THE GROWING BUDGETARY COSTS OF THE IRAQ WAR

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

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THE GROWING BUDGETARY COSTS OF THE IRAQ WAR

WEDNESDAY, OCTOBER 24, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:05 a.m. in room 210, Cannon House Office Building, Hon. John Spratt [chairman of the committee] presiding.

Present: Representatives Spratt, DeLauro, Edwards, Allen, Becerra, Doggett, Berry, Boyd, McGovern, Etheridge, Hooley, Baird, Moore, Bishop, Moore, Ryan, Conaway, Alexander, and Smith.

Chairman SPRATT. Call the hearing to order.

The hearing today concerns the cost of wars in Iraq and Afghanistan. On the first panel, Dr. Peter Orszag will discuss the cost of these conflicts, past and present, and will project the costs to come based on two troop level scenarios, illustrative scenarios.

Customarily, CBO does not calculate interest into war-related debt, but in this study, which we have requested, CBO has accrued interest, and the effects on total cost are significant.

On the second panel we have two witnesses, Amy Belasco, of the Congressional Research Service, who has tracked war costs and prepared numerous excellent reports on the subject. Plus Professor Linda Bilmes of the Kennedy School of Government at Harvard has researched and published at length articles on the economic and social costs of the war in Iraq. Professor Bilmes is writing a book to be published early next year with updated cost estimates.

This hearing builds on what we have started in previous hearings all aimed at a better understanding of the cost of these ongoing conflicts and, of course, their impact on the budget.

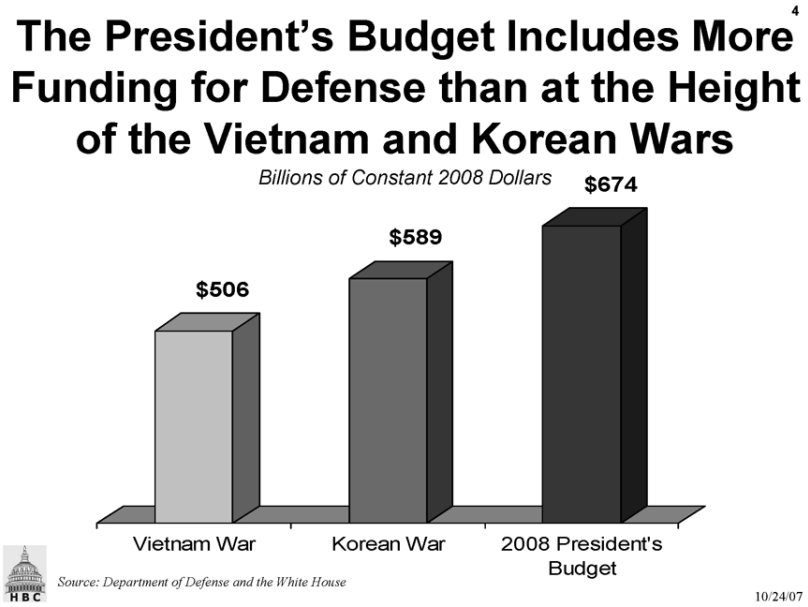
While we will be discussing monetary costs, measured in billions of dollars, the dearest price has been paid in lost lives and wounded bodies by those serving and serving bravely in Iraq and Afghanistan. So far in Iraq there have been more than 3,800 military personnel and DOD civilians killed and more than 28,000 wounded. In Afghanistan, more than 400 of our Armed Forces have been killed, nearly 1,700 wounded.

Our troops have performed with valor and honor, and they and their families, too, have sacrificed. As long as they are in harm's way, we owe them our unstinting support and whatever resources are needed to get the job done.

In deciding what to do in Iraq and Afghanistan, cost is not the determinant, but the cost to date is substantial: $450 billion in Iraq

alone and rising rapidly, and $10- to $12 billion a month. With the administration's budget request for this year included, the overall costs will top $800 billion.

Now, by any yardstick, that is a staggering sum. In constant dollars the cost is running above the peak spending during Korea or Vietnam, as this next chart shows.



When the first war supplemental for 2008 is combined with the base defense budget, the budget for 2008 totaled $647 billion. And when the next supplemental due to arrive shortly comes, the total will go to $700 billion. Much of this incremental cost will be borrowed, much of it, from foreigners, which is why we have asked CBO to calculate the interest cost into the subsidy.

As this next slide shows, we have provided more than $600 billion for the wars in Iraq and Afghanistan; 450- for Iraq alone, according to the Congressional Research Service.

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The Direct Budgetary Costs of the Iraq War alone Exceed $600 Billion

(Does not reflect the costs of financing the war through borrowing)

Fiscal Year	Cost
2003	$53 Billion
2004	$76 Billion
2005	$85 Billion
2006	$102 Billion
2007	$135 Billion
2008 Request	$160 Billion
Total Direct Budget Costs	**$611 Billion**

Source: Congressional Research Service for 2003-2007; HBC estimate for 2008 based on White House information 10/24/07

Two days ago the President submitted another war funding request totaling $46 billion. This increases his 2008 request to $196 billion and makes it the largest supplemental yet.

I will note the fact that strikes me about this particular chart is that as the war has gone on, instead of diminishing as we score successes, the cost has actually gone up and up and up relentlessly each year to the point where, in the current fiscal year, the cost is likely to be almost $200 billion. And that is Iraq and Afghanistan.

These increases, however, are attributed mostly to our commitments in Iraq. Of $800 billion provided through 2008, 600 billion has gone to Iraq. Of the $196 billion requested for 2008, 160 billion will be used in Iraq. Beyond 2008, the cost remains significant, but the administration has declined to give us a projection of those costs.

The administration's budget in 2009 includes $50 billion as a placeholder, but it provides nothing, no projection, for 2010 and beyond.

I wish that was likely, but I think it is unrealistic, particularly if we maintain forces in Afghanistan for some years to come, which we are likely to do, and even if combat operations ended tomorrow in Iraq, significant reconstitution costs or reset costs would continue for several years to come. The Army and the Marine Corps, for example, stated more than a year ago that together they required 18 billion for reset each year. Reset is refurbishment, repair, and replacement of worn out and damaged equipment. Each of the services together said that they required at least $18 billion a year for each year they remain engaged in a substantial way in Iraq and for at least 2 to 3 years after operations in Iraq cease.

The administration's latest supplemental indicate these estimates are low. In the latest supplemental, the administration is asking $46 billion for reconstitution. Now, that is a broader, more inclusive term than reset, but that is reconstitution, resupplying ourselves with equipment that has been worn out, destroyed or badly damaged. That is $10 billion more that was requested in 2007.

While the administration has declined to supply estimates of future operations, the Congressional Budget Office, to its credit, has agreed to try. CBO's estimates rest on illustrative troop scenarios. In one, troop levels draw down to 75,000 in the Iraq and Afghanistan theaters by 2013, and they remain at that level, 75,000 troops, in theater, not necessarily in country, through 2017. Under these assumptions, CBO projects the cost of military operations at $966 billion over the 10-year period, 2008 through 2017, and the cost of all operations and all economic aid training indigenous forces is just over $1 trillion; 1 trillion, 55 billion to be exact. Add this to the $604 billion already provided or appropriated for 2007, and cumulative costs by 2017 could be a staggering $1.7 trillion.

While these costs are enormous, they haven't made any calculation of interest on the funding borrowed for war operations. And since the government has run substantial deficits from 2003 through 2007, and since future borrowing to some extent could be expected, interest needs to be imputed to the total cost of the war.

This expense, as I said, has been previously omitted, but, if included, according to CBO, interest cumulatively could be as much as $705 billion by 2017. Added to direct costs to military operation, to aid, to training of indigenous forces to reconstruction, and total costs could reach $2.4 trillion by 2017. This estimate, once again, assumes a scenario, the illustrative scenario, in which deployed forces in Iraq and Afghanistan theaters draw down by 2017.

Now, one can quibble with these assumptions and with the methodology, but no one can contest the enormous costs incurred so far in Iraq or the likelihood that these costs will keep being incurred into the immediate future.

The task of the Budget Committee is to balance priorities, provide for the common defense, but also provide for health care of our people, education of our young, transportation, Social Security, all within the context of a balanced budget. Understanding the costs of our deployments around the world is one step towards balancing choices while planning the budget, which is why we asked for this study from CBO and why we are having the hearing today.

Dr. Orszag, we appreciate you coming. Before turning to you for your statement, let me turn to Mr. Ryan for any statement he would like to make.

Mr. Ryan, our Ranking Member.

Mr. RYAN. I thank the Chairman for yielding and for having this hearing. This is an important hearing.

Since the beginning of the 110th Congress, we have had repeated and vigorous debates about the war in Iraq and its costs, as we should. We have heard comparisons about how much we are spending on the war as opposed to children's health insurance or education programs, or what have you, but nothing has really changed. The President continues to send his war funding requests to the

Hill, and, in the end, he continues to get what he asked for. And when asked in a recent debate, none of the top Democratic Presidential candidates was willing to commit to having troops out of Iraq as far in the future as 2013.

So the bottom line seems to be this: As long as we have troops in Iraq, Congress will provide funding for them. That being the case, we should continue to finance the war responsibly, and the committee has led the effort in this regard.

During the 108th Congress, this committee was the first to include an estimated amount for war costs in the bottom line in our budget. In the 109th Congress, at the urging of this committee, the President followed suit, including his war funding recommendations in the administration's annual budget submissions.

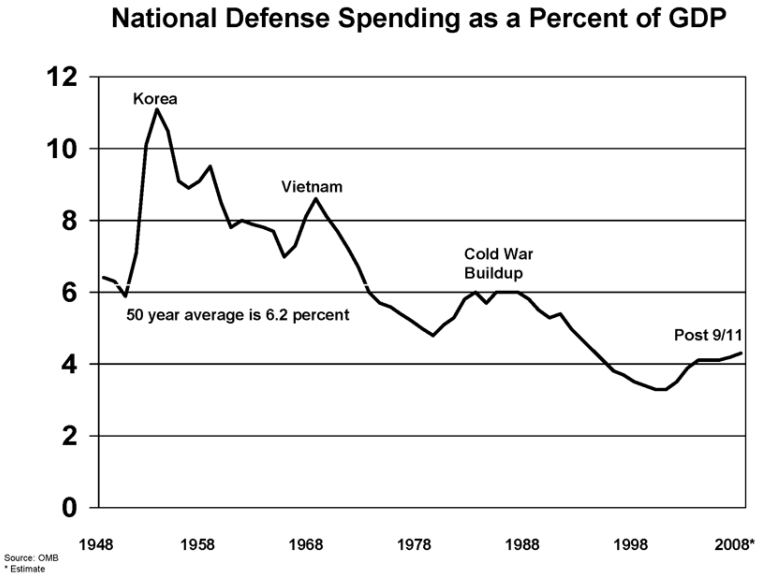
The 2008 supplemental request was included in the administration's proposal in February, and the Democratic budget resolution did accommodate this amount, but it was not included in the defense appropriations bill passed either by the House or the Senate this year, and the Democrat Majority has put off deliberation on the supplemental until after the new year.

In addition, and quite inexplicably to me, the Majority has failed to pass the regular defense appropriations and military construction bills even though both House and Senate have passed this overwhelmingly. At a time when people are so jaded about partisanship, here is something we all have consensus on. This should have been passed already.

The fiscal year began 24 days ago, and I distinctly remember the Deputy Secretary of Defense testifying before this committee in July that delays in funding are disruptive to our men and women in combat on the ground and in harm's way. So it seems we really should get on with it, and that is why we are here.

We all know that the war entails many costs that cannot be measured in dollars, but it is the area of funding where Congress has its greatest impact, and as long as the funding is going to continue, we have an obligation to do it responsibly.

I am proud of this committee's work, both from the current Majority and the old Majority, in getting these numbers put into the budget, and if I could just put one thing into perspective, if you could pull up chart number 4, please, I think this puts this debate into perspective. And I don't mean to pull this chart up to try and offset what the Chairman just said. I don't disagree with any of the numbers he cited. But let us look at where we are today in our Nation's history and what we are confronting.



This is a new "ism." This is a world war like different past world wars in size and scope. We are facing a moral threat. Radical Islamic totalitarianism is a mortal threat to this country. It is a mortal threat to our civilization and our way of life, and we have to be prepared for this.

And so when you take a look at the sacrifice we have made in our Federal budget, when you take a look at what the American people have paid for in past conflicts that rise to the level of this conflict, it is really quite low.

This is the chart that shows the percentage of our economy. The spending on defense as a percentage of GDP. We are down close to 4 percent right now in the post-9/11 era. The 50-year average is 6.2 percent of GDP we have dedicated towards national defense. In Vietnam, we were above 8 percent. In Korea, we were about 11 percent. And in the Cold War build-up, we were at about 6 percent of the GDP. So as a percentage of our economy, as a proportion of our Federal budget, we are well below the 50-year average even though we are now in the midst of confronting one of the greatest mortal threats to our country and our civilization, which is a threat to democracy and freedom worldwide.

So it is important to put this in perspective. Equally important, it is the job of this committee to make sure that we are not doing this in fits and starts; equally to make sure that we do this within our budget so that we can have rational debate so that we can prepare for the future and we can save efficiencies in the process, and to that end, I think CBO is doing a good job. I think they ought to be commended for putting these estimates together, I think, at the request of the Chairman, on what will this look like in the outyears, what will this look like if we have 75,000 troops in 2013,

30,000 troops thereafter. That is the kind of debate we ought to be having. We should be putting these in the base budget.

But let us remember the fact that we do have a real conflict on our hands that is not going away anytime soon. We have to acknowledge that, put it in our budget, and let us look at the fact that we are doing this so much more efficiently with so fewer dollars than we ever did before when we had other kinds of conflicts of this nature.

With that, I yield the balance of my time, and I thank the Chairman for his indulgence.

Chairman SPRATT. I thank you very much for an excellent opening statement, Mr. Ryan.

Now, before turning to Dr. Orszag, let me tend to a couple of housekeeping details.

First of all, I ask unanimous consent that all Members be allowed to submit an opening statement at this point in the record.

Without objection so ordered.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF HON. ADRIAN SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Good Morning. I would like to thank Chairman Spratt for holding today's hearing on this issue of concern to almost every American.

As Congress provides funds for troops in both the Fiscal Year 2008 Defense Appropriations Bill and the War Supplemental, it is important for us to set the politics aside. Congress should finance Iraq operations in a fiscally responsible manner without jeopardizing the needs of our troops.

After visiting our troops stationed in Iraq and Afghanistan and seeing real progress from strategies now in place, I am even more convinced the Global War on Terror can be won by supporting our troops and providing them the appropriate tools needed for success. By properly funding the Iraq mission today, the United States is helping Iraq to operate independently in the future; and an independent Iraq is a goal I know we all share.

I look forward to hearing the testimony of the witnesses today.

Mr. Chairman, I thank you for your leadership in holding this hearing.

Chairman SPRATT. Now, Dr. Orszag, we will go directly to you. First, let me thank you for the diligent good work as usual you have done in preparing the report that you bring to us today. We look forward to your explanation of it.

Secondly, you will constitute a panel of one. When your testimony is concluded, we will have questions, and then we will have the second panel follow you, if that is agreeable.

STATEMENT OF PETER ORSZAG, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. ORSZAG. Thank you very much, Mr. Chairman, Congressman Ryan, Members of the Committee.

U.S. operations in Iraq, Afghanistan and the global war on terrorism have important effects for the Nation and for the individuals directly involved that go well beyond their effect on the Federal budget. My job and my testimony this morning, though, focuses on the narrower issues surrounding those budget costs. The testimony delineates three types of budget costs: past spending, potential future spending and borrowing costs.

First, the past. As the first chart shows, from September of 2001 through the end of fiscal year 2007, the Congress appropriated $602 billion for military operations in Iraq, Afghanistan and other

activities associated with the war on terrorism. This funding has been rising rapidly, roughly doubling in between 2003 and 2007, as you see on the chart, from the 88 billion to $170 billion.

A disproportionate amount of that growth has been experienced in the area of procurement, which rose from about a billion dollars in 2003 to more than $50 billion in 2007.

Much of that growth in turn is related to the so-called reconstitution and related reset programs, which are intended to repair or replace the damaged equipment. CBO's analysis of those programs, however, suggest that a significant share of the funding has been devoted to substantial upgrades or new purchases to expand capacity above prewar levels rather than simply to replace or repair damaged equipment.

In addition to the $602 billion in funds that were explicitly appropriated for the war, CBO estimates that the Veterans Administration has spent an additional $2 billion for war-related benefits. Including this VA-related spending, funding for the war through 2007 has amounted to $604 billion, as shown in the second table.

As that table also shows, the vast bulk of this $604 billion that is the first column provided to date through the end of 2007 has been for the Department of Defense. That is the $533 billion you see in the upper left corner of the first column.

DOD is currently obligating an average of almost $11 billion a month for expenses associated with the war. Most of that is related, about $9 billion per month, for operations in Iraq.

I would also note that war-related appropriations now account for about a quarter of the Department's overall budget.

The remainder of the $604 billion provided to date is—in addition to the VA spending that I already mentioned, comes in two different categories. First, approximately $30 billion has been provided to establish training and equip indigenous security forces in Iraq and Afghanistan. And roughly $39 billion has been provided for reconstruction and relief efforts, diplomatic operations, embassy construction, foreign aid and support.

Okay. That is the past. In terms of the future, CBO has projected the cost of activities associated with operations in Iraq, Afghanistan and the war on terrorism under two possible scenarios. The productions for both scenarios are based on the assumption that the increased troop levels currently in theater in Iraq will be sustained for nearly 12 months and then reduced. I would also note that the scenarios are meant to serve as an illustration of the budgetary impact of two possible courses in the war on terrorism, but they are not intended to be a precise prediction of what will occur.

In the first scenario, the number of personnel deployed on the ground for the war on terrorism would be reduced from an average of 200,000 in fiscal year 2008 to 30,000 by the end of—sorry, by the beginning of fiscal year 2010 and remain at that level through 2017. CBO estimates that future cost to the government under this scenario would total $570 billion over the next decade, as you can see at the bottom of the second column in this chart.

In the second scenario, the number of personnel deployed to Iraq and other locations with the war on terrorism would decline more gradually, falling from 200,000 this year to 75,000 by the end of fis-

cal year 2013, and then remain at that level through 2017. Under that scenario, CBO estimates that future costs would total more than $1 trillion over the next decade. Again, you see that at the bottom of the final column in the chart.

Included in both past funding and projected funding under these two illustrative scenarios, total spending for U.S. operations in Iraq, Afghanistan and the rest of the war on terrorism would thus amount to between $1.2 trillion and $1.7 trillion through 2017.

In addition, CBO does not traditionally include the cost of borrowing in our analysis of specific programs. However, in this case, the Budget Committee requested that we compute the additional debt service costs that would accrue if past and future spending on the war were financed entirely by borrowing.

If such funding were entirely financed by borrowing, the additional debt that the government would accumulate would entail higher interest payments. Under the assumption that past spending has been deficit-financed, CBO estimates that additional interest payments would total $415 billion through 2017. In addition, if the future spending paths that are shown on this chart were also deficit-financed, interest payments would go up by another 175 billion to $290 billion.

In other words, the bottom line is that to the extent the spending is not offset by higher taxes or reduced spending elsewhere in the budget and therefore simply adds to the deficit, the total budgetary impact of the war, including spending to date, possible future spending, and higher interest costs would amount to between $1.7 trillion and $2.4 trillion through 2017.

A final part of my written testimony addresses some differences between CBO estimates and other estimates of the costs of the war that have been produced by private researchers, and I would be happy to answer any of your questions about those.

Chairman SPRATT. Thank you.

[The prepared statement of Peter Orszag follows:]

PREPARED STATEMENT OF PETER ORSZAG, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, Congressman Ryan, and Members of the Committee, I appreciate the invitation to appear before you today to discuss the costs of U.S. operations in Iraq and Afghanistan and the government's activities related to the broader war on terrorism. Those operations and activities have important effects beyond their implications for the federal budget, but my testimony this morning will focus on the narrower issues of the appropriations and obligations to date and the projected costs of the war on terrorism under two different deployment scenarios.

SUMMARY

At the request of Chairman Spratt, the Congressional Budget Office (CBO) has totaled the funding provided through fiscal year 2007 for military and diplomatic operations in Iraq and Afghanistan and other activities associated with the war on terrorism, as well as for related costs incurred by the Department of Veterans Affairs (VA) for medical care, disability compensation, and survivors' benefits. In addition to totaling the funding provided to date, CBO has projected the total cost over the next 10 years of funding operations in support of the war on terrorism under two scenarios specified by the Chairman. Those scenarios are meant to serve as an illustration of the budgetary impact of two different courses in the war on terrorism but are not intended to be a prediction of what will occur.

Including both funding provided through 2007 and projected funding under the two illustrative scenarios, total spending for U.S. operations in Iraq and Afghanistan and other activities related to the war on terrorism would amount to between

$1.2 trillion and $1.7 trillion for fiscal years 2001 through 2017 (see Table 1).[1] A final section of this testimony briefly compares parts of CBO's estimate to a frequently cited estimate prepared by two academic researchers, Linda Bilmes and Joseph Stiglitz.[2]

FUNDING THROUGH FISCAL YEAR 2007

From September 2001 through the end of fiscal year 2007, the Congress appropriated $602 billion for military operations in Iraq and Afghanistan and other activities associated with the war on terrorism. In addition, although not explicitly appropriated for that purpose, an estimated $2 billion has been spent by VA for war-related benefits. Including VA's spending, funding for the war has amounted to $604 billion. Those sums do not include any funding for fiscal year 2008; activities currently are being funded by a continuing resolution (which is in effect through November 16, 2007).

TABLE 1

Estimated Costs of U.S. Operations in Iraq and Afghanistan and of Other Activities Related to the War on Terrorism Under Two Scenarios

Budget Authority in Billions of Dollars

		Projected Funding, 2008–2017	
	Funding to Date, 2001–2007	Scenario 1: Deployed Troops Reduced to 30,000 by 2010	Scenario 2: Deployed Troops Reduced to 75,000 by 2013
Military Operations and Other Defense Activities	533	485	966
Indigenous Security Forces	30	50	50
Diplomatic Operations and Foreign Aid	39	26	26
Veterans' Benefits and Services	3	9	13
Total	604	570	1,055

Source: Congressional Budget Office.
NOTE: Details may not add to totals because of rounding.

a. Funding in 2007 for military operations and other defense activities includes almost $7 billion to maintain an additional 45,000 personnel on active duty to support ongoing deployments and as part of the Administration's initiative to permanently increase the size of the Army and Marine Corps.
b. These amounts do not include the cost of the Administration's initiative to increase the size of the Army and Marine Corps, which CBO estimates will cost $162 billion over the 2008—2017 period.
c. Includes $1.6 billion for medical care, disability compensation, and survivors' benefits that CBO estimates has been spent over the 2001—2007 period from regular appropriations for the Department of Veterans Affairs.

According to CBO's estimates, the majority of the $604 billion appropriated to date—about $533 billion—has been provided to the Department of Defense (DoD) for U.S. military operations and other defense activities. Such war-related appropriations accounted for more than 20 percent of the department's budget in 2006 and more than a quarter of its budget in 2007. DoD currently is obligating an average of almost $11 billion a month for expenses associated with its operations in Iraq and Afghanistan and for other activities related to the war on terrorism. Most of that amount (more than $9 billion per month) is related to operations in Iraq.

The remainder of the $604 billion has been provided for three categories of spending: Approximately $30 billion has been provided to establish, train, and equip indigenous security forces in Iraq and Afghanistan. About $39 billion has been appropriated for reconstruction and relief efforts, diplomatic and consular operations, embassy construction, economic support, and foreign aid. And a total of almost $3 billion, including both specific appropriations and funds for other costs incurred by VA, has been provided for medical care and other VA programs to assist former service members affected by their participation in operations related to the war on terrorism.

PROJECTED COSTS OVER 10 YEARS

On the basis of the two scenarios specified by Chairman Spratt, CBO projected the costs of activities associated with operations in Iraq and Afghanistan and the war on terrorism through 2017. Because DoD does not report detailed operational statistics, those projections—which CBO derived by calculating the ratio between current force levels and funding requested by the Administration for 2008—are rough approximations.[3]

In the first scenario, the number of personnel deployed on the ground for the war on terrorism would be reduced from an average of about 200,000 in fiscal year 2008 to 30,000 by the beginning of fiscal year 2010 and then remain at that level through 2017. CBO estimates that costs to the U.S. government under this scenario would total $570 billion over the 2008—2017 period (see Table 1).

In the second scenario, the number of personnel deployed to Iraq and other locations associated with the war on terrorism would decline more gradually, from an average of about 200,000 in fiscal year 2008 to 75,000 by the start of fiscal year 2013 and then remain at that level through 2017. CBO estimates that costs to the government under this scenario would total $1,055 billion over the 2008—2017 period.

In addition to estimating the costs of the two scenarios over the next decade, CBO recently estimated the potential costs of maintaining a longer-term U.S. military presence in Iraq. The budgetary implications of maintaining such a presence are discussed in Box 1.

ESTIMATED FUNDING PROVIDED THROUGH FISCAL YEAR 2007

Since September 2001, lawmakers have provided $602 billion in budget authority specifically for military and diplomatic operations in Iraq, Afghanistan, and other regions in support of the war on terrorism, as well as for attendant costs related to veterans' benefits and services (see Table 2). Of that amount, about 70 percent has been allocated for the war in Iraq, CBO estimates.

TABLE 2

Estimated Appropriations Provided for Iraq and the War on Terrorism, 2001 to 2007

Billions of Dollars, by Fiscal Year

	2001–2002	2003	2004	2005	2006	2007	Total, 2001–2007
Military Operations and Other Defense Activities	31	80	88	70	111	152	533
Indigenous Security Forces	0	0	5	7	5	13	30
Diplomatic Operations and Foreign Aid	2	8	17	3	4	5	39
Veterans' Benefits and Services	0	0	0	0	0	1	1
Total	33	88	111	81	120	170	602

Source: Congressional Budget Office.

NOTES: Details may not add to totals because of rounding.

• = between zero and $500 million.

a. CBO estimated funding provided for Operation Iraqi Freedom by allocating funds on the basis of information in budget justification materials and on obligations reported by the Department of Defense. For more information about funding for Operation Iraqi Freedom, see Congressional Budget Office, Estimated Costs of U.S. Operations in Iraq Under Two Specified Scenarios (July 13, 2006).

b. Includes Operation Enduring Freedom (in and around Afghanistan), Operation Noble Eagle (homeland security missions, such as combat air patrols, in the United States), the restructuring of Army and Marine Corps units, classified activities other than those funded by appropriations for the Iraq Freedom Fund, efforts to permanently increase the size of the Army and Marine Corps, and other operations. (For fiscal years 2005 through 2007, funding for Operation Noble Eagle has been intermingled with regular appropriations for the Department of Defense; that funding is not included in this table because it cannot be identified separately.)

c. Funding for indigenous security forces, which was appropriated in accounts for diplomatic operations and foreign aid (budget function 150) in 2004, and in accounts for defense (budget function 050) since 2005, is used to train and equip local military and police units in Iraq and Afghanistan.

d. Excludes an estimated $1.6 billion in spending for medical care, disability compensation, and survivors' benefits for veterans of the war on terrorism. Those amounts are based on CBO's estimates of spending from the regular budget of the Department of Veterans Affairs and were not explicitly appropriated for war-related expenses.

Funding to date for military operations and other defense activities totals $533 billion, most of which has gone to the Department of Defense. Lawmakers also provided $30 billion during the 2004—2007 period to train and equip indigenous security forces in Iraq and Afghanistan.[4] Including the $30 billion allocated for indigenous security forces, a total of $563 billion has been appropriated since September 2001 for defense-related activities in Iraq and Afghanistan and for the war on terrorism.

In addition to funding provided for defense activities since 2001, lawmakers have appropriated just over $39 billion for diplomatic operations and foreign aid to Iraq, Afghanistan, and other countries that are assisting the United States in the war

on terrorism. Of that amount, $16 billion was appropriated for the Iraq Relief and Reconstruction Fund.

Because most appropriations for operations in Iraq and Afghanistan and for other activities related to the war on terrorism appear in the same budget accounts that record appropriations for other DoD activities, determining how much has actually been spent is difficult. However, CBO estimates that appropriations for defense-related activities in Iraq and Afghanistan and for the war on terrorism resulted in outlays of about $430 billion through fiscal year 2007. Of that amount, about $115 billion was spent in fiscal year 2007—an average of between $9 billion and $10 billion a month. Of the funds appropriated for war-related international affairs activities, close to $30 billion was spent through 2007, CBO estimates.

In addition to the amounts specifically appropriated for war-related activities, including almost $1 billion in budget authority provided to the Department of Veterans Affairs in 2007, CBO estimates that over the 2001—2007 period, VA has spent almost $2 billion on assistance to and treatment of service members, veterans, and their families as a result of operations in Iraq and Afghanistan. Those costs cover medical care provided to ill or wounded service members at VA facilities, disability compensation paid to veterans with service-connected disabilities, and dependency and indemnity compensation benefits paid to survivors of service members.[5]

FUNDING FOR FISCAL YEAR 2008

The President's budget proposal for 2008, which was submitted in February, included a request for $137 billion for military operations in Iraq and Afghanistan and for the war on terrorism; $5 billion for establishing, training, and equipping indigenous security forces in Iraq and Afghanistan; and $3 billion for related diplomatic operations and foreign aid. In an amended request submitted in July, DoD requested an additional $5 billion for mine-resistant and ambush-protected (MRAP) vehicles. On October 22, the Administration submitted a request for another $46 billion for 2008. If the requested amount is appropriated, the total amount of funding specifically appropriated since 2001 for all operations in the war on terrorism would reach $798 billion. (Including the estimated $2 billion that VA has spent from its regular appropriations and the nearly $1 billion that CBO estimates will be spent in 2008 would bring total funding for the war over the 2001—2008 period to $801 billion.)

On September 29, 2007, lawmakers enacted Public Law 110-92, a joint resolution making continuing appropriations for fiscal year 2008. That act provided $5 billion in budget authority for MRAP vehicles. It also extended the $70 billion in war-related appropriations that was included in the Department of Defense Appropriations Act, 2007 (P.L. 109-289). However, that $70 billion in funding remains available only until enactment of appropriations for the war for fiscal year 2008, enactment of appropriations for the Department of Defense for fiscal year 2008, or November 16, 2007, whichever comes first.

