

## **U.S. Costs of Wars Through 2014: \$4.4 Trillion and Counting** **Summary of Costs for the U.S. Wars in Iraq, Afghanistan and Pakistan**

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### **Summary**

A full accounting of war's burdens cannot be placed in columns on a ledger. From the civilians harmed or displaced by violence, to the soldiers killed and wounded, to the children who play on roads and fields sown with improvised explosive devices and cluster bombs, no set of numbers can convey the human toll of the wars in Iraq and Afghanistan, or how they have spilled into neighboring states and come home to the US. Yet, the expenditures noted on government ledgers are necessary to apprehend, even as they are so large as to be almost incomprehensible.<sup>3</sup>

Congress and the Executive Branch describe the wars as Overseas Contingency Operations (OCO). **The U.S. has spent and taken obligations to spend approximately \$4.4 trillion on the wars in Iraq, Afghanistan and Pakistan not including the money requested for FY2015.** The spending has occurred in several categories. A large portion of the costs for these wars occur in OCO appropriations for the State Department and Department of Defense (See Table 1 and 5 which includes the spending requests for FY2015 and the Appendix).<sup>4</sup> Although the U.S. war in Iraq was of shorter duration than the on-going combat operations in Afghanistan and Pakistan (known as AfPak), the Iraq War was comparatively more expensive.

If one simply highlights the budgetary costs of allocations and expenditures so far, the U.S. has spent more than \$1.59 trillion for combat and reconstruction in both major war zones and for defense of US airspace. Additional war-related spending — including additions to the Pentagon base budget and Veterans health and medical disability expenses — total about just under \$1 trillion. Thus, war and war related spending from 2001 through the end of fiscal year 2014 is about \$2.6 trillion.

But there is more: any reasonable estimate of the costs of the wars includes the fact that each war entails essentially signing rather large promissory notes to fulfill the U.S. promises, indeed obligations, of medical care and support for wounded veterans — I.O.U.s that will total approximately an additional \$1 trillion in medical and disability payments and additional administrative burden through 2054. Further, one might also count Homeland Security spending, because of the threat of terrorist attack, which increased by an estimated

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<sup>1</sup> The first version of this paper, completed in March 2011 has been updated through 25 June 2014.

<sup>2</sup> I thank contributors to the Costs of War Project, especially Linda Bilmes, Anita Dancs, Ryan Edwards, Catherine

<sup>2</sup> I thank contributors to the Costs of War Project, especially Linda Bilmes, Anita Dancs, Ryan Edwards, Catherine Lutz and Winslow Wheeler; I also thank Carl Conetta, K. Alan Kronstadt, and Cindy Williams for comments.

<sup>3</sup> On calculating the costs of wars, see: Joseph E. Stiglitz and Linda J. Bilmes, "Estimating the costs of war: Methodological issues, with applications to Iraq and Afghanistan," in Michelle Garfinkel and Stergis Skaperdas eds., *Oxford Handbook of the Economics of Peace and Conflict*. (Oxford University Press: Oxford, 2012).

<http://www.socsci.uci.edu/~mrgarfin/OUP/papers/Bilmes.pdf>.

<sup>4</sup> All calculations were made and reported in current dollars.

\$470 billion. Table 1 summarizes the categories and amount of spending and obligations undertaken from September 2001 to the present fiscal year, rounded to the nearest \$billion.<sup>5</sup>

**Table 1. Summary Overview of Major Categories of Spending in \$Billions**

<b>Category</b>	<b>\$Billions</b>
Major War Zone Spending by DOD and State (Overseas Contingency Operations) FY2001- FY2014 (See Figure 1, Table 2 and Appendix)	\$1,591
Estimated of Additional DoD base budget and Veterans War-related Spending, FY2001- FY2014	996
Homeland Security Spending, estimated increase FY2001- FY2014	472
Interest on borrowing for Wars, FY2001-FY2014	316
<i>Total War Appropriations and War Related Spending</i>	<i>\$3,375</i>
Future Obligations for care of Veterans through 2054 <sup>6</sup>	1,000
<b>Total Spending and Future Obligations</b>	<b>4,375</b>

