

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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## Iraq War Cost Estimate:

### Costs to Date and Costs to Go

An Analysis by the House Budget Committee  
Democratic Staff

February 15, 2005

*This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.*

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## **Executive Summary**

The war and insurgency in Iraq could cost the United States between \$461 billion and \$646 billion by 2015, depending on the scope and duration of operations, according to this analysis by the House Budget Committee's Democratic staff. These estimates are far higher than anyone had predicted earlier, including Lawrence Lindsey, President Bush's former chief economic adviser. He predicted that the cost of a war with Iraq could range between \$100 billion and \$200 billion.

The Administration has avoided estimates of the total cost of the Iraq war, but it has set a budgetary goal, which is halving the deficit within four years.

To date, Congress has appropriated \$154 billion for the military operations and reconstruction in Iraq. In the upcoming weeks this total will grow after the Congress enacts the President's \$82 billion emergency supplemental appropriation to fund these operations through the rest of fiscal year 2005. This latest supplemental includes \$64 billion for Iraq and increases the total costs of the United States to more than \$200 billion through 2005.

The difference between the low and high-end estimates depends upon potential costs in 2006 and beyond. This analysis examines two possible scenarios:

- Scenario A - Withdraw forces within four years, per Secretary Rumsfeld
- Scenario B - Reduce forces to 40,000 by 2010, per CBO model

Scenario A is based on Secretary Rumsfeld's prediction that all U.S. troops could be withdrawn from Iraq by the end of 2008. Scenario B is a scenario similar to one the Congressional Budget Office (CBO) used in its January 2005 report, "*The Budget and Economic Outlook: Fiscal Years 2006 to 2015*," to assess the budgetary implications of future war costs.

In September 2003, the Democratic staff of the House Budget Committee released a report that suggested the Iraq war could ultimately cost between \$237 billion and \$418 billion. Our current estimates are higher than our previous estimates for several reasons: the war is lasting longer, and is more intense, and the cost to keep our troops in the theater of operations is proving to be greater than anyone anticipated.

## **Introduction**

On February 14, 2005, the Administration submitted another emergency supplemental funding request to fund war operations for the current year. The request totals \$81.9 billion and will finance mostly military operations in Iraq, but also operations in Afghanistan, tsunami relief, and other international activities. When combined with the \$25 billion war reserve that Congress provided in the 2005 defense appropriations act, this request increases 2005 emergency supplemental funding to more than \$100 billion, equivalent to one quarter of the Department of Defense's (DoD's) regular budget. It would bring the total appropriated – so far – for Iraq to more than \$200 billion since operations began there in March 2003.

There is no question that beyond this year, war costs will continue to be significant. The magnitude of the costs, however, will depend upon the size of the deployed force and the duration and scope of military operations.

### *Administration Refuses to Estimate War Costs*

The Administration still has declined to project any estimates of the total cost of the Iraq war. The magnitude of the supplemental request suggests that the costs are increasing and that these costs will continue to put pressure on the deficit for some years to come. If there is any realistic prospect of halving the deficit within four years, as the Administration claims, the impact of our involvement in Iraq must be taken into account. In the absence of estimates from the Administration, this study attempts to quantify the total cost of our operations in Iraq using two different scenarios. Each examines different troop level assumptions using conservative estimating cost factors to provide a baseline set of costs. Because a number of factors are unknown – troop levels, duration, intensity of the conflict – estimates will change. However, the purpose of this study is not to predict what the actual costs *will be*, but rather to provide a reasonable gauge to assess what the ultimate costs *could be*.

Other estimates based on different assumptions, or additional information to help develop the most complete picture of the cost of U.S. involvement in Iraq, would be welcome.

### *Two Scenarios*

This analysis looks at two of many scenarios: (A) withdrawing all forces from Iraq within four years, or (B) drawing force levels down to 40,000 in the Iraq theater of operations by 2010 and maintaining that level indefinitely. Scenario A is based on Secretary Rumsfeld's projection that all U.S. troops will be out of Iraq by the end of 2008. Scenario B is a scenario similar to one the Congressional Budget Office used in its January 2005 report, "*The Budget and Economic Outlook: Fiscal Years 2006 to 2015*," to assess the budgetary implications of future war costs.

Under either of these two scenarios, the cost of the war in Iraq could reach between \$461 billion and \$646 billion by 2015. These estimates include both the direct cost of U.S. operations and the cost of additional interest on the national debt. Because the Administration has offered no

offsets to finance the war, these estimates assume the cost will increase the deficit and the nation's debt.