CBO cannot estimate how much of the funding contained in the continuing resolution will be used before those funds expire or before regular appropriations are enacted. Since the temporary funding provided under the continuing resolution will most likely be subsumed in subsequent appropriations for the war for 2008, CBO has not included any amounts for fiscal year 2008 in its tally of funding enacted to date. Estimates of funding for fiscal year 2008, however, are included in the projections of future funding needs, which are described in more detail below.

ESTIMATED FUTURE FUNDING REQUIREMENTS

CBO has previously estimated future funding requirements for operations in Iraq and Afghanistan and for other activities related to the war on terrorism under two broad, illustrative scenarios specified by Chairman Spratt. 6 At the request of the Chairman, CBO has updated its previous projections to account in an approximate manner for the Administration's amended request for increased funding for the war in fiscal year 2008.[7]

Under the first scenario, the number of deployed troops would decline from an average of approximately 200,000 active-duty, Reserve, and National Guard personnel on the ground in fiscal year 2008 to 30,000 in 2010 and would remain at that level over the 2010—2017 period, although not necessarily in Iraq and Afghanistan. In the second scenario, the number of troops deployed overseas would decline more gradually over a five-year period, reaching 75,000 in 2013 and remaining at that level each year thereafter.

On the basis of testimony that General David Petraeus presented to Members of Congress on September 10 and 11, it now appears that the United States will begin

reducing current force levels in December. By July 2008, the withdrawal of the additional Army brigades and Marine battalions that were deployed earlier this year as part of the President's strategy to increase the size of forces in Iraq is scheduled to be complete. Thus, the projections for both scenarios in this analysis are based on the assumption that the increased force levels will be sustained for nearly 12 months.

COSTS FOR MILITARY OPERATIONS

In the first scenario, the number of personnel deployed in Iraq, Afghanistan, and elsewhere in the war on terrorism would average about 200,000 in fiscal year 2008, decline to approximately 100,000 personnel, on average, in 2009, and then reach 30,000 at the beginning of fiscal year 2010. CBO previously estimated that this case would require $440 billion in funding over the 2008—2017 period. On the basis of the Administration's funding request for 2008, that projection could total $485 billion over the same period.

In the second scenario, deployed forces would average about 200,000 in fiscal year 2008 and then decline to an average of 175,000 troops in 2009. Troop levels would decline steadily each year thereafter until the beginning of 2013 when the number of deployed troops would reach 75,000. In July, CBO estimated that such a case would require $879 billion in funding over the 2008—2017 period. A projection formulated on the basis of the Administration's budget request for 2008 could total $966 billion.[8]

Over the 2005—2007 period, funding for operations in Iraq accounted for 75 percent of all the funding provided for the war on terrorism. A similar distribution of funding seems probable over the next two years. Beyond 2009, however, the allocation of troop deployments and funding to specific operations is highly uncertain.

COSTS FOR INDIGENOUS SECURITY FORCES

In developing its estimates, CBO assumed that the cost to train and equip indigenous security forces in Iraq and Afghanistan would be approximately the same under either scenario. To fund that effort, the Administration requested and the Congress provided $13 billion in 2007—a significant increase over the $5 billion appropriated in 2006. The Administration stated that the additional funding would enable those countries to field capable police and military forces sooner and that it anticipates less funding will be needed in 2008. On the basis of funding requested for 2008, CBO estimates that DoD would require about $50 billion over the 2008—2017 period to continue training and equipping indigenous security forces in Iraq and Afghanistan.

COSTS FOR DIPLOMATIC OPERATIONS AND FOREIGN AID

CBO projected the future costs of diplomatic operations and foreign aid in Iraq and Afghanistan on the basis of the amounts provided for those activities in 2007. For that year, the Congress appropriated almost $5 billion to fund diplomatic operations, assist local governments, and promote economic development. CBO estimates that, under the two specified scenarios, costs for diplomatic operations and foreign aid would total about $4 billion for fiscal year 2008—slightly more than the $3.3 billion requested by the President in February—and $26 billion over the 2008—2017 period.

SPENDING BY THE DEPARTMENT OF VETERANS AFFAIRS FOR MEDICAL CARE, DISABILITY COMPENSATION, AND SURVIVORS' BENEFITS

CBO estimated spending for medical care, disability compensation, and survivors' benefits on the basis of casualty rates for veterans of operations in Iraq and Afghanistan over the 2003—2006 period. Almost $1 billion in supplemental appropriations was provided to VA in 2007 for medical administration costs, medical and prosthetics research, medical services for veterans of those operations, and other related purposes. In addition, CBO estimates that VA spent another $0.7 billion in 2007 for medical care and disability compensation for veterans of operations in Iraq and Afghanistan, as well as for compensation for survivors of service members who died in those operations.

DEBT SERVICE

CBO does not typically include debt service in its cost analyses. However, as requested, CBO calculated the debt-service costs associated with spending for operations in Iraq and Afghanistan and elsewhere in the war on terrorism under the

assumption that all spending for those operations, both past and present, was financed with federal borrowing.

Under that specified assumption, CBO estimates that interest payments on spending thus far for operations in Iraq and Afghanistan and elsewhere in the war on terrorism would total $415 billion over the 2001—2017 period. The path of spending generated by the first scenario would add an additional $175 billion in interest payments from 2008 through 2017. Under the second scenario, interest outlays would increase by a total of $290 billion over that 10-year period.

BOX 1.—PROJECTED COSTS OF SUSTAINING A LONG-TERM U.S. MILITARY PRESENCE IN IRAQ

In September 2007, the Congressional Budget Office (CBO) estimated the possible costs to the United States of maintaining a long-term military presence in Iraq similar to that maintained by the U.S. government in the Republic of Korea and the Northeast Asia region. Because the nature and scope of such a presence is highly uncertain, CBO projected costs under two possible scenarios. Unlike the projections of future funding requirements discussed earlier in this testimony—which included funding for military operations, indigenous security forces, and diplomatic operations and foreign aid in Iraq, Afghanistan, and elsewhere in the war on terrorism—the scenarios described here include costs only for military operations in Iraq.

To estimate the costs of those scenarios, CBO adjusted current spending levels to account for the scenarios' smaller number of personnel and a lower intensity of operations. CBO did not project current funding levels for procurement because current funding for that purpose includes a number of one-time expenses as well as items not tied specifically to the current pace of operations, which CBO anticipates will not be required indefinitely.

In the first scenario, CBO assumed that the United States would maintain a long-term presence of approximately 55,000 military personnel in Iraq conducting combat operations similar in type to the operations currently carried out in that country. Military units would deploy with their personnel and equipment for specific periods and then return to permanent bases either in the United States or overseas. Such a scenario could have one-time costs of $4 billion to $8 billion and annual costs of approximately $25 billion (in 2008 dollars), CBO estimates. In the second scenario, the United States would maintain a long-term presence of approximately 55,000 military personnel in Iraq by stationing specific units at established bases for an indefinite period in a manner similar to the current practice of assigning personnel to units based in Korea or Germany. Under this scenario, units stationed in Iraq would rarely, if ever, be engaged in combat operations. Up-front costs would be approximately $8 billion, with annual costs of $10 billion or less (in 2008 dollars), CBO estimates.

If U.S. military operations in Iraq were to develop into a long-term presence, the numbers of deployed forces could differ substantially from those assumed in either of the two scenarios. Moreover, the scenarios are not mutually exclusive. Over time, the more intensive pace of combat operations could give way to the slower pace of noncombat operations. The first scenario could also be viewed as a transitional phase between the current operations and the more benign environment considered in the second scenario.

A COMPARISON OF COST-OF-WAR ESTIMATES

A number of estimates of the costs of operations in Iraq and Afghanistan have been performed by analysts working outside the government; those estimates are often higher than CBO's. For example, in 2006, two academic researchers—Linda Bilmes and Joseph Stiglitz—estimated that the war in Iraq could cost several trillion dollars in present-value terms, including costs to the federal government as well as other economic costs outside the federal budget.[9] CBO restricts its estimates of war costs to federal budgetary effects and has not attempted to estimate the macroeconomic effects of the war. However, even within the confines of federal budgetary costs, CBO's estimates differ from those of Bilmes and Stiglitz. Several important differences between CBO's estimates and the Bilmes-Stiglitz estimates are explored below.

INCREASES IN THE REGULAR DEFENSE BUDGET

Bilmes and Stiglitz estimated that, because of the war, the regular defense budget—the portion not funded through emergency appropriations—increased by a total of $104 billion to $139 billion between 2002 and 2006. However, CBO's analysis suggests that most of the budget increases that occurred during that period reflect factors not related to the war, such as inflation, real (inflation-adjusted) pay increases for military and civilian personnel, enhanced personnel benefits that were either enacted before the war or not requested by the Administration as part of its war-funding request, and DoD's efforts to modernize and reconfigure military forces (efforts that were initiated before the onset of the war in Iraq).

COSTS TO REPLACE EQUIPMENT

Bilmes and Stiglitz estimated that repairing or replacing equipment that had been worn out, damaged, or destroyed in Iraq would total between $89 billion and $149 billion in present-value terms over the 2006—2010 period. Those figures, though, do not reflect the cost of replacing and repairing equipment used in Iraq and Afghanistan. Instead, they are based on estimates of the difference between DoD's peacetime procurement budget and the long-term funding required to maintain DoD's inventories of major weapon systems at acceptable levels. Any such funding gap would have nothing to do with operations in Iraq and Afghanistan, which use existing weapon systems and are funded by supplemental appropriations.[10]

COSTS FOR RECRUITING AND RETENTION INCENTIVES

Bilmes and Stiglitz argued that some of the wartime incentive payments will become permanent, adding between $1 billion and $2 billion a year to all future defense budgets, or between $5 billion and $17 billion in present-value terms. By contrast, CBO estimates that incentive payments will not permanently increase the defense budget. Furthermore, the cash incentives that Bilmes and Stiglitz quote represent the legislated maximum amounts for active-duty personnel, but those amounts are not paid to every service member. Only personnel who are recruited into a limited number of critical military occupational specialties and who commit to a six-year obligation are eligible for the maximum enlistment bonus. Although the maximum authorized reenlistment bonus is $200,000 for the active component and $100,000 for the reserve components, reenlistment bonuses averaged about $10,500 in fiscal year 2005 and $15,000 in fiscal year 2006. The military has long shown considerable flexibility in setting bonus levels, routinely reducing bonuses for occupations in which manning exceeds authorized levels. Personnel costs are likely to remain higher for the duration of the war, but the military has the authority to reduce incentives in the future if the recruiting climate improves when the war concludes.

COSTS TO TREAT BRAIN INJURIES

Bilmes and Stiglitz estimated that the treatment and care of personnel who suffered serious brain damage in Iraq would cost $14 billion if the war continued until 2010 and costs accrued over a 20-year life expectancy, or $35 billion if the war continued through 2015 and costs accrued over a 40-year life expectancy. CBO's analysis suggests that those figures overstate both the number of injured service members who will likely need expensive care for brain injuries and the cost of treating those who do.

Bilmes and Stiglitz estimate that of the 16,000 service members who had suffered nonfatal injuries as of the publication date of their study, 20 percent had incurred serious brain damage. Bilmes and Stiglitz derived this estimate of the incidence rate of brain injuries from a study conducted by Scott Wallsten and Katrina Kosec.[11] That estimate, in turn, was based on a research paper by Lt. Colonel Xydakis, an Air Force otolaryngologist (ear-nose-and-throat specialist) and head-and-neck surgeon stationed at Landstuhl Regional Medical Center in Germany.[12] He and his colleagues found that among 2,483 battle-injured patients evacuated from Iraq or Afghanistan and treated at Landstuhl through March 19, 2004, some 21 percent had head or neck trauma. Head or neck trauma, though, differs greatly from traumatic brain injury: neck injuries affect the area below the helmet line and are distinct from brain injuries; and traumatic brain injuries would be treated by neurologists rather than by otolaryngologists. Moreover, the 21 percent incidence rate would at most apply only to those patients evacuated to Landstuhl and classified as "battle-injured," not to the much larger pool of all wounded troops, over half of whom are treated in-country and return to duty within 72 hours. On the basis of a DoD medical census, 1,950 traumatic brain injuries (TBIs) had been diagnosed through De-

cember 2006 and 2,669 through July 2007 but still not the 3,213 that Bilmes and Stiglitz assert had occurred as early as January 2006.

Perhaps more important, Bilmes and Stiglitz appear to overstate the cost of treating brain injuries among military personnel. Again, they adopted their cost estimates from Wallsten and Kosec, who assumed that all brain injuries, regardless of the degree of severity, would cost as much as "severe head injuries" sustained in automobile crashes, as defined by the National Highway Transportation Safety Administration. On that basis, Wallsten and Kosec estimated costs of between $600,000 and $4 million for the lifetime care of a brain-injured victim. Applying those estimates to military personnel with brain injuries, though, is problematic because the two types of brain injuries are quite different: U.S. soldiers wear Kevlar helmets that are capable of deflecting some bullets and shrapnel, or at least of significantly reducing their velocity upon penetration, whereas motorists generally do not wear helmets. Through 2006, about two-thirds of the diagnoses among military personnel were for mild (as opposed to moderate or severe) traumatic brain injuries; more recent tabulations indicate that mild TBIs may represent as much as 80 percent of the total. Most patients should recover naturally from mild TBIs, especially if given prompt treatment. CBO estimates that a few hundred service members—rather than several thousand—have sustained brain injuries serious enough to require a lifetime of around-the-clock care.

ENDNOTES

[1] To the extent that those sums are not offset by reductions in other spending or increases in revenue—and therefore are financed by higher budget deficits—additional budget costs would occur through higher debt-service costs.

[2] Linda Bilmes and Joseph Stiglitz, The Economic Costs of the Iraq War: An Appraisal Three Years After the Beginning of the Conflict, Working Paper No. 12054 (Cambridge, Mass.: National Bureau of Economic Research, February 2006).

[3] The Administration requested $145 billion for the war in February and another $5 billion in July. On October 22, the Office of Management and Budget submitted another request for $46 billion, bringing the total requested for 2008 to $196 billion.

[4] The $30 billion includes $5 billion provided for Iraqi security forces in 2004 in an appropriation for the Department of State's Iraq Relief and Reconstruction Fund.

[5] That estimate does not include the costs of disability retirement pay, disability severance pay, or Survivor Benefit Plan payments provided by DoD, most of which would be offset by VA benefits. Nor does it include payments from the Servicemembers' Group Life Insurance or Traumatic Servicemembers' Group Life Insurance programs. The additional costs incurred by those insurance programs for claims related to operations in Iraq and Afghanistan are paid by DoD and have been included in the estimate of funding for defense activities. For further discussion, see the statement of Matthew S. Goldberg, Deputy Assistant Director for National Security, Congressional Budget Office, Projecting the Costs to Care for Veterans of U.S. Military Operations in Iraq and Afghanistan, before the House Committee on Veterans' Affairs, October 17, 2007.

[6] See the statement of Robert A. Sunshine, Assistant Director for Budget Analysis, Congressional Budget Office, Estimated Costs of U.S. Operations in Iraq and Afghanistan and of Other Activities Related to the War on Terrorism, before the House Budget Committee, July 31, 2007.

[7] CBO has not had time to analyze the amended budget request; however, in testimony before the Senate Armed Services Committee on September 26, Secretary of Defense Robert M. Gates indicated that the requested amount would exceed funding provided for that purpose in 2007 by approximately 10 percent. On the basis of that statement, CBO made a corresponding adjustment to its previous projection. The amended request submitted to the Congress on October 22 was slightly higher than the amount suggested in the Secretary's testimony.

[8] The Administration plans to increase the size of the active-duty Army to 547,400 personnel, the Marine Corps to 202,000 personnel, and the Army Reserve and National Guard to 564,200 personnel over the next five years. The request for war funding submitted in February included approximately $5 billion for that purpose in 2008. Another $12 billion was included in the regular budget request for 2008. CBO estimated that $15 billion would be required in 2008 and another $147 billion would be required over the 2009—2017 period to increase the number of Army and Marine Corps personnel as DoD plans. The Administration has stated that the planned increase is not strictly linked to the deployment of personnel to Iraq and Afghanistan but is needed to improve military capabilities in general. Thus, CBO excludes funding for that purpose from the cost of the scenarios described in this statement. For additional information, see Congressional Budget Office, Estimated Cost of the Administration's Proposal to Increase the Army's and the Marine Corps's Personnel Levels (April 16, 2007).

[9] See Bilmes and Stiglitz, The Economic Costs of the Iraq War, p. 9. In addition to estimating costs incurred by the Departments of Defense and Veterans Affairs, Bilmes and Stiglitz assigned a monetary value to the reduction in wounded veterans' quality of life. They also considered the macroeconomic effects of diverting to the war effort federal expenditures from civil projects (for example, the building or maintaining of roads and bridges), as well as additional effects on the U.S. economy resulting from rising oil prices, which the authors largely attribute to the war's disruption of Iraqi oil exports. Bilmes and Stiglitz estimated costs for a projected duration of the war under two scenarios and for as many as 40 years beyond the cessation of hostilities.

[10] The Army estimates that the cost to replace, repair, and upgrade its equipment will total $12 billion to $13 billion annually for as long as current force levels in Iraq and Afghanistan

are sustained and for up to two years after forces are withdrawn. Army equipment in Iraq and Afghanistan accounts for 80 percent of the total equipment deployed to the two countries by both the Army and Marine Corps; thus, the total cost to DoD to repair and replace damaged and destroyed equipment deployed for operations in Iraq and Afghanistan could total about $75 billion over the 2006—2010 period. Those figures, as well as the even larger totals for "reconstitution" contained in the Defense Department's supplemental requests, include funding to upgrade equipment, purchase new equipment for the Army National Guard, and buy new equipment for reorganized Army units; such expenses are not directly related to operations in Iraq and Afghanistan.

[11] Scott Wallsten and Katrina Kosec, The Economic Costs of the War in Iraq, Working Paper No. 05-19 (Washington, D.C.: AEI-Brookings Joint Center for Regulatory Studies, September 2005).

[12] Lt. Colonel Michael S. Xydakis and others, "Analysis of Battlefield Head and Neck Injuries in Iraq and Afghanistan," Otolaryngology—Head and Neck Surgery, vol. 133, no. 4 (October 2005), pp. 497—504; originally presented at the American Academy of Otolaryngology Head and Neck Surgery Annual Meeting, New York, September 2004.

Chairman SPRATT. Let me make clear that the interest rate you have assumed is 4.8 percent. Is there a Treasury rate that is assumed for the full forecast period?

Mr. ORSZAG. The debt service calculations used are baseline interest rate assumptions, and so when you have an extra dollar of debt outstanding, you pay the interest rate that is embodied in our baseline, and it is approximately the level that you suggest.

Chairman SPRATT. But the rate of interest you have assumed, is this a Treasury rate of interest?

Mr. ORSZAG. Yes, as it is appropriate, since the additional borrowing is Federal Government borrowing.

Chairman SPRATT. So you aren't assuming any uptick in interest rates due to this fiscal situation; you are taking simply a constant interest rate number that is what is used by Treasury today.

Mr. ORSZAG. That is correct. Incorporating any additional effect on borrowing on the interest cost itself would be a form of macroeconomic dynamic analysis. That is not traditionally done by CBO.

Chairman SPRATT. In addition, as you look at these costs, would you give us just a brief description of the difficulty there is to separate out the costs in the different accounts from the Department of Defense so that you can identify what—Iraq or Afghanistan or the rest of the world or stateside expenditures? What sort of extrapolation do you have to do to arrive at these numbers?

Mr. ORSZAG. We don't have full transparency into the systems that the Department of Defense uses to allocate funding into different categories, and I would note that there is a particular challenge in outlays, that is, the money that is actually spent as opposed to the budget authority that is provided by the Congress, because on the outlay side, things are mixed together in ways that are very hard to separate out.

On the budget authority side, while there are still some shortcomings, and we would benefit from more access to the cost models that the Defense Department itself uses to project future costs, there have been some improvements over the past couple of years in terms of transparency and the ability to separate out the relevant information.

Chairman SPRATT. And basically you are not auditors, you are economists, and you have to do some extrapolation and some interpellation in order to arrive at these numbers and give us an estimate of that.

Have you, in the past when you have done this, received any criticism from the Department of Defense, or have there been specific objections made to specific forecasts that you produced by DOD?

Mr. ORSZAG. To my knowledge, there was one incident in which there was some criticism, but I believe that the facts have proven us to be correct, and that had to do with the size and, therefore, the costs of the so-called surge that has occurred this year. We put out an analysis earlier this year trying to delineate the potential size of that, given the number of brigades that the administration had identified as being involved in it, and there was some administration criticism of those figures. But as the facts have turned out, I believe our analysis has proven to be correct.

Chairman SPRATT. When you referred to transparency, do you approach the Department of Defense, the Pentagon, and the Comptroller for an opportunity to see into their books and to get more specificity in developing the numbers that you have used here?

Mr. ORSZAG. Our staff is in regular contact with the Defense Department staff.

Chairman SPRATT. Once again, to go over what you have gone over today, you have got $2.4 trillion, but that is sort of the worst-case scenario, I suppose.

Mr. ORSZAG. That is the highest number that is contained in our testimony because we don't know whether the two future scenarios that we have laid out are actually defining the space of what could be the worst-case scenario or not.

Chairman SPRATT. Well, the most extreme case that you presented is $2.4 trillion, everything included, interest specifically included as well. The least amount is—of your second case, the lesser amount is—the brackets is what I am trying to get at.

Mr. ORSZAG. With additional debt service costs would be $1.7 trillion.

Chairman SPRATT. So the cost ranges you have got dependent on these two illustrative scenarios is $1.7 trillion to $2.4 trillion.

Mr. ORSZAG. That is correct, as long as all of the spending is financed by deficits; in other words, it is not offset by lower spending elsewhere or higher taxes.

Chairman SPRATT. Let me let others ask you questions that they may have, but thank you once again for the study and for your testimony.

Mr. Ryan.

Mr. RYAN. Thank you.

Peter, let me ask you about your baseline assumptions. Do you include the war spending in your baseline, correct?

Mr. ORSZAG. Our baseline is based on whatever has been enacted as of the——

Mr. RYAN. The most recent.

Mr. ORSZAG. The most recent. So it does have supplemental funding embodied in it.

Mr. RYAN. So whatever the last supplemental is, you just carry that out into the baseline?

Mr. ORSZAG. With inflation, correct.

Mr. RYAN. So if you think war spending is going to decline based on these drawdown scenarios that you outline, or if it does, in fact, do you know, what—the 75,000 or 30,000, does the baseline decline consistently with that?

Mr. ORSZAG. No.

Mr. RYAN. Right. So are we not overstating the outlays in the future if we believe these scenarios will come to be true?

Mr. ORSZAG. Now I get to be the two-handed economist.

On the one hand, yes, because of the effect you noted. But on the other hand, there is lots of things both on the nondefense side, where people believe that it is possible that nondefense discretionary spending will keep pace not just with inflation, which is the baseline assumption, but with population growth and economic growth, and even with the defense. Our analysis of the Defense Department's future plans as embodied in the Future Year Defense Plan suggests that there may be significant additional costs beyond inflation that are embodied in the current thrust of defense policy.

Mr. RYAN. So all that will be soaked up by new plans.

Mr. ORSZAG. It could be.

Mr. RYAN. Could you bring up chart number 3, please?

This is constant fiscal year 2008 dollars, the Defense Department budget authority.

If you take a look at this historically, in our history over these conflicts, spending shoots up. It goes up at a very high level and then comes back down and gravitates towards the average.

Do you have reason to believe that this kind of a conflict, even though you look at the Cold War, which is a long-lasting conflict, this one is probably a long-lasting one like that—do you believe history will not repeat itself, that we will not go back down toward the average; or do you believe that we are going to have an ever-increasing, ever-in-perpetuity escalating increase in costs for DOD?

Mr. ORSZAG. Again, all I can say is if you look at the Defense Department's future plans themselves, and we will be coming out with an updated analysis of those future plans over the next decade and beyond, they do entail increasing costs. Whether or not that will turn out to be the case, you know, history will tell.

Mr. RYAN. If I can—okay. When you say that—what comes to my mind is the fact they want 20 new light brigades for the Army and perhaps 20 new light brigades for the Marines to have the kinds of soldiers that we need for this kind of a conflict so we are not stretching our Guards and Reserves too much.

Mr. ORSZAG. And they want upgraded and new equipment, and you have ongoing health care cost inflation that is occurring in that system as well, and there are a variety of upward pressures on the Defense Department.

Mr. RYAN. So that is assuming that that is all on top of, not in place of, what they are doing and what they have, correct?

Mr. ORSZAG. I am sorry?

Mr. RYAN. That is assuming new on top of—they are not going to cut anything to make room, physical space, for these new needs. They are just going to throw these new needs on top of the request.

Mr. ORSZAG. There are some offsetting things, but, again, if you look at their plans themselves, the offsets are not as big.

Mr. RYAN. Not nearly as big as what the plans may be.

Mr. ORSZAG. Right.

Mr. RYAN. Therein lies a role for the committee to play, which is we entered this conflict with the Cold War—military with a Cold War posture, with Cold War assets and equipment and mechanized divisions, and perhaps we now recognize in the 21st century there

is a different kind of a military we need, and perhaps this committee can play a constructive role in making sacrifices and choices as to do we need to have it all, or do we need to have more 21st-century-based systems and therefore not as much 20th-century-based systems?

People talk about bases in Germany and other places that no longer present an immediate threat to us. This is something this committee could probably play a constructive role in, I would argue. So I think it is important to note that our Nation's history; that is, we ramp it up during these conflicts, and then it comes back down towards the mean afterwards.

So it is not something we can confidently predict we are going to have in perpetuity higher always spending on defense, but I also think it is important to note, given the earlier chart we brought up, that we are fighting this war with a lot less cost and a lot less sacrifice than we ever have fought wars before as a percentage of our ability to pay for it, and I think that is a noteworthy point.

With that, I yield.

Chairman SPRATT. Before we turn to Ms. DeLauro, let me get a clarification.

The Ranking Member Mr. Ryan asked about the carry forward of enacted supplementals, and typically your convention is to carry forward enacted appropriations in projecting a future including a supplemental. If it was enacted, you carry it forward for future years.

Mr. ORSZAG. That is correct.

Chairman SPRATT. What we have asked you to do here is to not carry it forward, but to develop a different model for extrapolating or projecting into the future.

So I want to make it clear, we didn't have a 10-year carry forward of the supplemental. We had a different set of carry-forward numbers, projected numbers, based upon the two assumptions we gave you. One is to reduce to 30,000 troops, the other is to go to 75,000 troops.

Mr. ORSZAG. That is correct, Mr. Chairman.

Mr. RYAN. May I, just on that?

So under some of these scenarios off of your current baseline, we could be saving money, correct?

Mr. ORSZAG. It is—again, just looking at the component that has to do with the war on terrorism, that is possible especially under the lower cost scenario.

Chairman SPRATT. Ms. DeLauro.

Ms. DELAURO. Thank you, Mr. Chairman, and welcome, Dr. Orszag. Let me ask you a couple of questions.

Is it true, Dr. Orszag, that we are spending more on defense in this effort in constant dollars than we spent in World War II, since World War II? I am sorry, since World War II.

Mr. ORSZAG. CBO has not done that analysis. I have seen some estimates from the Congressional Research Service, and I guess I will defer to the next panel for you to get the answers from them.

The only thing I would note is when looking over a very long period of time, economists typically like to look at things from the share of the economy rather than just in constant dollars.

Ms. DELAURO. But in terms of looking at it as a percentage of the economy, then, should we make that same application to non-defense discretionary spending if we are looking at——

Mr. ORSZAG. Again, over long periods of time, the best perspective on something, something involving the budget, is typically is a share of economy if you are going out 10, 20, 30-year kind of time span.

Ms. DELAURO. Let me also—let me follow, because I want to get clarity on the carryover on unobligated 2007 funding.

DOD received $170 billion of supplemental funding for 2007. How much of that amount will carry out and remain available for obligation in 2008?

Mr. ORSZAG. My understanding is that something probably a little bit under $50 billion and maybe in the 30- to $50 billion range of funds already provided in budget authority have not yet been obligated.

Ms. DELAURO. You made the point about the—that we are dealing with procurement and not replacing equipment, et cetera. Do you have any way or is it under your jurisdiction in any way to take a look at that, what you said, the $39 billion—I am trying to find your comments here—$39 billion that we are spending on reconstruction, et cetera?

Do you do anything by way of looking at those numbers and can determine what is dealing with any kind of overspending and any kind of waste, fraud, abuse efforts; do you do those kinds of calculations?

Mr. ORSZAG. I would say that is more of an activity for GAO rather than CBO.

Ms. DELAURO. So that you are just dealing with the aggregate numbers and what the cost of that spending is with regards to cost of construction.

Mr. ORSZAG. That is correct.

Ms. DELAURO. Thank you very much, Mr. Chairman.

Chairman SPRATT. Mr. Edwards.

Mr. EDWARDS. Thank you, Mr. Chairman.

Dr. Orszag, I had the privilege of chairing the appropriations subcommittee on Veterans Administration and the military. So if I could focus my questions on the long-term monetary costs of treating veterans injured or those suffering from mental illnesses as a result of their service in Iraq and Afghanistan, respecting the fact there is no way to put a dollar value on the sacrifice of these great Americans?

As I understand it, you have estimated the 10-year cost of medical costs for the VA for the Iraq and Afghan veterans is between $7- to $9 billion; is that correct?

Mr. ORSZAG. That is correct. And then there are some additional disabilities to get you up to the 9- to $13 billion range that I showed on the chart.

Mr. EDWARDS. So 7- to $9 billion for medical care, and if you add disability compensation, which is VA compensation of those injured in combat, it would possibly go up to $13 billion; is that correct?

Mr. ORSZAG. Yeah. That is right.

Mr. EDWARDS. Now let me ask, have you projected the cost, because they will be real, as well as painful, financially and phys-

ically and mentally, but have you projected the lifetime financial costs for medical care for the veterans or just a 10-year period?

Mr. ORSZAG. We at this point have just done a 10-year period.

Mr. EDWARDS. Would it be difficult to try to take the analysis you have done and project that to get the real cost of the war projected over lifetime, because obviously while for economic purposes and budget purposes it makes sense to use a 10-year time line, when we are talking about real Americans who sacrifice greatly, the end of 10 years is not going to be a magic solution to their health care problems. Would it be possible for you to do it, and if so, how long would that take?

Mr. ORSZAG. It would be possible.