But the U.S. will not stop spending on war at the end of 2014. A projected 9,800 U.S. troops will remain in Afghanistan in a reduced role after 2014 and the Obama administration has requested more than \$79 billion for the next fiscal year. But even if the U.S. stopped spending on war at the end of this fiscal year, interest costs alone on borrowing to pay for the wars will continue to grow apace. **Interests costs for overseas contingency operations spending alone are projected to add more than \$ 1 trillion dollars to the national debt by 2023. By 2054, interest costs will themselves be at least \$7.9 trillion unless the US changes the way that it pays for the wars.** An estimate of total costs of both wars, including money already spent, and likely costs of next year's budget and future obligations, including interest, is found in Table 5. Estimates for future spending are conservative. The Congressional Budget Office projects that that costs of executing the Pentagon's plans in future years will require more than the Pentagon has suggested in its own projections.<sup>7</sup>

The most recent Congressional Research Service (CRS) comprehensive report on the costs of the wars and other associated expenses was the March 2011 report by Amy Belasco, CRS specialist in Defense Policy and Budget.<sup>8</sup> Belasco's outstanding report raised many

<sup>5</sup> These are conservative estimates. There is considerable fuzziness in Pentagon spending, and especially with regard to spending for Pakistan in the DOD budget. Moreover, the Pakistan war spending does not include weapons and other military equipment that the US donates to Pakistani military forces. There is potential for some double counting of Pakistan related spending.

<sup>6</sup> See Linda J. Bilmes, "The Financial Legacy of Iraq and Afghanistan: How Wartime Spending Decisions Will Cancel Out the Peace Dividend," *Costs of War*, March 2013 for a discussion of her methods and assumptions.

<sup>7</sup> Congressional Budget Office, "Long-Term Implications of the 2013 Future Years Defense Program," (CBO, July 2012).

<sup>8</sup> Amy Belasco, "The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11," *Congressional Research Service (CRS) 29 March 2011*. More recent numbers on appropriations are found in Pat Towell and Amy Belasco, "Defense: FY2014 Authorization and Appropriations," Congressional Research Service, R43323, 8 January 2014. Towell and Belasco's paper recounts the uncertainty over budgeting due to the Budget Control Act, sequester and continuing resolutions in late 2013.

questions about war spending and the consequences of spending for which Congress still needs answers. My accounting of the costs of the wars builds on Belasco's excellent report. But the Belasco report is limited by what she acknowledges are poor accounting practices in the Pentagon — which she describes, diplomatically, as "limited transparency" — and by the focus on direct war appropriations for the DOD, State Department and Veterans Administration. For instance, at least in the March 2011 report, Belasco did not apparently include all the spending for Pakistan, nor all the war related costs associated with veteran's health care and disability. Further, Belasco did not consider the costs of future obligations to veterans. My analysis thus updates and widens the perspective on total spending for the wars in Iraq and Afghanistan.

Much less comprehensive accounts of war spending are available from the U.S. Department of Defense. For example, a recent unclassified Pentagon accounting of "Costs of War through November 30, 2012" reports different figures from the Belasco paper of 2011 — in some years lower, perhaps due to rounding, and in some years higher for reasons that are sometimes explained. Further, this DOD report does not include related State Department spending, and omits "non-DOD classified programs." That report puts "total costs" of war at 1,206.6 billion from 9/11/2001 through 30 November 2012.<sup>9</sup>

Yet while the Costs of War project estimate is more comprehensive than many accounts, it is still conservative because we did not calculate all the budgetary and economic costs of associated with the wars in Iraq and Afghanistan. While attempting to provide a comprehensive overview — in 2011, when the Costs of War project released its first series of reports and in subsequent updates — there are certainly costs we have not included or attempted to enumerate. For example, while we estimated direct deaths due to violence, we did not estimate the likely many times more people killed indirectly, because infrastructure was degraded and destroyed. In Iraq alone, hundreds of thousands of Iraqis have died due to the direct and indirect effects of the Iraq war's violence. Each one of the people killed directly or indirectly by war could be counted in terms of a statistical value of human life — assigning a dollar value to their deaths. Many more have been injured. The disruption to Iraq's health care and economic infrastructure has led to continued adverse health effects and a continuing economic burden for the people of Iraq and the region. Nor have we included the macro-economic and interest costs, discussed below, in our summary of budgetary costs. Further, as described below, many costs have been externalized — taken up by other governments or private citizens, including the \$300-400 billion in costs to U.S. military families over the next several decades of uncompensated expenses of caring for their injured family members.<sup>10</sup>

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<sup>9</sup> Office of the Assistant Secretary of Defense for Public Affairs, unclassified, "Costs of War Update as of November 30, 2012," Generated January 2, 2013.

