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THE GLOBAL WAR ON TERROR (GWOT): COSTS, COST GROWTH AND ESTIMATING FUNDING REQUIREMENTS

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Mr. Chairman and members of the committee, it is an honor to appear before you today to discuss some of the issues surrounding the budgetary costs of the so-called Global War on Terror (GWOT). With over 3,000 American service members killed in the wars in Iraq and Afghanistan, and some 25,000 wounded, the financial costs of the GWOT is, understandably, of secondary interest and importance to most Americans. That said, with the total amount of GWOT funding provided over the past seven fiscal years now totaling some \$502 billion, and the administration requesting another \$93 billion in GWOT funding for fiscal year (FY) 2007 and \$142 billion for FY 2008, Congress has a responsibly to closely examine the budgetary aspects of the GWOT.

In my testimony today, I have chosen to focus on four areas related to GWOT costs and funding requirements. Briefly stated, the main points of my testimony can be summarized as follows:

- The GWOT has proven very costly in budgetary terms, and those costs have grown dramatically over time.
- It is unclear why the GWOT has proven so costly, and why its costs have grown so significantly in recent years.
- An increasing share of GWOT funding appears to be for programs and activities largely unrelated to the military operations in Iraq or Afghanistan.
- We need to improve our understanding of GWOT costs significantly if we are to budget appropriately and effectively for the wars in Iraq and Afghanistan, as well as the Services' baseline force structure, modernization and readiness plans, in FY 2007, FY 2008 and future years.

I will spend the remainder of my time explaining and discussing these four points.

¹ Before the United States Senate Budget Committee.

1) THE GWOT HAS PROVEN VERY COSTLY IN BUDGETARY TERMS, AND THOSE COSTS HAVE GROWN DRAMATICALLY OVER TIME

Since fiscal year (FY) 2001, Congress has appropriated about \$502 billion for the GWOT. This includes some \$463 billion for the Department of Defense (DoD) and \$39 billion for other departments and agencies.² Military operations, reconstruction and other assistance to Iraq and Afghanistan account for, respectively, some \$345-375 billion and \$100 billion of this total.³ The remaining roughly \$25-55 billion has been used to fund a variety of other programs and activities, including classified programs, Army and Marine Corps restructuring and some homeland security activities (Operation Noble Eagle).

Yesterday, the administration requested another \$93 billion, in an FY 2007 supplemental appropriation, for the GWOT. It also requested \$142 billion to cover GWOT costs in FY 2008. If these two measures are enacted, total GWOT funding would reach some \$737 billion through the end of next year. This would make the GWOT more expensive than either the Korean (\$460 billion) or Vietnam (\$650 billion) Wars.⁴

Notwithstanding the high cost of current military operations, spending on defense today accounts for a significantly smaller share of gross domestic product (GDP) than it did during either of these past wars. At the height of the Korean (1953) and Vietnam (1968) Wars, total spending on defense (including both war-related spending and funding for DoD's "peacetime" force structure, modernization and readiness requirements) absorbed about 14.2 percent and 9.4 percent, respectively, of GDP. By comparison, total spending on defense (again, including both war-related and other programs and activities) is likely to absorb some 4.5 percent of GDP this year.

On the other hand, the United States now faces severe budgetary challenges driven by looming demographic changes (the retirement of the baby boomer generation and associated increases in Social Security and healthcare spending) that it did not face in the 1950s and 1960s. In addition, the cost estimates for the GWOT cited above may substantially understate the costs associated with current military operations. Some analysis suggests that including Veterans Administration (VA) spending on medical care and disability, for example, could significantly, even dramatically, increase those

² These totals include \$70 billion provided in the FY 2007 defense appropriations act and \$432 billion provided in earlier years. CBO, "Estimated Appropriations Provided for Iraq and the War on Terrorism, 2001-2006," pp. 1-4.

³ Author's estimate based on DoD, Congressional Research (CRS) and CBO data. The range cited for Iraq costs primarily reflects differences in how CRS and CBO attribute GWOT costs. See, Amy Belasco, "The Costs of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11," April 24, 2006, p. 10; CBO, *Ibid.*, p.1.