There is an additional complexity which is that veterans often use the VA for some time, and then they will use part of the rest of the health care system for part and come back, and those transitions we have somewhat more confidence about for a 10-year period, and over a lifetime they become a lot harder to model. But we potentially could take a stab at doing so.

Mr. EDWARDS. And projecting future health care costs, what inflation factor did you use? Did you use Consumer Price Index, or did you use the health care inflation index, which I believe is significantly higher than the Consumer Price Index?

Mr. ORSZAG. I would think that we use a health care inflation rate, yes.

Mr. EDWARDS. You did use that. Can you make that number available to the committee, please?

Mr. ORSZAG. Absolutely.

[The information follows:]

Question (Mr. Edwards): What rate of inflation did CBO assume in developing its VA health-care cost estimates?

Answer: CBO used annual inflation rates averaging around 7 percent (the annual rates varied in a narrow range between 6.6 percent and 7.3 percent over the period 2008 through 2017). Those rates are based on projections of per-capita growth in national health expenditures developed by the Centers for Medicare and Medicaid Services (CMS).

Mr. EDWARDS. There have been—out of 1.5 million Americans who have served in Iraq and Afghanistan, 75,000 have been discharged. Of those, 250,000, a huge percentage, have already sought medical care in VA hospitals; 95,000 of those 250,000 have been treated for mental health care, and of those, 45,000 have apparently full-blown post-traumatic stress disorder.

Can you tell me what estimates—how you determine the estimate of the number of veterans coming back from the war with mental health care problems including PTSD?

Mr. ORSZAG. They are based on many of the same data that you just related, and one of the complexities in going forward is do you believe that the incident rate of PTSD will be higher or lower than what we observed so far.

On the one hand, it may well be that there are folks who are undiagnosed that are suffering from PTSD, and therefore the incident rate would be higher. On the other hand, it may be that the people who are coming in and being diagnosed are disproportionately those who suffer from it, and so, therefore, as you roll out over time and have the rest of the population involved, the incident rate would not be as high as what you already observed.

Mr. EDWARDS. You used actual numbers from this war. You didn't use, for example, the Persian Gulf war as a model for determining what percentage of injuries or mental health care cases would be?

Mr. ORSZAG. One of the factors that went into our set of projections is the experience in the Persian Gulf war from people who used the VA relative to how much use——

Mr. EDWARDS. But just because the time is short—I think I have 20 seconds left.

In terms of mental health care issues, clearly there could be very little comparison between the Persian Gulf war, which lasted for several days, and this war which has now lasted longer than World War II. Could you submit to the committee the assumptions that you used in determining the number of veterans who would need mental health care and PTSD service?

Mr. ORSZAG. Absolutely.

Mr. EDWARDS. Thank you, Mr. Chairman.

[More responses to Mr. Edwards' questions from CBO follow:]

Question (Mr. Edwards): Does CBO have estimates of the lifetime costs (beyond 10 years) to treat OIF/OEF veterans in the VA health system?

Answer: No, CBO restricted its estimates to the 10-year budget window described in its written statement. Estimates beyond that point become problematic because some veterans who initially receive VA health care later become reemployed in the civilian sector, gaining access to employer-sponsored health insurance and becoming less reliant on the VA. However, they may return to the VA later in life if their health insurance does not carry into retirement or if their general health begins to deteriorate. It is difficult to separate those life-cycle changes from the effects of (perhaps worsening) disabilities directly related to service in combat.

Question (Mr. Edwards): What assumptions did CBO make in projecting the number of veterans who would require VA health care, particularly those with PTSD? How much does it cost to treat veterans with PTSD?

Answer: CBO projects future VA medical costs in a "top-down" rather than a "bottom-up" fashion. A "bottom-up" analysis would consider every medical condition that could possibly afflict an OIF/OEF veteran, project the number of veterans likely to develop that condition, and multiply that number of veterans by the year-to-year costs of treating a representative patient having that condition. The bottom-up approach is impractical because there are (depending on the specificity with which diseases are classified) thousands of conceivable medical conditions, some very rare and difficult to forecast, and others with widely-varying treatment paths (and corresponding costs) depending on the individual patient. Also, a bottom-up approach might not capture the fixed and overhead costs of running the VA medical system that are unrelated to the treatment of specific diseases.

By contrast, CBO's "top-down" approach starts with VA's costs to treat OIF/OEF veterans in the base year of the analysis, 2007. CBO then grows that base-year cost to reflect two factors: medical inflation and the growing cumulative number of veterans who have returned wounded from OIF/OEF. Regarding inflation, CBO applies projections of per-capita growth in national health expenditures developed by the Center for Medicare and Medicaid Services (CMS). CBO projects the number of wounded troops under the assumption that historical casualty rates (per deployed service member per year) for operations in Iraq and Afghanistan over the 2003-2006 period will continue into the future. Applying those casualty rates to CBO's two illustrative scenarios for the force levels in theater yields a projected stream of annual casualties. CBO recognizes that the wounded are not the only OIF/OEF veterans who use VA medical care, but CBO uses the number of wounded as an index of the overall number of medical problems attributable to the two combat operations.

The top-down approach does not require projections of the numbers of veterans likely to develop specific conditions (like PTSD), nor the pattern of treatment costs for those specific conditions. However, the approach does implicitly assume that the mix of medical conditions remains roughly constant through time. For example, data from the VA indicate that among OIF/OEF veterans who have received VA medical care, about 37 percent have received at least a preliminary diagnosis of mental

health issues, and about half of those (17 percent) have received a preliminary diagnosis of PTSD. CBO's estimates implicitly carry those percentages forward into the future, as well as assuming that the costs to treat those conditions will inflate at the same rate as other medical conditions (i.e., at the CMS rate). Those assumptions seem reasonable except, perhaps, in the event that veterans with specific conditions (like PTSD) experience delayed onset and will eventually present to the VA at rates exceeding the historical averages.

Chairman SPRATT. Thank you, Mr. Edwards.

Now Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman.

And thank you for being with us again, Dr. Orszag.

I had several questions. First, I wanted to clarify in your testimony you indicate that DOD is currently obligating about $11 billion a month for activities in Iraq and Afghanistan and other aspects of the global war on terror. It is true, is it not, that $9 billion a month of that is currently related to the war in Iraq.

Mr. ORSZAG. That is approximately correct.

Mr. ALLEN. A little bit more than 9 billion.

Mr. ORSZAG. It is in the range of 9 billion, yes.

Mr. ALLEN. I would like to have chart 3 put up for a moment, if we can.

The direct budgetary costs—I am not blaming you for this, but the direct budgetary costs of the war in Iraq are astonishing. If the President's request is met, the total direct budget costs will be $611 billion. That is a staggering amount of money way beyond any projection that was ever made at the beginning.

And then if I could turn to chart number 5.

Chart number 5 indicates that if you add in the funding through 2007, then the 2008 requests, do the projected future costs on the more gradual drawdown that you mentioned, which would leave us with 50- or 60,000 troops in Iraq after 2013—if you do all of that and then calculate interest on the war-related debt, the overall number is 2.4 trillion; but it is true, is it not, Dr. Orszag, that approximately 1.9- of that 2.4 trillion is related to the war in Iraq on that kind of calculation?

Mr. ORSZAG. We didn't specifically parse out Iraq versus other components of the war on terrorism for the future scenarios, but if a historical pattern evolved the same way in the future, you would wind up with a number that is approximately the figure you gave.

Mr. ALLEN. Approximately one——

Mr. RYAN. Would the gentleman yield for a friendly question?

Doesn't your budget resolution balance the budget by 2012?

Mr. ALLEN. Thank you for the question.

Let me go back. I am trying to understand this. You and I can talk about that later.

Dr. Orszag, let me come back to this. You said earlier on that DOD doesn't break down Iraq costs separately from Afghanistan, particularly with respect to outlays, that with respect to budget authorities, they are getting a little better in terms of segregating the costs in Iraq and the costs in Afghanistan; is that right?

Mr. ORSZAG. Yes.

Mr. ALLEN. Is there any reason why DOD could not do that if they were directed by Congress to be more specific in segregating

the costs both for budget authority and for outlays in terms of those two conflicts?

Mr. ORSZAG. My understanding is on the outlay side, that would require a very significant change in the budget system used by the Department of Defense. I could get back to you in writing about the specific change that would be required, but it would not be a trivial undertaking.

Mr. ALLEN. Then I guess so we are going to keep getting these costs lumped together? That is very difficult because the support for the conflict in Afghanistan, rebuilding in Afghanistan, is very different from the support for or the lack of public support for this ongoing conflict in Iraq.

Mr. ORSZAG. But just to be clear, again, the biggest difficulties on the outlay side where things are for the war on terrorism mingled together with other spending.

In terms of the budget authority that you are providing, it is—while it may not be perfect, there is a lot more transparency about what is going where.

Mr. ALLEN. And could we enhance that transparency by action of this committee?

Mr. ORSZAG. I am not sure that there are additional steps necessary. I think that in terms of projecting future costs, there is more transparency that could be provided to us through, for example, access to a cost model that the Department of Defense uses.

Mr. ALLEN. Thank you very much.

I yield back.

[Response to Mr. Allen's question from CBO follows:]

Question (Mr. Allen): What changes to DoD's financial accounting system would enable it to segregate war-related from normal peacetime outlays?

Answer: Segregating war-related outlays would require changes at both DoD and the Department of Treasury, the cost of which could outweigh the benefits. Agency outlays are reported by appropriation account, year of appropriation, and period of availability. Thus, outlays of war-related budget authority provided in an appropriations account will be commingled with outlays for budget authority for peacetime purposes if the funding is provided in the same year and is available for the same period of time.

CBO is currently studying the changes that would be required to facilitate reporting of outlays for war-related purposes. However, because budget authority will eventually lead to outlays over time, CBO's tally of funding provided to date is a good indicator for what will be spent on the war.

Chairman SPRATT. Thank you, Mr. Allen.

Mr. Boyd.

Mr. BOYD. Thank you Mr. Chairman, and thank you for holding this important hearing.

We are obviously here today to talk about the costs of our operations in Iran and Afghanistan and other related costs, and not only the current costs, but the long-term costs and how we might pay for that.

But, ladies and gentlemen, let us be clear on one thing, that that is a situation that we have created that has no good solution. I know many of us, as Members, have been to Iraq. I have been within the last 3 weeks. This is the situation, ladies and gentlemen, where we have assumed the job of policing the streets of Iraq and refereeing a civil war.

The Iraqi security forces can be stood up, trained, but they can never be effective until the Iraqi Government stands up and cre-

ates the command-and-control system, logistical support system that will allow them to be effective.

So, in my view, I think that we are in it for the long haul unless we understand that the war on terror, which Mr. Ryan's folks spoke so eloquently about, and the morale threat is one that exists all around the world, and the al Qaeda operatives are working in at least 100 countries, Mr. Ryan, not just in Iraq. There were none there until we toppled the government there.

So we are in pretty much a quagmire that there is no good solution to that. Many people in the administration would not want you to understand what the long-term costs are.

And as Mr. Edwards has spoken about the long-term veterans health care costs, which have not been spoken for in the future, the debt service which is one that those of us who are Blue Dogs are very interested in, we think that we ought to pay as we go. We don't think we ought to borrow money, Mr. Ryan, to fund the government, those things which protect our strategic interests.

And also, Mr. Orszag. I want to ask you, Dr. Orszag, about the reset costs. You have spoken eloquently about the debt service and the $705 billion, which I see on your chart or someone's chart. That is about 30 percent or so of the total cost of the long-term cost to the war. But you have not spoken in defense about the reset costs, which obviously are very serious, and we are going to restore ourselves to a position that Mr. Ryan put up in his chart, chart number 4, where he so—where he very—he outlined the cost of this in terms of gross domestic product.

I hope that we can see—my friend put up that kind of chart—when we deal with overall costs of the government, including domestic costs, which Ms. DeLauro has spoken to. That would be if we are going to play this game, we ought to play where we compare apples to apples in the long run. We ought not to talk about costs in one term when we talk about domestic costs and in a different term when we talked about national security interests.

So, Dr. Orszag, can you talk to us a little bit about reset costs and what the long-term future holds for us in terms of preparing our military once this is over?

Mr. ORSZAG. Yes. And actually coming back to a question Mr. Allen had asked, in the area of reset costs and the related area of reconditioning, there is not as much transparency as one would hope, and that is an area in which more transparency about exactly what is happening would be useful.

We put out a study of the subset of reset, in other words, the reset program where you are trying to repair or replace damaged equipment, and what we found is that a substantial amount of the funding that has been provided, about 40 percent, has been not to repair or replace something that was damaged or destroyed, but rather to significantly upgrade it or to get something new.

So, for example, in the funding that was provided under the reset program, there were 120 M-182 tanks that were enhanced to the System Enhancement Program, SEP, configuration, which costs about $5 million a tank, and it is substantially beyond what would be entailed in simply returning a damaged tank to its original state.

So an issue for the Congress is how much of this money, which is supposed to be for repairing and replacing damaged or destroyed equipment, is actually being used to upgrade and to replenish the capital stock of trucks and tanks and what have you.

Our analysis suggests that if you continued fully funding all of these requests, the military will wind up in a better position in terms of its equipment, tanks, et cetera, than before the war.

Mr. BOYD. If I might, Mr. Chairman.

This may be a question for the next panel, but in terms of what may be lost or left when we—when we leave—and let us make no mistake about it, we will draw down numbers significantly and equipment out of that country significantly in the near future—what will the cost of that be?

Mr. ORSZAG. To remove the equipment?

Mr. BOYD. No. What we may leave or may have been lost.

Mr. ORSZAG. Again, that will depend on how much is left. So I can't give you a specific answer.

Mr. BOYD. Thank you, Mr. Chairman.

Chairman SPRATT. Thank you.

Let me turn for 2 minutes to Mr. Ryan, and then we will go to Mr. Doggett, if that is agreed.

Mr. DOGGETT. Let me make an inquiry before he begins.

I assume by Mr. Ryan being here that every member of this panel, including every Republican member on that side of the aisle where all of the seats are vacant, received notice of this hearing about the cost of the war in Iraq?

Chairman SPRATT. I am pretty sure they did.

Mr. DOGGETT. And when was that notice of the hearing sent out?

Chairman SPRATT. Seven days ago as required.

Mr. DOGGETT. Thank you very much.

Chairman SPRATT. Mr. Ryan.

Mr. RYAN. I want to ask a couple of quick questions to follow up Mr. Boyd.

I agree these things all ought to be done in context, percentage of GDP, and I think you will find that it has shifted from defense over to more domestic issues, and as we saw from the Comptroller General, we have a big problem on our hands going as the percentage of GDP in the future. The reason I stuck with defense is because that is what this hearing is about.

Peter, I just have one quick question because I am the only Republican here, is taking these numbers—you have $1.7 trillion cost with interest on the 30,000 level, and then $2.4 trillion cost with interest in it at the 2013 level. If the Majority budget resolution occurs and is implemented and executed, and we do not have deficits after 2012 and therefore are not debt-financing it, what is the savings off of those figures that you would achieve if what they are saying they are going to do does, in fact, happen and we are not deficit-financing these things afterwards?

Mr. ORSZAG. Well, it still seems that even after you are running a surplus in the baseline, that if additional spending reduces the surplus, you are not buying down debt as much as you would otherwise, and therefore there are additional interest costs. They are the same logic.

Mr. RYAN. It is not the same interest costs of additional debt financing versus canceling out, correct, versus foregone cancellation? You are imputing the same interest rate whichever way you go?

Mr. ORSZAG. In other words, if you have a trillion dollars in debt outstanding, and you add $100 billion to it, there is some interest on that. If you would have reduced it by $100 billion, we are on a surplus, but you don't—you have more interest than under the baseline.

Mr. RYAN. So you are saying regardless of whether we are at a deficit or surplus, the costs are the same?

Mr. ORSZAG. Under the assumption that the additional spending is not offset elsewhere in the budget, you are looking at the marginal impact on debt outstanding and then higher interest costs. Yes, sir.

Mr. RYAN. Thank you.

Chairman SPRATT. Mr. Doggett.

Mr. DOGGETT. Thank you very much for your testimony.

With reference to the moneys that have already been expended, about what percentage of those figures are attributable to the war in Iraq?

Mr. ORSZAG. Roughly 70 percent.

Mr. DOGGETT. Hasn't this varied at times so sometimes much higher, but seldom lower?

Mr. ORSZAG. Well, earlier on it was lower while we were concentrating on this portion in Afghanistan.

Mr. DOGGETT. Earlier on everything was lower.

I am sure you are recall that when the President's top economist Lawrence Lindsey suggested that perhaps the initial White House figure of $50 billion for the total cost over all time for the war in Iraq might be off a little bit, they found him another job outside the administration.

If I understand the burn figures, as they are referred to presently, we currently spend in about 4 months in Iraq what the White House told the American people initially would be the cost of the total war. Is that about right?

Mr. ORSZAG. We are spending roughly 11 trillion—I am sorry—$11 billion a month.

Mr. DOGGETT. We actually got an estimate of 12 billion from witnesses this summer from the Pentagon. But perhaps 5 months, to spend the—or almost 5 months to spend the amount of money now, American taxpayers, American people are being asked to expend or borrow the money to finance this, that the total cost of the war was alleged to have cost.

And then can you tell us—I know that since the President declared mission accomplished, we have had about 97 percent of all of the servicemembers that we have lost who have been killed in Iraq who have died since he declared mission accomplished. Do you know about how much money has been spent in Iraq since the President declared mission accomplished?

Mr. ORSZAG. I think it would be pretty easy to get off of our—the table that we provided so we could add that up and provide that to you.

[The information follows:]

Question (Mr. Doggett): How much has the U.S. spent on operations in Iraq since President Bush's "mission accomplished" speech?

Answer: The President declared an end to major combat operations on May 1, 2003 aboard the USS Lincoln. The Congress does not appropriate funding by operation, however, CBO estimates that about $340 billion has been appropriated for military operations in Iraq and for training and equipping Iraqi security forces since that date. Spending—that is outlays or disbursements from the Treasury—for the war is commingled with spending from regular appropriations for the Department of Defense so CBO cannot say precisely how much has been spent for the war in general, or for the war in Iraq in particular. However, CBO estimates that of the funding provided to the DoD after May 1, 2003, about $250 billion had been spent by as of the end of fiscal year 2007.

Mr. DOGGETT. And as far as whether the accuracy and the veracity of the story from the White House has changed any since these initial estimates of $50 billion in Iraq, you made reference to the analysis that CBO did, that your office did, of the cost of this tragic surge that the President has embarked on. And your analysis showed that the cost of the surge would be substantially greater this year than the White House tried to sell the American people on, didn't you?

Mr. ORSZAG. Yes. And this was—maybe I can just explain for a moment.

This was an area I had been asked earlier in which the administration explicitly criticized something CBO did.

Mr. DOGGETT. Yes, sir. And it is that point that I wanted to focus on. Their reaction to a study that was done to try to analyze so we would have the facts here in Congress of what the costs in dollars—not in blood, we know that is very high—but the true costs in dollars would be this year. They said that your estimate was inflated; did they not?

Mr. ORSZAG. They used some inflammatory language.

Mr. DOGGETT. I think it was stronger than that.

And, in fact, they had apparently omitted to include the support troops. They just put the people that were out on the front lines, but they didn't consider—I know they contract a lot of that out to Blackwater and the like, but they didn't consider any of the support costs or all of the support costs for those troops.

Mr. ORSZAG. And in particular, I remember this quite well because it was very early in my tenure, so it sticks in my memory.

The administration had announced an increase of five brigades in the theater and were assuming that or were counting only direct combat troops in terms to get their roughly 20,000 troop increase. Our national security team, which is outstanding, pointed out that you never send combat troops in without police and the people who help feed them and all of the other support behind them, and there was no way that you could send in five brigades with only 20,000 troops.

Mr. DOGGETT. Yes, sir.

Well, looking, again, throughout this year to see if the veracity index or the mendacity index, perhaps, of the White House has changed any since that initial $50 billion for the total cost of the war, at the beginning of the year we were told that we would need next year 145-, $147 billion. On July the 31st, talking from your chair, we were told it might be in the 165- to $170 billion range.

What is the current request total to this Congress to pay for the war in Iraq next year?

Mr. ORSZAG. Slightly under $200 billion.

Mr. DOGGETT. So it has already risen to slightly under; it is about 196 billion or something like that?

Mr. ORSZAG. That is correct.

Mr. DOGGETT. And in terms of the total cost, you were asked whether it was the worst-case scenario.

It is not a scenario, in your estimates, the $8,000 for every person, it is not a scenario that you defined. It is one you were given. It does not consider what the cost would be if Vice President Cheney is successful in launching an attack on Iran. It doesn't consider what the cost would be if we kept the current troop levels there in Iraq.

But if it is $2.4 trillion, can you just give us some comparison to say the budget today—or what $2.4 trillion would purchase that the ordinary American citizen could begin to understand what it means to pay out $8,000 per person?

Mr. ORSZAG. Well, there is no question that $2.4 trillion is a lot of money. I understand that you and your colleagues have provided many such comparisons for the American public.

Mr. DOGGETT. How does it compare to the size of the entire Federal budget today? What is that today? How does it compare?

Mr. ORSZAG. It is more than that. That is over an extended period of time, and it is difficult to compare that to a 1-year figure.

Mr. DOGGETT. But total amount over 10 years would be about what portion of the total Federal budget today?

Mr. ORSZAG. You want me—again, the 2.4 trillion is actually more than 10 years, and then it would be the—it would be, I don't know, three-quarters or so of 10 years Federal budget, but I am not exactly sure. I wouldn't normally do that kind of comparison.

Mr. DOGGETT. Thank you.

Chairman SPRATT. Thank you, Mr. Doggett.

Mr. Smith.

Mr. SMITH. Excuse me. I apologize for arriving here late from a markup in another committee.

When you talk about reset costs, what would you point to as something that might be neglected that we may need to address 5 years down the road or 10 years down the road rather than 2 years down the road?

Mr. ORSZAG. I am not exactly sure what you mean, sir.

Mr. SMITH. With the reset costs, replacing equipment and various other items, long term, I mean, we are finding out now that some of the equipment is needing to be replaced that was not replaced 10 years ago that maybe should have been, so we are starting to see some increased costs now, and certainly the war on terror exacerbates the entire issue.

Could you elaborate on that?

Mr. ORSZAG. Sure. Again, the most dramatic increases in costs over the past several years have been in the area of procurement, and part of that is related to the reset program. I would just note, though, that the reset program now is being so aggressively funded that our analysis suggests that it is more than offsetting what it is supposedly designed to do, which is to replace or repair equipment that is damaged in theater. In other words, it is leading to

a net improvement in the quality and number of tanks and trucks and what have you relative to prewar——

Mr. SMITH. So, I mean——

Mr. ORSZAG [continuing]. Because of the money that you are providing to it, okay?

Mr. SMITH. Excuse me. I understand, I think, where you are going with this.

Now, if a 1990—and my years are probably not accurate, but if a 1990 tank is needing to be replaced, what would you suggest replacing it with?

Mr. ORSZAG. Well, again, I think the question is not whether or not a 1990 tank needs to be replaced, but, rather, if a 1995 or a 1998 tank is damaged in theater, whether the purpose of the emergency funding that is provided for the reset program is to restore it to operational—you know, to its original state, or whether the funds should be used to purchase a 2007 or a 2008 high-technology tank.

A significant component of what is happening is the latter. Again, that is up to you. The way that the program is being described is that it is designed just to offset the impact of the war on that 1998 tank, and that is not all that is happening.

Mr. SMITH. Okay. Thank you.

Chairman SPRATT. With the consent of the Members on our side, I am going to allow Mr. Becerra to go ahead since he has got to leave for a markup and a vote imminently, so I recognize Mr. Becerra.

Mr. BECERRA. I thank the Chairman, and I thank my colleagues for that.

Dr. Orszag, thank you very much for your testimony. I would like to—actually, I am, first, disheartened that no one from the administration and from the Department of Defense took the opportunity and the invitation of this committee to come and testify about what has to be one of the most important things that we are facing, which is how to pay for this ongoing military operation in Iraq.

I am also saddened to learn that, even though the administration is not willing to be here, what we are finding today is not that we are seeing the tail end of the costs for this war begin to occur, but we are actually seeing costs on an annual basis rise to pay for the President's adventure in Iraq. My understanding is that every single cent of this war—and to date we are looking at over a half a trillion dollars—has been paid for with a government credit card, because not a single cent of it has been paid for, and neither has the President ever requested that we try to pay for any particular expense for the military campaign in Iraq, which, during times of record deficits and difficulties with other programs, makes it very difficult to understand.

I want to pick up on something that my colleague Mr. Doggett had mentioned, that ordinary Americans are talking about billions and now, of course, trillions of dollars for the Iraq war, but rarely do we put it in terms that the average American understands. If we could turn to chart number 1—I would like to just go through a few of these charts with you, Dr. Orszag.

My understanding is that if the war costs continue under these, in some cases, pretty rosy scenarios, we might expect to spend

somewhere on the order of $2.4 trillion by the time we get to 2017. My understanding is that we have a lot of Chicken Littles out there in the world saying that Social Security will not be around. Well, $2.4 trillion is over half of what it would cost us to stabilize Social Security for the next 75 years.

Do you have any dispute with that particular figure?

Mr. ORSZAG. Without disputing the $2.4 trillion as a significant sum, I would point out that that comparison does suffer from the flaw that the $4.7 trillion is in present value, and the $2.4 trillion is not, and therefore, it is not exactly an apples-to-apples comparison.

Mr. BECERRA. Not exactly, but I think even the oranges look pretty ugly.

Can we go to the next chart, number 2?

Again, the war request by the President just for the year 2008 dwarfs what the President said we could not spend for 10 million children in this country so that they could have health insurance. That, to me, is, perhaps, the most astonishing that the President said he had to veto the children's health care bill that would cover 10 million kids for a year who have no health insurance because we could not afford it. There you show that 40 days of Iraq war activity would more than cover the expense. When you see the chart that compares the two, the $196 billion that the President requested for the 2008 war funding compared to the $12 billion that we would spend for 2008 to cover 10 million kids, I think it is pretty dramatic.

Chart number 3, if I could have that one put up.

I think my colleague from Texas Mr. Edwards went through this. Again, I think it is hard for anyone to understand why it is that the President is willing to spend so much on the war and not even have to pay for it using the government credit card, yet his request for our veterans falls way behind it. In fact, it falls behind what the Congress was willing to do when it comes to trying to protect our veterans.

Chart number 6—or 5. Excuse me. Is it 6? Chart 6. Excuse me. Chart number 6.

As many of you know, California right now has 500,000 people who have been evacuated from their homes. We have had some six people who have been killed, dozens of people who have been injured as a result of these fires, many of them first responders. We have over 1,200 homes or buildings that have been destroyed, and there still is no end in sight. Yet, as you can see, the funding for the war dwarfs what we would spend for our first responders, and clearly, again, here, the President way underfunds our first responders and even what Congress is trying to do. But I think the interesting thing about this chart is that the bar on the left, the $25 billion, is the cost of borrowing money. That is not the cost of funding the war. That is just to pay the interest on the money that the President is requesting. That is what happens when you do not pay for something and you use the government credit card. Ultimately you have to pay for it. Well, the cost of paying the interest payments, which have no value because they are just interest payments on debt, exceeds by a tremendous amount what we are willing to spend on our first responders back in our home States.

Chart 8, if we can go to the chart quickly, and then I will go to chart 9.

Again, it puts more in perspective what we are talking about spending again on the government credit card because that $330 million a day is not paid for. That would equal the amount that we would spend for 45,000 veterans, giving them health care; new Border Patrol agents, 1,700; 46,000 more children could be in Head Start if we did not have to spend $330 million a day.

As to the final chart, I think this one is the most telling, of course. We spend on a daily basis $333 million on this war, unpaid for. In other words, our children will have to pay for this in the future. Yet, when you take a look at the Gulf War just 10, 15 years ago, that was our net total cost, $2.1 billion for the entire cost of that war. That is because we had allies in this so-called Coalition of the Willing to come forward.

So, Dr. Orszag, I thank you for having come forward with this information. I hope the American public will understand that, for the ordinary person in this country, there are costs to this war.

Mr. DOGGETT. Will you yield?

Mr. BECERRA. I certainly will.

Mr. DOGGETT. Reflecting back on your initial comments about the administration, as compelling as your charts and these soaring numbers are surely, this is a situation in which absence speaks much louder than words or statistics.

Mr. BECERRA. I yield back, Mr. Chairman, and I thank my colleagues for the opportunity to question.

Chairman SPRATT. Mr. McGovern.

Mr. MCGOVERN. Thank you, Mr. Chairman.

Dr. Orszag, I want to thank you for your testimony and for providing such important information and analysis.

While some of your testimony today builds on past reports, the impact of the Iraq war on the public debt is particularly important to this committee, which has the duty to draft a realistic budget. I only wish the President of the United States were listening and cared half as much about these issues as you do and as Chairman Spratt and as other members of this committee do.

I am troubled by the fact that the administration did not send a witness here today. I am troubled by the fact that so many of my colleagues on the other side of the aisle are not here today. I get the feeling that some believe that if we do not talk about it, that we do not have to deal with it. But we have heard a lot this morning about the growing costs of the Iraq war, and this is a real issue.

Now I would like to turn the conversation, if I may, to paying for the war. As your testimony illustrates, we are deep in debt from this war. Every second we borrow another $100 billion here and another $100 billion there to finance this war, the deeper and deeper into debt we go, and every morning China and Japan and the Arab oil-exporting States wake up and they buy the debt. We borrow money for this war, and they hold the IOUs.

We cannot keep borrowing money to pay for this war. We cannot keep putting it on the national credit card. Someday somebody is going to have to pay for this war, and right now the "borrow and spend and borrow some more" approach of the President's means

that that "somebody" is going to be our kids and our grandkids, and that "somebody" is going to be the children and grandchildren of every military family in America, including those fighting in Iraq and Afghanistan, they are going to have to pay for this. And that "somebody" is going to be the children of the wounded, many grievously wounded. They are going to have to pay for this. So, on top of all of the sacrifice already demanded of their fathers and of their mothers, this President is also demanding that their children sacrifice their financial security to pay off his Iraq war debt.

Just as the President intends to dump his mess of a war onto the lap of the next President of the United States, he has also deliberately and, in my opinion, cynically chosen to dump paying for this war onto the next generation.