*Estimates are higher than previous estimates*

These estimates reflect a significant increase over previous estimates. President Bush's former chief economic adviser, Lawrence Lindsey, estimated in the months leading up to the invasion that a war with Iraq could cost between \$100 billion and \$200 billion. In September 2003, the Democratic staff of the House Budget Committee released a report that suggested the Iraq war could ultimately cost between \$237 billion and \$418 billion. Our current estimates are higher than these previous ones for several reasons: the war is lasting longer, and is more intense, and the cost to keep troops in the theater of operations is proving to be much greater than anyone anticipated.

*Military Operations and Reconstruction Costs*

Both military and reconstruction costs make up the bulk of U.S. efforts in Iraq. However, to keep cost estimates on the conservative side, this analysis assumes that the federal government will incur only military costs in the future. Large sums of money have already been set aside for reconstruction by the U.S. and the international community. Because much of this funding has not yet been spent, it is unlikely that additional funds for reconstruction will be needed over the near term and perhaps over the longer term as well.

*Cost Summary*

The table on the following page summarizes the potential costs of the two scenarios.

## **Summary of Iraq War Cost Scenarios**

(Outlays in billions of dollars, 2003-2015)

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	<u>Scenario A</u> Withdraw Forces Within Four Years	<u>Scenario B</u> Reduce Forces to 40,000 by 2010
Funds Provided to Date	153	153
FY 2005 Supplemental	63	63
FY 2006 and beyond	89	232
Savings from No-Fly Zone Enforcement	-18	-18
<b>Subtotal</b>	<b>287</b>	<b>430</b>
Interest Costs	175	217
<b>Total Cost</b>	<b>461</b>	<b>646</b>

Notes: Savings represent termination of enforcement of no-fly zones known as Operation Southern Watch and Operation Northern Watch as well as the Army's exercises in Kuwait known as Desert Spring. The table reflects outlays, not budget authority.

## Methodology

This analysis breaks the cost of the Iraq war into three basic categories: (1) funding that has been provided to date, (2) supplemental funding requested for 2005, and (3) potential costs in 2006 through 2015. The magnitude of the costs through 2005 are known. The Department of Defense (DoD) anticipates keeping 138,000 to 150,000 troops in Iraq through 2005 and the Administration has requested an additional \$82 billion in the 2005 supplemental request.<sup>1</sup> Costs for 2006 and beyond are more difficult to assess because the size of the force will depend on a number of variables. The intensity of the insurgency and the ability of Iraqi security forces to defend their own country will drive U.S. force levels, the pace of our operations, and the duration of our deployment.

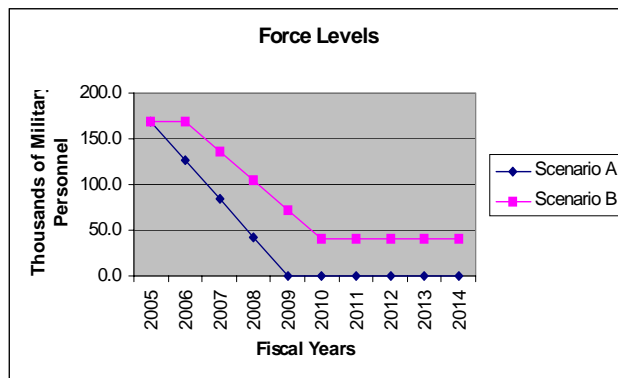
There are two scenarios used to assess costs for 2006 and beyond: (A) withdraw all forces from Iraq within four years, and (B) scale down force levels to 40,000 in the Iraq theater of operations by 2010 and remain at that steady state indefinitely. Both scenarios assume that troop reductions are linear and that the pace of operations decreases over time as the security situation improves.

Costs are predominantly derived using factors extrapolated from Defense Finance and Accounting Service (DFAS) obligation reports for 2004. However, the DFAS reports reflect obligation levels, but not outlays. Obligations only show how much funding the government is legally obligated to pay out over a period of time. Outlays, which show how much the government is actually spending, would yield more precise estimates. Unfortunately, the DFAS reports are the only official accounting reports available to use as a basis for projecting costs.

### Potential Costs in FY 2006 Through FY 2015

This analysis uses two possible scenarios to estimate Iraq costs for FY 2006 through FY 2015. The first scenario (scenario A) assumes all U.S. forces are withdrawn within the next four years. The second scenario (scenario B) assumes troop levels will continue at about the current level through 2006 and then decrease to about 40,000 troops in the Iraq theater by 2010 and remain at that level indefinitely. Based on these two scenarios, the analysis concludes military operations, excluding additional debt service, will cost between \$89 billion and \$241 billion from 2006 through 2015.

