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The Uncertain Cost of the Iraq War

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There is no agreement as to how the Iraq War should be costed, although it is clear that cost of the Iraq War in dollars has been far greater than the Bush Administration planned in going to war. **Figure 1** shows that the US incurred incremental costs that have gone far beyond the level of the global war on terrorism before the invasion of Iraq, and the estimate of a total near \$70 billion that US officials used in planning what it thought would be a short and decisive war against Saddam Hussein.

In fact, the rising costs of the Iraq War provide a grim warning about the inability to anticipate how US forces should be shaped on the basis of even the best strategic thinking and plans. The Bush Administration came to office focused on China and Korea, the attacks on the World Trade Center and the Pentagon on September 11, 2001, and then suddenly thrust itself into a totally different war in Afghanistan, which began on October 7, 2001.

By the end of FY2002, this “global war on terrorism” had led to major redeployments of US forces, significant changes in tactics and force employment concepts, and an unforeseen expenditure of \$11.2 billion.¹ The decision to invade Iraq on March 19, 2003 then shifted the US from an Afghan war focus on precision air strikes and light forces to a new focus on a major deployment of heavy land forces, including Marine units that had previously planned for littoral warfare.

There are many different ways to estimate the cumulative cost of the war that followed. According to the GAO, the expansion of the war on terrorism to include the Iraq War raised the direct annual cost in *outlays (approved expenditures only for the current fiscal year)* for the “global war on terrorism” in both Afghanistan and Iraq to \$61 billion in FY2003 and led to unplanned expenditures for a counterinsurgency campaign in Iraq that cost \$71.3 billion in FY2004 and an estimated \$71.5 billion in FY2005. This was a total of \$215.1 billion in direct, current spending for the period from FY2002 to FY2005.²

If one looks at the entire cost of funds for Iraq and Afghanistan for military operations, reconstruction, embassy costs, enhanced base security and various aid programs, the Congressional Research Service developed a higher estimate based on *budget authority (approved expenditures for the current and future fiscal years)* that indicates such costs totaled about \$347 billion between 9/11 and November 2005. This total included \$326 billion for the Department of Defense and about \$31 billion for the Department of State and AID, although the use of transfer payments and a series of supplementals including other programs made such totals extremely difficult to determine.³

The CRS also found that estimates of monthly costs varied sharply according to the intensity of operations, and the size of the contracts signed in a given month. In June 2005, for example, costs in *budget authority* leaped from \$3.0 billion the previous month to \$12.8 billion because a large number of high value contracts were signed in June. For the same reasons the average monthly cost of the war during FY2005 jumped from \$6.4 billion to \$7.1 billion simply because a new supplemental allowed the signing of so many contracts. (This changed the estimated total cost for all of FY2005 from \$76.8 billion to \$85.2 billion because of peak expenditures in one month.)⁴

If \$7.1 billion is taken for monthly average cost of Iraq, Afghanistan, and force protection for FY 2005, this cost was 33% higher than the \$4.4 billion per month the US spent in FY2003. The key component expenditures included \$5.9 billion a month for Iraq (up 19% over FY2004), \$1.0 billion a month for Afghanistan (down 8% from FY2004), and

\$170 million a month for enhanced base security (47% lower than in FY2004).⁵ This breakout is shown in detail in **Figure 2**.

At the same time, if one is only considering the Iraq War, and not the Afghan conflict or other costs for the war on terrorism, the CRS found much lower totals:

- The cumulative reported costs in *budget authority* for Department of Defense spending for the Iraq War alone from FY2001-FY2005 were \$190.1 billion versus \$214.6 billion including diplomatic operations and aid for Iraq alone, and versus \$280.7 billion for all DoD spending on Iraq and the war on terrorism plus \$31.0 billion more for state.
- The annual totals in *budget authority* for DoD spending on Iraq alone were also lower: \$48 billion in FY2003, \$59.1 billion FY2004, and \$80.5 billion for FY2005.
- The cumulative reported *obligations* for Department of Defense spending for the Iraq War alone from the start to June 30, 2005 were lower still: \$159.7 billion, including both operations and investment.
- The monthly averages in *obligations* were also sharply lower: \$4.4 billion in FY2003, \$5.0 billion FY2004, and \$5.9 billion from the beginning of FY2005 to June 30, 2005.

At the same time, the CRS also found that the estimates of expenditures being issued by the US government sharply understated the real cost of operations because they only included current obligations, and not the cost in terms of worn equipment, future replacements, paying the long term costs of increased pensions and payments for killed and wounded, and paying for a long list of additional costs such as support by the national intelligence agencies.

