

Costs of the Wars in Afghanistan and Iraq for the State of Rhode Island

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The United States federal government is expected to foot the bill for wars abroad. Indeed it does pay for most of the costs associated with the US military and with waging war. But some costs devolve to and are borne by state governments, particularly costs associated with care for veterans. This paper assesses the scale and nature of the costs of war for states by examining the case of Rhode Island. Specifically, it will look at the costs associated with the wars in Iraq and Afghanistan from 2001 (the start of the war in Afghanistan) until 2014.

Rhode Island is valuable as a case study of the war costs that states incur because it is a typical state when it comes to veterans. Veterans form 8.7 percent of the population, close to the national figure of 9.0 percent.² In addition, the small size of Rhode Island's population makes this case relatively easy to investigate. Moreover, Rhode Island's size and geographic location contrast with that of [Texas](#), whose state costs have also been examined by the Costs of War project.³

National Guard

The Rhode Island National Guard has been deployed in a substantial way during the Global War on Terror. In 2011, Rhode Island had the second highest per capita deployment of any state National Guard in the United States.⁴

The federal government is assumed to cover all costs associated with the National Guard and other federal operations involved in the War on Terror.⁵ However, National Guard members themselves incur costs (which are beyond the scope of this paper but include such things as some uncovered medical costs for health problems experienced as a result of their war experiences).⁶ Similarly, there are macroeconomic costs to the state as a whole, including to its veterans and military families, as a result of the war. Those costs are connected to the federal borrowing that has been paying for the war and the higher gas prices that spiked and remained high for many years after the invasion of Iraq.⁷

Veterans Housing

The primary cost for states vis-à-vis veterans is that of providing housing. For the past 15 years, the cost of housing has hovered between 92 and 95 percent of state spending in the Rhode Island Veterans Affairs office. For the moment, these costs cannot be associated with the recent wars, since there are currently no veterans from the wars in Iraq and Afghanistan in the Rhode Island Veterans Home.⁸ As veterans from these wars begin to access the housing benefits provided by the state, however, the costs of housing these veterans will be an important factor in estimating the costs of the wars.

For the moment, many veterans of the recent wars are homeless. There are no precise figures as to how many of the state's homeless veterans are from the wars in Iraq and Afghanistan, but a reasonable estimate is possible. In 2010, the last year for which statistics are available, just over 10 percent of homeless veterans in Rhode Island were between 18 and 30 years of age.⁹ It is safe to assume that all veterans in Rhode Island between 18 and 30 years of age are veterans of the conflicts in Iraq and Afghanistan.¹⁰ However, many other Iraq and Afghanistan veterans are over the age of 30; young people in the 18 to 30 age range comprise only 34 percent of Iraq and Afghanistan veterans in the United States.¹¹ If we assume that age does not change the rate at which veterans become homeless,¹² then the total homeless population from Iraq and Afghanistan should be about 3 times our original estimate of 10 percent. Therefore, approximately 30 percent of homeless veterans are estimated to have served in Iraq and Afghanistan.