On December 6, 2004, Secretary Rumsfeld said that he expects U.S. forces to withdraw completely from Iraq within



<sup>1</sup>The supplemental request covers costs associated with Iraq, Afghanistan, tsunami relief operations, and other international activities. HBC Democratic staff estimates that approximately \$63.5 billion of the supplemental request will be used to cover Iraq operations.

four years.<sup>2</sup> This expectation – the basis for scenario A – could be viewed as over-optimistic because hostilities have not begun to abate and it is possible that the U.S. will have to maintain a presence in Iraq for some years to come. Scenario B, a reduction to a smaller force by 2010 for an indefinite period, is similar to the scenario that CBO included in its January 2005 report, “*The Budget and Economic Outlook: Fiscal Years 2006 - 2015.*”

The analysis used cost per capita factors derived from 2004 obligation data for operations – which includes pay, operational support, fuel, spare parts, and transportation – and reconstitution requirements. The analysis also assumed the pace of operations, and consequently, the cost per capita, would slow over time. Classified and intelligence funding are assumed to ramp down commensurate with troop levels, and redeployment estimates include only the cost of transporting equipment and personnel back home.

The following tables display the costs for the two scenarios.

***Scenario A - Withdraw Within Four Years***  
(Budget authority in billions of dollars)

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	Total FY06-15
Scenario A											
Operations	37	23	11	0	0	0	0	0	0	0	72
Classified/Intel	3	2	1	0	0	0	0	0	0	0	6
Reconstitution/Procurement	5	2	1	0	0	0	0	0	0	0	8
Redeployment	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
<b>Total</b>	<b>46</b>	<b>28</b>	<b>15</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>89</b>

***Scenario B – Reduce Forces to 40,000 by 2010 and Remain***  
(Budget authority in billions of dollars)

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	Total FY06-15
Scenario B											
Operations	50	37	28	19	11	11	11	11	11	11	199
Classified/Intel	4	3	3	2	1	1	1	1	1	1	17
Reconstitution/Procurement	6	3	3	2	1	1	1	1	1	1	21
Redeployment	<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
<b>Total</b>	<b>60</b>	<b>45</b>	<b>34</b>	<b>24</b>	<b>14</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>241</b>

*Reconstruction Costs*

<sup>2</sup>The New York Times, “Rumsfeld Sees Pullout from Iraq in 4 Years,” December 7, 2004.



Besides military operations, the only other significant costs associated with the Iraq occupation are reconstruction efforts. To date, Congress has appropriated \$20.9 billion for Iraqi relief and reconstruction costs over fiscal years 2003 and 2004. As of December 15, 2004, \$12.1 billion of this amount had been obligated and only \$3.8 billion had been spent.<sup>3</sup> This low rate of expenditure has been a direct result of the insurgency's intensity: contractors have been unable to perform the work they have been contracted to do. Because of such bottlenecks, it is unlikely that additional funds will be needed over the near term for these efforts.

It is also possible that only modest additional funds could be needed over the longer term. The World Bank and the Coalition Provision Authority assessed total reconstruction costs in Iraq to be approximately \$55 billion through 2007.<sup>4</sup> The international community pledged \$13.5 billion at the Madrid Conference in 2003 and Iraq had more than \$20 billion in the Development Fund for Iraq (DFI) to finance these efforts. Adding the \$20.9 billion that the U.S. has made available to the amounts committed by the international community and funds available in the DFI appear to be sufficient.

As a result, and in the interest of making conservative estimates, no additional costs for reconstruction are included in our scenarios.

### **FY 2005 Costs**

The Administration has submitted an \$81.9 billion emergency supplemental funding request for military operations in Iraq and Afghanistan, tsunami relief operations, and other requirements. This supplemental request is in addition to the \$25 billion Congress provided in the 2005 defense appropriation, \$1.8 billion of which was used in 2004. \$23.2 billion remained for 2005. Thus, the 2005 cost for operations in Iraq and Afghanistan, and other requirements would total \$105.1 billion. This is a significant increase in funding as compared with the \$87 billion supplemental enacted in 2004.

#### *2005 costs are greater than 2004*

The war will cost more in 2005 for several reasons: (1) There are more troops deployed to Iraq. The Administration has increased troop levels in Iraq from the current 138,000-level to approximately 150,000 at least through the election period. (2) More significantly, there are substantial costs for "reconstitution" – repairing and replacing damaged equipment. The elevated pace of operations combined with the harsh operating environment have worn out equipment at a rapid rate.