⁴ Stephen Daggett and Nina Serafino, "Costs of Major US Wars and Recent US Overseas Military Operations," October 3, 2001, p.2. These figures have been converted into FY 2007 dollars.

costs.⁵ Some have also argued that, since the GWOT has been paid for essentially by increasing deficit spending, rather than by making offsetting cuts in other federal programs or increasing taxes, a share of debt service costs should also be attributed to the GWOT. Including the 10-year interest payments associated with GWOT funding through 2006 alone could add some \$250 billion or more to its costs.

The trend in GWOT funding has been steeply upward since 2001. Annual GWOT funding grew from about \$14 billion in FY 2001, when US military operations in Afghanistan began, to \$88 billion in FY 2003, when the United States invaded Iraq. By 2006, the annual GWOT budget had reached \$120 billion. Congress provided \$70 billion for the GWOT in its “bridge” fund attached to the FY 2007 defense appropriations act. If Congress approves the administration’s new \$93 billion supplemental request, total FY 2007 funding for the GWOT would reach \$163 billion. This would be \$43 billion above the level appropriated for FY 2006 and \$82 billion more than was provided for FY 2005—amounting to roughly a doubling of GWOT appropriations in just two years.

It is impossible to project future GWOT funding levels with much confidence for two reasons. First, there is great uncertainty concerning how long and in what strength US forces will remain deployed in Iraq and Afghanistan in coming years. Second, as I will discuss shortly, it is unclear what is responsible for much of the cost growth in GWOT programs and activities that has occurred over the past few years. However, if the US military remains in Iraq and Afghanistan at current levels, it seems likely that annual funding for the GWOT will remain in the roughly \$120-\$160 billion range.

2) IT IS UNCLEAR WHY THE GWOT HAS PROVEN SO COSTLY, AND WHY ITS COSTS HAVE GROWN SO SIGNIFICANTLY IN RECENT YEARS

Estimates of the cost of conducting military operations in Iraq and Afghanistan, and other activities related to the GWOT, have grown substantially and consistently over the past several years. This is true even adjusting for the changes in force levels (i.e., on a cost per troop/year basis). In September 2002, CBO estimated that—based on the costs incurred in the Balkans, Afghanistan and Desert Shield/Desert Storm—sustaining an occupation force consisting of 75,000-200,000 US troops in Iraq would cost some \$19-50 billion (2007 dollars) a year.⁶ This equates to average cost of

⁵ Estimates of the potential impact of the GWOT on VA costs vary substantially. Linda Blimes has estimated that providing disability compensation and medical care to veterans from Iraq and Afghanistan over the course of their lives will cost \$350-700 billion. Linda Blimes, “Soldiers Returning from Iraq and Afghanistan: The Long-Term Costs of Providing Veterans Medical Care and Disability Benefits,” paper prepared for the Allied Social Sciences Association Meeting, January 2007. On the other hand, CBO has estimated that the cost to the VA of providing veterans and their families assistance as a result of Operation Iraqi Freedom has amounted to a total of about \$1 billion through the end of FY 2006. CBO, “Estimated Costs to US Operations in Iraq Under Two Specified Scenarios,” July 13, 2006, p. 9.

⁶ CBO, “Estimated Costs of a Potential Conflict with Iraq,” September 2002, p. 5. All CBO cost estimates cited in this analysis have been converted to FY 2007 dollars.

about \$250,000 per troop/year.⁷ CBO's high-end estimate turned out to be fairly close to the mark in terms of the number of troops deployed in and around Iraq after the invasion in the spring of 2003. However, the costs per troop have turned out to be much higher than CBO anticipated based on the cost of past military operations.

In 2004, CBO released another estimate.⁸ This estimate projected the incremental cost of sustaining all US forces engaged in the GWOT, including not only US forces in Iraq, but those in Afghanistan and personnel assigned to Operation Noble Eagle. This new estimate equated to costs per troop/year of some \$320,000 (2007 dollars).⁹ Part of the reason for this higher cost per troop/year is that CBO's new cost estimate included some funding for classified programs, as well as support to other countries ("coalition support"). According to CBO, its new, higher estimate also resulted from a refinement and reevaluation of its methodology for estimating war costs. At the time, CBO noted that, even with these refinements, its methodology appeared to produce estimates that were some 12 percent below those that would be derived by simply extrapolating from DoD's expected obligations from 2004 appropriations.¹⁰