These data should give pause to those who believe that the Iraq War alone somehow placed a crippling immediate burden on the US defense budget, the US federal budget, or the national economy. No matter how these data are sorted out, there is no doubt that the war was costly. At the same time, the total Department of Defense budget represented 17-19% of the federal budget during this period and 3.9-4.0% of the US GDP. The direct costs of the Iraq War alone represented something approaching 10%-20% of the US defense budget during the period, 3-5% of the federal budget, and less than 1% of the GDP.⁶

This situation may change in the future, but seems unlikely to change drastically. Since the period shown in **Figures 1 and 2**, the CBO has estimated that that total cost of the war on terrorism and the war in Iraq to date approached at least \$320 billion as of January 2006.⁷ The CRS estimated average monthly reported DoD costs for FY2006 at \$6.8 billion, versus \$5.6 in FY2005.⁸ These estimates, however, did not include the two supplementals the Department of Defense planned to ask for its FY2006 budget request in order to pay for next year of operations in Iran and Afghanistan totaling of \$50 and \$70 billion respectively.⁹

The Administration formally asked for a \$72.4 billion supplemental for FY2006 on February 16, 2006 (\$67.9 billion for DoD and \$4.2 billion in assistance for Iraq). The House and Senate mark-ups approved virtually all of the funds for DoD, and most funds for State. According to the CRS, the approval of these supplementals would raise DoD expenditures in budget authority for all the wars, *including expenditures taken from the regular defense budget not shown in the previous charts*, to \$98.8 for FY2005 and \$117.9 billion for FY2006, and to monthly averages of \$8.2 billion for FY2005 and \$9.8 billion in FY2006. These are further major increases in spending, and compare with an average

of some \$61 billion a year in FY2006 dollars for the war in Vietnam, but they still do not impose a significant strain on either the total federal budget or GDP.¹⁰

As might be expected, outside experts can only guess at the total cost of the war, including the cost of the expenditures not reported by DoD and State and which will be incurred in future years. Such estimates generally put the direct cost of the war from 2002 to March 2006 in ranges from \$350 billion to \$700 billion.¹¹ Calculations of different types of estimates, ranging from opportunity cost to total economic direct and indirect impacts on US economy, can be lower or much higher. There also are no reliable estimates as yet of just how much it will cost in future years to deal with accelerated equipment wear, replace equipment earlier than planned, or deal with deferred expenditures.¹²

There is no way to do more than guess at the ultimate cost of the Iraq War, Afghan War, and war on terrorism. One study put it at \$2.2 trillion by assuming the US would still be active in Iraq through 2015, and one of the Congressional staff experts working on such figures put it the figure at “well over a trillion dollars.”¹³ The truth, however, is that no one can predict the total cost of the Iraq War, but it seems almost certain that it will exceed half a trillion dollars. It could easily reach \$800 billion to an actual trillion.¹⁴

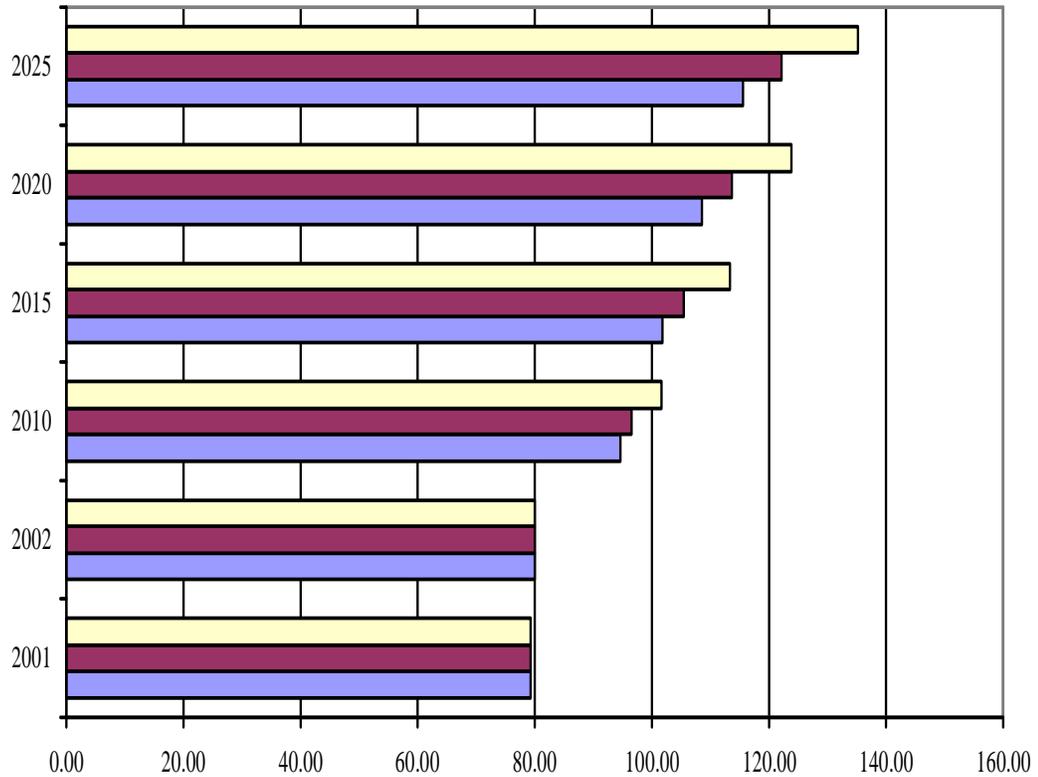
It is also interesting to look at the cost of the war in terms of US aid. The Congressional Research Service estimates the total cost of U.S. aid allocations (all grant assistance) for Iraq appropriated from 2003 to 2006 total \$28.9 billion. It estimates that \$17.6 billion (62%) went for economic and political reconstruction assistance, while \$10.9 billion (38%) was used to aid Iraqi security.¹⁵