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<sup>3</sup>Iraq Weekly Status Report, Department of State, December 15, 2004.

<sup>4</sup>Congressional Research Service Report, "Iraq Reconstruction," November 30, 2004.

*How much of the FY 2005 supplemental is for Iraq?*

The House Budget Committee Democratic staff estimates \$63.5 billion of the \$81.9 billion supplemental bill will fund military operations and other efforts in support of Iraq. The President's request aggregates some costs and does not allocate funds by operation – Iraq and Afghanistan. For costs that are not specified by operation, the analysis assumes the funds are requested in a proportion equal to obligations for those costs in 2004.

The following table illustrates a break-out of the 2005 supplemental request. The table aggregates all estimated 2005 costs, and then subtracts the funding still available from the \$25 billion war reserve appropriated in the defense funding bill.

**Breakdown of FY 2005 Supplemental Requests**  
(Budget authority in billions of dollars)

	<u>Iraq</u>	<u>Afghanistan</u>	<u>Other</u>	<u>Total</u>
<b>Department of Defense</b>				
Military Operations	49.5	10.0	0.0	59.5
Depot Maintenance/Replace	8.2	0.5	0.0	8.7
Force Protection Equipment	3.3	0.0	0.0	3.3
Security Training	5.7	1.3	0.0	7.0
Army modularity	5.0	0.0	0.0	5.0
Classified	5.3	0.9	0.0	6.2
Health Care Support	0.2	0.0	0.0	0.2
Military Construction	0.8	0.1	0.1	1.1
Support to Coalition	1.0	1.0	0.0	2.0
Program Contracting	0.3	0.0	0.0	0.3
Fuel	2.6	0.3	0.0	2.9
Tsunami	0.0	0.0	0.2	0.2
Other	<u>0.0</u>	<u>0.0</u>	<u>1.7</u>	<u>1.7</u>
<b>Total DoD</b>	<b>81.9</b>	<b>14.1</b>	<b>2.1</b>	<b>98.2</b>
<b>State Department</b>				
New Embassy & Ops	1.4	0.0	0.0	1.4
Counternarcotics, Reconstruction	0.0	2.1	0.0	2.1
Other	<u>0.0</u>	<u>0.0</u>	<u>2.2</u>	<u>2.2</u>
<b>Total State</b>	<b>1.4</b>	<b>2.1</b>	<b>2.2</b>	<b>5.6</b>
<b>Other Agencies</b>	<b>0.0</b>	<b>0.0</b>	<b>1.3</b>	<b>1.3</b>
<b>Total 2005 Requirement</b>	<b>83.3</b>	<b>16.2</b>	<b>5.6</b>	<b>105.1</b>
<i>Funds left available from \$25B War reserve to finance 2005 Requirement</i>				
	<i>19.8</i>	<i>3.4</i>	<i>0.0</i>	<i>23.2</i>
<b>Balance - Supplemental Request</b>	<b><u>63.5</u></b>	<b><u>12.8</u></b>	<b><u>5.6</u></b>	<b><u>81.9</u></b>

## Funding Provided to Date

The Congress has appropriated \$231 billion for costs associated with military and reconstruction operations in Iraq and Afghanistan and enhanced security at military facilities since 2001. The House Budget Committee Democratic staff estimates that \$154 billion of this amount went to military and reconstruction operations in Iraq. This funding includes amounts the Congress has appropriated in emergency supplemental appropriations for fiscal years 2003 and 2004 and in the 2005 defense appropriation. This funding also includes actions taken by the DoD to reprogram funds from its regular accounts to finance war costs.

The table below summarizes funding provided to date to finance operations in Iraq.

### Funds Already Appropriated for Operations in Iraq (Budget Authority in Billions of Dollars)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>Total</u>
Military				
Supplementals	52.0	51.5	-	103.5
FY 2004 Defense Appropriation	-3.5	-	-	-3.5
FY 2005 Defense Appropriation	-	21.5	-	21.5
Transfers	0.4	4.9	-	5.3
<b><i>Subtotal Military</i></b>	<b>48.9</b>	<b>77.9</b>	<b>-</b>	<b>126.8</b>
Reconstruction, Foreign Assistance, Other				
Supplementals (FY 2003- FY 2004)	6.6	19.4	-	26.0
FY 2005 Defense Appropriation	-	0.7	-	0.7
<b><i>Subtotal Reconstruction, etc.</i></b>	<b>6.6</b>	<b>20.1</b>	<b>-</b>	<b>26.7</b>
<b><i>Total</i></b>	<b>55.5</b>	<b>98.0</b>	<b>-</b>	<b>153.5</b>

**Sources:** Reconstruction supplemental funding estimates from OMB; Military supplemental estimates from DoD; Foreign Assistance estimates from Congressional Research Service reports on FY 2003 and FY 2004 supplemental appropriations.