CBO also indicated that it was unlikely that this difference was attributable to increases in the pace of military operations (operational tempo, or OPTEMPO) caused by the worsening security situation in Iraq. It pointed out that most of the costs incurred in overseas military operations are associated with personnel, base support and other factors that are not usually correlated with OPTEMPO. Indeed, CBO noted that, based on DoD reports, costs driven by OPTEMPO appear to account for only about 10 percent of the total costs associated with the war in Iraq and other GWOT operations.¹¹

In 2005, CBO again increased its estimate of GWOT costs.¹² This time, its cost estimate equated to costs per troop/year of about \$450,000 (2007 dollars). However, unlike CBO's 2004 revision of its earlier cost estimates, this change does not appear to have resulted, at least primarily, from a refinement of its methodology. The new estimate made use of a new CBO methodology to estimate the costs of equipment repair and replacement requirements. But for

⁷ CBO does not, in its own analysis, cite cost per troop/year. This estimate was derived by CSBA by dividing the total cost estimate provided by CBO by the number troops assumed to be deployed (also specified in CBO's analysis). Cost per troop/year provides a convenient metric for measuring cost growth since, by definition, it is adjusted for changes in force levels.

⁸ CBO, "Estimated Costs of Continuing Operations in Iraq and Other Operations of the Global War on Terrorism," June 25, 2004.

⁹ Author's estimate based on Tables 3 and 4. Ibid.

¹⁰ Ibid., p. 8.

¹¹ Ibid., p. 9.

¹² CBO, "An Alternative Budget Path Assuming Continued Spending for Military Operations in Iraq and Afghanistan and in Support of the Global War on Terrorism," February 2005.

all military personnel and other operations and support (O&S) activities (representing the bulk of the costs associated with military operations), CBO based its estimate, not on an independent “bottom-up” assessment, but on a simple extrapolation of obligations data reported by DoD in 2004, adjusted to take into account inflation and changes in personnel levels.

In 2006, CBO increased its estimate of GWOT costs once more.¹³ This time, the costs per troop/year work out to some \$540,000 (2007 dollars). This is more than twice as much as CBO projected in 2002, based on the cost of recent past wars, and nearly 30 percent more than its estimate from 2005. In this case, the entire estimate (including even those costs associated with equipment repair and replacement) is apparently based on an extrapolation of enacted appropriations from FY 2006, adjusted for inflation and changes in force levels.¹⁴ In other words, in this most recent estimate, CBO did not derive an independent estimate of the cost of military operations in Iraq or Afghanistan, or any other activities associated with the GWOT.

Part of this cost growth appears to be due to the inclusion of funding for training and equipping Iraqi and Afghan security forces within the DoD budget beginning in FY 2005 (previously funding for these activities had been provided through the international affairs budget). Another reason for this cost growth is the inclusion of an increasing amount of funding related to so-called “reset” costs. But these two factors still leave much of the cost growth unexplained. Excluding all funding for indigenous security forces and for repairing and replacing equipment from CBO’s most recent estimate suggests cost per troop/year of some \$400,000 (2007 dollars).¹⁵ This is well above the costs per troop/year implicit in CBO’s initial, independent estimates of GWOT costs.

Nothing in the above discussion should be taken as a criticism of CBO. The problem is that CBO is not provided by DoD with the kind of data it needs to generate its own independent estimates of GWOT costs, or to verify the accuracy of DoD’s estimates of those costs. CBO has testified several times over the past year concerning cost-estimating difficulties, the need for better and more timely data, and other issues related to budgeting for the GWOT.¹⁶ However, as early as 2004, CBO made clear the serious nature of its concerns about the GWOT data DoD was providing:

Obligations for Operations Iraqi Freedom and the other
GWOT operations vary widely from month to month, making

¹³ CBO, “Additional Information About the Alternative Spending Path for Military Operations in Iraq and Afghanistan and for the War on Terrorism,” September 22, 2006.

¹⁴ *Ibid.*, p. 2.

¹⁵ Author’s estimate.

