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NEWS RELEASE
November 13, 2007

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Saxton and Brownback Call for Defective Report's Withdrawal *Politically Motivated Report Filled With Errors and Poor Methodology*

The report on the costs of military operations in Iraq and Afghanistan issued this morning by Democrats on the Joint Economic Committee and Democratic leaders of the House and Senate is another thinly veiled exercise in political hyperbole masquerading as academic research. The report contains a number of factual errors indicating poor quality control, is inconsistent with various estimates of the Congressional Budget Office (CBO), and makes speculative assertions that far exceed cost estimates of other analysts. The report, *War at Any Price?*, purports to calculate the total costs of the wars in Afghanistan and Iraq. The Democrats' report was released without any notice to or consultation with Republican members or staff of the Joint Economic Committee (JEC).

Congressman Jim Saxton and Senator Sam Brownback, ranking members of the JEC, made the following statement regarding the report:

"It is disappointing that the Democrats would release a report that contains so many factual errors, but the errors are in keeping with its sloppiness and overtly political tone. For example, many of the state by state cost comparisons are obviously wrong, but in the rush to score political points, no one bothered to fact check the report. This reflects poorly on the quality control and review process used by the Democrats in producing the report.

"All wars involve costs, and the war on terror is no exception. The wars in Afghanistan and Iraq certainly involve costs, but prematurely pulling out of these wars would also include huge costs that are ignored in the Democrats' report. In addition, in the case of Afghanistan, the Democratic report fails to mention that the U.S. was attacked on September 11th. The report ignores the fact that there are indeed benefits from curbing terrorism. The Democrat's report would have benefited from more analysis and quality control, and less political content. We

call on Senator Schumer and the Democratic leadership in the House and the Senate to withdraw this defective report.”

Other problems with the report include:

- The essentially political report purports to compute the “true cost” to the American economy and people of conflicts in Iraq and Afghanistan. In what could generously be referred to as the analysis of costs, the report includes direct costs along with mostly speculative and generally model-free “estimates” of costs associated with factors such as debt financing and guesses about the extent to which increases in global energy prices in recent years could be tied to the conflicts in Iraq and Afghanistan. The report also includes guesses about other possible “hidden costs,” such as future care of injured veterans, repair costs for the military, and other “undisclosed costs.”
 - Sound research provides sufficient information and methodology necessary to replicate results. This report, released by the Democratic staff of the JEC, is impossible to replicate, much less comprehend.
 - There is no chart or clear documentation of the assumed costs, such as interest costs, under the various scenarios.
- Because the report is often unintelligibly confused and confusing regarding computation of costs associated with debt financing of war efforts, it is virtually impossible to determine how a number of the figures that the report offers have been computed.
 - Given the difficulty in trying to assess exactly what the authors of the report have done to arrive at their “estimates,” it is hard to tell whether, as seems to be the case, the report commits the extremely pedestrian error of double counting when accounting for the economic notion of opportunity cost. For example, the report includes, correctly, direct resource outlays associated with war efforts. Then, in an awkward attempt to account for possible economic effects of debt financing of war efforts, the report notes that: “The increase in government borrowing displaces substantial amounts of productive investments by U.S. businesses, thus reducing productivity in the economy over many future years.”
 - According to the report [p.10], the “...loss of investment returns is the single largest cost of the Iraq war to the U.S. economy beyond the direct budgetary cost of the war itself.” This loss, according to footnote 4 of the report, is “...the present value of the lost returns to investments that did no [sic] take place due to the diversion of capital into Iraq war spending, as well as the present value of post-tax returns to investments that were funded with foreign capital.” While it is not clear what analysis, if any, leads to the cost estimates in the report, it appears that the authors may commit the pedestrian error, in thinking about opportunity costs, of adding to the resource cost of one expenditure values that could have been realized by the next, most highly valued, alternative use of those resources. It is correct to identify that resource utilization on one activity has an opportunity cost. It is incorrect to take the value of that resource utilization and add to it the next most highly-valued alternative use of the resources to arrive at some sort of meaningless mongrel total cost.

- The information and figures on the oil costs seem to convert a rule for one-time changes in prices to a rule for continual rises in prices.
 - As an example of the muddled exposition in the report, consider the following discussion [p. 11] of the use of a Department of Energy rule of thumb regarding responses of oil prices to world oil supplies:
 - “Using this rule leads to the prediction that shortfalls of the levels discussed above might be expected to increase oil prices by around 15% in 2003, and 7-9% in 2004-2007. Because of rising prices, this percentage increase creates a consistent rise in the price of oil of roughly \$5.00 per barrel.”
 - So, the circular reasoning appears to lead to the conclusion that “because of rising prices” a percentage increase in prices creates a rise in prices.
- Annual, not monthly, Iraqi oil production is a more accurate benchmark, and annual Iraqi oil production is about the same as in 2002.
- State budgetary costs are obviously incorrect:
 - According to the report, there is a bigger budgetary impact on New Mexico (population: 1.95 million) than on Illinois, Michigan, Missouri, Pennsylvania and Wisconsin combined (total population: 46.7 million).
 - The report says that the District of Columbia (population: 582,000) bears a bigger budgetary cost than the entire state of New York (population: 19.3 million)
- Interest rates have been unusually low in recent years, and significant costs of crowding out of private investment are highly uncertain.
- Estimates on the cost of foreign debt seem to assume that all money sent abroad is used on foreign consumption and has no economic benefit (to the U.S. or to the rest of the world).
- Defense expenditures had declined to less than 3% of GDP under the Clinton Administration, a factor contributing to the United States’ vulnerability on September 11th. Even with increased costs associated with the wars in Afghanistan and Iraq, defense costs in terms of GDP remain below 1993 levels.