

# Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources  
Department of Agricultural Economics  
University of Nebraska - Lincoln

## Defense and International Affairs in The Federal Budget

Market Report	Yr Ago	4 Wks Ago	2/28/03
<b><u>Livestock and Products,</u></b>			
<b><u>Average Prices for Week Ending</u></b>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt .....	\$70.51	\$77.54	\$79.15
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt .....	*	84.06	83.50
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg .....	93.36	89.74	89.53
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt .....	109.39	119.44	120.00
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt .....	39.00	35.00	35.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd .....	*	*	40.50
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt .....	103.50	92.51	94.07
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt .....	64.25	*	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt .....	142.80	166.60	180.60
<b><u>Crops,</u></b>			
<b><u>Cash Truck Prices for Date Shown</u></b>			
Wheat, No. 1, H.W. Omaha, bu .....	2.94	3.68	3.63
Corn, No. 2, Yellow Omaha, bu .....	1.87	2.29	2.28
Soybeans, No. 1, Yellow Omaha, bu .....	4.32	5.59	5.66
Grain Sorghum, No. 2, Yellow Kansas City, cwt .....	3.62	4.52	4.28
Oats, No. 2, Heavy Minneapolis, MN , bu .....	2.42	2.22	2.33
<b><u>Hay,</u></b>			
<b><u>First Day of Week Pile Prices</u></b>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton .....	105.00	150.00	150.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton .....	65.00	80.00	77.50
Prairie, Sm. Square, Good Northeast Nebraska, ton .....	100.00	115.00	115.00
* No market.			

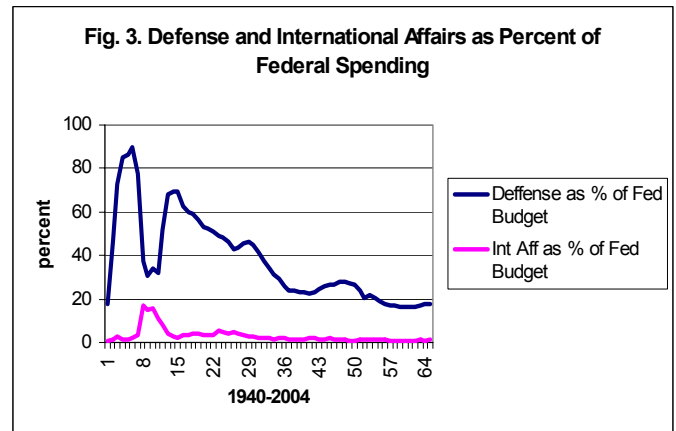
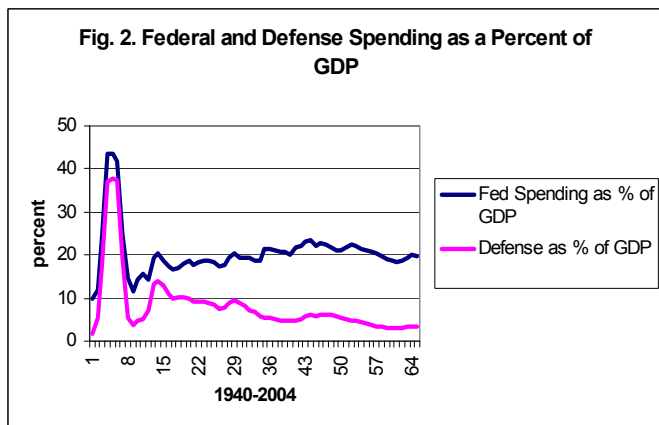
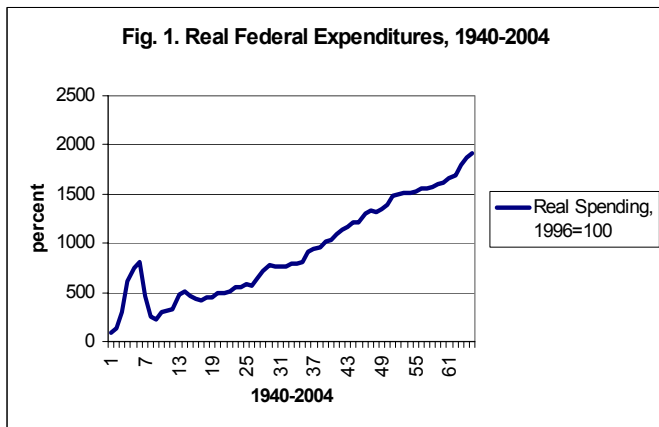
The proposed fiscal year 2004 (FY2004) federal budget (available at [www.gpi.gov/usbudget](http://www.gpi.gov/usbudget)) includes details on the allocation of federal expenditures among various budget categories as well as historical tables covering the period 1940 to the present. Of particular interest at this time of potential war are the expenditures related to defense and international relations. U.S. Gross Domestic Product (GDP) is estimated at \$11.3 trillion for FY2004 and the proposed federal budget is \$2.23 trillion or 19.7 percent of GDP. Proposed defense expenditures, not including any cost for a war in Iraq, are \$390 billion (17.5 percent of the total budget or 3.5 percent of GDP), while proposed expenditures for international affairs are \$25.6 billion (1.1 percent of total expenditures or 0.2 percent of GDP). The proposed budget also includes \$20.8 billion (0.9 percent of total expenditures) for agriculture, \$756.2 billion (33.9 percent of the total) for social security and medicare, \$325.0 billion (14.6 percent) for income security and \$176.4 billion (7.9 percent) for interest on the national debt.