So here is my question: If President Bush actually started to pay for the war beginning with fiscal year 2008, how would that affect the budgetary costs of the war on the public debt? Now, he would not be reaching back to pay for the $600 billion in borrowed money to fiscal year 2007, so that is still there, accumulating debt interest, but imagine the President's actually paying for fiscal year 2008 and onward. What would the budgetary impact be if the President had finally found the courage to pay for his war?

Mr. ORSZAG. Again, it depends on sort of what the course of the future war looks like, but under the two scenarios we have presented, if you offset the costs, he would reduce the impact on the debt, you know, in the slower phase-down case by a little bit more than $1 trillion; and then there is some debt service on that, too, so it is something like $1.2 trillion by 2017 if he paid for future activities.

Mr. MCGOVERN. Which is significant.

Mr. ORSZAG. That is a significant amount of money, yes, sir.

Mr. MCGOVERN. I also think—you know, sometimes—I think Mr. Becerra said this. We talk about these figures, and they are so enormous that I think people have kind of lost the ability to understand, you know, what $100 billion is or what $160 billion is. I was trying to do some calculations here. I mean, $160 billion, which is about 1 year of this war in Iraq, is equal to the entire budgets of the Department of Agriculture, Commerce, Justice, including the FBI and the entire Federal judiciary, Interior, Energy, Treasury, the Environmental Protection Agency, NASA. I mean, that is everything here in Washington. That is everything out in the field. I mean, we are spending a huge amount of money, and to put all of this on our credit card with no accountability and with no plan to pay for it I think is the height of irresponsibility.

The fact of the matter is sooner or later the President somehow is going to have to find enough courage and integrity to pay for his war, or the disastrous budget impacts described by you and by some of the witnesses who will testify later are going to get worse and worse and worse than, I think, we have ever imagined here. So it will be just one more toxic legacy of this disastrous war that, I think, we will have to leave our kids to have to clean up.

I think this committee in particular has a special responsibility to make sure that Members of both parties stand up to the plate and assume responsibility for this war. I mean this is a war that

has been decided to be waged by this generation, and this generation ought not dump all of the costs on the next generation.

I appreciate very much your testimony here today and all of your analysis.

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. McGovern.

Now Mr. Etheridge of North Carolina.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Let me thank you for holding this hearing because it is the role of this committee to try to help set a direction.

I think one of the things most troubling about all of this today—a great deal of it is about this amount of debt that we are piling up, as many of my colleagues have talked about. But let me ask you a question, and I am sorry Mr. Ryan is not here right now because he talked earlier about a percentage of GDP. My question to you is, if you can answer it succinctly, have you factored in the amount of borrowed money in the GDP? In other words, the GDP does not include the amount of money we borrow. That is a part of the expenditure of each year, isn't it?

Mr. ORSZAG. The calculations that I gave you today were both without and then with borrowing costs, so the $2.4 trillion has——

Mr. ETHERIDGE. Okay, but I think the chart we saw up here uses a portion of the expenditure; that is, the revenue coming in. Is the borrowed money a part of that revenue stream as you calculate the GDP?

Mr. ORSZAG. I am not sure what chart you are referring to, sir. I am sorry.

Mr. ETHERIDGE. It was a chart that Mr. Ryan put up, this chart.

Mr. ORSZAG. Oh, yes. That does not include debts. That is just the flow of spending each year——

Mr. ETHERIDGE. Okay.

Mr. ORSZAG [continuing]. Not including any interest on outstanding government debt.

Mr. ETHERIDGE. So, if you use that chart, you really do not have a good frame of what is really happening in our budget process.

Mr. ORSZAG. One of the reasons that——

Mr. ETHERIDGE. Let me tell you what I am getting to.

Mr. ORSZAG. Okay. Thank you.

Mr. ETHERIDGE. Because if you look at World War II, and if you look at Vietnam, the amount of debt that the country held and the amount of interest we were paying would be substantially lower as a part of our GDP than it is today because that is the fastest-growing part of our budget today.

Mr. ORSZAG. If you look over a long period of time, we have had the evolution of debt as a share of GDP. It was very high then in World War II because we faced a very substantial military conflict.

Mr. ETHERIDGE. Sure.

Mr. ORSZAG. There have been changes in both directions since then.

Mr. ETHERIDGE. Okay. So here is what I am getting to. If you look at the budget, if you look at the scenario you have laid out, the amount of borrowed money, and we assume no one tackles the issue of paying for it——

Mr. ORSZAG. Okay. Uh-huh.

Mr. ETHERIDGE [continuing]. Can you give us any indication at what point the amount of interest we are paying is going to crowd out everything else within this budget to include education and infrastructure?

Because the amount of dollars available for the domestic side of the budget outside of the mandatory spending is continuing to be squeezed. At some point this interest rate continues to grow, even with the cost of dollars you are showing, without additional inflation, and obviously that has got to grow if we do not start paying our debts.

Mr. ORSZAG. Let me put it this way: It is absolutely clear, under any analysis, that the Nation is on an unsustainable fiscal path, and the kinds of scenarios that we are discussing this morning exacerbate that unsustainable fiscal path in which higher debt and then higher interest costs will crowd out—will cause severe economic dislocation and problems eventually over time. That is exacerbated by additional spending on the war on terrorism, but it exists even in the absence of such spending. We are on an unsustainable fiscal path even without the type of money for the future that we are talking about in this hearing.

Mr. ETHERIDGE. All right. The long and short of it is that we have got to start paying our bills with real money.

Mr. ORSZAG. There is no question that a broad array of economists believes that it would be much better if we started offsetting the costs of new initiatives and if we, as a Nation, started saving more.

Mr. ETHERIDGE. I asked that question in that context because, within the last week, I have talked to farmers who are now—we have asked the White House. We cannot seem to get money to help them in the worst drought we have had in 100 years. I have visited schools where children are in makeshift classrooms, and that is happening across this country.

The truth is we are squeezing out the opportunities to deal with our own infrastructure while we are helping with other infrastructure, and I think this, over the long run, will inhibit our ability as a Nation to be able to grow and to compete in this fast-moving economic climate in which we find ourselves around the world.

Do you have any disagreement with that fact?

Mr. ORSZAG. Again, what I would say is there is no good outcome that comes from the fiscal path that we are on. We are borrowing—nationally, in terms of the Nation as a whole, we are borrowing an unsustainable amount from abroad. Every economist whom I know believes that that will change, the only question is when and how, and the sooner that we address those sets of challenges the better.

Mr. ETHERIDGE. Thank you.

Thank you, Mr. Chairman. I yield back.

Chairman SPRATT. Thank you, Mr. Etheridge.

We have got a vote coming up. Let us plow ahead in the hopes that we can, maybe, end this round of questioning.

Mr. Moore, Dennis Moore.

Mr. MOORE. Thank you, Mr. Chairman.

Thank you, Dr. Orszag, for being here.

Mr. Edwards asked you questions about veterans' medical treatment. Do you recall those questions, sir?

Mr. ORSZAG. Yes, sir.

Mr. MOORE. He asked you a question specifically about traumatic brain injury and about the cost of treatment of those personnel. Do you recall those questions, sir?

Mr. ORSZAG. I believe he asked about PTSD, not traumatic brain injury.

Mr. MOORE. I am sorry. He did. Okay.

What about traumatic brain injury? Do you have information on that in your statement and in the information provided?

Mr. ORSZAG. Yes, we do.

Mr. MOORE. All right. What would be the cost—and I apologize. I apologize to Mr. Edwards. I had to step out during his questions. I had a constituent to meet.

What would be the cost of providing medical treatment in the future to persons suffering from PTSD?

Mr. ORSZAG. From PTSD?

Mr. MOORE. Yes, sir.

Mr. ORSZAG. We can get you the figures. We have existing figures from the Veterans Administration on how much it is costing currently, and those were used along with extrapolated health care inflation to project future costs.

Mr. MOORE. Has the number of persons suffering from PTSD increased, to your knowledge, from past incidents, or do you know? Do you have that information?

Mr. ORSZAG. The number has, as you would expect, as the number of veterans exposed to stressful situations increases.

I think the question that we struggle with is how will the rate change. That is, we expect when the number of veterans goes up, that more people will suffer from PTSD, but will the rate increase or decline. And those are some of the countervailing forces that I delineated in my answers to Mr. Edwards.

Mr. MOORE. Yes, sir.

Dr. Orszag, how many State National Guard units have been deployed, to your knowledge, to Afghanistan or to Iraq? Do you have that information?

Mr. ORSZAG. I do not.

Mr. MOORE. We can get it?

Mr. ORSZAG. We can get it.

Mr. MOORE. I would like to have that.

[The information follows:]

Question (Mr. Moore): How many states have sent National Guard units to either OIF or OEF?

Answer: Based on the data that CBO has, it would appear that all 50 states as well as the District of Columbia have sent units to either or both of these operations at some time.

Mr. MOORE. Any idea how much equipment has been left behind by State National Guard units in Iraq and at what cost?

Mr. ORSZAG. We will also respond to you in writing on that.

Mr. MOORE. All right.

[The information follows:]

Question (Mr. Moore): What is the cost to the states to replace any equipment that those units left behind in theater?

Answer: Because equipment for units in the National Guard is provided by the federal government and purchased by the Department of Defense, there is no monetary cost to the states that would result from units leaving equipment behind in the-

ater. The Department of Defense noted in its February 2007 National Guard and Reserve Equipment Report for Fiscal Year 2008 that Army National Guard (ARNG) units had been directed to leave $3 billion worth of equipment in theater, which CBO estimates represents about 30 percent of the value of all Army equipment stationed permanently in theater.

Mr. MOORE. Do you know for a fact that that has happened in some circumstances, in some cases, though?

Mr. ORSZAG. Yes.

Mr. MOORE. All right. Do you have any idea how many States have provided National Guard units? I mean, would it be a majority of the States, or do you know that?

Mr. ORSZAG. We think so, yes.

Mr. MOORE. Yes. That would probably be at a cost of several billion dollars that you have not basically talked about in your information here; is that correct? I mean, you have not addressed that situation——

Mr. ORSZAG. Our costs are Federal Government costs. I just want to be clear about that.

Mr. MOORE. Exactly. I am not pointing the finger at you. I am just saying that is something that was not covered by your testimony; isn't that correct?

Mr. ORSZAG. I think there is some ambiguity about that, and we will get back to you.

Mr. MOORE. Thank you very much.

Do you have any way of knowing what the equipment that was left behind by National Guard units would do to their readiness in the future to respond to a similar situation in the future?

Mr. ORSZAG. An obvious statement would be the more equipment that is left there and not replaced, the more difficult it is. There are currently difficulties just even in the regular military with, for example, trucks in particular, more advanced trucks. So there are equipment shortages in various different parts of the military outside of the theater in question.

Mr. MOORE. I am not trying to be critical of you by asking these questions, but these were part of the overall picture. Your study basically and your testimony related to the costs to our country, to our Nation, for the deployment of troops and for the equipment that was deployed to Iraq and Afghanistan; isn't that correct?

Mr. ORSZAG. To the Federal Government, yes.

Mr. MOORE. Right, but there are other costs to the States and to the readiness, potentially, in the future. Would that also be a fair statement?

Mr. ORSZAG. Let me just hone in on "readiness."

There is no question that the military has set a sort of norm that there should be two units at home for every unit deployed abroad for regular readiness purposes and training and what have you, and we are nowhere near that. We are, you know, somewhere close to one for one, and it ranges between .75 and 1.5 in terms of units at home relative to those deployed abroad, and that is an unsustainable situation.

Mr. MOORE. Would it be correct to say, based upon the national debt at the time in the last, say, 6½, 7 years, that it was about $5.8 trillion to $6 trillion, and now it is over $9 trillion?

Mr. ORSZAG. You are measuring gross debt——

Mr. MOORE. Yes, sir.

Mr. ORSZAG [continuing]. And I prefer to use debt held by the public. But on gross debt figures, you are approximately correct.

Mr. MOORE. Well, thank you. And I leave you to your preference, but I would like to state that the debt, under my circumstances, has gone up over $3 trillion in the past 6½ to 7 years; is that correct, sir?

Mr. ORSZAG. The gross debt increases will have gone up by—I am just getting the exact number. It will just take me a second—something like that.

Mr. MOORE. All right. We can expect that figure to increase in the future based upon your testimony today and based upon what is happening in Afghanistan and in Iraq and as to the costs to our military. Is that correct as well, sir?

Mr. ORSZAG. Yes. At the end of fiscal year 2007, the gross Federal debt was, indeed, $9 trillion. That figure will continue to increase.

I would note, though, as an economist, the other concept of debt held by the public is the one that is typically used by the economics profession.

Mr. MOORE. I understand, but we have mortgaged the future of our children and grandchildren; is that correct?

Mr. ORSZAG. The way I would put it is we are on an unsustainable fiscal path, and something has to give. There is no question about that.

Mr. MOORE. Thank you very much.

Thank you, Mr. Chairman.

Thank you, Dr. Orszag.

[Response to Mr. Moore's question from CBO follows:]

Question (Mr. Moore): What is the effect on the readiness of those units that left equipment behind?

Answer: Leaving equipment behind in theater undoubtedly has a negative effect on the readiness of a unit once it returns to the States. Although CBO cannot quantify the size of this effect, many ARNG units were already short of equipment before they were mobilized to deploy to Iraq. Leaving some of their equipment behind would only aggravate the shortage. It should be noted, however, that the Department of Defense received more than $4 billion from the Congress to purchase equipment specifically for the ARNG in 2007. Although not all of the equipment to be purchased with these funds will have been delivered to Guard units yet, it should eventually go a long way to alleviate the shortages caused by leaving equipment in Iraq and Afghanistan. The Department of Defense has requested at least $4 billion for equipment for the ARNG in 2008 and plans to devote an additional $18 billion over the five years (2009 through 2013) to purchase equipment for the Guard.

Chairman SPRATT. Mr. Bishop.

Mr. BISHOP. Thank you, Mr. Chairman. Thank you very much for holding this hearing.

Dr. Orszag, I just want to make sure we all have the same set of numbers. The additional debt service cost on the $196 billion supplemental, we have calculated it at approximately $25 billion. Do you accept that number?

Mr. ORSZAG. Over the next decade?

Mr. BISHOP. No. What is the number? Just in 1 year.

Mr. ORSZAG. Oh, no. That would be too high. The debt service on $200 billion for 1 year should be something—you know, approximately $10 billion.

Mr. BISHOP. Approximately $10 billion?

Mr. ORSZAG. Yes.

Mr. BISHOP. That amount is approximately half of the amount by which the total nondefense discretionary funding that the House has passed exceeds the President's request, correct?

Mr. ORSZAG. The disagreement between the Congress and the President over discretionary spending levels is a little bit more than $20 billion.

Mr. BISHOP. And that $20 billion is only about $6 billion above current services; is that correct?

Mr. ORSZAG. I think that is approximately correct.

Mr. BISHOP. All right. So we are looking to spend $6 billion above current services, and that amount has been described as representing fiscal irresponsibility. Yet it is an amount that is less than the additional debt service just on the Iraq supplemental; is that correct?

Mr. ORSZAG. Six billion dollars is less than $10 billion, yes, sir.

Mr. BISHOP. Okay. Thank you.

Now, the fiscal year 2007 supplemental was approximately $170 billion.

Mr. ORSZAG. Correct.

Mr. BISHOP. I believe I heard you say that approximately $30 billion to $50 billion of that remains unobligated at this time.

Mr. ORSZAG. Yes. I am just wondering if it is all from the fiscal year 2007.

Those are all fiscal year 2007, yes.

Mr. BISHOP. Is that amount carried forward into fiscal year 2008?

Mr. ORSZAG. It can be obligated. Oh, yes, I remember now. About $30 billion can be obligated. There is some authority that cannot. It expires basically.

Mr. BISHOP. But some $30 billion could be carried forward. So, if we were to approve the entire $196 billion requested, the budgetary authority would be approximately $226 billion for fiscal year 2008 for the Iraq and Afghanistan wars?

Mr. ORSZAG. We are mixing and matching a little bit because some of the $196 billion will, presumably, not be obligated in fiscal year 2008.

Mr. BISHOP. I guess that gets to my question.

In the President's transmittal to us—I am just going to quote it. He said, "I hereby designate the specific proposals of the amounts requested herein as emergency requirements. This request represents urgent and essential requirements."

If some $30 billion to $50 billion of the $170 billion—so 20 to 30 percent of the original request—remains unobligated after the fiscal year is over, does that not beg the question of the level of urgency or the level of emergency associated with the request?

Mr. ORSZAG. One complication is most of that money is in procurement and cannot, without some change, be used for operations and maintenance or other activities, so there is a sort of fungibility, or transferability, issue that would have to be addressed.

Mr. BISHOP. But there is some 60-some billion dollars of procurement money in the $196 billion; is that right?

Mr. ORSZAG. Yes. I can look up the exact figure, but it is significant.

Mr. BISHOP. But procurement, assuming they could get it all done, could be as much as $90 billion out of the 220-some billion dollars?

Mr. ORSZAG. Again, if you are mixing these two concepts together, yes.

Mr. BISHOP. I guess one of my concerns is I think—I do not know whether you would agree or not, but we are 5 years into this war. We are funding it via supplementals. The fact is that as much as a third of what had been requested as urgent in fiscal year 2007 remains unobligated now that we are into fiscal year 2008.

Does it not underscore the lack of desirability, for a lack of a better phrase, of funding this through supplementals? I mean, would we not be able to apply greater scrutiny, would there not be greater planning associated with the expenditures if these were part of the regular budgetary process as opposed to these emergency supplemental processes?

Mr. ORSZAG. There would generally be more scrutiny if everything were as part of the regular appropriations process. On the other hand, you know, in fairness, it is often difficult to project out exact amounts far out in a military conflict.

I would just come back, though, to the procurement point, which is, again, a large share and much of the increase in the supplementals is coming in this area, and I will just come back to raising the questions that were raised in some of our reports about exactly what that is purchasing and whether it is directly tied to the war on terrorism, or whether it is accomplishing other objectives that the Defense Department would like to achieve that may be necessary for our overall military readiness, but that are not directly tied to the war on terrorism.

Mr. BISHOP. Thank you very much.

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Bishop.

Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman.

Mr. Orszag, when was that 2007 supplemental available to DOD to start spending?

Mr. ORSZAG. Well, I can get you the exact date. Hold on 1 second.

Mr. CONAWAY. July-ish?

Mr. ORSZAG. May.

Mr. CONAWAY. Certainly not October 1 of 2007——

Mr. ORSZAG. No.

Mr. CONAWAY [continuing]. Or of 2006. Excuse me.

Somewhere towards the last half of the fiscal year, it became available for the DOD to spend?

Mr. ORSZAG. In May 2007, the Public Law 110-28 provided $95 billion out of the total, and I guess the other $70 billion was—I think the other $70 billion was available earlier on, so there is a split.

Mr. CONAWAY. Okay. All right. But not the full year to get this money obligated.

Mr. ORSZAG. Correct.

Mr. CONAWAY. All right. Do you see anything just horrible about the fact that we have got some money, based on the fact that this

request was made in late 2006, and that there was some money that may not have been yet spent?

Would it have been wiser to obligate that money to take this argument away if it were not to be obligated on things they really needed?

Mr. ORSZAG. You long ago taught me not to use words like "horrible."

Mr. CONAWAY. There you go.

Mr. ORSZAG. Now, again, I would just come back to that it looks like a big part of this has to do with the procurement in terms of unobligated amounts that have been provided in budget authority.

Mr. CONAWAY. All right. I am going off the subject just a little bit, but in talking about timing and about getting things done, the Senate and the House have both passed their versions of the military quality of life 2008 appropriations bill, and it is not at conference yet; it was brought back to the House; it has not passed yet. We started the fiscal year on October 1.

Do you have any sense of what the veterans have not been getting this month as a result of the delays in bringing this bill back to the House?

Mr. ORSZAG. I do not have any information on that to provide to you.

Mr. CONAWAY. If I say it was $18.5 million a day off the House version that they are not getting those increased benefits while we sit and ponder the past, is that anywhere in the realm of——

Mr. ORSZAG. I do not have any reason to doubt your figure.

Mr. CONAWAY. Okay. All right. Let me put it this way. If, in fact, the military quality of life appropriations bill had an increase in it for 2008 versus 2007, can they spend that increase right now?

Mr. ORSZAG. No. We are operating under a continuing resolution.

Mr. CONAWAY. From the 2007 levels?

Mr. ORSZAG. That is correct.

Mr. CONAWAY. So it is fair to say that whatever that increase is, whether it is $18.5 million a day in increased benefits to our veterans, they are not getting it right now, that they are not getting those increases whatever they might be?

Mr. ORSZAG. That would be a direct conclusion from it.

Mr. CONAWAY. All right. Help me understand a little bit on the gross debt versus the net debt.

Are we not paying interest on the debt held by the Social Security Trust Fund and other things? Are we not paying interest on that?

Mr. ORSZAG. The question arises as to—there is interest paid from the rest of the government to the Social Security Trust Fund and to the other trust funds whose debt is included in gross Federal debt. There is a question about the degree to which those transfers between one part of the government and another part of the government represent the same net burden on the economy or net implications for the economy as net interest transactions between the government and the rest of the economy. So, when one part of the government pays another part of the government interest that is of a different nature than when the government pays private borrowers—or private creditors, actually——

Mr. CONAWAY. Is that because the part of the government that is paying it is a revenue-generating part of the government where they are selling goods and services to somebody, and they are actually earning that money separate and apart, or is that money actually coming from taxpayers also?

Mr. ORSZAG. The way I would put it is we tend to look at—the net impact of the budget on, for example, the Nation's savings rate and on the macroeconomic demand tends to be tied to the unified budget concept, which incorporates both Social Security and the rest of the budget.

Mr. CONAWAY. Okay. That is a bit hocus-pocus for Mom and Dad back at home. Debt service as shown up in the budget is on the gross debt, right?

Mr. ORSZAG. The debt service that shows up in the budget—you know, on the bottom line, when we say the budget deficit in fiscal year 2007 was 1.2 percent of GDP or was, roughly, $160 billion, that is net interest. That is not gross——

Mr. CONAWAY. So that does not include the interest that is, in effect, owed to the Social Security Trust Fund and that will ultimately have to get paid out, assuming the Federal Government is good for its debt?

Mr. ORSZAG. Again, the reason is that you are collapsing Social Security's part of the government, and so——

Mr. CONAWAY. I understand the mechanics, but when it comes time to pay that money out in 2017-ish——

Mr. ORSZAG. We can have a very long discussion about the theology of the Social Security Trust Fund.

Mr. CONAWAY. I am just talking about the debt versus the gross debt.

Mr. ORSZAG. No, but it ties back to the broader question of the meaning of the Social Security Trust Fund and the mechanics of how those transactions are undertaken. And I would just go back to saying that the headline figures that we tend to use for the budget deficit relate to net interests paid to the public and not——

Mr. CONAWAY. I am a CPA by trade. We are hiding the truth when we use a net deficit that eliminates the Social Security excesses that are collected each year to reduce our unified budget deficit. I think that is hiding the truth as well.

Mr. Orszag, I appreciate your being here, buddy.

Mr. ORSZAG. Thank you.

Mr. CONAWAY. I yield back, Mr. Chairman.

Chairman SPRATT. Ms. Moore from Wisconsin.

Let me say we have got 5 minutes and 12 seconds to cast our votes.

Ms. Moore, if you would yield 30 seconds to Mr. Edwards, we will then save the balance of your time and come back as quickly as possible. We have got two votes, but the second vote will follow shortly after this one.

Mr. Edwards.

Mr. EDWARDS. Mr. Chairman, in response to my friend and colleague Mr. Conaway's comments, let me say into the record that last year, under the Republican leadership, this Congress failed to even pass a VA appropriations bill, yet this year we are hearing Republicans concerned. We are now 24 days into the new fiscal

year. In 2006, they did not pass it until November 30th; in 2005, December 8th; in 2004, January 23rd; in 2003, February 20th; in 2002, November 26th.

It seems that the concern that the Republicans have today, this year, under the Democratic leadership in the Congress, which has increased veterans spending by $5.2 billion already this year—it seems like there is a lot more concern than there was during the 10 years that Republicans were in control. By the way, the last time the Republicans passed a VA appropriations bill on time was in 1996.

I yield back.

Chairman SPRATT. We will return shortly. Meanwhile, the committee will stand in recess subject to the call of the Chair.

[Recess.]

Chairman SPRATT. I call the hearing back to order, and we will finish with this witness as soon as possible.

Mr. Berry of Arkansas.

Mr. BERRY. Thank you, Mr. Chairman, and thank you for holding this hearing.

I am concerned that such a small number of our colleagues from across the aisle has chosen to attend and also that the administration has chosen not to participate in these hearings. As I understand it, they were offered the chance and were encouraged to do so, but they chose not to do that.

I have several questions, Dr. Orszag. I think you are a good and honorable man. You have a very difficult job. I appreciate the way that you do it and present it in as honest a way as is humanly possible to do.

Over and over in the short time I have been on this committee, people in a position like yours come before us and tell us that one of the problems they have is that it is difficult to track money at the Department of Defense. There is just not enough transparency. From time to time, it is hard to tell where the money is, who has got it, what to spend it on, and what have you.

Am I stating that correctly?

Mr. ORSZAG. I think it is fair to say that we do not have full transparency into the budget systems to the degree that it would be beneficial to have.

Mr. BERRY. I find myself—maybe it is a function of my age. I just got my Medicare card, and I am beginning to get maybe a little bit more focused on my children and grandchildren than I have been in the past, but I find myself very concerned. I think history's road is littered with the remains of great nations that got bogged down in a war and where they ended up spending their entire fortune and all they could borrow to go with it to deal with that, and where they ended up bringing their countries down. I would certainly hope that we would make the right decisions here and get ourselves on a path to a successful Nation, and not one that is just continuing to bog itself down in debt.

I do not know if you even have the ability to answer this or not, but when the war was begun, when the President made that decision, he told us that the oil revenues in Iraq would be enough to pay for the reconstruction. Do you have any idea how much that revenue is and where it is going? Does it go back to the Iraqi

Treasury or to the U.S. Treasury? Do they actually pay for anything themselves?

Mr. ORSZAG. I think the clearest answer to that is that the reconstruction activities that we are undertaking on net have cost us—I gave you the figure over the past—you know, through 2007. So it is not the case that any revenue generated from Iraq or elsewhere has been sufficient to offset the costs of what we have been undertaking.

Mr. BERRY. But you do not have knowledge of where that money goes?

Mr. ORSZAG. We could respond in writing, but the short answer is that we can give you the figures, but in terms of tracing exactly where the money goes, that is a more difficult undertaking.

Mr. BERRY. Right. I think you had a line item in your testimony that mentioned international operations. Would that be the State Department?

What I am really trying to get at here, are these private security forces like Blackwater, are they included in this supplemental? Do we pay for them out of DOD money, or does the State Department pay for them?

Mr. ORSZAG. I believe that most of that money is included in the figures that we have given you.

Mr. BERRY. Okay. Well, it seems as though my colleagues from across the aisle are determined to try to make chicken salad out of chicken litter, and it is pretty difficult to do, and as much as we would all like to see a rosy picture—and goodness knows we are all ready for one, especially when it comes to this war and to Iraq—and as well-intentioned as, I think, you and your colleagues are, if you came here to cheer me up this morning, it is not working.

I thank you very much for your time and for your knowledge.

Mr. ORSZAG. I am sorry we did not cheer you up, but I guess that was not the intention of the hearing necessarily.

[Responses to Mr. Berry's questions from CBO follow:]

Question (Mr. Berry): To what extent have Iraqi oil revenues been used to fund Iraqi reconstruction, thereby reducing the potential fiscal liability of the U.S. Government?

Answer: Iraqi oil revenues have not been as high as initially projected, this have not gone as far as hoped toward offsetting the fiscal liability of the U.S. Government. The Iraqi government had set a goal to export 2.5 million barrels of oil per day, and the International Monetary Fund (IMF) set a goal of 2.7 million barrels. Actual exports since the U.S. invasion have hovered about 1.5 millions barrels per day, largely due to war damage, sabotage, and diversion of some oil to the black market. Although many outside companies are interested in investing in Iraq's oil industry, few are willing to do so without a more stable security situation and better investment laws and regulations.

Rising oil prices have had a positive effect, tending to increase oil revenues. However, Iraq's Ministry of Finance has been slow to transfer funds to the Ministry of Oil, making it difficult for the latter agency to maintain the oilfields and execute capital improvement projects. The U.S. Congress has thus far provided about $40 billion in reconstruction aid to Iraq, including funding from the Iraq Relief and Reconstruction Fund and the Iraq Security Forces Fund.

Question (Mr. Berry): Are private security forces like Blackwater included in the supplemental appropriation? Do we pay for them out of DoD money, or does the State Department pay for them?

Answer: Direct contracts to the three major security contractors in Iraq—Blackwater, Triple Canopy, and DynCorp—are managed and paid for by the State Department. DoD does not contract with those firms directly, but some of DoD's

prime contractors purchase security services from subcontractors, and the three firms just mentioned may be among the subcontractors. Thus, indirectly, DoD may pay those firms as well. In either case, however—whether managed by DoD or by the State Department—the amounts are included in the appropriation totals contained in Dr. Orszag's prepared statement.

Chairman SPRATT. Thank you, Mr. Berry.

Ms. Moore of Wisconsin.

Ms. MOORE. Thank you so much, Mr. Chair.

I was very intrigued by a line of questioning that the Ranking Member was following when he indicated that perhaps the cost of the war was overstated. He said that the supplementals plus the regular budget and the debt service and the costs that you included beyond inflation such as, I would imagine, health care costs and unpredictable things were an overstatement. I was very intrigued, very excited, as a matter of fact, when he sort of suggested that if we were to diminish our commitment to certain Cold War assets and equipment, that we could, perhaps, have a different outcome.

Just briefly—I know you have not had time, really, to do any number-crunching on this, but I was very intrigued by that line of questioning, and I am wondering would that amount to a tremendous difference if we were to exclude those Cold War assets from your future calculations?

Mr. ORSZAG. Well, I guess the way I would put it is there are clearly significant opportunities, many of which are identified in the CBO Budget Options volume that we put out, for example, at the beginning of this year, to modify the course of future defense spending through changes in policy, and undoubtedly there are many policy choices that you all could make to alter the path of future defense spending.

Ms. MOORE. Thank you.

You talked in your testimony about having greater access to the cost model that DOD utilizes, and I am wondering, there was a provision in the appropriations bill that would add a little bit more teeth to the 9010 measuring stability and security reports, which do not contain metrics on war costs and are not required by law. Would that be helpful to you in your analyses?