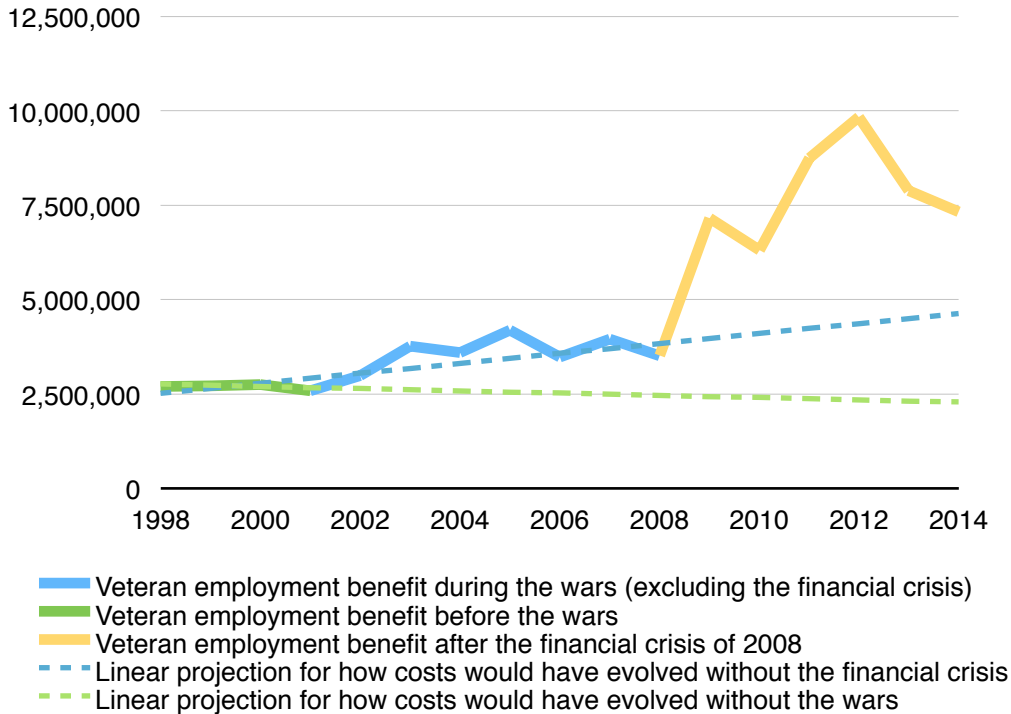
Rhode Island is currently trying to eliminate homelessness for veterans and is constructing a new veterans' home. In 2012, the state government obtained voter approval to issue a bond of \$94 million in order to construct this home. The Rhode Island Public Expenditure Council estimates that the total interest on this bond will be \$44,333,691.¹³ Since 30 percent of homeless veterans are from the recent wars, they are likely to constitute approximately the same proportion of the initial inhabitants of this home. Therefore, at least 30 percent of these costs should be attributed to the wars. This means that \$28,200,000 of the principal and \$13,300,000 of the interest, or a total of \$41,500,000 of these current and (mostly) future costs can be attributed to the recent wars.

Veteran Employment Benefit

The Rhode Island Department of Labor and Training maintains a fund for benefits and training for unemployed veterans (called the Veteran Employment Benefit). The Department began spending this fund at an increased rate in 2001, and increased its rate of spending further with the start of the financial crisis in 2008. This first increase in 2001 can be attributed to the wars.¹⁴ In Figure 1, the green line represents the costs of the veterans employment benefit before the wars and the blue portion of that line represents these costs after the wars. For both portions I have drawn a trend line (using linear regression) to project how costs would have evolved were spending to have continued along those lines post-2001, when the US invaded Afghanistan, as it did during the preceding period.¹⁵ Calculating the difference between the two trend lines after 2001 should give us an idea of how much extra the wars would have cost without factoring in the added unemployment caused by the financial crisis.

Since Rhode Island has budget data up until 2014, we can estimate the difference between the two trend lines from 2001 to 2014.¹⁶ The difference totals \$18,131,000.

Figure 1: Veteran employment benefit before and during the wars, in 2012 dollars



The goal of this paper is to determine what the costs of war actually were, not what they would have been had the financial crisis of 2008 not occurred. Therefore we must take into account the fact that the crisis made it more difficult for returning veterans to find jobs and therefore increased the unemployment rate for veterans from Iraq and Afghanistan.¹⁷ The costs of providing benefits for these veterans must be taken into account in this estimate.

A refined estimate would require that we separate these veterans from veterans of other wars who lost their jobs due to the financial crisis. Unfortunately, no one keeps regular statistics of the breakdown by war in the state of Rhode Island.¹⁸ However, the Bureau of Labor Statistics did collect some information on the unemployment rate of post-9/11 veterans in the Rhode Island Senate Report previously cited.¹⁹ It shows that while nationally the unemployment rate of veterans from the War on Terror is well above average, the unemployment rate for these veterans in Rhode Island is only slightly higher than the general veteran unemployment rate. Without historical trends, we cannot tell if each set of veterans was equally affected by the crisis.