¹⁶ See, for example, Robert A. Sunshine, “Issues in Budgeting for Operations in Iraq and the War on Terrorism,” testimony before the Committee on the Budget, US House of Representatives, January 18, 2007.

it difficult to discern trends. Those data provide no information about the pace of operations or the force levels underpinning those costs, nor do they segregate one-time costs from recurring or day-to-day costs. Some obligations are recorded months after the actual activity occurred because of the time needed to establish proper billing and reimbursement. Without more detailed information, it is difficult, if not impossible, to use the reported obligations to estimate future costs.¹⁷

In turn, these serious data limitations prevent CBO and others from evaluating the reasonableness of DoD's requests for GWOT funding as effectively as would otherwise be possible. It also makes it impossible to confidently project future GWOT funding requirements, even assuming agreement on the number of troops likely to be deployed in Iraq and Afghanistan.

3) AN INCREASING SHARE OF GWOT FUNDING APPEARS TO BE FOR PROGRAMS AND ACTIVITIES LARGELY UNRELATED TO THE MILITARY OPERATIONS IN IRAQ OR AFGHANISTAN

Part of the explanation for the growth in GWOT costs and funding discussed above may be that, increasingly, funding for programs and activities unrelated (or at least not closely related) to the military operations in Iraq and Afghanistan appears to be included in GWOT appropriations. The administration's GWOT supplemental requests have always included some funding for such programs. The clearest illustration of this practice is the inclusion of funding for the Army's modularity program in the FY 2005 and FY 2006 supplementals. According to Army officials, the Service would be restructuring its forces even if they were no longer engaged in operations in Iraq or Afghanistan, since they believe it is needed to improve the capability of the Army to fight effectively in future conflicts.

Because of the severe data limitations discussed earlier, it is unclear just how much of the funding in past GWOT appropriations has been unrelated to conducting the military operations in Iraq and Afghanistan. However, it seems likely that the amount of funding included in GWOT appropriations requests for such programs and activities will increase this year, and in future years.

In October 2006, Deputy Secretary of Defense Gordon England sent the Services new guidance to use in drawing up their respective requests to the Office of the Secretary of Defense (OSD) for 2007 supplemental funding. The most important element of this brief memo was the following instruction:

By this memo, the ground rules for the FY'07 Spring Supplemental are being expanded to include the [Defense] Department's efforts related to the Global War on Terror and not strictly limited to Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF).

¹⁷ CBO, "Estimated Cost of Continuing Operations in Iraq and Other Operations of the Global War on Terrorism," p. 7.

With this guidance, the Defense Department essentially opened the floodgates in terms of what the Services could ask to have funded through GWOT supplementals. In the administration's eyes, the GWOT or Long War, as it is referred to in the 2006 Quadrennial Defense Review (QDR), represents a broad framework for organizing the US military's strategy, planning, programming and budgeting over the coming decades. It is similar to how the concept of containing the Soviet Union was used to provide such a framework during the second half of the 20th century.

Whether or not such a broad conceptualization is, in general, the most useful way to view the GWOT is debatable. But, whatever the merits of this nomenclature, a serious problem is created when such a broad definition of the GWOT is used and the Services are then told that virtually anything related to the GWOT can be funded through special GWOT appropriations. And this is true whether the special appropriations consist of supplementals or special war-related accounts attached to the regular annual defense appropriations act. In either case, the Defense Department has basically removed any principled distinction between what should be included in special GWOT appropriations and what should be included in the rest of the defense budget.

It is roughly equivalent to telling the Services in 1968, at the height of the Vietnam War, that their requests for Vietnam War funding can include basically anything related to winning the Cold War competition with the Soviet Union. The most significant problem with this approach is that such guidance amounts to, in effect, telling the Services that they no longer need to find room in the regular annual defense budget to cover the full cost of their long-term plans.

The Services already have a perennial problem with developing and presenting long-term readiness, force structure and modernization plans that are actually affordable within projected or likely funding levels. In October 2006, CBO estimated that unless the peacetime defense budget—i.e., the defense budget exclusive of funding for military operations—is increased well above current levels and even the (higher) levels projected for 2011 under the administration's current plan, the gap between available funding and the cost of implementing the Defense Department's long-term plans could average as much as some \$65 billion over the next two decades. Offering to the Services the option of shifting some of these funding requirements into special appropriations, which heretofore have been, at least largely, limited to covering the cost of military operations, will only further diminish the realism of their long-term planning and budgeting.