Mr. ORSZAG. I am being told by the people who know "not really."

Ms. MOORE. Not really. Okay.

I am wondering if you are familiar with A Unified Security Budget, a report of the task force, the principal authors being Miriam Pemberton and Lawrence Korb from the Foreign Policy in Focus, Institute for Policy Studies, and the Center for American Progress and the Center for Defense Information.

Here they basically talk about the appropriateness of, you know, number one, providing the full costs of the defense budget and the war budget as a unified budget, but, in addition to that, the foreign ops budget, the diplomatic efforts, a unified approach. They say that a unified security budget would pull together in one place the U.S. spending on all of its security tools; you know, military forces, homeland security and prevention, quite frankly, nonmilitary international engagement.

I am wondering if you have ever undertaken some sort of analysis or would undertake an analysis of what impact the unified budget would have.

Mr. ORSZAG. I think in general, and this has arisen with regard to Homeland Security spending and in other areas, efforts like that can often provide more transparency and a better trade-off across different subcomponents of related efforts. There is difficulty, though, in the way that Congress is organized in jurisdiction across both authorizing committees and appropriations subcommittees in that kind of effort, so it is difficult to have an aggregate budget for some activity that is split among lots of different committees, and that often leads to complications that would need to be taken into account in evaluating that kind of approach.

Ms. MOORE. Okay. In my final seconds, I just wanted to revisit some of the comments that the Ranking Member made as he challenged your projections on the defense budget. He talked about balancing the budget.

I am wondering, in his question and in your response, did you consider that defense is not subject to pay-go?

Mr. ORSZAG. That is correct. Discretionary spending is not subject to the pay-as-you-go rules.

Ms. MOORE. So what was the relevancy—I guess I was not able to fully follow that—your give-and-take on that? Because neither of you mentioned that fact. So, when you started talking about the Republicans balancing the budget by, I believe, 2012, I am wondering what were his assumptions, as you understood them, about that?

Mr. ORSZAG. Let me separate two things. One is what happens after 2012 and before—under any projection in which the budget is balanced and goes into surplus after 2012, which is the question that you are asking, which is—the spending we are talking about is discretionary spending, and one of the reasons that the CBO traditionally does not attach debt service costs to changes in something like discretionary spending is it is really hard to parse out what is—you know, you are collecting $100 in revenue, and then you are spending something. How much of the existing revenue is going for this kind of spending versus that kind of spending? It is much clearer when you are changing a mandatory program or a flow of taxes, the stuff that is subject to pay-go. If you are not offsetting it, then it is clearly adding to the budget deficit, and it has the debt service implications that then follow.

On the discretionary side, I think the thought concept is there is a certain level of discretionary spending that is embodied, for example, in the baseline or that would occur in the absence of the war, and if the war is additional spending that is not offset in the rest of the budget, that has additional debt service costs. As I tried to make clear to Mr. Ryan, that occurs regardless of whether the budget overall is in surplus or in deficit. The key thing is whether any additional costs are offset somewhere else in the budget.

Ms. MOORE. Thank you so much.

I will yield back.

Chairman SPRATT. Now Mr. Doggett has a couple of questions to wrap up.

Mr. DOGGETT. Thank you very much.

I would again note that throughout this hearing, at no point, except for one very brief moment, has there been more than one Republican Member present, and now there are no Republican Mem-

bers present, not because we discouraged their participation, but for reasons that they can explain.

I would like to redirect Mr. Orszag's testimony to an inquiry I had earlier that I got cut a little short on.

Many of us feel that this surge was a serious mistake, that it has not accomplished its purpose. I understand it is not your function to analyze that aspect of it, but just looking purely at the dollars and cents at the time that you made your estimate at the Congressional Budget Office, you were criticized vigorously earlier this year, just as this administration has criticized almost everyone who differed with it on anything about the Iraq war. I note in particular that it was said that you had greatly overestimated the cost of the surge, and I would just ask you to respond generally on how the estimates of the Congressional Budget Office compare with the actual cost of the surge in this fiscal year.

Mr. ORSZAG. The cost of the surge is very closely tied to the number of troops involved. We had originally put forward a range that at the lower bound was 35,000 additional troops. We are now above that. So I think the record shows that our analysis was right on target; again, a credit to the outstanding staff that CBO has. To the extent that the administration had criticized that original analysis, the facts, as they have turned out, have not been kind to that criticism.

Mr. DOGGETT. I thank you.

In fact, I believe Secretary Gates said you greatly overestimated this. Rather, the truth is that this administration, from its original $50 billion estimate on the cost of the war in Iraq right through to the estimates that are being made outside this committee today, consistently lowballs and misstates to the American people the true cost of the dollars and, of course, the true cost in blood that we are paying for this go-it-alone misadventure.

I want to ask you about one other aspect of that. Again, I am just asking you about the numbers.

Mr. ORSZAG. Uh-huh.

Mr. DOGGETT. At the onset of this war, we were told by the administration, as far as the cost of reconstruction, this was going to be an easy matter; that it would be handled through the Iraqis themselves, because they were in a rich country.

Of the costs of the Iraq war on the reconstruction side, how much have we already paid out versus this self-pay claim that was made at that time?

I believe specifically on March 27th of 2003, the comment was, "'The oil revenues of Iraq could bring between $50 billion and $100 billion over the course of the next 2 or 3 years. We are dealing with a country that can really finance its own reconstruction and relatively soon,' Paul Wolfowitz said here in testimony in the House."

Mr. ORSZAG. There is no question—and in the figures that I gave you for 2001 through 2007, you saw that a subcomponent of the $39 billion cost over that period, which is part of the overall $600 billion, is for reconstruction, and there is no question that there is a significant amount of net effect—negative—that is extra cost in that area. In other words, it is not the case that reconstruction efforts have paid for themselves.

Mr. DOGGETT. Have you done any analysis of how much of our appropriations have actually gone to pay for weapons for those who are opposing us? There has been, I know, a General Accountability Office study showing a significant diversion of weapons to the insurgents. Has there been any analysis of that at CBO?

Mr. ORSZAG. We have not done that. That is more of a GAO type.

Mr. DOGGETT. Then there has also been an indication that a significant amount of money—I believe the most recent purchase proposed $100 million of our appropriations—is going to buy the Iraqis weapons from the Chinese.

Have you done any analysis of how much money has been expended on purchasing weapons from China, Russia, Iran?

Mr. ORSZAG. No, we have not.

Mr. DOGGETT. And with reference to the so-called—another bit of fiction, illusion, the so-called Coalition of the Willing, have you done any analysis of how much this administration has spent already and how much it has committed us to in the future to buy members of the Coalition of the Willing so that they would be willing.

Mr. ORSZAG. Again, I wouldn't necessarily use that—that kind of terminology, but——

Mr. DOGGETT. You speak more as an economist than an accountant, but I am speaking about the practical implications.

Mr. ORSZAG. The information that I have is the Department of Defense has reported using $1.2 billion of its—or in the material for 2008 that it has requested, $1.2 billion of its funds for support of Coalition partners in 2006 and $1.4 billion in 2007. That was part of the material that it used to justify its 2008 request.

Mr. DOGGETT. That is out of its appropriations request for Iraq?

Mr. ORSZAG. Again, those numbers are from the past, and, yes, it is part of this overall total, but we have the information from the request that they submitted for 2008.

Mr. DOGGETT. Does that include building a missile defense system in Poland and the Czech Republic?

Mr. ORSZAG. No.

Mr. DOGGETT. So I don't know whether that is being done because of all of the renditions and the hidden prisons there are more directly related to Iraq.

Does it include any trade benefits that were given to any of these alleged willing partners?

Mr. ORSZAG. No.

Mr. DOGGETT. Thank you very much.

Chairman SPRATT. Thank you, Mr. Doggett.

And, Dr. Orszag, that concludes your testimony unless there are some parting remarks you would like to leave us with.

Thank you for your participation and your excellent answers and for your entire staff for the solid work that they have done in preparation of this report. We are very, very grateful.

Chairman SPRATT. We will now turn to the second panel, which consists of Amy Belasco of the Congressional Research Service, and Professor Linda Bilmes of the Kennedy School of Government at Harvard University.

Thank you both for your participation and for the efforts that you put into your testimony.

As we previously indicated, your prepared testimony will be made part of the record, and you can summarize it as you see fit.

Ms. Bilmes, let us begin with you, if that is agreeable with the two of you. The floor is yours, and you can summarize your statement to the extent that you see fit. Thank you once again for coming, and thank you for your fine work.

STATEMENTS OF LINDA BILMES, PROFESSOR, JOHN F. KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY; AND AMY BELASCO, CONGRESSIONAL RESEARCH SERVICE

STATEMENT OF LINDA BILMES

Ms. BILMES. Thank you, Chairman Spratt.

Thank you, Chairman Spratt and members of the committee. Thank you for inviting me today to speak on this important topic. I am Linda Bilmes, professor at the John F. Kennedy School of Government at Harvard University, and as you know, for the past 2 years I have been studying the total cost of the Iraq conflict, particularly the cost of caring for our veterans, with my colleague, Professor Joseph Stiglitz of Columbia University.

The paper that we published 2 years ago estimated that the cost of the war would range from 1- to $2 trillion. That was 2 years ago. We are currently updating that study, but so far our predictions have come closer than we even could have anticipated.

I have been asked to speak today about the long-term accrued costs and the nonbudgetary costs of the war. By long-term accrued costs, I refer to costs that we have already incurred but not yet paid, such as providing lifetime disability compensation and medical care to veterans with disabilities. And by nonbudgetary costs, I refer to the costs that the government does not pay, but someone else is bearing the costs; for example, the families taking care of wounded soldiers who return home, the loss of economic productivity when a soldier is killed or injured, and the impact on the economy of macroeconomic factors such as the price of oil.

Finally, I was asked to say a word about the cost of paying interest on the money that we have borrowed to finance the war.

The key message that I want to deliver is that these additional costs are very significant and very real. We estimate that the cost of providing disability benefits, medical care, and Social Security disability compensation to veterans from Iraq and Afghanistan is between 350- and 500 billion over the course of their lives. This is based on claims activity by OIF/OEF veterans to date plus extrapolations of data from the first Gulf War.

We estimate that the costs of replenishing military equipment that is being used up faster than it is being replaced is in excess of $100 billion. However, I want to note that the transparency in the Defense Department's account on this topic is very poor, so this may well understate the true amount.

We estimate that the economic loss to the country from the deaths of more than 4,000 soldiers, U.S. soldiers, in the conflict is at least 30 billion based on using the standard valuation of statistical life methodology that the civilian government agencies such as OSHA, EPA and FDA adopt. This is a case where the official government estimates of the war significantly understate the true

costs because the budgetary cost of a lost soldier is $500,000 as opposed to the 6- to $7 million which civilian agencies use to estimate a loss.

We expect the economic losses to the country from soldiers who are wounded, injured or incapacitated by mental illnesses will add between 200- to $300 billion to the cost of the war. This is based on a new analysis we have conducted with the assistance of a team of neurologists and psychiatrists at five VA hospitals and at the UCSF medical school shortly to be published in the New England Journal of Medicine, as well as research published by the Veterans' Disability Benefits Commission just last month.

Another cost is the cost to the families. One out of every five disabled veterans, according to the Dole-Shalala Commission, has had a family member who has had to leave his or her job to become a full-time caretaker. Other families have had to make other adjustments, not completely leaving their jobs, but other adjustments, and we estimate the economic loss from this as 40 billion.

I have not included but I want to note the issue of quality-of-life impairment. Many countries, including Australia, Canada, New Zealand and the U.K., pay lump sums purely for quality-of-life impairments. Those lump sums reach up to $500,000, and the President in his current proposals for reforming the disability compensation has proposed that we include a quality-of-life payment.

Turning to the macroeconomic effects of the war, the effect on the price of oil, which has risen from $25 a barrel before the war to $90 a barrel now, is also a cost to the economy. Even if we attribute only 5 to $10—you are used to this, but I am not—even if we a attribute only——

Chairman SPRATT. There are about 14 minutes left for the vote, so there should be ample time for you to finish.

Ms. BILMES. Even if we attribute only $5 to $10 of this increase to the Iraq conflict, the impact on the economy is from 175- to $400 billion. The multiplier effect of this price increase, that is the amount that consumers spend less on other goods, adds another at least 187 billion.

Finally, interest costs can be thought about in three ways. First, there is the money that we have already spent on what we have already borrowed. That amounts to about $85 billion, including $58 billion for Iraq. Second, there is the interest on money that we still have to pay in the future on what we have already borrowed, which adds another 450 billion. Third is the interest cost that we need to pay in the future on money which we will borrow in the future. We have not included an estimate of this, but it would be, depending on the assumptions used, very considerable.

In summary, the budgetary costs of the war that we see capture only a fraction of the total costs, and taken together, we estimate that all of these costs I have described add nearly $1 billion on top of the total cost of the war that the government estimates.

Thank you very much.

[The prepared statement of Linda Bilmes follows:]

PREPARED STATEMENT OF PROF. LINDA J. BILMES, KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY

Mr. Chairman, and Members of the Committee, thank you for inviting me to speak to you today on this important topic. I am professor Linda Bilmes, a faculty

member at the Kennedy School of Government at Harvard University, where I teach management, budgeting and public finance.

By way of background, in January 2006 I co-authored, with Nobel laureate Professor Joseph Stiglitz, a paper that analyzed the economic costs of the Iraq War. At that time, we estimated how much the war in Iraq was likely to cost in total, taking into account budget costs to date, future operating costs, long-term accrued liabilities (such as veterans disability compensation), and economic costs (such as the lost earnings of those who were killed and wounded). At that time, we estimated that the total cost of the war would be from $1.2 to $2.2 Trillion, depending on the length of the war and other factors. We are presently updating out numbers and we will present an updated paper at the American Economic Association in January.

One of the long-term costs we identified is the cost of providing lifetime disability benefits and medical care for veterans. After we published the paper, we were contacted by the major veterans' service organizations, who thanked us for shedding light on this topic, but urged us to take a closer look into the needs of returning veterans. As a result I wrote a second paper published in January 2007, specifically looking at the cost of providing medical care and disability benefits to veterans deployed in Operation Iraqi Freedom and Operation Enduring Freedom (OIF/OEF). [The paper, Soldiers Returning from Iraq and Afghanistan: The Long-term Costs of Providing Veterans Medical Care and Disability Benefits, KSG Research Working Paper RWP07-001 has been submitted for the record.] Since then I have testified twice to the House Veterans Committee on this topic and I am submitting my testimony to the record.

As you know, Congress has already appropriated over $600 billion for the war effort in Iraq and Afghanistan, of which three quarters, is for operations in and around Iraq. This year, the President is proposing another nearly $200 billion in funding for operations, which would bring the monthly total for the conflict to an average of $14 billion. I would like to especially commend my fellow witness this morning, Amy Belasco, who has done an excellent job tracking these expenditures. I think she would concur that the Department of Defense accounting and reporting systems make it very difficult to know exactly where the money is being spent. Her efforts have been invaluable.

My testimony this morning is not going to focus on past expenditures. But before I begin, I would like to say something about the use of the "emergency supplemental" vehicle for funding the war. In my opinion as a budgeting professor, this is not the best way for the US budget system—or any budget system—to operate. The purpose of the emergency supplemental facility is to fund a genuine emergency or unforeseen event, such as Hurricane Katrina. The late transmittal of the supplementals during the budget process leads to less congressional review and a lower standard of detailed budget justification than regular appropriations. It is difficult to understand why, five years into the war, we are still funding it largely in this manner. We are denying the budget staff of both parties, who are some of the very best staff members in the Congress—the budget committees, the authorizing committees, and the appropriations committees—the opportunity to review these numbers thoroughly. So it is not surprising, given this lack of transparency, that we have seen widespread waste and alleged corruption in payments to contractors, a lack of timely requests for vital equipment such as MRAPs, and continuing shortfalls in critical areas such as veteran's health care.

My second, related, point related is that the Pentagon's financial systems do not permit accountability over spending. In report after report, the Department's own auditors, its own Inspector General and the GAO have concluded that the financial control systems at DOD are not capable of providing accurate, transparent accounts of where money is actually going. In addition, their accounts do not include accrued long-term liabilities. In the private sector, Congress enacted the Sarbanes-Oxley law almost unanimously in order to make corporate executives personally accountable for accurate and honest accounting. But at DOD, there is still no accountability for spending hundreds of billions of taxpayer dollars. This problem has been compounded by the huge sums that are being spent in Iraq. I strongly urge Congress to strengthen existing financial control laws and to consider enacting new ones that would require more transparency over financial transactions at the Defense Department.

These problems are directly relevant to the topic I will address today, which is how to estimate the total, long-term costs of the Iraq War. The government estimates prepared by CBO and CRS are measuring the budgetary cost of the war. The estimates that Professor Stiglitz and I have prepared count the full economic costs of the war. This includes long-term accrued liabilities, human costs, social costs and macro-economic costs.

LONG-TERM COSTS

When I speak of long-term costs, I am referring to the costs that the US taxpayer will pay for decades even if we pulled out of Iraq tomorrow. These can be considered "promissory notes" of the war—accrued liabilities that must be paid. For example, in the first Gulf War in 1991, the operating costs of the war were paid mostly by our allies. By some accounts we even made a profit. But today, 16 years after the end of that war, the US government is still paying $4 billion a year in disability compensation to veterans of Desert Storm/Desert Shield. And even that doesn't include what we are spending on medical care and Social Security disability benefits for the veterans of that war, and on medical research into Gulf War illness.

In the Iraq and Afghanistan conflict, there are 4 major categories of long-term costs. These are 1) veterans' disability payments, 2) veterans' medical care; 3) Social Security disability compensation, and 4) replenishment of military equipment.

Let me turn first to veterans. This war has imposed an enormous strain on our armed forces. Of the 1.5 million men and women who have served to date, about one third have done second or third deployments and the majority has had initial deployments extended. These men and women are serving in harsh, nerve-wracking conditions, in a war where there are no clear front lines. Anyone driving a truck, even when they are not on patrol, can be blown up.

In Iraq alone there have already been 3,800 deaths, 28,000 wounded in combat, and another 28,000 injuries and illnesses among our forces. Thanks to advances in battlefield medicine we are saving many more of the injured than in previous wars. There are 7.5 wounded for every fatality, compared with a ratio of under 3 in Vietnam and Korea. Many of these are grievous injuries that include TBI, amputations, burns, blindness, spinal injuries and polytrauma—which is a combination of such things. If you include all those who are wounded in combat, or injured in a vehicle accident or contract a disease, there are 14 casualties for every death. But even this doesn't tell the full story,

There is a near epidemic of mental health trauma among solders returning from this war, To date 720,000 soldiers have been discharged. Over 250,0000 of them have already been treated by VA hospitals for medical conditions related to their service, with 95,000 treated for mental health conditions and more than 45,000 for PTSD. Over 200,000 have already applied for disability benefits from the VA. The long-term costs of the war will include providing medical care for these veterans and paying them disability compensation and other benefits such as vocational rehabilitation, adaptive housing, family benefits and prosthetics.

A related long-term cost to the government is providing Social Security disability compensation. This is decided based on a single criterion: whether or not the person is able to work. There are a significant number of OIF/OEF veterans who will fall into this category. For example, according to the Veterans Disability Benefits Commission, one-third of patients with PTSD are "unemployable". Given that there are 45,000 confirmed cases of PTSD already, that implies that already 15,000 Iraq war veterans may be eligible for Social Security disability compensation, in addition to all those who have serious physical disabilities.

If we maintain a presence in Iraq through 2017 we estimate that the long-tern cost of providing all these benefits over the lifetime of the veterans will be at least $400 billion. We projected these costs based on the number of claims and medical visits of the current veterans, and on historical data from the first Gulf War. For example, we know that 28% of OIF/OEF veterans have already applied for veteran's disability benefits and 88% of the ones that have been processed have been approved. Based on the Gulf War conflict, we can project how many Iraq and Afghan veterans will eventually seek disability compensation. Even through that was a short war with little ground combat, 45% of veterans applied for benefits and 87% were approved.[1] More than 40% are enrolled and using the VA health care system. In reality, many veterans experts and medical doctors predict that Iraq war veterans will claim benefits and use VA health care system at a far higher rate than in the Gulf War.

MILITARY RESET

A second long-term cost is the replacement of military equipment. We are repairing equipment in Iraq, but it is depreciating at a much faster rate than we are replacing it. The military has already said it will need $10 to $15 billion to replace equipment in the Army and Marines each year for the remainder of the war and for at least two years beyond. But there are other forces that will also need re-tooling as a result of the conflict. For example the Air Force fleet is aging rapidly due largely to the harsh flying conditions in Iraq. The Air Force estimates that it will need $400 billion to restore the fleet to its target age. If only 10% of that cost is

attributed to the five years of effort in Iraq, that alone is $40 billion in cost. I will not go through all of our estimates here. But in total we estimate that all of this will add from $100 to $200 billion to the long- term budgetary cost of the war.

ECONOMIC COSTS OF THE WAR

Now let me turn to the social and economic costs of the war. Economic costs differ from budgetary costs in several ways. First, they include costs borne by those other than the federal government, such as veterans, their families, or the communities where they live. An example of this is when a family member is forced to quit (or change) jobs in order to be a caretaker for a disabled veteran. Consider, for example, a veteran with severe physical or brain injuries who is 100% disabled. He will receive about $44,000 from the Veterans Department and perhaps an additional $12,000 in Social Security disability pay. He will receive health care and some additional benefits. But all of this adds up to a fraction of what it costs to look after a young man (or woman) who needs help getting dressed, eating, washing and other daily activities, as well as constant medical attention, 24 hours every day, 7 days per week. Someone else—perhaps a wife, husband, parent or volunteer in the community—is bearing the real cost of providing this care. The formula for calculating veterans' disability compensation is supposed to approximate the earnings that a veteran would have obtained had he not become disabled. But a recent in-depth analysis by the Veterans Disability Benefits Commission showed that the dollar amounts paid to younger veterans and to those with severe mental disabilities do not come anywhere close to matching what they could have earned.[2]

Economic costs also refer to prices paid by the government that do not reflect full market value, or where there is a short or long-term impact on the economy as a whole. The US government's disability stipend doesn't compensate for the pain and suffering of the veteran and his family, or the impairment in quality of life, or the loss of economic productivity because he can no longer work. These costs are very real—but hard to quantify. For example, if veteran's hospitals cannot hire enough mental health professionals to treat the epidemic of PTSD, the burden is shifted onto the veterans and families. They are the ones who bear the cost of waiting in a queue for long hours, facing month-long delays,[3] and traveling hundreds of miles to seek medical attention.

ECONOMIC VALUE OF THE LOSS OF LIFE

One of the major economic costs is the loss of productive capacity of the young Americans who have been killed or seriously wounded in Iraq. We have estimated these costs, which we refer to as "social costs", for soldiers who have been killed, wounded or injured. The government's budgetary estimate does not include the loss of economic output that occurs when a soldier is killed or incapacitated. Although it is impossible to translate the value of a life into purely monetary terms, the government commonly uses this approach and determines the "Value of statistical life" or "VSL", based to some extent on the value of foregone earnings and contributions to the economy. This method is also widely used by economists and by insurance companies and other private sector concerns. There are a wide range of VSL values in use. If an American is killed in an environmental or workplace accident, the US government estimates the value of a human life at more than $7 million.

Despite the fact that the military "family" mourns the loss of its soldiers, the official budgetary cost for a soldier's death is $500,000 paid to the soldier's family. This amount is a small fraction of the value used in even the narrowest economic estimates—and much lower than the $6—$7.5 million range used by civilian government agencies such as EPA, OSHA and FDA.[4,5] In many cases, the dead were young men and women in peak physical condition, at the beginning of their working lives. Their true economic value could easily have been much higher.

Using a VSL of $7 million, the economic cost of the more than 4,000 American deaths in Iraq and exceeds $30 billion. And while it seems harsh to convert these deaths into cold financial numbers, at the same time it is important to recognize that our economy will suffer as a result of the fatalities in this war.

We could also apply the VSL to the estimated 1,000 US contractors who have died in the region, man of whom were highly skilled specialists, working on reconstruction projects such as fixing the electricity grid and oil facilities. We have not counted their true loss to the success of the project in Iraq, or the fact that their high casualty rate has made it more difficult and more expensive for western contractors to hire replacements to perform these jobs. In addition, the standard budgetary cost does not include the cost to the military of having to recruit and train a new soldier to replace the one who has died. Nor does it take into account any indirect costs—

such as the impact on morale, or the heightened risk of PTSD among comrades of the fallen soldier who have witnessed the death.

ECONOMIC COST OF THE SERIOUSLY INJURED [6]

The wounded contribute significantly to the cost of the war, both in a budgetary sense (in the form of lifetime disability payments, housing assistance, living assistance and other benefits) and in an economic sense.

To date, there have been more than 60,000 "non-mortal casualties", among US servicemen deployed to OIF/OEF, half of them in combat. 13,000 of these were seriously wounded and unable to serve after their injuries. The number also includes 31,000 servicemen and women who were injured in other ways while serving (such as truck accidents, construction accidents, training accidents, friendly fire and other reasons) or who succumbed to illness or disease, and required medical evacuation.

There are also thousands of veterans who incur various injuries and illnesses while on active duty who are not medically evacuated. These numbers are reflected in the quarter of a million returning soldiers who have already been treated at a veteran's medical facility. 80% of these veterans have applied for disability benefits which means that for at least 200,000 soldiers fighting in Iraq or Afghanistan have been left with a physical or mental impairment.

In our study, Professor Stiglitz and I estimated the economic loss to the wounded based on the severity of their injuries. We assigned economic values to soldiers who have suffered brain injury, amputation, blindness, other types of severe injuries (e.g., burns, spinal, and major organs), injuries that require medical evacuation (not including those counted above) and PTSD. We estimate that those with grievous injuries, who can no longer be employed, suffer an economic loss as great as someone who has been killed because their labor output will essentially be lost to the economy and therefore we should assign them a VSL similar to the one we used to calculate the value of statistical life. Using the percentage of disability service-connectivity they receive, we have then assigned partial values for injury to those with other significant impairments, such as moderate TBI and traumatic eye injuries.

Since our earlier study, we have done new research to determine the number of serious injuries including a study with several VA hospitals to gather empirical data. Some have questioned whether all the casualties in combat or accidental should be attributed to the war. The Dole-Shalala Commission argued strongly that they should. To address this point we compared the rate of accidental death and injuries for the five years prior to the war with the rates since 2003. In both cases the current rates are approximately 50% higher. We will be publishing this study shortly.

In total, we find that the economic costs of injuries will add a further $200 to $300 billion to the cost of the war.

ECONOMIC COST OF MENTAL HEALTH DISABILITY

Another significant economic cost arises from mental health disability. The Veterans Disability Benefits Commission discovered that disability pay for serious mental health problems understated the economic loss by a wide margin. For example, it found that VA benefits cover only 69% of the income that a 35-year old veteran with a mental health disability could have expected to earn had he not been disabled. For veterans who are rated 100% mentally disabled the Commission found that the lifetime earnings disparity—the difference between what the veterans could have earned and the disability compensation he was paid—was as high as $3.6 million.[7]

The Commission also found that veterans with severe mental health disorders had the poorest overall ratings on health and quality of life. Among veterans suffering from PTSD, one out of every three was not capable of working at all ("individually unemployable"). In addition, long-term mental health disorders led to poor physical health. The Commission writes: "Physical disability did not lead to lower mental health in general. However mental disability did appear to lead to lower physical health in general.[8] This confirms the findings of Dr. Charles Marmar, chief psychiatrist at the Veterans Hospital in San Francisco, who has led a 30 year longitudinal study of Vietnam Veterans.[9] The results of his study found that PTSD patients suffered diminished well-being, physical limitations, compromised health status, permanent unemployment, days spent in bed, and perpetration of violence.[10]

QUALITY OF LIFE IMPAIRMENT

The Disability Commission provided a sense of the kind of life impairment that veterans experience. It found that 57% of all veterans with any kind of disability

suffer "severe or very severe" bodily pain. This finding is all the more extraordinary because the data includes veterans who are only rated 10% disabled. Nearly half of the veterans surveyed took daily pain medication, and one quarter of them required help in routine activities such as bathing, dressing and preparing meals. Overall, 53% of the veterans reported that their disability had "a great effect" on their lives. Three quarters of the veterans agreed with the statement: "Living with my service-connected disability bothers me every day".[11]

The impairment to quality of life was strongest among veterans with mental health disorders. For example, 99% had worse health status, overall, than would have been expected in their age bracket. They also scored extremely poorly on overall life satisfaction. Overall life satisfaction, even for the 10% disabled level, is only 61%. For those rated 50-90% mentally disabled, the overall life satisfaction measure hovers around 30%.[12]

The VA does not currently pay explicit compensation for quality of life impairments, and we have not yet included one in our study. However a number of other countries, including the UK, Canada, Australia and New Zealand, pay specific compensation for quality of life . Maximum lump-sum payments for quality-of-life loss in these countries range from $220,459 in Australia to more than $500,000 in Britain. It is worth noting that the President has recently proposed—as part of his overhaul of the veteran's disability compensation system—that the US should begin to pay a quality of life stipend.

COSTS TO FAMILIES OF VETERANS

The repeated tours of duty have imposed an enormous emotional, social and economic strain on the individuals serving and their families. When a service member is critically wounded, friends and family members put their lives on hold. This puts enormous financial and emotional strain on their loved ones. Current law offers caregivers few employment protections, so they not infrequently lose their jobs and suffer financial consequences. The Dole-Shalala Commission estimated that 20% of families of veterans who were wounded, injured or otherwise incapacitated (such as with mental illness) have been forced to leave their employment in order to become full time caretakers.

We are in the process of estimating some of the economic costs to the families of having to sacrifice their income and jobs, some of the additional health care costs that families and society will incur in caring for seriously injured veterans. We believe this will impose an economic cost in excess of $40 billion.

MACROECONOMIC COSTS

Finally, let me briefly discuss the macroeconomic costs of the war, in particular, the effects of the increased price of oil. The price of oil in March 2003 was $23 a barrel and has now hit $90 per barrel. We attribute some portion of this increase to the war in Iraq. Looking back to 2003, at that time the futures markets, even taking into account factors such as the increasing demand in China and India and the constraints on refining capacity, still predicted that oil prices would remain flat. Instability in Middle East is a major reason for failure of normal supply response. However in order to be conservative we have only attributed $5 to $10 of this increase to the war.