I therefore have to estimate the portion of these extra costs, paid out because of the crisis, that are given to veterans from the recent wars. To do this, I will assume that all veterans are equally liable to become unemployed due to the crisis. This means, for instance, that for 2009 I will attribute 8.3 percent of the extra costs to these veterans and to

the wars, since in 2009 they represented 8.3 percent of the total veteran population. This undoubtedly underestimates the cost attributable to veterans from the wars in Iraq and Afghanistan since recent veterans' unemployment has increased more rapidly than that of other service periods.²⁰

For this estimate, therefore, I take the previous figure of \$18,131,000 and add it to the difference between the blue trend line and the actual value of the veterans employment benefit during the crisis, which I estimate to be \$2,043,057 (see Table 1). This gives a total minimum estimated cost of \$20,174,057, or roughly \$20 million that the Department of Labor and Training spent on veterans.

Table 1: Estimation of the added costs of the wars to Rhode Island due to the financial crisis²¹

	2009	2010	2011	2012	2013	2014	Total
Total veteran employment benefit	7,151,698	6,310,110	8,753,787	9,835,660	7,882,111	7,332,446	
Projected veteran employment benefit (blue trend line)	3,971,947	4,104,124	4,236,301	4,368,478	4,500,655	4,632,832	
Difference	3,179,751	2,205,986	4,517,486	5,467,182	3,381,456	2,699,614	
Percentage of veterans from Iraq and Afghanistan	8.3%	8.6%	9.1%	9.8%	10.3%	10.9%	
Yearly estimated added cost to RI of the wars due to the crisis	263,919	189,715	411,091	535,784	348,290	294,258	2,043,057

Sources: Rhode Island State Budget and U.S. Census Bureau American Fact Finder (<http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml>).

Veterans Benefit Counseling and Other Expenses

The Rhode Island Veterans Affairs Department implements a variety of other small programs under the heading of “Veterans Affairs” in their budget. The largest portion of this spending goes towards providing veterans with counseling about the state and federal benefits to which they are entitled, and similar services. But this spending also includes expenses related to preparing legislation and gathering information (especially about veterans of the wars in Iraq and Afghanistan), among other things.²² This program has seen costs increase significantly during the wars as it has had to deal with an influx of veterans from the wars in Iraq and Afghanistan who are still learning about their benefits entitlements. The program’s budget increased by about 50 percent between 2001 and 2014 (see Figure 2). Since the Veterans Affairs Office does not keep records of which wars the recipients of their services fought in, I make a rough estimate of the costs associated with

Iraq and Afghanistan veterans based on the proportion of the veteran population they constitute. This is the same method I used above to estimate the portion of veterans from Iraq and Afghanistan who make use of the veterans employment benefit. It is, however, complicated in this instance by the fact that there does not seem to be any reliable data on the portion of veterans in Rhode Island from the recent wars before 2007. Therefore I roughly estimate this proportion by assuming it increased in a linear manner from 0 percent in 2001 to 7 percent in 2007. Using the proportion of veterans from the recent wars to determine the costs associated with them, we arrive at a cost of about \$1,100,000.

However, many of the programs covered under Veterans Affairs are also concerned with helping new veterans adjust to civilian life or with the state obtaining information about these new veterans. I expect that veterans from recent wars are making use of these programs much more than veterans of past wars. I therefore calculate an upper limit by assuming that all of the increased spending is due to recent veterans. Graphically this amounts to assuming that everything in between the green trend line and the actual incurred costs represented by the blue line in Figure 2 represents a cost attributable to the wars.²³ The figure obtained through this process is about \$5,300,000. Via the Veterans' Affairs program, therefore, the war cost Rhode Island between \$1,100,000 and \$5,300,000.