A higher proportion of Iraqi aid was spent on economic reconstruction of critical infrastructure than in the case of Germany and Japan. Total US assistance to Iraq through March 2006 was already equivalent to total assistance provided to Germany -- and almost double that provided to Japan -- from 1946-1952. The United States provided Germany with a total of \$29.3 billion in assistance in constant 2005 dollars from 1946-1952 with 60% in economic grants and nearly 30% in economic loans, and the remainder in military aid. Total US assistance to Japan for 1946-1952 was roughly \$15.2 billion in 2005 dollars, of which 77% was grants and 23% was loans.¹⁶

The one clear message of all these conflicting figures is that “long wars” are very unlikely to be cheap simply because they do not involve extensive periods of combat between modern conventional and high technology forces. The costs of both the Afghan and Iraq Wars rose sharply after the conventional phase, and have been far higher in the counterterrorism/counterinsurgency phases of each war that have followed.

Figure 1 – GAO Estimate of Incremental and Unanticipated Spending on Iraq and the Global War on Terrorism: 2001-2005

(\$US Current Billions)

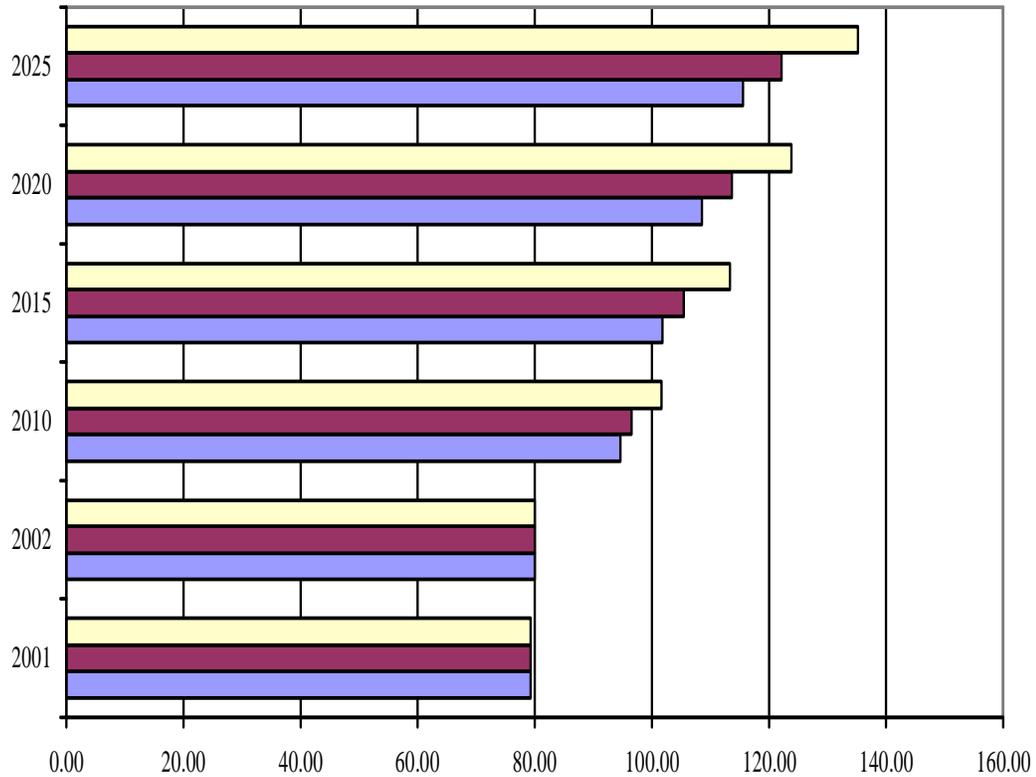


	2001	2002	2010	2015	2020	2025
Low Price Case	79.30	80.00	101.60	113.30	123.90	135.20
Reference Case	79.30	80.00	96.50	105.40	113.60	122.20
High Price Case	79.30	80.00	94.60	101.80	108.50	115.50