The increased price of oil hurts the economy in two ways. First, it takes money out of the hands of consumers and transfers it to the oil producers. America imports around 5.0 billion barrels a year,[13] which means a $5 per barrel increase translates into extra expenditure of $25 billion (a $10 increase would be $50 billion) per year.[14] Americans are poorer by that amount. If the increase persists for seven years, as our conservative estimate assumes, that's $175 billion. For our moderate estimate which assumes the effect is for eight years, the cost is $400 billion.

Second, there is a multiplier effect. The reduced purchasing power of Americans leads to a reduction in aggregate demand. Assuming a standard multiplier of 1.5 that implies that our GDP is reduced by approximately $150 billion a year.[15] Again, I emphasize that this is a conservative approach given that nominal oil prices are four times what they were in 2003

We assume GDP has gone down $25 billion x 1.5 = $37.5 billion every year, a total of $187 billion. We believe, however, that the total impact may in fact be considerably higher.

Globally, high oil prices and the resulting higher interest rates dampened our trading partners' economies, just as it dampened ours. The result was that they bought less from America.

Finally, we can pose the counterfactual question: what would have been the impact on America had the money we spent on Iraq been spent at home? Clearly there

have been some winners in the economy—such as the oil companies and certain defense contractors. But overall, war expenditures have weakened the economy by more than just higher oil prices. Government money spent in Iraq does not stimulate the economy in the way that the same amounts spent at home would. To the extent that the Iraq war crowded out other expenditures, it lowered domestic aggregate demand. The money we have spent in Iraq has had a lower multiplier than the same amount invested here; funds that end up being spent on contractors in Nepal or transporting troops do not have a long-term investment in the economy.

These macroeconomic costs that we have estimated can be huge, depending on the assumptions and how comprehensive an analysis we complete. At a bare minimum, the macroeconomic costs of the war have exceeded $200 billion, but they may add hundreds of billions to the long-term economic cost of the war.

SUMMARY

In summary the budgetary costs of the war capture only a fraction of the total costs. There are other significant costs—including costs that will occur in the future as well as costs the government does not pay in full or at all. There are also costs which are real, but less easy to put into dollar terms. These include the cost of pain and suffering and the diminished quality of life. In addition, there are significant costs in the form of lower economic activity overall. Taken together, we estimate that all these costs add nearly $1 billion on to the total cost of the war that the government estimates.

ENDNOTES

[1] Today 169,000 Gulf War veterans are receiving disability benefits. (GWVIS Reports).

[2] Final Report for the Veterans' Disability Benefits Commission: Compensation, Survey Results, August 2007

[3] McClatchy Newspapers, (Charlotte Observer Sunday October 21st) revealed that some of the most severely injured veterans have to wait more than 30 days to see a doctor in the VA system. Waiting times were longest in areas such as traumatic brain injury and related diagnostic services.

[4] The "peak" age for VSL may be 29, in terms of lost earnings potential, with a VSL between $6 and $7.5 (Viscusi, and Aldy, NBER Working Paper 10199, 2003). Adjusting these numbers for 2007 dollars the average VSL would exceed $8 million.

[5] Compensation typically has been far higher if the individual has been injured or killed in an ordinary automobile accident or an accident in the private workplace. Outside of government, juries frequently award much higher amounts in wrongful death lawsuits, in compensation for the pain and suffering of the family.

[6] [EDITOR'S NOTE: No footnote text supplied.]

[7] VDBC, Ibid.

[8] VDBC Report, p. 15 conclusions

[9] [EDITOR'S NOTE: No footnote text supplied.]

[10] Zatzick, Marmar, Weiss et al, "Posttraumatic Stress Disorder and Function and Quality of Life Outcomes in a Nationally Representative Sample of Male Vietnam Veterans", RAND Corporation 1997

[11] From VDBC Report, September 2007

[12] Ibid.

[13] In 2004, they were slightly over 4.8 million barrels, in 2005, in 2006 slightly more than 5 million barrels. As this book goes to press, imports for 2007 have been running slightly lower than in 2006.

[14] We emphasize that these are approximations. We have not adjusted the numbers either for inflation, for the time value of money, or for the changing levels of imports over the period. Fine tuning the calculations by making these adjustments would lead to slightly larger numbers than those used in our estimate. ck

[15] Given the low level of savings in the US, we can expect consumers to spend an equivalent amount less on other goods. Even governments (especially state and local governments, which must limit spending to revenues) will have to spend less on goods made in America as they spend more on oil imports. And, of course, lower spending will cause the economy to produce less. Standard estimates of the multiplier are at around 1.5.15 which we use in our conservative estimate.

Chairman SPRATT. We have about 12 minutes, so let us get started.

STATEMENT OF AMY BELASCO

Ms. BELASCO. Chairman Spratt and other distinguished members of the committee, thank you for asking the Congressional Research Service to testify about the important issue the committee is considering: the growing cost of the war in Iraq.

This testimony makes the following key points:

First, CRS estimates that Congress has provided about 615 billion to date for Iraq, Afghanistan and enhanced security at defense bases, including appropriations to the Department of Defense, the State Department, aid AID, and the Department of Veterans Affairs. This includes moneys provided in the fiscal 2008 continuing resolution. This total includes about 455 billion for Iraq, 127 billion for Afghanistan, and 28 billion for enhanced security.

On October 22nd, as you know, the administration submitted an additional request, which includes an additional—an additional request of 43.6 billion. If Congress chooses to provide those funds, CRS estimates the total war costs would reach about 803 billion, including some 192 billion in fiscal 2008 for Iraq and Afghanistan.

Our preliminary estimate is that if Congress chose to appropriate the moneys in this request, the total for Iraq would reach about 609 billion and about 160 billion for Afghanistan.

In recent years, war costs have more than doubled from some 72 billion in fiscal 2004 to 165 billion in fiscal 2007. Most of this increase does not appear to reflect changes in either the number of deployed personnel or increases in the intensity of operations. Rather, the increase reflects a number of unanticipated requirements for force protection, gear and equipment, funding to train partners, to train Afghan—train and equip Afghan and Iraq security forces, and the single largest factor that results in part from a broadened definition of those expenses that are war-related, moneys for reset to repair, replace and, as the Pentagon has defined it, upgrade war-worn equipment.

There are also increases due to various programs which have a more indirect connection to war costs.

Because war funding has generally been provided as emergency supplemental appropriations, the administration and the Defense Department developed their requests on a separate track and may not make the same kind of trade-offs that are made between programs in the regular budget.

Like other funding requests, DOD's war requests were assessed by OMB and the President, but funding levels are not subject to the same budgets caps or to long-term budget plans as DOD's regular spending.

Relying on emergency supplemental appropriations has both advantages and disadvantages. Potential advantages include meeting wartime needs more expeditiously, providing the services with more capable equipment for future needs, enabling the services to buy large amounts of equipment ranging from trucks to radios that have proved important for wartime and that were not funded in previous DOD budgets, buying equipment earlier than planned, and meeting some unanticipated requirements for counterinsurgency warfare.

Potential disadvantages would include potentially increasing readiness problems from equipment shortages because DOD has chosen to upgrade rather than do standard maintenance in some equipment, and upgrading takes longer than standard maintenance; purchasing some equipment whose requirements have not been fully vetted; funding programs that may not have been subject to the same scrutiny as those in the regular budget; and reducing

visibility on total program costs and potentially eroding budget discipline.

To address potential effects like these, Congress could either require DOD to restore its earlier stricter definition of war costs, which has been changed in regulation as hence reflects the policy decision, or another alternative would be to delay consideration of much of the fiscal 2008 reset request until the submission of the fiscal 2009 regular budget when baseline requirements could also be considered potentially at the same time.

CRS estimates that in fiscal 2008, DOD has about 45 billion in unobligated balances available from previous war appropriations which could be used to meet many of the urgent war needs until passage of the fiscal 2008 emergency supplemental request.

Finally, as requested, CRS has estimated that the Army could finance or cash-flow its war operating expenses without passage of the fiscal 2008 supplemental until about mid-January of 2008. They would do this by using funds that would otherwise be used later in the year.

If DOD used—transferred additional funds to the Army, and the Army slowed nonreadiness-related operating funding, as has occurred in previous years, we estimate that the Army can finance the operations until mid-February of 2008.

Thank you very much.

[The prepared statement of Amy Belasco follows:]

PREPARED STATEMENT OF AMY BELASCO, SPECIALIST IN U.S., DEFENSE POLICY AND BUDGET, CONGRESSIONAL RESEARCH SERVICE

INTRODUCTION AND SUMMARY

Chairman Spratt, Ranking Member Ryan, and other distinguished members of the committee. Thank you for asking the Congressional Research Service to testify about the important issue the committee is considering: the growing cost of the war in Iraq.

This testimony makes the following key points.

• First, CRS estimates that Congress has provided about $615 billion to date for Iraq, Afghanistan and enhanced security at defense bases including appropriations to DOD, the State Department and AID, and the Department of Veterans' Affairs (VA).

• This total includes about $455 billion for Iraq, $127 billion for Afghanistan and $28 billion for enhanced security, and reflects $5 billion provided in the current FY2008 Continuing Resolution. On October 22, 2007, the Administration submitted an additional request, which includes an additional $43.6 billion for Iraq and Afghanistan. If Congress chooses to provide those funds, CRS estimates that total war costs would reach about $803 billion including some $192 billion in FY2008.

• In recent years, annual war costs have more than doubled from some $72 billion in FY2004 to $165 billion FY2007. Most of this increase does not reflect changes in the number of deployed personnel but rather several other factors:

• unanticipated requirements for force protection gear and equipment;

• funding to train partners and train Afghan and Iraqi security forces; and

• the single largest factor, resulting from a broadened definition of war-related expenses primarily for reconstitution or reset—funds to repair and replace war-worn equipment to include expenses with a more indirect connection to war needs.

• Because war funding has generally been provided as emergency supplemental appropriations, the Administration and the Defense Department have developed requests on a separate track, and may not have made the same kind of trade-offs between programs as is done in the regular budget. Like other funding requests, DOD's war requests are assessed by OMB and the President but funding levels are not subject to the same budget caps applying to other discretionary spending. DOD has also broadened the scope of programs funded as war-related activities in recent years.

• Relying on emergency supplemental appropriations has both advantages and disadvantages. Potential advantages include

• providing the services with more capable equipment for future needs;

• enabling the services to buy large amounts of equipment ranging from trucks to radios that have proven critical for war fighting which were not funded in DOD's previous regular budgets;

• buying equipment earlier than planned; and

• meeting some unanticipated requirements for counter-insurgency warfare.

• Potential disadvantages include:

• contributing to equipment shortfalls because DOD chose to upgrade rather than do standard maintenance on equipment such as Bradley fighting vehicles and M-1/A-1 tanks;

• purchasing some equipment whose requirements have not been fully vetted, such as replacement of pre-positioned equipment stationed overseas;

• funding programs that have not been subjected to the same scrutiny as programs funded in the baseline budget; and

• reducing visibility on total program costs.

• To address potential effects like these, Congress could either require DOD to restore its earlier, stricter definition of war costs or delay consideration of much of the FY2008 reset request until submission of the FY2009 regular budget request in February 2008 when baseline requirements would also be considered. CRS estimates that in FY2008, DOD has about $40 billion to $45 billion in unobligated funds available from previous war appropriations which could be used to meet many urgent war needs until passage of the FY2008 emergency supplemental request. [1]

• As requested, CRS estimated how long the Army could finance or 'cash flow' its war operating expenses without passage of the FY2008 supplemental request. Assuming that DOD receives its regular appropriation for FY2008, we project that the Army could finance or 'cash flow' its war expenses until about mid-January 2008 using funds that would otherwise be used later in the fiscal year. If DOD used its transfer authority and the Army slowed non-readiness-related operating funding for its regular activities, as has occurred in previous years, we estimate that the Army could finance operations until mid-February 2008.

The remainder of the statement discusses these and other points.

COMPARISONS TO OTHER MAJOR WARS

To put the cost of Iraq and Afghanistan in perspective, it may be useful to compare those costs to previous wars. Looking strictly at military costs and using estimates prepared by CRS Specialist, Stephen Daggett that are adjusted for inflation, the discussion below compares the cost-to-date after six years of operations to previous wars. [2]

The cost of all DOD funds appropriated thus far for the three GWOT operations—Iraq, Afghanistan and enhanced security—now equals about 90% of the 12-year war in Vietnam ($670 billion) and about double the cost of the Korean war ($295 billion). [3]

The cost of all three operations thus far is now over six times as large as the cost of the first Persian Gulf War ($94 billion). Comparisons to that war are problematic, however, because the United States paid some $7 billion, or about 7% of the cost of the war because our allies, principally Kuwait and Saudi Arabia, reimbursed the United States for most of the cost. [4]

The Iraq war itself has thus far cost about 65% as much as Vietnam. On the other hand, Iraq has cost about 50% more than Korea to date and about four and a half times more than the costs incurred for the first Persian Gulf War.

COSTS-TO-DATE AND FY2008 REQUEST

Now to costs. There are several ways to look at the cost of the current conflicts in Iraq and Afghanistan. DOD witnesses often cite the current 'burn rates' or

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[1] According to DOD, unobligated balances of war funds total $53 billion as of August 2007, consisting primarily of investment funding. If an additional $11 billion is obligated in the last month of the fiscal year, about $42 billion would remain available for FY2008. CRS estimates that DOD figures do not include about $7 billion in funds transferred from baseline appropriations to meet war needs. Taking these funds into account, would increase unobligated funds to almost $50 billion; see Table A1 in CRS Report RL33110.

[2] CRS calculations for DOD costs relying on a variety of data, all converted to FY2007 dollars.

[3] Estimates prepared by Stephen Daggett; all figures converted to FY2007 dollars; military costs only.

[4] Department of Defense, Annual Report to Congress for Fiscal Year 1994, January 1993; converted to FY2007 dollars by CRS.

monthly obligations as of a particular date. While this figure reflects current spending, it does not reflect overall costs.

DOD's war cost reporting system captures the amounts that have been obligated for Iraq, for Afghanistan, and for enhanced security and hence shows how funds have been allocated after the fact or once contracts or purchase orders are signed and military or civilian personnel are paid. DOD's figures do not reflect the total amounts that Congress has appropriated to date which includes funds that remain to be obligated in later years.

Nor does DOD's reporting system capture some intelligence funding that DOD does not administer and may not include other war funds appropriated. Nor does DOD capture amounts that have actually been spent.[5] Concerned about the accuracy of its reporting, DOD asked a private firm to conduct an audit on war cost tracking.[6] Although DOD's current FY2008 request identifies the funds for Iraq vs. those for Afghanistan, DOD has not presented a breakdown by operation of all funds received to date.[7]

To present a more complete picture, CRS has estimated how all funds appropriated to date are split between Iraq, Afghanistan and enhanced security, relying on DOD and other data. In addition, CRS includes not only DOD appropriations, but also State Department funds for its diplomatic operations, AID funds for reconstruction and aid programs, and Department of Veterans Affairs (VA) funds for medical care of veterans of these two conflicts. CRS estimates do not include any VA disability benefits for Iraq and Afghan veterans since CRS was not able to get figures from the VA. About 90% of total funds appropriated to date have been for DOD military operations and support in theater as well as to train Iraq and Afghan security forces.

Total War Cost-to-Date. CRS estimates that Congress has provided a total of about $615 billion for Iraq, Afghanistan and other counter-terror operations, and enhanced security at U.S. bases, often referred to by the Bush Administration as the global war on terror (GWOT). This total includes funds in the FY2008 Continuing Resolution. Of this amount, about:

- $573 billion is for DOD;
- $41 billion is for foreign aid, reconstruction, and building and operating embassies in Iraq and Afghanistan; and
- $1.6 billion is for VA medical care for veterans of these conflicts.

On a monthly basis, CRS estimates that DOD is spending about $11.7 billion for the three GWOT operations. This year's average monthly spending for Iraq and Afghanistan is running substantially higher than the $8.8 billion in FY2006 and the $7.7 billion in FY2005. These increases reflect both higher spending by the services to buy new weapon systems to replace and upgrade war-worn equipment and higher operating costs—particularly in Iraq—much of it is unexplained in available budget documents.[8]

Cost of Iraq. CRS estimates that Congress has provided about $455 billion for Iraq including:

- $423 billion for DOD;
- $31 billion for State/AID; and
- $1.6 billion for VA medical care.

Average monthly spending for Iraq is running about $9.7 billion, well above the $7.4 billion in FY2006 and the $6.5 billion in FY2005. Only a small amount of the increase in FY2007 reflects the 'surge' in troops in Iraq.[9]

Cost of Afghanistan. CRS estimates that Congress has provided a total of about $128 billion for Afghanistan including about:

- $118 billion for DOD;
- $10 billion for State/AID; and
- $100 million for VA Medical costs.

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[5] DOD's financial systems do not segregate 'amounts spent' or outlays for war expenses from its regular or baseline budget because the funds are mixed in the same account.

[6] CRS Report RL33110, The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11, July 16, 2007 by Amy Belasco; *http://www.congress.gov/erp/rl/pdf/RL33110.pdf;* hereinafter, CRS Report RL33110. For example, DOD does not consider the 10 C-17 aircraft added by Congress in the FY2007 supplemental to be war-related.

[7] See Table 1a. In DOD, FY2008 Global War on Terror Request, February 2007; hereinafter DOD, FY2008 GWOT Request; *http://www.dod.mil/comptroller/defbudget/fy2008/fy2007—supplemental/FY2008—Global—War—On—Terror—Request.pdf.*

[8] CRS estimates based on Table 6, Ibid and monthly DOD war cost reports as of July 2007.

[9] CRS estimates that the increase of 30,000 troops in Iraq cost between $3.5 billion and $4 billion in FY2007, adding about $300 million to monthly spending and accounting for 13% of the increase.

Average monthly obligations are running about $1.7 billion for Afghanistan, again substantially more than the $1.4 billion in FY2006 and the $1.1 billion in FY2005. The increase may reflect higher troop levels and operating costs.

Enhanced Security and Other. CRS estimates that Congress has appropriated about $28 billion for enhanced security at DOD bases. Average monthly obligations for enhanced security now run about $30 million a month, less than half of last year's level.

Of the $615 billion total for the three missions appropriated thus far, CRS was unable to allocate about $5 billion in war-related appropriations that appear not to have been captured by DOD's tracking system, a problem also identified by GAO.[10]

Status of FY2008 Request

Congress has not yet acted on the Administration's FY2008 request for war funding with one exception—the FY2008 Continuing Resolution includes funding requested by the Administration's for Mine Resistant Ambush Protected (MRAP) vehicles, trucks with a V-shaped hull that have proven more effective against attacks from Improvised Explosive Devices than uparmored HMMWVs.[11]

As of today, including the request submitted on October 22, 2007, the Administration has requested $192.5 billion for FY2008's war-related activities in Iraq and Afghanistan including DOD costs, State and AID, and VA medical.[12] This total includes about $158 billion for Iraq and $33 billion for Afghanistan, and includes the MRAP funds which Congress has already provided.

Senior appropriators have said that they may not consider the FY2008 supplemental request until January or February of 2008, though some interim or bridge funding may be included in DOD's FY2008 regular Defense Appropriations bill which has been passed by the House and Senate.[13] When DOD receives its regular or baseline appropriations, it is expected to finance war costs until a supplemental is passed by using regular funds slated to be needed at the end of the year and any interim funds provided.

HOW AND WHY WAR COSTS HAVE INCREASED

In recent years, DOD's annual war costs have more than doubled from $72 billion in FY2004 to about $165 billion in FY2007, an increase of $93 billion. Little of this increase reflects changes in the number of deployed personnel. Rather, the increase is attributable to several factors: 1) certain unanticipated requirements for force protection gear and equipment; 2) the cost of training and equipping Afghan and Iraqi security forces; and 3) even more, to a broadened definition of the types of programs that would be considered part of war reconstitution or reset—funds to repair and replace war-worn equipment.

Although the major cost drivers in war costs would be expected to be changes in the number of deployed military personnel and the intensity of conflict, this does not appear to have been the case because average deployed military strength has changed relatively little in the past four years (see below).

Changes in Deployed Military Personnel. Although DOD does not report these figures to Congress, the best measure of military personnel levels may be average strength because it captures the average number of military personnel in theater for a year, taking into account the ups and downs as units rotate, and the amount of time that individual service members are in theater. This figure is equivalent to a full-time-equivalents (FTE) for civilians. Between FY006 and FY2007, average strength increased by about 6,000 reflecting the increase in troop levels announced by the President in January 2007.[14]

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[10] The $615 billion includes the $5.2 billion provided to DOD in Sec. 123, H.J. Res. 52, P.L.110-2, FY2008 Continuing Resolution, enacted 9-29-07. See also, Table 3 in CRS Report RL33110.

[11] In the FY2008 CR (H.J. Res 52, P.L. 110-92) Congress approved $5.2 billion for Mine Resistant Ambush Protected (MRAP) vehicles that the Administration requested in a July 31, 2007 budget amendment.

[12] See Sec. 123, H.J.Res 52, P.L.110-92 enacted September 29, 2007, and OMB, 'Estimate No. 6, FY2008 Emergency Budget Amendments, Operation Iraqi Freedom, Operation Enduring Freedom and Selected Other International Activities,' 10/22/07; *http://www.whitehouse.gov/omb/budget/amendments/amendment—10—22—07.pdf*

[13] Conferees to H.R. 3222, the FY2008 DOD Appropriations bill have been appointed by the House but not the Senate.

[14] Defense Manpower Data Center, DRS 17253, Average Number of Members Deployed by Month, September 2001—July 2007 based on the Contingency Tracking System; CRS estimated the average of FY2007 by assuming the same level in August and September 2007 as of July 2007.

The average strength of military personnel deployed in the Iraq and Afghanistan theater of operations has grown from 219,000 in FY2004 to 254,000 in FY2007, an increase of about 15% increase. During the same period, however, costs have grown by about 130%, more than doubling.[15] Thus there appears to be little correlation between changes in personnel levels and changes in costs.

Changes in Operational Tempo. In the past four years, direct operating costs—a reflection or the intensity of operations—have grown by about $4 billion, from $6.9 billion in FY2004 to about $11.3 billion in FY2007, a 65% increase. This would suggest that the intensity of operations has grown. While service witnesses have frequently testified that operating rates for equipment are several times higher than peacetime levels and in an especially harsh environment, DOD has not provided Congress with the total number of miles driven by tanks, fighting vehicles or trucks each year that would show whether the overall pace of operations has risen. It appears, however, that a major reason for the $4 billion increase is higher fuel prices as cited by DOD in its FY2005 Supplemental justification.[16]

Factors Cited by the Defense Department. The Defense Department cites a variety of factors, ranging from higher personnel benefits to fuel prices, to explain increases in war costs in its budget justifications. Together, we estimate that these could explain about $42 billion of the $93 billion increase in annual war costs between FY2004 and FY2007. These factors include:

- $3 billion more for higher war-related personnel benefits (for higher rates for imminent danger pay, family separation allowances, hardship duty, death gratuities, and traumatic injuries);[17]
- $10 billion more is for force protection—for example, uparmored HMMWVs, night vision goggles (from $2 billion in FY2004 to more than $12 billion in FY2007);[18]
- $4 billion more to defeat improvised explosive devices (from $0 in FY2004 to $4.4 billion in FY2007);[19]
- $4 billion more for higher fuel prices ($3.5 billion cited in FY2005 Supplemental);
- $13 billion more the cost to train and equip Afghan and Iraq Security Forces (from $0 funded in DOD in FY2004 to $12.9 billion in FY2007);[20]
- $7 billion for higher troop levels and heightened naval presence in FY2007 to meet the President's 'surge' in force levels.[21]

This leaves about $51 billion to be explained.[22]

Of other factors cited by DOD, the $34 billion increase in annual reset requests—the repair, replacement, and upgrading of equipment—is the largest single factor in the growth in the past four years. Of the $51 billion increase,

- About $34 billion is for reset or reconstitution (from about $4 billion in FY04 to $38 billion in FY07);
- Some amount that CRS has not been able to identify for accelerating the creation of standardized units in the Army and Marine Corps (level in FY04 and FY07 unclear); and

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[15] Ibid.

[16] Department of Defense, FY2005 Supplemental Request for Operation Iraqi Freedom (OIF), Operation Enduring Freedom (OEF), and Operation Unified Assistance, February 2005 *http://www.dod.mil/comptroller/defbudget/fy2006/fy2005—supp.pdf;* and CRS Report RL32783, FY2005 Supplemental Appropriations for Iraq and Afghanistan, Tsunami Relief and Other Activities by Amy Belasco and Larry Nowels, May 12, 2005, CRS-22; hereinafter, CRS Report RL32783; *http://www.congress.gov/erp/rl/pdf/RL32783.pdf.*

[17] CRS Report RL33298, FY2006 Supplemental Appropriations: Iraq and Other International Activities; Additional Katrina Hurricane Relief coordinated by Paul Irwin and Larry Nowels, June 15, 2006, p. CRS-31; hereinafter, CRS Report RL33298; *http://www.congress.gov/erp/rl/pdf/RL33298.pdf.*

[18] CRS Report RL32783, p. CRS-33; Congress added $1.5 billion for Mine Resistant Ambush Protected (MRAP) vehicles to the $11.3 billion requested for force protection gear in Table 2 in DOD, FY2007 Emergency Supplemental Request for the Global war on Terror, February 2007; hereinafter, DOD, FY2007 Supplemental Request; *http://www.dod.mil/comptroller/defbudget/fy2008/fy2007—supplemental/FY2007—Emergency—Supplemental—Request—for—the—GWOT.pdf;* for Congressional add, see House Appropriations Committee, Press Release, May 24, 2007; for FY2008 request, see Table 2 in DOD, FY2008 GWOT Request.

[19] See Table 5 in CRS Report RL33110.

[20] Ibid.

[21] CRS Report RL33900, FY2007 Supplemental Appropriations for Defense, Foreign Affairs, and Other Purposes, July 2, 1007 by Stephen Daggett, Amy Belasco, Pat Towell, Susan B. Epstein, Connie Veillette, Curt Tarnoff, and Rhoda Margesson, July 2, 2007, p. CRS-38; hereinafter, CRS Report RL33900.

[22] CRS calculation based on differences between FY2004 and FY2007 in categories listed.

• Possibly about $3 billion to 'grow the force' or increase Army and Marine Corps strength, (perhaps $1 billion in FY2004 to about $4 billion in FY07).[23]

Taking these additional factors into account, about $14 billion of the increase between FY2004 and FY2007 would remain unexplained.

Role of Reset or Reconstitution. The largest single reason for the growth in costs between FY2004 and FY2007 appears to be reconstitution or reset—the repair, replacement, and upgrading of war-worn equipment as DOD defines it. To date, DOD has received about $64 billion in funding for reset. With the just submitted new FY2008 request, the total for reset would be $47 billion. That brings the total for enacted and requested funding to about $110 billion.[24] The FY2008 reset request is some $43 billion more than in FY2004.[25]

Although repair and replacement costs might be expected to grow over time as operations wear down equipment, it appears that much of the growth reflects a broadening of the definition of war-related funding as well as 'front loading' or requesting funding in advance as OMB Director Ronald Portman acknowledged.[26] Providing additional funds for reset faces fewer hurdles when war operations are funded on a separate track from its baseline or regular requests.

THE EMERGENCY BUDGETING PROCESS

The Administration has requested and Congress has agreed to use emergency supplemental funds to pay for almost all of the cost of the wars in Iraq and Afghanistan thus far.[27] War funds have generally not been under the overall discretionary limits set within annual budget resolutions so that they do not compete with other programs. While few disputed that initial war costs for Afghanistan and Iraq met the budget resolution's criteria for emergency spending—necessary and vital, urgent, sudden, requiring immediate action, 'unforeseen, unpredictable, and unanticipated,' and 'not building over time.' Some members now question whether those criteria still apply to war costs in the sixth year of operations.[28]

In recent years, Congress has set separate caps for war funds. For example, the FY2008 budget resolution (S. Con. Res. 21) no longer classifies war costs as emergency funds but instead, sets a level in a separate category for 'overseas deployments.' That level—set in the resolution at the Administration's initial request—may be adjusted in the House. Changes in that level in the House are not subject to the overall budget caps for discretionary programs.[29] Thus, it appears that war costs and baseline programs essentially remain on separate tracks.

DOD BUDGETING PROCESS FOR WAR COSTS

Although much of the standard budget review process is followed for developing war cost requests—the services submit their requests, the Office of the Secretary and OMB review those requests, and ultimately, the President sets the level. But unlike the baseline budget, the overall funding level for war requests is not set in advance, and war requests have generally been considered on a separate track. In FY2008, Congress required DOD to submit a full year of war costs with its regular budget. Since then, the President has submitted two additional requests.

Relying on supplementals has been considered appropriate for war funding because conditions on the ground make it more difficult to predict defense needs, par-

[23] CRS calculations based on various sources, including DOD, Supplemental & Cost of War Execution Reports and DOD, FY2007 Supplemental Request.

[24] CRS calculations based on Office of the Secretary of Defense, Report To Congress, Long-Term Equipment Repair Costs, September 2006, p.24 and p.25; Congressional Record, August 2, 2006, p. S8571; DOD FY2007 Supplemental Request, p.75; DOD, FY2008 GWOT Request, p. 62; and SAC, Fiscal 2008 War Supplemental, p. 7.

[25] CRS assumed $4 billion for all services compared to the $3.3 billion for Army and Marine Corps in Office of the Secretary of Defense, Long-Term Equipment Repair Costs, Sept. 2006, p. 24 and p. 25; Table 2 in DOD, FY2007 Supplemental Request.

[26] For changes in repair costs, see Figure 2-2 and Figure 2-3 in CBO Paper, Replacing and Repairing Equipment Used in Iraq and Afghanistan: The Army's Reset Program by Frances Lussier, September 2007, hereinafter, CBO, Army Reset; *http://www.cbo.gov/showdoc.cfm?index=8629&sequence=0&from=7.* For front-loading and changes in definition, see CRS Report RL33900, p. CRS-42 to CRS-43; Table 2 in DOD, FY2008 GWOT Request.

[27] For example, war funds in the FY2007 Supplemental (Sec. 10002, P.L.110-28) and provided as 'additional' appropriations in DOD's FY2007 regular appropriations (Sec. 9011, P.L.110-28) were designated as emergency funds; see also, Title IX, Sec. 9011 in P.L. 108-287, P.L. 109-148, P.L. 109-289; DOD also received some funds as non-emergency funding in the FY2003 Consolidated Appropriations (P.L. 108-7) and the FY2003 Regular DOD Appropriations Act, P.L. 107-48; see Table A1 in CRS Report RL33110.