<sup>10</sup> Linda J. Bilmes, "Current and Projected Future Costs of Caring for Veterans of the Iraq and Afghanistan Wars," Costs of War June 2011. Alison Howell and Zoë H. Wool, "The War Comes Home: The Toll of War and The Shifting Burden of Care," Costs of War June 2011 and Zoë H. Wool, "The War Comes Home: Institutionalizing Informal Care and the Family Sequelae of Combat Injuries," Costs of War February 2013.

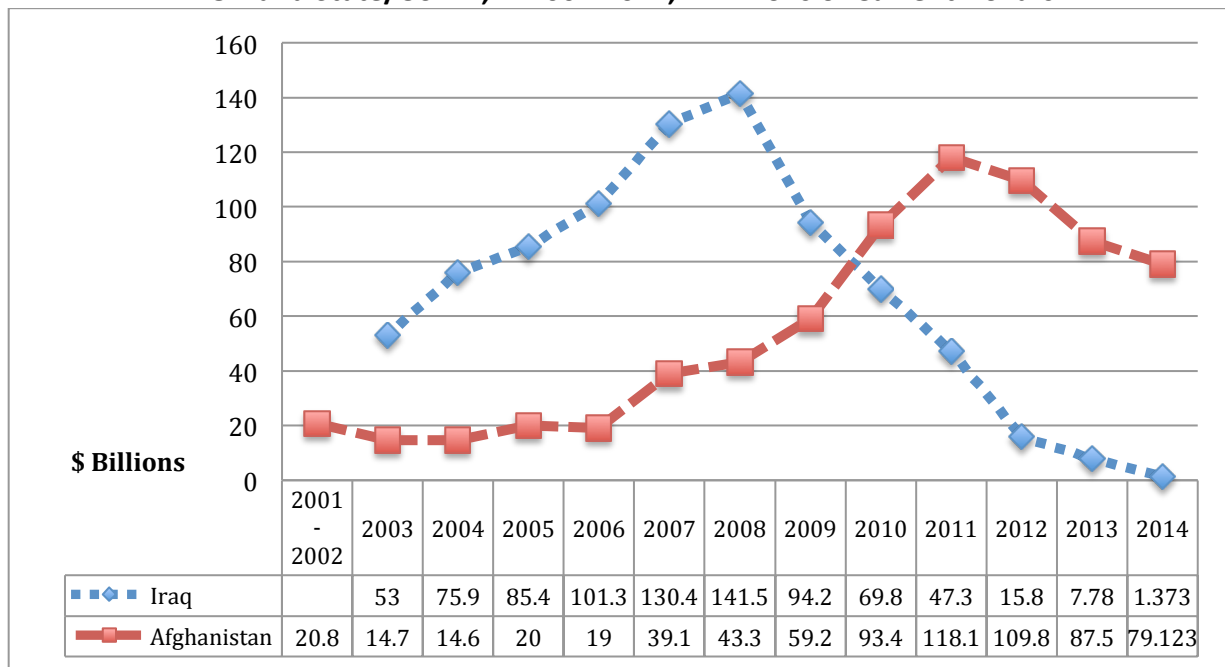
### Detailed Description and Discussion of Direct and War-related Spending through 2014

War-related spending occurs in several areas of the U.S. Federal budget. There are special appropriations for war, currently described as "overseas contingency operations" (OCO) over and above the general and continuing funding for the DOD, known as the "base budget", and appropriations for other war related activities in the budgets of the State Department and Veterans Administration. Further the Pentagon base budget includes other operations that are part of the larger War on Terror, in the Trans-Sahara and Horn of Africa.

#### Direct War Appropriations

To date, the war in Iraq has cost more than \$823 billion in special direct war appropriations to the Department of Defense and the U.S. State Department/U.S. Agency for International Development (USAID) (See Table 2). The peak of United States direct war spending in Iraq was more than \$141 billion in 2008. Spending on Iraq for 2012, after the US withdrawal was nearly \$16 billion. Spending on direct war appropriations for the war in Afghanistan peaked in 2011 at about \$118 billion, or more than 120 billion including some of the funding for US operations in Pakistan (See Figure 1).