Figure 2: Veterans Affairs budget before and during the wars

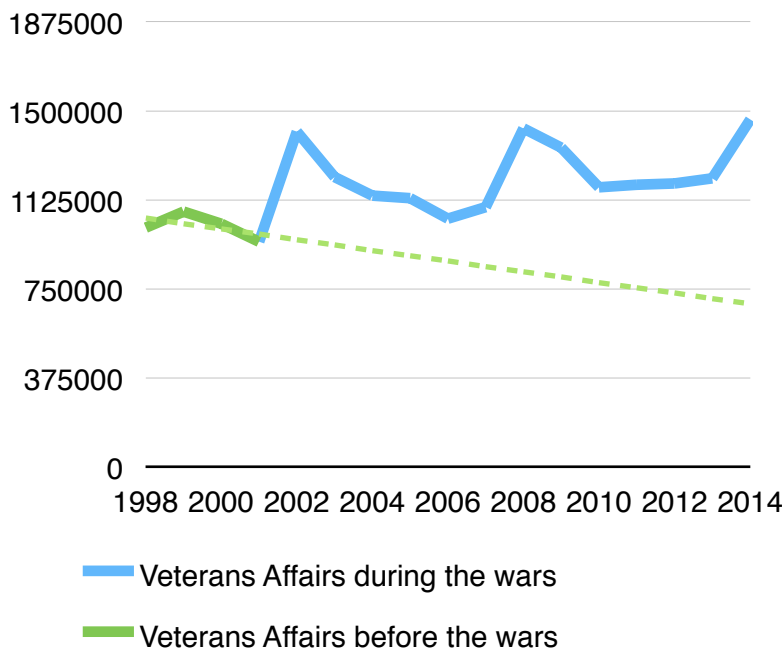
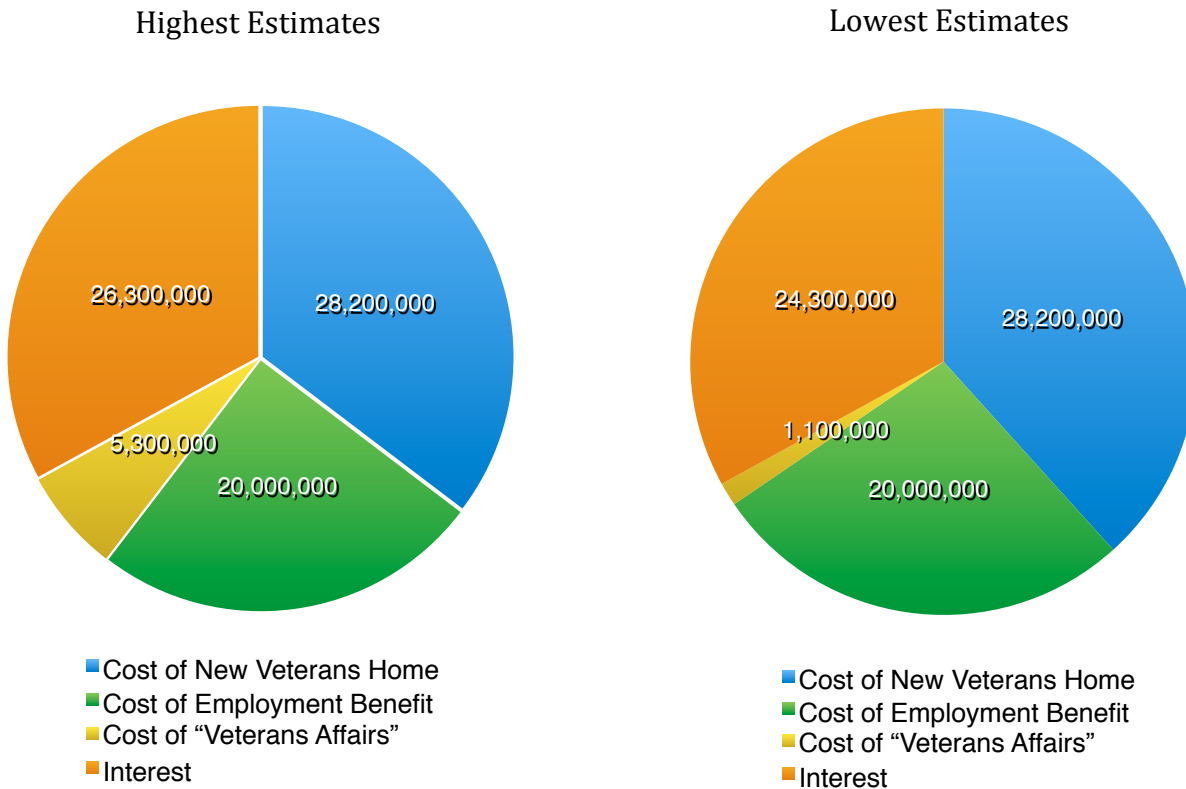