[28] Sec. 204 (a) (6)(A) of S. Con. Res 21, May 17, 2007.

[29] Sec. 101 (121) and Sec. 207 (d) (1) (E), H. Rept. 110-153 on S. Con. Res 21.

ticularly in the early stages of a conflict. In FY2008, however, Congress required that the President submit a complete and detailed request for FY2008 with the regular budget. In response to this requirement, DOD simultaneously developed requests for the FY2007 Supplemental, FY2008 regular budget, and the FY2008 Supplemental. Some observers believe having several alternative ways to cover costs may have eroded budget discipline.

DOD's recent requests have also gone beyond traditional definition of immediate 'incremental costs,' including some programs with more indirect or longer-term connections to ongoing war operations such as equipping standardized units in the Army and Marine Corps, upgrading equipment as part of reset, buying pre-positioned equipment, and increasing the size of the Army and Marine Corps.

In DOD's regular budget process—a six-year process referred to as the Planning, Programming, Budgeting and Execution System (PPBES)—senior officials make trade-offs within a 'top line' or total funding level set in advance by the President, based on the relative costs and benefits of various expenses and programs as well as the relative risks of choosing to fund programs in the immediate budget year rather than in a later year.

DOD's War Cost Guidance. DOD recently revised the regulations that guide the services in developing war cost requests. These revised guidelines appear to institutionalize previous interim guidance and practice that broadened the definition of war costs.[30] Traditionally, the cost of contingencies was expected to include only incremental costs directly related to operations—in other words, costs 'that would not have been incurred had the contingency operation not been supported'(emphasis added).[31] The guidance goes on to warn that 'Costs incurred beyond what was reasonably necessary to support a contingency operation cannot be deemed incremental expenses, since such costs are not directly attributable to support of the operation.'[32]

Examples of incremental expenses are:

- special pays for those deployed overseas such as imminent danger or separation pay for those with families;
- the additional costs of activating national guard and reserve personnel in pay and benefits;
- transportation of personnel and equipment and setting up base support services;
- maintenance above planned peacetime levels to repair equipment that has been operated at higher operating tempo rates;
- 'Other Services and Miscellaneous Contracts;'
- procurement, Research, Development, Test & Evaluation (RDT&E), and military construction that is 'associated with supporting a contingency operation,' 'only if the expenditures were necessary to support a contingency operation and would not have been incurred in that fiscal year in the absence of the contingency requirement' (emphasis in original).[33]

To distinguish these incremental costs, the guidance required that the military services show assumptions about troop levels, operational tempo, and reconstitution though little of this information has been provided to Congress. In addition, the guidance lists and describes the types of incremental expenses that are to be reported monthly.

In guidance issued to the services to prepare their FY007 and FY2008 requests, DOD reiterated that the services would have to demonstrate that any investment requests were 'directly associated with GWOT operations,' rather than to offset 'normal recurring replacement of equipment.'[34] In addition, the services were also required to show that reset plans could be executed in FY2007, presumably to meet an emergency criteria.[35]

Change in DOD's Definition of War Costs. During the final stages of preparation of the FY2007 supplemental, however, DOD appears to have adopted a new and ex-

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[30] The latest Financial Management Regulations for contingency operations are dated September 2007 and supercede September 2005 regulations. These regulations were developed in the mid-1990s in response to difficulties in estimating the cost of contingency operations such as Bosnia.

[31] Section 230902, DOD, Financial Management Regulations, Chapter 12, Sec. 23, 'Contingency Operations,' Sept. 2007, hereinafter, DOD, FMR, 'Contingency Operations'; *http://www.defenselink.mil/comptroller/fmr/12/12—23.pdf.*

[32] Ibid.

[33] DOD, FMR, 'Contingency Operations,' p. 23-25.

[34] Under Secretary of Defense, Memorandum for Secretaries of the Military Departments, 'Fiscal Year (FY) 2008-2013 program and Budget Review,' July 19, 2006, p.34-49, specifically, p. 36, 39, 41.

[35] CRS Report RL33110, p. CRS-31.

panded definition of war costs that permits the services to fund reconstitution or equipment replacement for not only operations in Iraq and Afghanistan but also 'the longer war on terror.'

On October 25, 2006, Deputy Secretary of Defense Gordon England, issued new 'ground rules' for the services in developing their FY2007 Supplemental requests stating that the services could include 'incremental costs related to the longer war against terror (not just OEF/OIF)' including replacement of war-worn equipment with newer models and 'costs to accelerate specific force capability necessary to prosecute the war.'[36] There is no specific definition of the 'longer war on terror' although it is now one of the core missions of the Department of Defense.[37]

In September 2007, DOD published revised budgeting guidance for contingency operations that institutionalizes the changes in the October 2006 England memo.[38] This new guidance includes a new section on budgeting for 'large-scale contingencies' that expands the definition of expenses that would be considered part of reset. For large-scale contingencies which include 'intense combat or long-term stability or anti-insurgency operations,' the guidance permits the services to request 'expenses beyond only direct incremental costs' on a case-by-case basis.[39]

The guidance also includes not only expenses that 'relate directly to operations' but also those that are 'a result or consequence of the operations such as reconstitution activities (to replenish stocks, replace battle losses, or worn equipment or systems), depot maintenance and other supporting actions,' as well as special funding authorities such as coalition support.[40]

This new definition differs substantially from the traditional definition of reset—the 'process of bringing a unit back to full readiness once it has been rotated out of a combat operation,' by repairing and replacing equipment and resting and retraining troops.'[41] The new guidance allows the services to restore or buy new equipment that meets a higher standard to meet its future missions by enhancing capability or adding new technology as well as rebuilding equipment to its original condition (italics added). Thus the guidance endorses actions to:

- reach a 'desired level of combat capability;'
- appropriate to the units' future mission;
- 'restore and enhance combat capability;'
- insert new technology; and
- rebuild equipment to its original condition.[42]

The new guidance may be intended to help the services provide for unanticipated requirements, and apply some of the lessons learned in the Iraq and Afghan wars—for example, by providing more force protection, meeting threats from improvised explosive devices, buying support equipment like trucks, radios, and loading pallets that are traditionally under-funded, or fully equipping the reserve-component now playing a key role. The new standards appear to provide the services with broader leeway to include programs that are expected to contribute to future needs rather than restricting war requests to programs tied directly to ongoing conflicts.

CHANGES IN EXPANDING DEFINITION OF WAR COSTS

Adopting these higher standards also appears to provide a rationale for including expenses in supplementals that have more indirect connections to ongoing operations. Some observers have questioned whether certain programs, funded in emergency supplementals, contribute significantly to war operations:

- equipping standardized units in the Army and Marine Corps;

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[36] Deputy Secretary of Defense Gordon England, Memorandum for Secretaries of the Military Department, 'Ground Rules and Process for FY '07 Spring Supplemental,' October 25, 2006.

[37] CRS Report RL33110, p. CRS-31-p. CRS-32.

[38] Although the revised guidance is dated September 2007, it was apparently issued as interim guidance earlier. It also appears that the guidance endorse requests by the services in earlier supplementals that were approved by Congress.

[39] DOD, FMR, 'Contingency Operations,'p. 23-45.

[40] Ibid.

[41] Office of the Secretary of Defense, Report to Congress, Ground Force Equipment Repair, Replacement, and Recapitalization Requirements Resulting from Sustained Combat Operations, April 2005, p. 8; see also GAO-06-604T, Defense Logistics: Preliminary Observations on Equipment Reset Challenges and Issues for the Army and Marine Corps, p. 3.

[42] For example, the guidance for vehicle reset endorses 'Actions taken to restore units to a desired level of combat capability commensurate with the units' future mission. It encompasses procurement activities that restore and enhance combat capability to unit and pre-positioned equipment that was destroyed, damaged, stressed, or worn out beyond economic repair due to combat operations by procuring replacement equipment * * * [including] major repairs/overhauls and recapitalization (Rebuild or Upgrade) that enhances existing equipment through the insertion of new technology or restores selected equipment to a zero-miles/zero-hours condition;' see DOD, FMR, 'Contingency Operations,' p. 23-21 to p. 23-22.

• personnel costs to increase the size of the Army and Marine Corps;
• reset, particularly, replacing war losses with equipment just beginning production, upgrading equipment for future needs, and buying pre-positioned equipment.

Standardizing Units in the Army and Marine Corps. In FY2005 and FY2006, DOD requested and received a total of $10 billion in supplementals to fund its ongoing initiative to standardize the configuration of Army and Marine Corps units—an effort referred to as modularity in the Army and restructuring in the Marine Corps. The Army argued that accelerating the creation of standardized units would decrease the stress on Army forces by providing more units to deploy.

Critics suggested that these expenses were more appropriately considered regular rather than emergency budget costs and that standardizing units may not contribute significantly to reducing stress on the force.[43] While DOD argues that modularity makes it easier to swap out units during rotations, only some deployed units are modular. Modular units have fewer personnel, and some studies have found that these units make a small contribution to reducing stress on the force. It appears that most, if not all, funding for modularity is now in DOD's regular budget.

Increasing the Size of the Army and Marine Corps. Until January 2007, the Administration and DOD argued that the increases in the size of the Army and Marine Corps above pre-war levels should be considered war costs because they would be temporary increases to relieve stress on the force, which would no longer be necessary once the conflicts in Iraq and Afghanistan were resolved. This was the rationale for including the personnel costs of the additional Army and Marine Corps, referred to as 'active-duty over strength' in emergency supplementals rather than baseline requests.[44] Some Members of Congress argued that the Administration should permanently expand the size of the Army and Marine Corps to relieve stress on the force.

In January 2007, the Administration reversed its position, endorsing permanent increases of 65,000 personnel in the Army and 27,000 in the Marine Corps by 2012. In its FY2007 Supplemental request, the Administration included not only the military personnel cost but also an additional $1.7 billion to equip an expanded force contending that the additional forces would reduce the stress on the force from frequent rotations.

Some observers have questioned this rationale, noting that most of the additional forces would not be available until 2012 or 2013. In its report, the Senate Armed Services Committee transferred this funding to DOD's baseline request on the basis that the Administration's initiative to 'grow the force,' was a regular rather than a war-related expense.[45] According to recent testimony, the Army is planning to add forces sooner, though it's not clear whether DOD's FY2008 request includes funding for that change.[46]

Replacing War Losses. Although war losses are generally accepted as an appropriate war-related expense, recently, there has been controversy about DOD's original FY2007 emergency war requests, which included requests to replace lost equipment with new systems about to or just-beginning production which would not be delivered for two to three years. Examples include:

• $389 million to replace F-16 aircraft with Joint Strike Fighters;
• $146 million to buy CV-22 Ospreys;
• $388 million for C-130J aircraft; and
• $375 million for EA—18G electronic warfare requirements.

Partly in response to congressional scepticism, the Administration withdrew these requests in its March 2007 amendment which provided funding for additional troops to support the additional five combat brigades being sent to Iraq in the troop 'surge.'[47] That scepticism may be reinforced by the finding in the new CBO report that the Army's FY2007 request included funds to replace not only helicopters lost in theater but also losses of some 40 helicopters in other non-war-related operations, which many observers would continue a baseline rather than a war-related requirement.[48]

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[43] CRS Report RL33110, p. CRS-34 to CRS-35; CRS Report RL32783, p. CRS-30 to p. CRS-31.

[44] CRS Report RL33298, p. CRS-32.

[45] CRS Report RL33999, Defense: FY2008 Authorization and Appropriations, by Pat Towell, Stephen Daggett, and Amy Belasco, October 9,2007, p. 19, hereinafter CRS Report RL33999; *http://www.congress.gov/erp/ra/pdf/RL33999.pdf,*

[46] SAC, FY2008 War Supplemental, p. 69.

[47] DOD withdrew these requests and re-allocated the funds to additional support personnel associated with the higher troop levels of the 'surge;' see CRS Report RL33900, p. CRS-44 to CRS-45.

[48] Ibid., p. 22-p. 23, and Table 2-3.

Expanded Definition of Reset. While Congress has largely endorsed DOD's past reset request, some questions have been raised about these requests. In the FY2007 Supplemental, for example, appropriators rejected some of DOD's FY2007 reset-related requests on the basis that the proposed depot maintenance or procurement was either not executable, not clearly an emergency, or provided funding in advance of requirements.[49] Congress may want to ask DOD to identify which requests are part of the 'long war on terror,' rather than for Iraq and Afghanistan. Some observers might suggest that to the extent that requests were for this purpose, they might be considered more appropriately within the context of DOD's regular budget where they would compete with other defense needs.

A new report by the Congressional Budget Office on Army reset programs estimates that more than 40% of the Army's funding for reset thus far—or about $14 billion—is not to repair or replace systems returned from overseas, the traditional definition. Instead, CBO reported those funds are to upgrade systems to new capabilities, buy new equipment to eliminate longstanding shortfalls, and replace pre-positioned equipment stocks. CBO estimates that almost half of the FY2007 funding was for these purposes.[50]

CBO's report states that over 40% of the Army's war request in the past three years has been to rebuild, upgrade, and purchase new or upgraded equipment for reserve component, modular units, and pre-positioned equipment—the broader definition of reset—rather than to replace lost equipment or repair equipment returned from theater. This included, for example:

- upgrades to Bradley fighting vehicles, previously funded in the baseline budget;
- rebuilding heavy trucks to an 'as new' status;
- buying replacements for pre-positioned equipment used in theater;
- buying additional trucks for the reserve-component to fill longstanding gaps; and
- buying medium trucks to equip new modular units.[51]

Although the Army argues that the upgrades provide improved capability, potential questions for Congress are whether such repair and equipment requirements are urgent or war-related requirements in light of the one to three years required for delivery. Given the lead time to buy such new systems, the Army may rely on its current inventory to provide equipment rotating back with units, which is possible since the Army is generally using 20% or less of its inventory in theater and in many cases, already has upgraded equipment available to send to the Iraq and Afghan theater.[52]

POTENTIAL ADVANTAGES AND DISADVANTAGES OF EMERGENCY BUDGETING

What are some potential advantages and disadvantages of relying on emergency budgeting to fund war costs? Potential advantages might include the following:

- wartime needs could be met more expeditiously;
- the services, particularly the Army and Marine Corps, have been able to meet certain longstanding goals to upgrade and buy equipment;
- the services have bought upgraded, more capable, equipment earlier than planned; and
- funding ongoing programs such as modularity in supplementals gives the Army room to fund other needs.

At the same time, potential disadvantages include the following:

- readiness may have reduced because upgrades take longer than standard maintenance and hence, equipment may be returned to units later;
- purchasing equipment whose requirements have not been fully vetted, such as Army pre-positioned stocks;
- visibility on total program costs may be reduced; and
- budget discipline may be eroded.

Potential Benefits of Emergency Budgeting. The expanded definition of emergency requests, particularly reset, may have allowed the services, particularly the Army and Marine Corps, to fill certain longstanding gaps in their inventories for equipment that had not been deemed sufficiently important to be included in previous budgets, some of which may have be needed in these conflicts. This included, for example, many items that have been included in the Unfunded Priority List (UPLs),

[49] CRS Report RL33900, p. CRS-42 to CRS-43.

[50] CBO, Replacing and Repairing Equipment Used In Iraq and Afghanistan: The Army's Reset Program by Frances Lussier, September 2007, p. ix and p. 31ff,, Tables 2-4 and Table 2-5; hereinafter, CBO, Army Reset Program; CRS calculation of FY2007 of non-reset share from CBO Table 2-5.

[51] CBO, Army Reset Program, passim.

[52] Ibid., Summary Table 1 and Table 1-1.

lists of items that are not included in the President's budget that are often submitted to the congressional defense committees.

Supplemental requests have also allowed the services to fund certain support items that typically receive less priority than aircraft, helicopters, and tanks or other major weapon systems in regular budgets. This includes funding in 'Other Procurement' accounts, which covers a wide range of seemingly mundane support items such as radios, tactical vehicles, and loading pallets. During war-time operations, the services realized the importance of these items and requested substantial funding in supplementals.

Providing the Army with $5 billion in funding in FY2005 and FY2006 reduced the pressure on the Army's budget by covering costs that had been previously funded in their regular budget. This may have made it easier for the Army to cover unanticipated cost increases in programs such as the Future Combat Systems.

Costs of Emergency Budgeting: Readiness Effects. Congress may want to ask whether the Defense Department's decision to fund major upgrades and purchase new weapon systems and equipment for reset may have lowered readiness by contributing to equipment shortages for units training to deploy. CBO points out that major system upgrades or modifications take longer than performing standard maintenance or refurbishing older equipment and delay when equipment returns to units. CBO's new report cites two examples: a tank can be reconditioned in four months while it takes two years to recondition and upgrade that same tank, and an overhaul of a heavy truck takes two to three months whereas rebuilding those trucks would take one year (Heavy Expanded Mobility Tactical Trucks).[53]

The broader definition of reset could also have lowered readiness by putting into the depot maintenance queue major upgrades and overhauls of equipment that take more time to complete and may be less urgently required than other items. According to GAO testimony and a recent report, the Army's repair depots do not target items needed by units preparing to deploy but simply repair equipment as it returns.[54]

Costs of Emergency Budgeting: Incomplete Vetting. Because the services have drawn heavily on pre-positioned equipment for Iraq and Afghanistan, DOD has included replacements in their war-related reset requests. The Army is currently reexamining its overall pre-positioning strategy to reflect the 2006 Quadrennial Defense Review. A recent GAO report points out that the Army's pre-positioning implementation plan could 'result in investments for the pre-positioning program that do not align with the anticipated DOD-wide * * * strategy,' and recommended that the Army synchronize its strategy with that of DOD, a recommendation that DOD endorsed.[55]

Similar dilemmas may arise in other areas where DOD requests in war supplementals items that may not fit in with ongoing modernization efforts, as may be the case for uparmored HMMWVs and MRAP vehicles. Those systems will create additional support costs that may not be anticipated in regular budgets.

Lack of Visibility on Costs and Reduced Budget Discipline. Because supplemental and regular funding is requested simultaneously, it becomes difficult for Congress to get a full picture of DOD plans as well as the past, current and future costs of weapon systems. At the same time, the availability of supplementals and broadened definition of war costs, gives DOD (and Congress) an alternate funding vehicle that is not subject to standard budget caps, and hence a potentially attractive way to add funding to the defense budget.

Some observers have raised concerns that the services may be relying too heavily on future supplementals to cover various programs, which may allow DOD to delay facing trade-offs between programs.

POLICY ALTERNATIVES

Although both the President and Secretary of Defense Gates have suggested that troop levels in Iraq are likely to decrease in 2008 below pre-surge levels, there remains considerable uncertainty about the pace of troop decreases. Administration

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[53] CBO, Army Reset Program, p. 36 to p. 37.

[54] GAO-07-814, Defense Logistics: Army and Marine Corps Cannot Be Assured That Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements, September 2007; *http://www.gao.gov/new.items/d07814.pdf;* GAO-07-439T, Defense Logistics: Preliminary Observations on the Army's Implementation of Its Equipment Reset Strategies, January 31, 2007; *http://www.gao.gov/new.items/d07439t.pdf.*

[55] GAO-07-144, Defense Logistics: Improved Oversight and Increased Coordination Needed to ensure Viability of the Army's Prepositioning Strategy, February 2007, p. 4 and p. 7.

and Defense witnesses have stated repeatedly that changes in troop levels will reflect the situation on the ground.[56]

Potential options for Congress to avoid some of the dilemmas raised by separate emergency budgeting could include the following:

- require DOD to define the criteria for war funding less broadly ; or
- delay consideration of much of the FY2008 reset request until FY2009, which could encourage DOD to make trade-offs between those programs and their baseline requirements within a set limit.

With about $45 billion in investment funds likely to be available to spend as of the beginning of FY2008, DOD might be able to meet urgent reset needs while Congress considers its FY2008 reset request.[57]

FINANCING ARMY OPERATIONS WITHOUT A FY2008 SUPPLEMENTAL

As you requested, CRS estimated how long the Army could continue to fund FY2008 war operations using strictly funds from the regular FY2008 DOD appropriations bill. Under that assumption, CRS estimates that the Army could continue to finance its operating costs—both baseline and war—until about mid-January. This estimate assumes that the Army uses operation and maintenance (O&M) funds slated to be used at the end of the year to cover war costs in the initial months of the year.[58]

If DOD transferred additional funds to the Army and if the Army slowed its non-readiness regular non-war support spending as occurred last spring, CRS estimates that the Army could last an additional month, or until mid-February 2008.

Chairman SPRATT. We have 6 minutes and 42 seconds to make a vote. With your patience and forbearance, we will go and come back as quickly as we can. We have two votes. I want to make sure that there will be some coming back because I certainly have questions that I would like to put to you, but if that is agreeable with you, we will be back as quickly as possible.

The committee stands in recess subject to call of the Chair.

[Recess.]

Chairman SPRATT. I think we will have a couple more showing.

I have some questions for the witnesses, and then we will let you get on your way.

Let me thank you for your excellent testimony. We have got questions we would like to ask you about it, but you have added tremendously to our knowledge already.

Let me say to Ms. Belasco in particular, you may sometimes wonder as you labor over those CRS reports who is reading them. There are several Members who are reading them, and you do a very, very good job of getting all of the facts there in something that is enormously difficult to master. You have done a great job.

You say in your testimony that DOD's reporting system doesn't necessarily capture certain funding; intelligence funding, for example. But you imply that there are other items that it simply doesn't capture, identify as war funding.

You also indicate that DOD asked for a private firm to conduct an audit and to help it set up its system for war cost tracking. Do you know of the status of that system, and have you been allowed

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[56] Senate Appropriations Committee, transcript, Hearing on the Fiscal 2008 War Supplemental, September 26, 2007, p.55-p. 57, p. 64-p.65.

[57] According to DOD, war-related carryover is $53 billion as of August 2007, consisting primarily of investment funding. If an additional $10 billion is obligated in the last month of the fiscal year, about $43 billion would remain available for FY2008. CRS estimates that DOD figures do not reflect an additional $7 billion in funds transferred from baseline appropriations to meet war needs. Taking these funds into account, would increase unobligated funds that are available to over $45 billion; see Table A1 in CRS Report RL33110.

[58] CRS assumes baseline Army O&M spending of $6.9 billion monthly, including $2.3 billion in DOD's baseline program (the average of House and Senate recommended levels) and $4. 6 billion in war spending, based on the FY2008 request.

access to that in your work to determine as you track war cost funding?

Ms. BELASCO. My understanding is the audit is not complete yet.

Chairman SPRATT. So have they built a structure? Have they consulted anyone outside DOD about how it should be designed?

Ms. BELASCO. I don't know the answer to that. I mean, I do know that they are working on looking at their own war costs. And, for example, one of the things that I include and they don't include is moneys that have been transferred from DOD's regular appropriations act to meet unanticipated war needs, and they are actually looking at this question.

But——

Chairman SPRATT. What other items are they not capturing? You mentioned intelligence.

Ms. BELASCO. For their monthly burn rates and for their obligations report, some of them don't capture intelligence spending which is not administered by the Defense Department, and that is about—to date I would have to double check it, but it is probably $25 billion over the past few years.

There is also some moneys from fiscal 2003 which were—which I count as war-related because that is what they were appropriated for, and I don't think they capture those as well.

The other kind of—the other issue that is beginning to surface is also that the Defense Department, in their justification materials, now includes a line that says non-GWOT and intelligence spending. So they themselves are starting to categorize some of the moneys appropriated in supplementals as not relating to war, like increases to cover higher fuel prices in the baseline budget, or, for example, the additional C-17s that Congress approved in the fiscal 2007 supplemental but that they do not consider to be related to the global war on terror.

This makes things rather messy.

Chairman SPRATT. You mentioned in your testimony that there has been an enormous increase in the account called—or under the rubric of "reconstitution," which is different from "reset." Apparently it is more inclusive, a broader category than "reset." Would you differentiate the two, and could you shed some light on why this reconstitution account is now up to $45-, $46 billion a year?

Ms. BELASCO. I am sorry, what was the question again?

Chairman SPRATT. Would you differentiate—how do you distinguish "reset" from "reconstitution," and why has the category of reconstitution gone up to $46 billion, $10 billion in 1 year? Is procurement being assigned to this account that would otherwise be procured in the ordinary course of business?

Ms. BELASCO. First of all, I think the question of "reset" versus "reconstitution" itself is a bit murky. The terms are sometimes used interchangeably.

Part of what may have happened is that the definition of what is considered to be "reset," that DOD has broadened its definition of what is considered to be "reset." "Reconstitution" was the traditional term, and it used to mean simply restoring a unit to where it was before it was rotated out for operations, and that included anything from if there were problems with their equipment and it needed to be repaired to retraining troops in their old skills.

But recently the Defense Department revised its financial management regulations, which I recommend as bed-time reading if you have insomnia. And that has, in a sense, institutionalized a change in the definition of "reset," which actually has been going on for some time. And that definition is far—is significantly broader than the previous sort of standard traditional definition of "reset," which is that you restore a unit to where it was, and—but there are a couple of very significant changes, and this was most clear last October when Deputy Secretary Gordon England issued new guidance to the services for preparing their 2007 and 2008 war cost requests.

And he said explicitly in a memo that went out to the service that the—that the services could include incremental costs—this is a quote—incremental costs related to the longer war against terror, parenthesis, not just OEF/OIF, including replacement of war-worn equipment with newer models and, quote, costs to accelerate specific force capability necessary to prosecute the war, and this was the longer war on terror.

So this, in a sense, helped provide justification for the services to expand the types of things that they would request as part of reset. And you can see this in the regulations as well where they say——

Chairman SPRATT. Is "reconstitution" a new word, or is it an old word that has been redefined?

Ms. BELASCO. It is an old word, and in their regulations, they use "reset" rather than "reconstitution," but they define it in a very different way. They used to be somewhat interchangeable.

But what is different about the definition is now what they are talking about is that requests for reset would be towards a desired level of combat capability to meet a unit's future mission to restore and enhance combat capability, insert new technology. So all of this is a much more—a much higher standard than was previously the case. And once they have put it——

Chairman SPRATT. I appreciate that.

Let us turn now to Mr. Edwards.

Mr. EDWARDS. Mr. Chairman, thank you.

Professor Bilmes, from my position as Chairman of the VA appropriations subcommittee, I want to extend a special thank you to you for the efforts you have made to quantify in both the economic and in human terms the terrible price paid for our servicemen and women who have fought in combat in Iraq and Afghanistan, a price I am sure all of them were willing to make, but nevertheless a price that we ought to be aware of in this Congress as we consider our funding levels for VA medical care and for VA benefits, which today simply are not adequate or come close to compensate these great Americans for their sacrifices.

Mr. Chairman, some of the comments in the written testimony of Professor Bilmes, I think, were so important. While they are technically in the record, for those who might be watching this hearing, I would like to just repeat and restate some of those for the record.

The fact is that out of 1.5 million servicemen and women who served in Iraq and Afghanistan, to date 720,000 have been discharged. So technically 720,000 are now veterans.

We have had 60,000 nonmortal casualties, a casualty rate of 14 casualties for every 1 combat death. So while many Americans through their daily newspapers keep up with loss of life in Iraq, for which there can be no true cost associated, the fact is for every 1 of those, there are 14 Americans who may be paying a price every day for the rest of their lives as a result of the Iraq and Afghan wars.

Of the 720,000 veterans who have been discharged, 220,000, or 34 percent, have already been treated for medical conditions at VA hospitals; 95,000 have been treated for mental health care problems, and 45,000 of those appear to have full-blown post-traumatic stress disorder; 13,000 severely wounded veterans, whose wounds are so severe they could not continue to serve in the military after their injuries or combat wounds occurred; and economic loss estimated due to combat injuries to be 200- to $300 billion.

As Professor Bilmes said, one out of every five families, I believe, who has a veteran in that family with a significant disability as a result of the war has had to leave his or her job in order to care for their loved one, for our veterans.

I think those are costs that every Member of Congress ought to think about in the months and years ahead as we decide where to go in this war, what its true costs are, and every Member of Congress ought to consider as we look at veterans budgets and health care budgets.

Professor Bilmes, my question to you would be this: There is a great difference between the economic and medical cost estimates of the Congressional Budget Office versus yours. Could you talk about that difference and give me your evaluation of the methodology used by the CBO and any differences of opinion you might have about that methodology?

Ms. BILMES. Well, I think that, you know, first of all, the CBO is estimating the costs for 10 years, I believe, or less, and I am estimating the lifetime costs, which, for a 25-year-old veteran, recent veteran, I am estimating for 50 years, and, you know, prorated for a 35-year-old and so forth. So that accounts for a substantial amount of it.

Secondly, my estimates are based on a number of things: First of all, looking at the—we know how many veterans have already claimed disability compensation and have already been to the VA for care. What we don't know is how many more will.

Now, we have based our estimates on essentially two things: First on looking back at the first Gulf War. Now, the veterans from this war have the same eligibility as veterans from the first Gulf War. So that is a good comparison in terms of benefits. But, of course, that war lasted for 1 month and with a small number of injuries.

Now, if my estimates are based on—and I think they are conservative. Just assuming that the same number of veterans from this war claim disability compensation and medical care as those in the first Gulf War, we would see the kind of estimates that I am talking about.

The other issues to take into account in terms of estimating this are the level of health care inflation included; the cost-of-living ad-

justment included; the cost of how long, of course, the war goes on; the rate of injuries going forward; and a variety of other factors.

And I cannot fully explain the discrepancy between in my own estimates and the CBO estimates, but I will say that during the last two breaks for votes, we have been discussing it, and I suspect that we will resolve them.

I will also say that we have—for the past year, I have been involved with a group of psychiatrists and neurologists at UCSF Medical School and the five VA hospitals around the San Francisco area in which we have been collecting actual empirical data on health care usage and claims usage in that region. So we expect to shortly publish those findings in the New England Journal of Medicine, and I believe they will form an ongoing basis for these projections.

Mr. EDWARDS. I want to thank you for your excellent work to date. And I hope in the future we discuss the honest cost of this war, that we absolutely must include in that the continuing price being paid every single day by tens of thousands of American veterans who are suffering from physical and mental combat wounds. And we should take care of those patriotic citizens in a way that they have not been taken care of by administration budget requests to date.

Thank you.

Chairman SPRATT. Thank you.

What was the name of the hospital where the research is being done?

Ms. BILMES. University of California San Francisco, UCSF medical school.

Chairman SPRATT. Mr. Doggett.