**Figure 1. Annual Appropriations By Major War Zone/Overseas Contingency Operation for DOD and State/USAID, FY2001-2014, in Billions of Current Dollars**



While the U.S. national security establishment certainly regards Pakistan as part of the area of operations for Afghanistan Operation Enduring Freedom, spending related to Pakistan is not always included in accounts of direct war-related spending.<sup>11</sup> Security spending for Pakistan

<sup>11</sup> For instance, although Pakistan is mentioned in the summary talking points of the DOD report, "Costs of War Update as of November 30, 2012" spending on Pakistan is apparently not included in their enumeration of the war costs.

is included here because the U.S. compensates Pakistan for the use of its ports and transportation through Pakistan (Coalition Support Funds) en route to Afghanistan and because the U.S. subsidizes the Pakistani military's operations against militant organizations — Al Qaeda, the Taliban, and Haqqani network militants. U.S. funds are also used to train and equip the Pakistani military to act as surrogates for the U.S. in the region. While we do not estimate the cost of the CIA drone strikes targeting militant leaders in Pakistan, those costs are generally assumed to be included in the budget for the Afghanistan war.

**Table 2: Cumulative Direct War Appropriation/Spending<sup>12</sup>**

<b>DOD/State USAID<sup>13</sup></b>	<b>Cumulative Total FY2001-FY2014, Billions of Dollars</b>	<b>Percent DOD/State Appropriations</b>
Iraq	823.75	51.7
Afghanistan	718.62	45.2
Pakistan <sup>14</sup>	19.34	1.2
Operation Noble Eagle <sup>15</sup>	28.97	1.8
<b>Total</b>	<b>1,590.7</b>	<b>100</b>

Although the war and occupation of Iraq were of shorter duration than the war and occupation of Afghanistan, Iraq still accounts for 52 percent of total direct war funding. It is not so easy to disaggregate other war-related cost by war zone, as discussed below. As Catherine Lutz shows, the reconstruction of Iraq is far from complete.<sup>16</sup>

### **Additional War-Related Spending**

As described earlier, war affects other elements of the Pentagon budget, specifically, that part of the Pentagon appropriations known as the "base budget." While the Congress made special appropriations for the Afghanistan and Iraq wars, other the base military budget

<sup>12</sup> Totals may not add due to rounding. For a breakdown of DOD and State/USAID appropriations by year in current dollars see the appendix.

<sup>13</sup> Sources: Amy Belasco, "The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11" *Congressional Research Service (CRS) 29 March 2011*, for FY2001-2010 ; Pat Towell and Daniel H. Else, "Defense: FY2013 Authorization and Appropriations," CRS 5 September 2012, for DOD FY2011-2013; Susan B. Epstein, Mariano Leonardo Lawson and Alex Tiersky, "State, Foreign Operations, and Related Programs: FY2013 Budget and Appropriations," CRS, 23 July 2012, for State Department Spending FY2011-2013; Pakistan, K. Alan Kronstadt and Susan B. Epstein, "Pakistan: U.S. Foreign Assistance," CRS, 4 October 2012 and previous CRS reports for Pakistan, FY2001-FY2012; Office of the UnderSecretary of Defense, Office (Comptroller) "Fiscal Year 2013 Budget Request: Overview" February 2013; Office of the Secretary of Defense, "Fiscal Year (FY) 2013 President's Budget: Contingency Operations (Base Budget)" for Operation Noble Eagle, FY2011-2013.

<sup>14</sup> Security Related Funding. Since 2002, the United States has provided Pakistan with additional economic and humanitarian assistance. While it is arguable that some of that money is used for security purposes, or is used to deal with the refugees and food insecurity caused by fighting in the border region, I am include only the CRS numbers for security aid and military reimbursements.

<sup>15</sup> Operation Noble Eagle, begun on 9/11 includes the enhanced security for military bases and U.S. airspace provided by the U.S. military in the DOD budget.

<sup>16</sup> Catherine Lutz, "Reconstructing Iraq: The Last Year and the Last Decade," *Costs of War*, February 2013.

increased. The base budget includes spending on procurement of new weapons, military construction, health care and pay of active duty soldiers, operations, and maintenance. Because the Iraq and AfPak wars were, for several years, fought simultaneously, and soldiers frequently served — very often more than once — in both major war zones, it is not possible to disaggregate all these additional costs to the base budget by war zone.