The international affairs budget is divided into three main parts. The first is international development and humanitarian assistance (\$10.5 billion) which includes foreign aid as well as programs to reduce drug trafficking from South America, and programs to assist the countries of the former Soviet Union and Eastern Europe. The second is security assistance, primarily military aid (\$7.3 billion), and the third is for the conduct of foreign affairs (\$7.3 billion). This last category includes all operations of the Department of State (about \$4 billion for embassies, consulates and staff) as well as assessed contributions to international organizations (United Nations, World Bank, etc.) and contributions to U.N. peace keeping operations. U.S. foreign aid represents 0.47 percent of federal expenditures and only 0.09 percent of GDP. The United States ranks last among industrialized countries in foreign aid contributions as a percent of GDP.



It is of considerable interest to trace expenditures on defense and international affairs over time. Figure 1 shows federal expenditures adjusted for inflation from 1940 to 2004. The effects of World War II are evident. Figure 2 shows total expenditures and defense expenditures as a percent of GDP. Both rise dramatically during World War II. At that time, the federal budget made up almost 45 percent of GDP and defense spending was over 35 percent of GDP. These results suggest that the bulk of the federal budget during the war years was devoted to defense. This is confirmed in Figure 3, which shows the proportion of federal expenditures applied to defense and the international affairs account. During World War II, almost 90 percent of the budget went to defense. Immediately after the war, the percentage of the budget accounted for by defense fell while the amounts spent on international affairs rose because of the Marshall Plan, reaching about 17 percent in 1947. Subsequently, the share of the budget for international affairs declined to three to four percent during the Korean and Vietnamese wars, falling to between one and two percent beginning in the mid-1970s. The proportion of federal expenditures given over to defense reached a second peak in 1953-54 at the height of the Korean war and has generally declined since that period.

Federal budget expenditures in the United States



percent of GDP in France, 32 percent in Germany and 42 percent in Sweden compared with about 20 percent in the United States (*World Development Report, 2000/01*, World Bank). U.S. defense expenditures, however, are greater than the combined expenditures of the next nine countries, with the largest defense spending (France, Japan, Germany, UK, Italy, China, Saudi Arabia, Russia, South Korea; source: CIA at [www.cia.gov/cia/publications/factbook](http://www.cia.gov/cia/publications/factbook)) and account for about 37 percent of world military spending. As noted above, the proposed FY2004 budget does not include estimates of expenditures that would be associated with a war in Iraq. According to an article in *USA Today* ([www.usatoday.com/new/world/iraq/2003-02-28-iraq-war-cost\\_x.htm](http://www.usatoday.com/new/world/iraq/2003-02-28-iraq-war-cost_x.htm)), administration officials privately believe such a war would cost between \$60 billion and \$100 billion. William Nordhaus, an economist at Yale University, has done an in-depth analysis of the likely costs of a war in Iraq concluding that if everything goes well, the war and subsequent reconstruction may cost a little less than \$100 billion, but that if all does not go well, the total costs could reach almost \$2 trillion ([www.econ.yale.edu/~nordhaus/homepage/homepage.htm](http://www.econ.yale.edu/~nordhaus/homepage/homepage.htm)). These numbers can be compared to the proposed federal expenditures listed in the first paragraph or, for example, with the budget of the entire United Nations system (excluding the World Bank and International Monetary Fund) which is about \$12 billion.

E. Wesley F. Peterson. (402) 472-7871  
 Professor, Dept. of Agricultural Economics

represent a smaller share of GDP than in most industrialized countries. Government expenditures in 1998 were 45