Figure 3. Total costs of the wars for Rhode Island



Interest

Money that the state spends on the wars is an added burden on the state’s finances. In order for it to maintain its spending at the levels it would otherwise have, a state with a spending deficit like Rhode Island needs to borrow. This debt entails an added cost of war: that of interest.²⁴

The interest for the bond on the new veterans home -- \$13,300,000 -- was already noted above. I add interest to the costs of employment benefits and the programs grouped under “veterans affairs.” To do so, I calculate interest as if the state had taken out 20-year bonds at a 5 percent interest rate.²⁵ The total cost that this entails is between about \$11 million and \$13 million depending on whether we are using the higher or lower estimate for the cost of the smaller veterans benefits noted above. If we add the interest on the bond for the new veterans home, the total cost attributable to interest is between \$24,300,000 and \$26,300,000.

Concluding Remarks

The costs of the wars in Iraq and Afghanistan for the state government of Rhode Island have accumulated via four routes. First is the portion of the new veterans home that will be used by veterans of Iraq and Afghanistan, which is \$28.2 million. Second, veterans of these wars cost the Department of Labor and Training about \$20 million through employment benefits. Third, the Department of Veterans Affairs spent between \$1.1 million and \$5.3 million in veteran counseling, and other services too numerous to name, under the heading "Veterans Affairs." Fourth and finally, interest on the state debt incurred to cover all of these costs is estimated to total between \$24.3 million and \$26.3 million.

The wars will therefore cost the state of Rhode Island somewhere between \$73.6 million and \$79.8 million, an estimate based on expenditures and obligations to date. To put this in perspective, this is a little over three times the average annual budget (in 2012 dollars) of the Rhode Island Department of Veterans Affairs in the years immediately preceding the wars (1998-2000), an amount which itself reflects some but not all of the ongoing costs to one small state, regardless of the wars, of supporting a large standing military.

For the moment, these are not extraordinarily high costs in comparison with other items of state government. However, the largest costs to be borne by the Rhode Island government, the long-term costs of housing homeless Iraq and Afghanistan veterans, have yet to be felt. Therefore the costs of war are likely to increase dramatically in Rhode Island as it begins to maintain the new veterans home it is building. This makes projecting the future costs to the state, particularly in the area of housing, the most important area of further research. To estimate these costs, I have focused on the period between 2001 and 2014. The current veterans home cost approximately \$250 million during that entire period. If the second home were operating at about the same cost during this same period and if I assume that 30 percent of its occupants were Iraq and Afghanistan veterans, this would add approximately \$75 million to the cost. Adding this amount would almost double our initial estimate of between \$73.6 and \$79.8 million, before counting the added cost of the interest on debt that the state of Rhode Island would have to take out to cover these costs.

The case of the state of Rhode Island provides a starting point for the study of the budgetary costs for states of the Global War on Terror. We have seen where the most important state expenditures are likely to come from: benefits for unemployed veterans, veterans housing and a plethora of other state services for veterans. Since Rhode Island has similar proportions of veterans as the country as a whole, it is likely that many of the costs in other states, especially other northeastern states, will be similar. However it would be useful to contrast Rhode Island with states in other regions so as to determine whether there are regional variations in the ways and amounts that states spend on veterans. Finally, the fact that Rhode Island is such a small state allows this case to provide a useful contrast to larger states so as to determine whether the size of a state might change how that state was affected by the war.

Further Avenues of Research

The costs of the wars on the federal level have been examined in previous work,²⁶ but the overall budgetary costs of war will also need to include the costs borne by the 50 states. This paper and Brian Smith's work on Texas begin the difficult task of estimating the costs borne by all states.