Source: General Accounting Office, “Global War on Terrorism,” GAO-05-882, September 2005, p. 34

Figure 2 – CRS Estimate of Incremental and Unanticipated Spending on Iraq, Afghanistan and the Global War on Terrorism: FY2001-FY2005

(\$US Current Billions in Budget Authority)



	2001	2002	2010	2015	2020	2025
Low Price Case	79.30	80.00	101.60	113.30	123.90	135.20
Reference Case	79.30	80.00	96.50	105.40	113.60	122.20
High Price Case	79.30	80.00	94.60	101.80	108.50	115.50

Note: Includes Department of Defense spending, foreign aid and diplomatic operations, and foreign operations.

Source: Amy Belasco. "The Cost of Iraq, Afghanistan, and Enhanced Base Security Since 9/11," October 7, 2005, Congressional Research Service, October 7, 2005, p. 10.

¹ General Accounting Office, "Global War on Terrorism: DoD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs," Washington, GAO-05-882, September 2005, p. 34.

² General Accounting Office, "Global War on Terrorism: DoD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs," Washington, GAO-05-882, September 2005, p. 34.

³ Amy Belasco. "The Cost of Iraq, Afghanistan, and Enhanced Base Security Since 9/11," October 7, 2005, Congressional Research Service, October 7, 2005, pp. 1-5.

⁴ Amy Belasco. "The Cost of Iraq, Afghanistan, and Enhanced Base Security Since 9/11," October 7, 2005, Congressional Research Service, October 7, 2005, p. 6.

⁵ Amy Belasco. "The Cost of Iraq, Afghanistan, and Enhanced Base Security Since 9/11," October 7, 2005, Congressional Research Service, October 7, 2005, p. 6.

⁶ Based on the defense expenditure as a percent of GDP and federal budget data in Table 7-7 in Office of the Under Secretary of Defense (Comptroller), "National Defense Estimates for FY2007," March 2006.

⁷ Luis E. Martinez, "The Rising \$ Cost of Iraq and Afghanistan, \$70 billion more to be Requested," ABC News, February 2, 2006, 4:16PM; Gail Russel Chaddock, "War Costs Irk Congress," Christian Science Monitor, February 21, 2006, p. 1; Dave Ahearn, "House Panel Advances Budget with \$2.5 trillion for Defense," Defense Today, March 30, 2006, p. 1.

⁸ Paul M. Irwin and Larry Nowels, "FY2006 Supplemental Appropriations: Iraq and Other International Activities; Additional Katrina Hurricane Relief," CRS Report to Congress RL33298, April 14, 2006, especially pp. 12-13.

⁹ ABCTVDL News Political Unit, February 2, 2006;

¹⁰ Paul M. Irwin and Larry Nowels, "FY2006 Supplemental Appropriations: Iraq and Other International Activities; Additional Katrina Hurricane Relief," CRS Report to Congress RL33298, April 14, 2006, especially pp. 12-13; Jonathan Weissman, "Unforeseen Spending on Material Pumps Up Iraq War Bill," Washington Post, April 20, 2006, p. A1.

¹¹ For an overview of then current estimates, see Alan B. Kreuger, "The Cost of Invading Iraq: Imponderables Meet Uncertainties," New York Times, March 30, 2006,.

¹² For background on these issues, see Jonathan Weissman, "Unforeseen Spending on Material Pumps Up Iraq War Bill," Washington Post, April 20, 2006, p. A1.

¹³ For an overview of then current estimates, see Alan B. Kreuger, "The Cost of Invading Iraq: Imponderables Meet Uncertainties," New York Times, March 30, 2006,.

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¹⁵ Nina Serafino, Curt Tarnoff, and Dick K. Nanto, "U.S. Occupation Assistance: Iraq, Germany and Japan Compared," CRS Report for Congress, RL33331, March 23, 2006.

¹⁶ Nina Serafino, Curt Tarnoff, and Dick K. Nanto, "U.S. Occupation Assistance: Iraq, Germany and Japan Compared," CRS Report for Congress, RL33331, March 23, 2006.