--is included in NIPAs as federal government defense consumption when they are produced. The expending of ammunition (for any purpose) is treated as a reduction in inventories, although the NIPAs do not explicitly recognize military inventories.
 - Spending for the production of missiles is included in the NIPAs as federal government defense investment when they are produced. The expending of missiles in military action is treated as a reduction in capital stock. Future depreciation (“the consumption of fixed capital”) is reduced concomitantly. The expending of missiles in military training is assumed to take place at a predictable rate, and is reflected in normal depreciation.



Smaller Share Located in U.S. International Accounts

- For example:
 - U.S. companies receive contracts to provide services for Iraq via funding from agencies such as U.S. AID.
 - U.S. Military retains U.S. companies to provide services to Iraq via U.S. Army Corps of Engineers.
 - U.S. Military purchases supplies and services from abroad to support operations.
 - U.S. Department of Agriculture arranges for export of food relief to Iraq.
- These flows summed to roughly \$10 B. at an annual rate in 2003:III.
(BEA estimate based on incomplete data.)



Reconstruction and Other Transactions for Iraq Affect These Flows

Table 1. U.S. International Transactions
[Billions of dollars]

Line	(Credits +; debits -)	2003:1/r/	2003:11/p/
Current account			
1	Exports of goods and services and income receipts	310.3	311.0
2	Exports of goods and services	247.4	248.0
3	Goods, balance of payments basis	173.3	174.0
4	Services	74.0	74.0
5	Transfers under U.S. military agency sales contracts	2.8	3.0
10	Other private services	31.7	32.5
12	Income receipts	62.9	63.0
18	Imports of goods and services and income payments	-431.7	-432.7
19	Imports of goods and services	-369.0	-371.4
20	Goods, balance of payments basis	-309.4	-312.0
21	Services	-59.6	-59.4
22	Direct defense expenditures	-5.7	-6.0
27	Other private services	-18.5	-18.7
29	Income payments	-62.7	-61.3
35	Unilateral current transfers, net	-17.3	-16.9
36	U.S. Government grants	-5.8	-5.6

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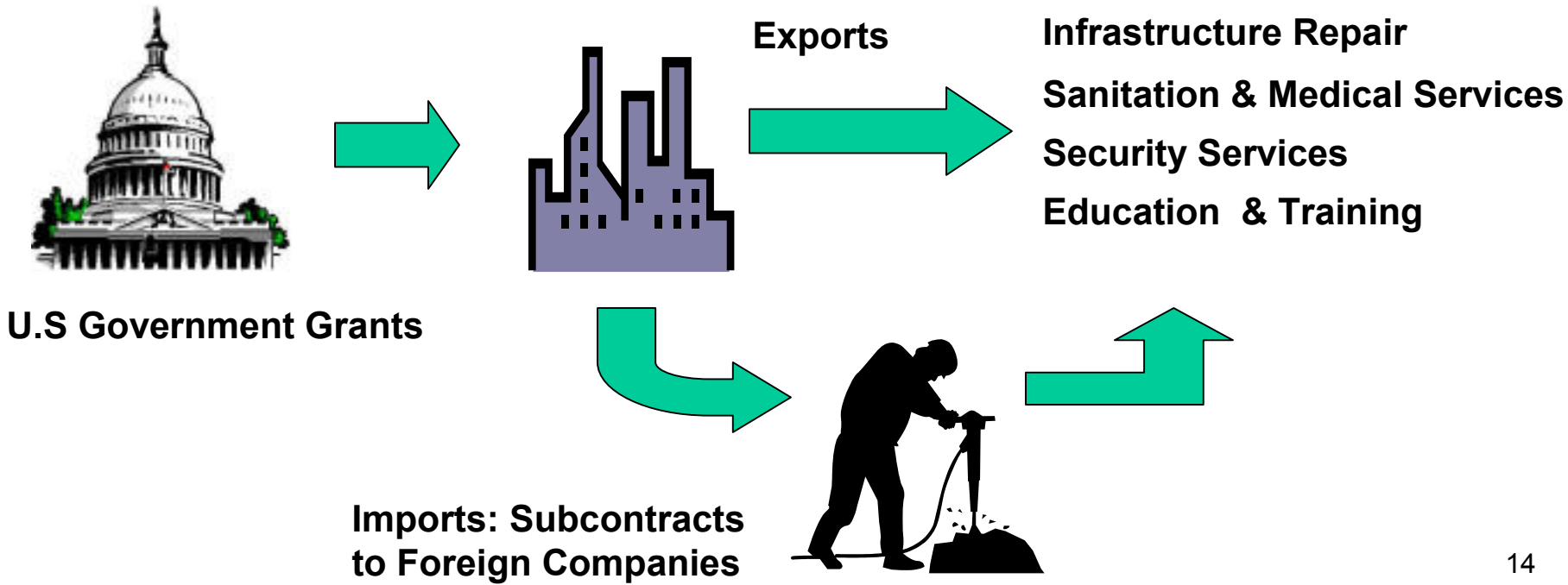
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Source: U.S. Bureau of Economic Analysis



U.S. Companies Provide Services in Iraq

- For example, U.S. company receives contract to contribute to rebuilding of roads in Iraq.





Locating Private Services in Iraq

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[Billions of dollars]

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Source: U.S. Bureau of Economic Analysis



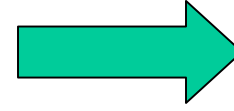
U.S. Military Exports of Services

- For example, U.S. Army Corps of Engineers retains services of a private company to repair oil infrastructure in Iraq.

U.S Army Corps of Engineers



U.S Government Grants



Exports: Military Services



Locating Military Exports of Services

Table 1. U.S. International Transactions

[Billions of dollars]

Line	(Credits +; debits -)	2003:l/r/	2003:ll/p/
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1	Exports of goods and services and income receipts	310.3	311.0
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/p/ Preliminary

Source: U.S. Bureau of Economic Analysis



Defense Department Purchases from Foreign Companies

- For example, gasoline is purchased abroad by U.S. military in support of operations.



Imports: Direct Defense Expenditures



Locating Defense Department Purchases from Foreign Companies

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[Billions of dollars]

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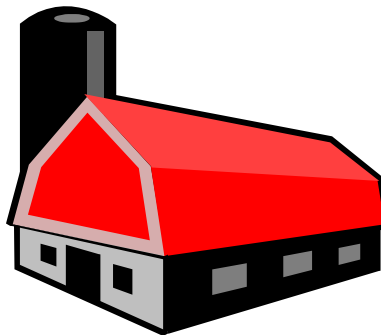
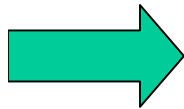
Food Exports to Iraq

- For example, food relief is provided to Iraqi residents.

U.S Department of Agriculture



U.S Government Grants



Exports: Goods

Food Relief



Locating Food Exports to Iraq

Table 1. U.S. International Transactions

[Billions of dollars]

Line	(Credits +; debits -)	2003:/r/	2003:II/p/
Current account			
1	Exports of goods and services and income receipts	310.3	311.0
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Source: U.S. Bureau of Economic Analysis



Looking Ahead: FY 2004 Supplemental Appropriation

- **\$87 Billion:**
 - Defense Department = \$65 B.
 - Personnel = \$18 B.
 - Operation & maintenance = \$39 B.
 - Other = \$8 B.

 - Iraq Relief and Reconstruction = \$19 B.
 - Over three years

 - Other, unrelated = \$3 B.
 - Assistance to Afghanistan, Liberia, and Sudan
 - Assistance to U.S. states for natural disasters



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