To fully complete this picture, the final level of government, the municipal level, will need to be examined as well. Cities can lose a significant amount of tax revenue due to property tax exemptions for disabled veterans. To give an idea of the magnitude, the Report on Municipal Tax Exemptions and Tax Treaties estimated that cities in Rhode Island lost about \$7.2 million in property tax revenue in 2006 alone due to this exemption.²⁷ The increased influx of veterans will further elevate this number. Looking at these costs will also be required to complete the analysis of costs for the state, as most states transfer significant amounts of money to municipalities to help make up for shortfalls in their budget. In 2010, for instance, the state of Rhode Island paid out about \$170 million in aid to local units of government. If local governments are experiencing shortfalls in their revenue due to the wars, part of this will no doubt end up on the balance sheet of the states as this will increase the amount local governments need.

Endnotes

¹ Luke Lattanzi-Silveus is a recent graduate of Brown University. He received a degree in Philosophy, Politics

² Joint Economic Committee, Economic Snapshot: Rhode Island. September 2014.
http://www.jec.senate.gov/public//index.cfm?a=Files.Serve&File_id=c146a1eb-374d-42e3-bec1-aa47633db62e.

³ Brian Smith, Brian (2014) "Cost of Iraq and Afghanistan Veterans' Care in Texas,"
<http://www.costsofwar.org/sites/default/files/articles/52/attachments/Smith%20FIN%20.pdf>.

⁴ AmeriCorps for Veterans in Rhode Island, *Initial Needs Assessment and AmeriCorps State Service Plan*. November 2011, p1.

⁵ The recruitment and training costs for the National Guard members being deployed as well as their salaries while they were deployed were all paid for by the federal government. This is also the case for equipment deployed in the wars. This equipment consisted of artillery, aircraft and Blackhawk helicopters attached to the units being deployed as well as smaller equipment. National Guard equipment is maintained as it is used overseas or when used to train those being deployed overseas at the expense of the US Department of Defense. This maintenance has meant that there have been no recorded depreciation costs of Rhode Island equipment during the wars. Information obtained from an interview with LTC Peter Parente, Rhode Island National Guard Public Affairs Officer.

⁶ Wool, Zoë H (2013) "The War Comes Home: Institutionalizing Informal Care and the Family Consequences of Combat Injuries," *The Costs of War*.
<http://costsofwar.org/sites/default/files/articles/12/attachments/TheWarComesHome.pdf>.

⁷ Garrett-Peltier, Heidi (2014) "The Job Opportunity Cost of War." *Costs of War*.
<http://costsofwar.org/sites/default/files/articles/26/attachments/GarrettPeltierFINAL%20.pdf>.

⁸ Interview with Rhode Island Veterans Home administrator Rick Baccus.

⁹ AmeriCorps, *Needs Assessment and Service Plan*, p.12. I calculated the percentage of veterans and veteran families who are in emergency and transitional shelters (and therefore classified as homeless) who are between the ages of 18 and 30.

¹⁰ All of these veterans must have served in wars since to be considered a veteran in Rhode Island in 2010 (when the latest statistics were collected), the person in question must have served in a specific war or

campaign. The Rhode Island Senate Policy Office, *The Rhode Back Home: Current and Proposed Services and Benefits for Rhode Island's Veterans and Their Families*. February 2013, p.6. Furthermore, it is quite unlikely that any of these individuals are from previous conflicts since someone who joined the military at age 18 in 2000, right before the beginning of operations in Afghanistan, would be 28 in 2010. This definition of a veteran also assumes that none of these young service members would have been eligible for veteran status had they not participated in the wars. Thus the entire cost of benefits for these young veterans can be attributed to the wars. In 2012 the law was changed to be more inclusive, but it is very likely that this only occurred due to the increased attention to the plight of veterans that the wars created.

¹¹ These numbers are for veterans nationwide, but there is no reason to believe that the age disparity differs significantly in Rhode Island. Iraq and Afghanistan Veterans of America, *IAVA 2012 Member Survey*, March 2012, p.6.