**Notes:** Estimates include military operations, reconstruction, and foreign assistance funding. Estimates assume the DoD transfers and \$25 billion war reserve will be used in support of Iraq and Afghanistan in amounts proportional to obligations incurred in 2004 (85% Iraq, 15% Afghanistan). Therefore, this analysis assumes \$21.5 billion of the \$25 billion war reserve will be used for Iraq operations. Though approved in the FY 2005 Defense Appropriations Act, the \$25 billion war reserve is included in 2004 – consistent with Congressional Budget Office (CBO) scoring – because Congress made the funds available in August 2004, immediately upon enactment of the bill.

### *Deferred Requirements*

It is becoming clear that funds provided through 2004 were insufficient to finance the pace of our operations in Iraq. Consequently, this situation has created a “bow wave” of requirements that are pushing costs higher in 2005. Because of the intensity of the insurgency, DoD had to increase troop levels and operate at a higher pace in the last year. To finance this enhanced level of operations, the military services took several actions, including deferment of training and maintenance requirements. The Government Accountability Office (GAO) reported in July 2004 that the military services planned to defer at least \$4 billion in requirements to get through fiscal year 2004. We do not yet know what the military deferred. However, those requirements are increasing the amount of funding DoD needs in 2005.

## Summary of Cost Estimates (Including Additional Debt Service)

The following tables reflect a summary of all the costs, including increased interest on the debt, over fiscal years 2003 to 2015:

### Scenario A - Withdraw within four years (Budget Authority (BA) and Outlays (OT) in billions of dollars)

		<u>FY03</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>Total</u> <u>FY03-15</u>
Cost of Stationing US	BA	56	98	64	46	28	15	0	0	0	0	0	0	0	306
Forces plus reconstruction	OT	28	69	74	58	40	24	10	2	0	0	0	0	0	305
Savings - Cancel	BA	0	-1	-1	-1	-2	-2	-2	-2	-2	-2	-2	-2	-2	-19
Northern/Southern Watch	OT	0	-1	-1	-1	-2	-2	-2	-2	-2	-2	-2	-2	-2	-18
Subtotal Direct military and Reconstruction Costs	BA	56	97	62	45	27	13	-2	-2	-2	-2	-2	-2	-2	287
	OT	28	68	72	56	38	23	8	1	-1	-2	-2	-2	-2	287
Debt Service	BA	0	1	4	8	12	15	16	18	18	19	20	21	22	175
	OT	0	1	4	8	12	15	16	18	18	19	20	21	22	175
Total Impact of Spending on Federal Budget	BA	56	97	66	53	39	28	15	16	17	18	19	20	20	462
	OT	28	69	76	64	50	37	24	18	17	18	19	20	20	461

### Scenario B - Reduce force to 40,000 in Iraq by 2010 and remain indefinitely (Budget Authority (BA) and Outlays (OT) in billions of dollars)

		<u>FY03</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>Total</u> <u>FY03-15</u>
Cost of Stationing US	BA	56	98	64	60	45	34	24	14	13	13	13	13	13	458
Forces plus reconstruction	OT	28	69	74	65	53	41	31	20	15	13	13	13	13	448
Savings - Cancel	BA	0	-1	-1	-1	-2	-2	-2	-2	-2	-2	-2	-2	-2	-19
Northern/Southern Watch	OT	0	-1	-1	-1	-2	-2	-2	-2	-2	-2	-2	-2	-2	-18
Subtotal Direct military and Reconstruction Costs	BA	56	97	62	59	43	33	22	12	11	11	11	11	11	440
	OT	28	68	72	63	52	40	29	19	13	12	11	11	11	430
Debt Service	BA	0	1	4	8	13	16	19	21	23	25	27	29	31	217
	OT	0	1	4	8	13	16	19	21	23	25	27	29	31	217
Total Impact of Spending on Federal Budget	BA	56	97	66	67	56	49	41	33	34	36	38	40	42	656
	OT	28	69	76	71	64	56	48	40	36	37	38	40	42	646