Mr. DOGGETT. Thanks to both of you for your important testimony.

Professor, we have heard over the last several years so many misrepresentations, so many gross untruths, so many lies from this administration about the cost of the war in Iraq that it was refreshing to have the landmark study that you and Dr. Stiglitz provided concerning the true cost of this war, and I know you are working on updating it.

I believe, if I remember correctly, that the general reaction of the administration to your initial study was that you were the folks with the green eyeshades, and the bean counters, and that decisions need to be made for other reasons.

Let me ask you about an area that I am sure is difficult to give true numbers on looking at it from an economic standpoint, but wouldn't you agree that there is a very real cost to America in systematically disguising the real cost of this war? Isn't there a cost to delusion?

Ms. BILMES. Well, I think that by not looking at the true cost of the war, it makes it very difficult for you in Congress to essentially do a cost-benefit analysis when you take a vote. I mean, if you think you are taking a vote on a $70 billion supplemental, and the true cost is actually twice that, you are not really able to do your job properly.

So I think that the way that the administration has requested money for this war through this series of so-called emergency

supplementals is a misuse of the vehicle, of the emergency supplemental, and I certainly would argue that war costs should be made transparent and more full.

Mr. DOGGETT. So if you come in and you reject the findings of the bipartisan Iraq Study Group, and instead increase the number of troops in the surge, and then when an independent group like the Congressional Budget Office responds to a request from our Chairman for the cost of that surge, and you criticize the actual results of what the surge will cost by not counting in all of the frontline troops, not counting in the support troops—and, I guess, Mr. Chairman, the Congressional Budget Office is due for some criticism because though they were accused by the Secretary of Defense of greatly overestimating the cost, they actually underestimated the cost slightly of the surge.

Let me ask you if when you have this delusion, when you have these misrepresentations, if there is a cost not just in dollars, but if there isn't a link to the blood that has been spilled and the lives that have been lost? And I am thinking specifically, for example, of the administration's delay in providing the armor that our troops needed to be protected from the IEDs.

Ms. BILMES. Yes. I mean, very much so, and I think nowhere do we see this more than in the situation with the MRAPs. I mean, we know that 4 years ago the Marines were already asking for MRAPs because they already knew conclusively that they protected our soldiers better from exactly the type of injuries they were facing in Iraq than even the up-armored Humvees. And despite that, it was not until Secretary Gates came in and ordered a review and looked at it that we have finally now, 4 years later——

Mr. DOGGETT. And many lives.

Ms. BILMES.—and many, many lives later that we have finally asked for the money for the resources to replace the 18,000 Humvees.

But, of course, you can't just wave your hand and replace 18,000 vehicles overnight. It takes a while to actually manufacture them.

So all of this while we are continually exposing our troops to injury and death as a result of sort of a penny wise, pound foolish approach to the budgeting.

Mr. DOGGETT. As you know, there has been some discussion around these halls lately about a war tax. But isn't it true that we are already paying a Bush war tax, a Bush gas tax every time we pump a gallon of gasoline? Aren't we paying higher prices because of the war in Iraq?

Ms. BILMES. Well, I mean. I would say yes and no. I mean, on the one hand, because of the way this war has been waged, it has been waged with an all-volunteer paid Army and with paid contractors. So essentially the cost in blood has been translated into a financial cost, and since we have borrowed all of the money to go to war, the financial cost has been passed on to the next generation. So you could argue that we have not—we, the public—we have not borne the cost of the war at all yet, except for in the economy there are a number of factors which do affect us to a certain extent, one of them being the price of oil.

Now, the price of oil before we went to war was $25 a barrel, and at that time the futures market, which looks out and scans the ho-

rizon for changes, already anticipated the enormously growing demand from China and India. And they nevertheless expected that the price of oil would remain constant.

So certainly if my colleague Joe Stiglitz was here, this being exactly the area where he won his Nobel Prize for this assymetry of information, he would argue that you should attribute almost all of the increase of the oil price to the instability in the Middle East caused by the invasion of Iraq.

But I, being a conservative person, said we should only count $5 or $10 worth of this increase, and that alone has an impact on the economy of $2- to $400-. And it—obviously, people feel it when they buy gas because they feel that they have less money to spend on other things.

Mr. DOGGETT. I gather, just in concluding from your testimony, that you and Dr. Stiglitz do agree that we have hardly had shared sacrifice, that there have been some people that have actually been winners in this tragedy, and who are they?

Ms. BILMES. Well, there have been a small number of winners such as the oil companies, and some contractors such as Kellogg Brown and Root and Blackwater, but overall there have been few.

And our counterfactual analysis, which looks at how the economy would have fared had we invested the money at home, shows that we would be considerably better off if we had invested the money at home.

Mr. DOGGETT. Thank you.

Chairman SPRATT. Mr. Bishop.

Mr. BISHOP. Thank you, Mr. Chairman. I apologize for coming in late.

We talk a great deal in this Congress about entitlement reform and about mandatory spending, and we hear particularly a great deal of that from our friends on the other side of the aisle and from the President.

I guess my concern is that the way in which we have handled the budgeting for this war and certainly the way in which the outyears——

Chairman SPRATT. I don't believe your speaker is on.

Mr. BISHOP. Certainly the way in which the outyear costs have been projected have become a de facto entitlement.

The submission of supplemental funding requests, generally late in the cycle, generally associated with an enormous amount of Presidential arm-twisting and Presidential advocacy and associated with words such as "urgency" and "emergency," certainly takes an enormous amount of discretion away from the Congress and, in effect, takes this now $200-billion-a-year expenditure and puts it approximately in the category of an entitlement.

Would you agree with that analysis or that assessment?

Ms. BILMES. I would, and I have in my testimony strongly criticized the use of the emergency supplemental mechanism for funding the war.

The purpose of this mechanism or this vehicle is to fund actual unforeseen circumstances, and everyone who has looked at this issue, including academics, the CBO, the GAO, the CRS and others, have criticized the sort of consequences of this.

I think the most insidious consequences of this is really the fact that there are several hundred very experienced staff members in the Congress, at OMB and elsewhere who are very, very good at looking at numbers and scrubbing budgets and trying to understand how much it costs to do something, and they have really been cut out of the process and have been denied the opportunity to look—to have accountability and transparency for the American taxpayer in terms of how the money is being spent.

I think if not from my colleague here at CRS, we really would have very little sense of where some of the money is actually ending up.

Mr. BISHOP. I have to believe that the use of this practice is purposeful, and I have to believe that it is related at least in part to the enormous amount of waste, fraud and abuse that we have seen in terms of how these funds have actually been expended relating to the little oversight that they have received prior to their approval.

By the same token, the now obligations that we have in terms of veterans' compensation, veterans' disability payments, Social Security disability payments, those are fixed obligations that we have unless we behave in a fashion that would simply be obscene to retreat from those obligations. So those, in effect, have now become de facto entitlements as well; would you agree?

Ms. BILMES. Absolutely. Every corporation has to include its long-term accrued liabilities on its books. You have to include the cost of your pension plan on your balance sheet, and I think that the government also needs to recognize that these are long-term accrued liabilities, they are promissory notes. They are part of the war costs.

Mr. BISHOP. And your estimate of those costs for veterans' payments would be approximately 400 billion; is that right?

Ms. BILMES. That is right.

Mr. BISHOP. And then for Social Security disability, another 400 billion; is that correct?

Ms. BILMES. No. That is included in the——

Mr. BISHOP. So the Social Security disability is included.

And the military reset cost is another 100- to 200-?

Ms. BILMES. Yes.

Mr. BISHOP. So long-term costs that in effect are entitlements now would be about 600 billion.

Ms. BILMES. Roughly speaking.

Mr. BISHOP. Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Bishop.

Mr. Becerra.

Mr. BECERRA. Thank you. Thank you to the witnesses for their testimony.

I am going to make references to a couple of charts that we have on the budgetary costs. I would like to begin actually with chart number 2, which talks about the costs in comparison to other government programs and government services like children's health care.

My understanding—actually can we do something? Can we go back to chart 1 that talks about the increasing costs of the war for a second?

To me this is an incredible—not that one. Chart 1.

There is an incredible activity occurring here in this country. We are spending more each year for our activities in Iraq since the President declared mission accomplished, and there is nothing to tell us that this will end anytime soon. In fact, every time we get a request from the President for unpaid—for moneys for this military adventure in Iraq, it ends up being more than the previous request.

And so as we see this mounting debt, because all of those figures are debt, we haven't paid a cent for any of these costs for the war. It is all going to be on the government credit card. It begins to add up.

Now, if we can go back to the chart that talks about children's health care. As we see the cost of war escalating, we find that the President is telling us we have to make trade-offs. One of those trade-offs is that he vetoed recently a bill to provide health care coverage to America's children who don't have health insurance. We had a bill that we put on the President's desk to give him health care coverage for 10 million children in this country over the next year for the next 5 years, and that would have cost us about $12 billion to accomplish compared to the cost of just 1 year's worth of military campaign in Iraq of over almost a—excuse me, almost $200 billion.

The reason I ask this is because while we see the cost of war continue to escalate, and now the consequences of this war beginning to hit home, 10 million children, kids in families that work, suffering the consequence, we also have to ask are we getting the best that we can out of that money that we are spending. And my understanding is that at this stage, the Pentagon's auditors, the Pentagon's auditors can't tell us if some $10 billion of moneys that we put out there for contracting to do work, principally in reconstruction, is being spent well, or even if it got spent for reconstruction.

And so I guess the question I would have for either of the two of you is can you tell us if we have had good accounting of all of the dollars that we have expended in Iraq for the American people?

Ms. BELASCO. I am really not an auditor.

There are any number of reports by the Special Inspector General for Iraq, which you have raised all sorts of questions about how well money has been spent for both reconstruction and training of Iraqi security forces.

Mr. BECERRA. Professor Bilmes, any particular comment?

Ms. BILMES. I mean, I think that the overall level of accounting and budget transparency at the Defense Department is an issue that I would strongly urge the Congress to take on, and it extends beyond just this war.

I mean, the Congress has passed a number of pieces of legislation over the years, including the Financial Management Integrity Act, the CFO Act, and so forth, which require government departments to produce auditable, clean financial statements.

Now, when these laws were passed, none of the government had auditable, clean financial statements. Now almost the entire government does with the exception of the Department of Homeland Security, and that is because it is trying to consolidate 22 different agencies; and the Department of Defense, which, although there

are some people who certainly are trying very hard to do it, the Department as a whole has not sort of got religion about this subject.

And, you know, Secretary Rumsfeld made a speech on September 10th, 2001, saying that the number one problem facing the Defense Department was the lack of financial transparency. And that was, you know, September 10th, 2001. That was the last we ever heard of it.

Now, since then this problem has gotten worse, not better, as a result of all of the war spending, which has really blurred the procurement accounts, you know, to a point of the inspector general's report is—you know, it is a scary read, and the auditor reports are scary reads.

So I think that considering that Congress, almost unanimous, has passed the Sarbanes-Oxley bill for the private sector requiring financial transparency and personnel responsibility, I would urge Congress to enact a sort of modified Sarbanes-Oxley law which would require financial transparency at the Defense Department.

Mr. BECERRA. Thank you for this testimony.

Mr. Chairman, as I prepare to yield back, I would just like to mention as I am looking at some notes, with one contract alone, the Pentagon, in a contract with KBR, which is the subsidiary of Halliburton, they have already identified in the Pentagon nearly $2.4 billion in questioned and unsupported costs on the law cap contract, which is the contract to provide logistical support to our troops, just in that one contract.

So, Mr. Chairman, I think maybe there is some good advice that we are receiving from some of the witnesses. Certainly if we are going to be asked to spend this much money on a military adventure by the President and at the same time swallow that he is telling us we can't afford to provide 10 million children with health care, children of working families, I think we really do have to have some better accounting of what we are doing in Iraq.

With that, I yield back the balance of my time.

Chairman SPRATT. Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman.

Ms. Belasco, if I understand your written testimony, you have attempted to give an apples-to-apples, inflation-adjusted dollar cost of the cost of what has been spent in the current wars versus what we did in Korea, in Vietnam; is that correct?

Ms. BELASCO. Yes.

Mr. DOGGETT. And if I understand your testimony and the findings that have been made, we are—already we have spent about twice the cost of the Korean War?

Ms. BELASCO. Yes.

Mr. DOGGETT. And we have spent—again, comparing apples to apples in real dollars, we have already spent about 90 percent of the cost of the 12-year war in Vietnam.

Ms. BELASCO. Well, but I do want to clarify that those figures refer to the costs not only for Iraq, but also for Afghanistan and advanced securities, global war on terror.

Mr. DOGGETT. We also heard testimony about at least 70 percent of that is in Iraq. But you also point out, making it Persian Gulf-specific, that we have already spent six times the cost of the Persian Gulf war.

Ms. BELASCO. Yes. But, again, all three operations.

Mr. DOGGETT. Yes. And you add to that, however, on the cost of the Persian Gulf war, United States taxpayers were only asked to pay 7 percent of the costs because we had other people contributing to the costs of the war.

Ms. BELASCO. Kuwait and Saudi Arabia.

Mr. DOGGETT. And in the case of this war, we are actually paying others to come into the war instead of relying on substantial payments from other people paying for the war.

Finally, I would like to note that we have now gone through the testimony of two important witnesses. We have not had one of the 16 members of the Republican side of this committee appear, just as we did not have anyone from the administration appear on this very important matter.

As we look at the $2.4 trillion figure that is the estimate for the cost of these wars, it is a mind-boggling number, but, as Mr. Becerra pointed out earlier, if we want to try to compare it and understand it, it is about half of the 75-year cost of eliminating all of the shortfall in Social Security. It is more than every American, government, private, public, will spend on health care this year. It would be enough to purchase the average cost of a home in the United States today for 10 million American citizens. It would provide $36,000 in 4-year tuition assistance to every high school student who will graduate this year. It is an enormous figure. It would—in just 5 months of spending in Iraq alone, it would permit us, according to the House Transportation Committee, to fix every deficient bridge in this country.

It is an immense factor, and the American people need to understand that while there is a tragic cost in blood, that the cost to our pocketbooks, to our grandchildren and great-grandchildren's pocketbooks is immense.

Thank you.

Chairman SPRATT. Thank you, Mr. Doggett.

Mr. Bishop.

Do you have any further questions.

Mr. DOGGETT. No, sir.

Mr. Becerra?

Mr. BECERRA. No.

Chairman SPRATT. Mr. Bishop.

Mr. BISHOP. Thank you, Mr. Chairman, and I will be brief.

Mr. Becerra outlined some numbers that highlighted the contrast between what we have been attempting to do, which is to provide health care to 10 million children of the working poor at a cost of approximately $12 billion a year, or actually 7 billion more per year than the President is willing to spend. Contrast that against 196 billion for our 1-year-only supplemental and 25 billion just in interest on that on what we have spent in Iraq thus far.

It seems to be there are at least two arguments for SCHIP. One, it is simply the right thing to do. It is what an enlightened society does.

The second is more practical and pragmatic, and that is that if we provide adequate health care to our society as they are younger, as they age and ultimately become eligible for Medicare, they will be less expensive to support once they become Medicare-eligible.

Do you know if anyone has done any assessment of the long-term impact of our Medicare exposure relative to providing adequate health care to the young of our society?

Ms. BILMES. I am sure there is one of my colleagues at the Kennedy School who is doing that. I can certainly find out who it is and get back to you.

Mr. BISHOP. You would agree that is yet another long-term cost of the spending priorities that are being pursued by this administration?

Ms. BILMES. Well, I mean, absolutely, and I would say in terms of directly the cost of the Iraq war, I mean, many more of these veterans will be qualifying for Medicare, and it then—and will be using it more than would, you know, have been the case had they not been in Iraq.

So another cost that we have not actually tabulated, but there are so many sort of costs that we have not quantified, is the additional costs to Medicare and possibly Medicaid of Iraq war veterans who will be using their services more frequently than they would have otherwise, particularly those with mental health conditions who then develop additional physical ailments.

Mr. BISHOP. Thank you very much.

Thank you, Mr. Chairman.

Chairman SPRATT. Let me say to both of our witnesses, thank you very much indeed for your contributions to the hearing today, that you have done previously and in the future, and we look forward to possibly working with you further as we explore this topic. But you have made a great contribution to this record today.

The hearing stands adjourned.

ADDENDUM

[Majority slides presented during the hearing follow:]

1

Budgetary Cost Comparison

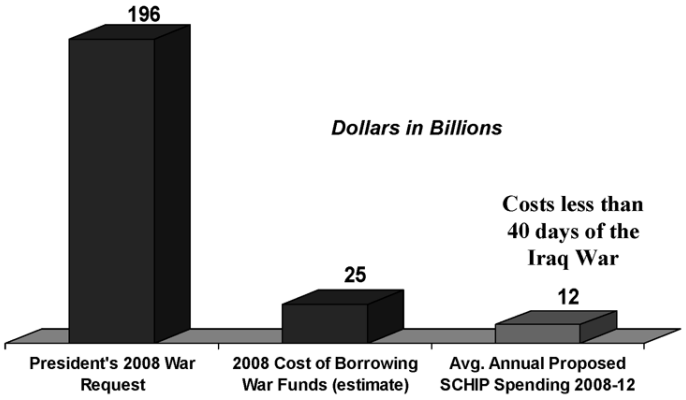
War Costs through 2017:
$2.4 Trillion

Social Security Shortfall
Over next 75 Years:
$4.7 Trillion

Source: HBC using information from CBO and 2007 Social Security trustees report; war costs are nominal; shortfall estimate is present value. 10/24/2007

2

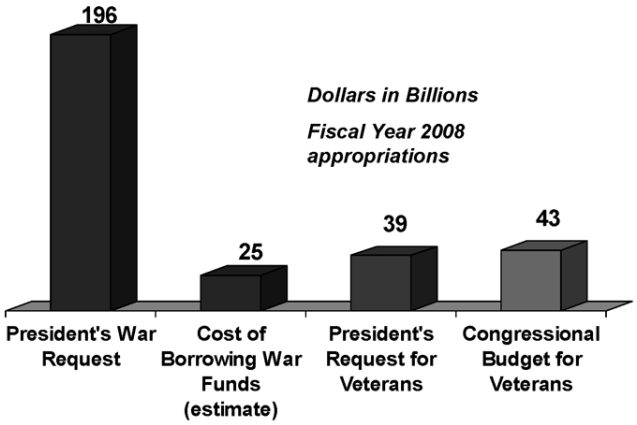
Costs of President's 2008 War Request Exceed the Cost to Insure Health Care for 10 Million U.S. Children



Source: House Budget Committee using information from the Congressional Budget Office and the White House 10/24/07

3

Costs of President's 2008 War Request Exceed 2008 Request for Veterans

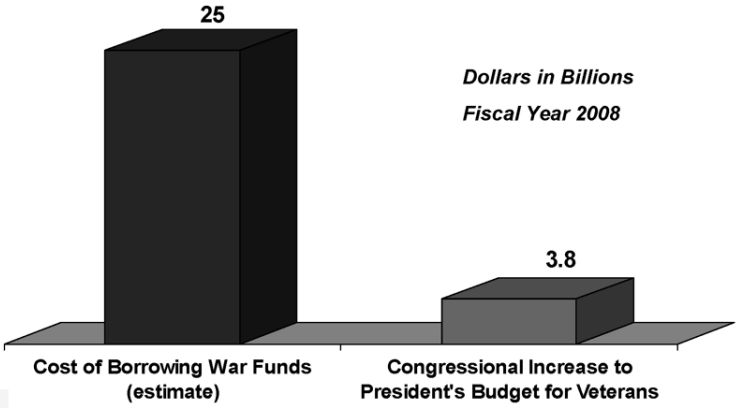


Source: House Budget Committee using information from CBO, House Appropriations Committee, and the White House

10/24/07

4

Annual War Finance Charges Exceed Congressional Increase to President's Inadequate Veterans Budget for 2008

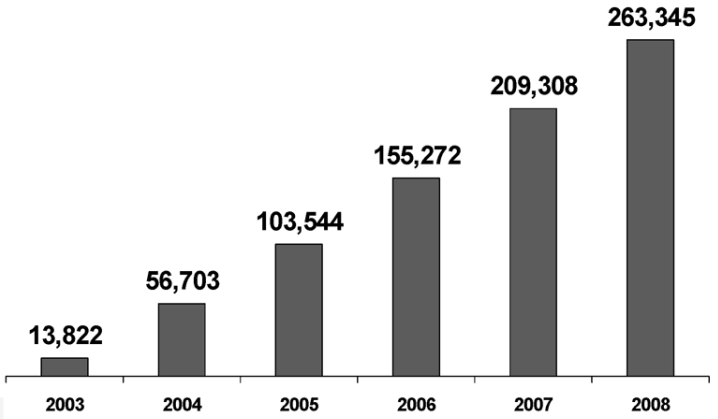


Source: HBC using information from CBO, House Appropriations Committee, and the White House

10/24/07

5

More Iraq and Afghanistan Veterans Seek VA Health Care Each Year



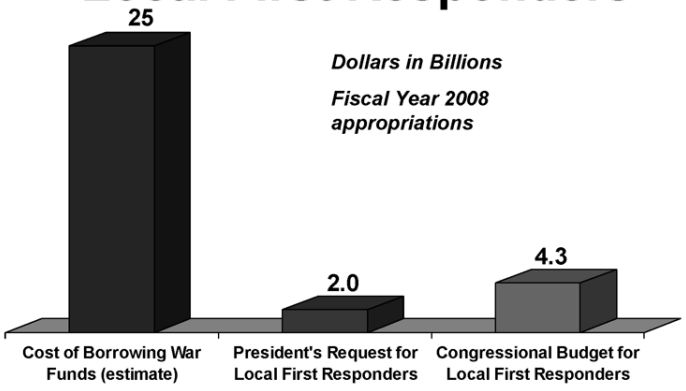
HBC

Source: Department of Veterans Affairs

10/24/2007

6

Annual War Finance Charges Exceed 2008 Request for Local First Responders

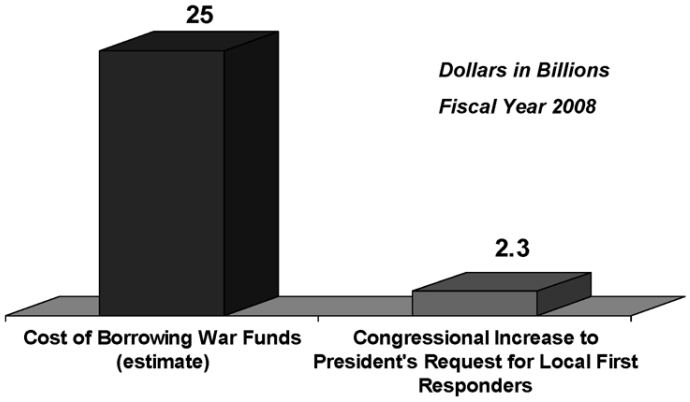


HBC

Source: HBC using information from CBO, House Appropriations Committee, and the White House

10/24/07

Annual War Finance Charges Exceed Congressional Increase to President's Inadequate First Responders Budget [7]



HBC *Source: HBC using information from CBO, House Appropriations Committee, and the White House* 10/24/07

8

The Iraq War Costs $330 Million <u>a Day</u> – Resources that Could Pay for <u>1 Year</u> of:

- Health care for 45,000 veterans

- 1,700 new border patrol agents
- 46,000 more children in Head Start

HBC *Source: House Budget Committee using information from the Congressional Research Service* 10/24/2007

9

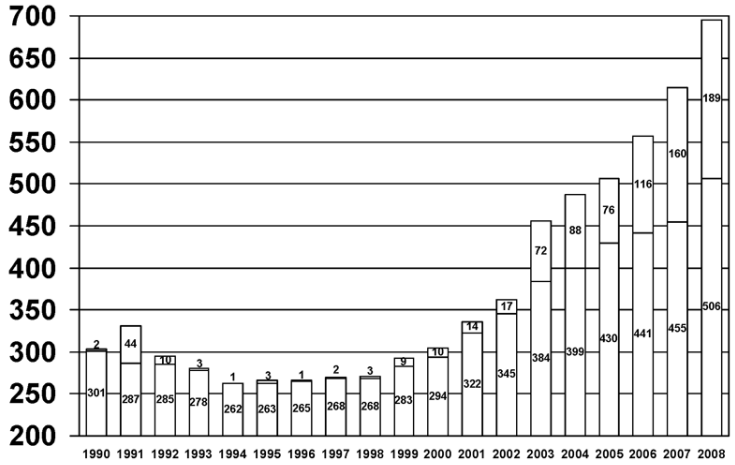
Cost of the 1991 Gulf War

Gross Cost	**$61.1 Billion**
Less: Allied Cash Contributions	$ - 48.4 Billion
Less: Allied In-Kind Contributions or Equipment Not Replaced	$ - 10.6 Billion
Net Cost to U.S. Budget	**$2.1 Billion**

HBC *Source: House Budget Committee using information from the Department of Defense* 10/24/2007

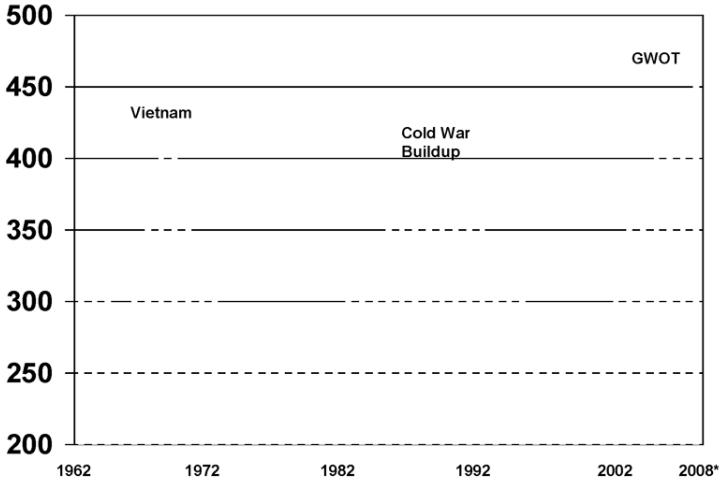
[Minority slides presented during the hearing follow:]

National Defense (050) Funding
Base and Emergency
($ billions)



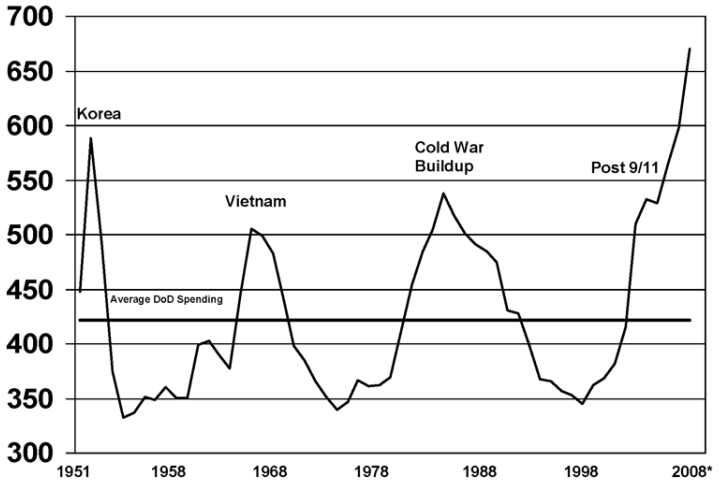
•2007 estimate, 2008 request
Source: OMB, CRS, CBO

National Defense (050) Outlays in Constant FY 2002 $
Base and Emergency

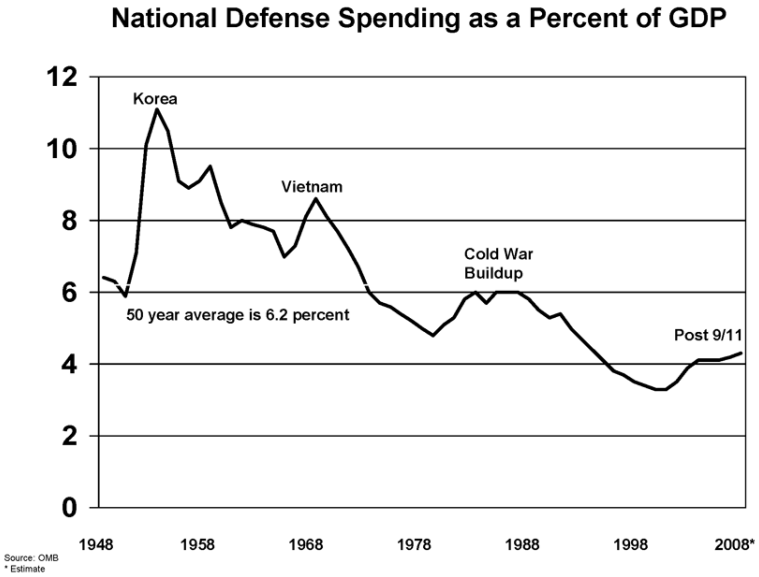


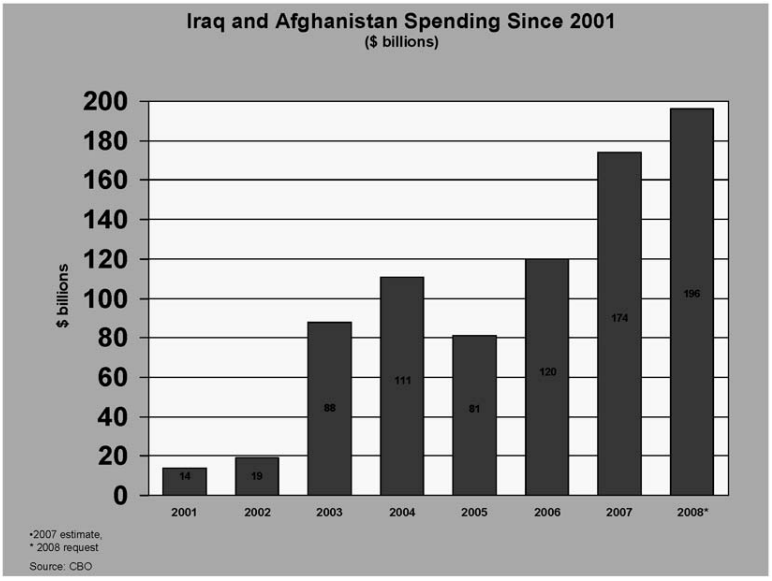
Source: OMB
* Estimate

Department of Defense Budget Authority
Constant FY 2008 $



Source: DoD
*Estimate





[Whereupon, at 1:50 p.m., the committee was adjourned.]

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