¹² In actuality, younger veterans are more likely to be homeless. However, this is largely attributable to challenges that new veterans face transitioning to civilian life, something that would also apply to older veterans returning from a recent war.

¹³ Rhode Island Public Expenditure Council, *Analysis of Rhode Island's Budget Outlook, Debt Position and 2012 Ballot Initiatives*, 2012, p.13.

¹⁴ The unemployment rate among the general population did not vary significantly during the period. Other than a dip to about 4.2 percent in 2000-2001, the unemployment rate hovered around 5 percent. Rhode Island Department of Labor and Training, Rhode Island Historic Unemployment Rates Seasonally Adjusted. <http://www.dlt.ri.gov/lmi/laus/state/histadj.htm>.

¹⁵ Note that the green trend line is decreasing slightly. Provided there are no new wars, there should gradually be fewer and fewer veterans in need of employment assistance. The unemployment rate among veterans from recent wars is much higher than that of older veterans. Brad Plumer, "The Unemployment Rate for Recent Veterans is Incredibly High," *The Washington Post*, November 11, 2013. <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/11/11/recent-veterans-are-still-experiencing-double-digit-unemployment/>.

¹⁶ However the data for 2014 is the enacted budget. The final cost in 2014 is likely to differ slightly.

¹⁷ The financial crisis was no doubt made more severe by a number of consequences of the wars, such as increased government interest rates and higher oil prices (Linda Bilmes and Joseph Stiglitz, "The True Cost of the Iraq War: \$3 Trillion and Beyond," *Washington Post*, September 5, 2010. This in turn would lead to higher veteran unemployment (and general unemployment) than there would have been without the wars.

¹⁸ Rhode Island does not disaggregate veterans' unemployment data by age or by war. The BLS has a breakdown of unemployed veterans by war nationally, but does not normally break it down by state according to a BLS economist.

¹⁹ Joint Economic Committee, Economic Snapshot: Rhode Island. September 2014. http://www.jec.senate.gov/public//index.cfm?a=Files.Serve&File_id=c146a1eb-374d-42e3-bec1-aa47633db62e.

²⁰ Brad Plumer, "The Unemployment Rate for Recent Veterans is Incredibly High," *Washington Post*, November 11, 2013. <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/11/11/recent-veterans-are-still-experiencing-double-digit-unemployment/>.

²¹ The figures for the proportion of veterans from 2013 and 2014 were estimated using a linear regression model based on the figures from the US Census Bureau American Fact Finder dating back to 2007 (which is as far back as the proportion of veterans from the recent wars is recorded as a separate category).

²² Rhode Island Department of Human Services, Division of Veterans Affairs, *Annual Report to the General Assembly, Fiscal Year 2012*. December 2013, p.9-10.

²³ Since many of the programs covered under "Veterans Affairs" concern costs of benefits to new veterans, it makes sense that these costs would have decreased were it not for the wars.

²⁴ The other possibility is that the state could cut back on other spending, or increase taxation in order to balance the budget. Determining the cost of these cutbacks to the state, in terms of future lost revenue or extra costs to pay for delayed repairs, for example, entails an economic analysis that is beyond the scope of

this paper. These are significant costs, however. In fact they are quite possibly higher in the long term than the cost of interest.

²⁵ This is the rate that the Rhode Island Budget Office uses when making estimates about Rhode Island debt on a broad scale. Interview with Kayleigh Pratt, Budget Office staffer.

²⁶ For example, Bilmes, Linda J. (2013), "The Financial Legacy of Iraq and Afghanistan: How Wartime Spending Decisions will Cancel Out the Peace Dividend," *Costs of War*.

<http://www.costsofwar.org/sites/default/files/articles/52/attachments/LBILMESFinacialLegacy.pdf>.

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<http://www.costsofwar.org/sites/default/files/articles/20/attachments/Costs%20of%20War%20Summary%20Crawford%20June%202014.pdf>.

²⁷ Office of Municipal Affairs, *Report on Municipal Tax Exemptions and Tax Treaties*, November 2006, Table 1.