Moreover, in the end, the Services will inevitably suffer the most from this weakening of their planning and budgeting process. At some point, the wars in Iraq and Afghanistan will wind down. And when that happens, the Services may well find the special GWOT appropriations drying up, and their baseline budgets—after years of relying on these special measures to cover a portion of their costs—well below the level of funding needed to actually carry out their long-term plans.

4) WE NEED TO IMPROVE OUR UNDERSTANDING OF GWOT COSTS SIGNIFICANTLY IF WE ARE TO APPROPRIATELY AND EFFECTIVELY BUDGET FOR THE WARS IN IRAQ AND AFGHANISTAN, AS WELL AS THE SERVICES' BASELINE FORCE STRUCTURE, MODERNIZATION AND READINESS PLANS, IN FY 2007, FY 2008 AND FUTURE YEARS

As discussed at the outset of this testimony, the Congress has already appropriated some \$502 billion for the GWOT. Under the administration's recently announced plans, total GWOT funding would reach \$737 billion by the end of FY 2008. Based on the most recent funding requests, it is reasonable to conclude that—barring a significant reduction in the number of troops deployed in Afghanistan and, particularly, Iraq—annual GWOT funding is likely to amount to some \$120-160 billion in the years beyond 2008.

Moreover, even assuming US military forces are largely withdrawn from Iraq over the next several years, future funding for the GWOT could amount to an additional hundreds of billions of dollars. Extrapolating from FY 2006 funding levels, adjusted for changes in the number of troops deployed, last September, CBO projected that if US forces in and around Iraq and Afghanistan could be reduced (from 2006 levels of about 220,000 troops) to 55,000 troops by 2011 and kept at that level through 2016, a total of \$483 billion in GWOT funding would be required over the FY 2007-16 period.¹⁸ In other words, even assuming the number of US troops deployed in GWOT operations is drastically reduced over the next few years, the total amount of funding provided for the GWOT could reach nearly \$1 trillion by FY 2016, even excluding interest payments and other indirect costs.

Given the magnitude of these expenditures, both past and future, Congress needs to have confidence that the cost and budget estimates it receives from DoD accurately reflect the costs incurred as a result of the GWOT. Unfortunately, as discussed in the second part of my testimony today, it is difficult, at present, to have such confidence. Because of significant limitations in the budgetary and related operational data provided by DoD, CBO has been unable to provide Congress with a truly independent and fully effective review of the administration's funding requests for the GWOT, or reliable estimates of likely future costs under various possible scenarios.

CBO has done the best it can, given these serious data limitations, and has provided a wide variety of valuable budget and cost estimates related to the GWOT. But with improved data it might be able to provide significantly better analysis and oversight related to GWOT costs and funding requirements. Both Congress and CBO have made clear to DoD the importance of receiving such data. Hopefully, DoD will include improved data in its budget justification materials beginning this year. It has indicated that it will provide timely and detailed justification materials concerning both the FY 2007 supplemental request and the FY 2008 request for GWOT funding. At present it is too early to tell whether these materials will in fact include the kind of data CBO and others would need to effectively analyze and evaluate DoD's requests

¹⁸ CBO, "Additional Information About the Alternative Spending Path for Military Operations in Iraq and Afghanistan and for the War on Terrorism," p. 3.

effectively. If it does not, Congress will need, once again, to pressure the administration to provide this data.

Congress should also make clear to the administration that DoD should, except perhaps in exceptional circumstances, limit its requests in GWOT appropriations to funding for programs and activities directly related to the military operations in Iraq and Afghanistan. The administration's inclusion, for the first time, of GWOT funding for the coming fiscal year in its FY 2008 request is a positive, if long overdue, step. Assuming the request is accompanied with appropriate and timely justification materials, this should enhance Congress' ability to conduct effective oversight. However, as discussed in the third part of my testimony today, the inclusion of substantial amounts of funding for programs and activities unrelated to the military operations in Iraq and Afghanistan in GWOT appropriations—whether in the form of supplementals or separate accounts attached to the regular annual appropriations act—is likely to weaken DoD's long-term planning and budgeting process, ultimately to detriment of the department.