As Winslow Wheeler has argued, prior to the 9/11 attacks, the Pentagon's base military budget was not expected to increase.<sup>17</sup> After the 9/11 attacks and the initiation of war in Afghanistan and Iraq, the base budget grew. But the question is, how much of that increase is due to the wars and or to the climate of war? Using slightly different assumptions, both Wheeler (estimate A) and Linda Bilmes (estimate B) estimate that the Pentagon's base military budget grew a great deal as a consequence of the wars.<sup>18</sup> I have presented their estimates below, (see Table 3). I assume that although reset and health costs for war may have increased, because of the reductions associated with the sequester, the war related increase to the base is consistent between FY2013 and FY2014. I use an average of the Wheeler and Bilmes estimates for subsequent calculations.

Smaller expenditures are more difficult to trace and may or may not be included in the military base budget, or in other State Department accounts of military spending on Iraq and Afghanistan. For instance, the United States acquired troops, or in some cases access to air space, land lines of communication, or military bases from the smaller contributors to the "coalitions of the willing" for the wars in Iraq and Afghanistan. More than 40 countries contributed to the war in Iraq and some received compensation for their role. In Afghanistan, the key regional partner, Pakistan has received billions of dollars in both economic and security assistance. Although I do not include the economic assistance to Pakistan in my accounting, it is arguable that most of that money — beyond that used for disaster assistance — would not have gone to Pakistan absent a war.<sup>19</sup>

Other war-related costs occur outside the military budget. Specifically, many of the more than 50,000 U.S. soldiers who were officially wounded in action, and many of those who

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<sup>17</sup> Winslow T. Wheeler, "Unaccountable: Pentagon Spending on the Post-9/11 Wars," *Costs of War*, June 2011.

<sup>18</sup> Wheeler attributes much of the increase to the war climate, namely the desire to show support for the troops in the form of higher pay and modernization of military equipment. The Bilmes estimate focuses on increases in the base budget driven specifically by, for instance, the military pay increases used to bolster military recruitment when it was lagging during the Iraq War, which she argues are unlikely to be reduced after the wars' end. Similarly, she argues, medical expenses of active duty personnel have increased due to increasing utilization rates by active duty troops and their families, the expansion of the TRICARE program and the more complicated medical needs of active duty soldiers injured during their deployments. Indeed, many of these costs are institutionalized, and will likely be very difficult to reduce.

<sup>19</sup> Uzbekistan has also proved important to the war in Afghanistan, in part because Pakistan has on occasion halted U.S. access to Afghanistan, such as when the U.S. killed two-dozen Pakistani soldiers in late November 2011 and transit was halted for about 7 months. Military aid to Uzbekistan, which is meant to secure military transportation access to roads into Afghanistan (and for a number of years, access to the military base in Karshi-Khanabad) peaked in 2002, and totals more than \$200 million through FY2013. Yet, military aid to Uzbekistan is comparatively cheap when compared to other aspects of the wars in Afghanistan and Iraq and we have not included it in this accounting of the costs of war. See Anita Dancs, "International Assistance Spending Due to War on Terror," *Costs of War*, June 2011 and U.S. Department of State Congressional Budget Justifications for Foreign Operations. Also see Jim Nichol, "Uzbekistan: Recent Developments and U.S. Interests," Congressional Research Service, 3 August 2012.

were evacuated from the war zones for disease or non-hostile injuries require on-going medical care.<sup>20</sup> The medical care of those who have left the military becomes the responsibility of the Veterans Administration.

**Table 3. Categories of Additional War Related Spending, FY 2001-2014<sup>21</sup>**

<b>Additional War Related Spending</b>	<b>Cumulative Total \$Billions</b>
Estimate A war-related DOD increase to Base Budget <sup>22</sup>	(796)
Estimate B war-related DOD Increase to Base Budget <sup>23</sup>	(876)
<b>Average of estimates A and B</b>	836.1
VA Medical <sup>24</sup>	28.01
Social Security Disability <sup>25</sup>	5.08
VA Disability	41.3
VA Other Costs Related to Afghanistan and Iraq <sup>26</sup>	86
<b>Subtotal Additional War-related Spending</b>	<b>996.49</b>

### **Non-Budgetary and Externalized Costs**

Several costs of the war have been externalized and therefore do not appear in this accounting focused on U.S. Federal outlays and obligations. Specifically, as Zoe Wool's research shows, the externalized costs include the social costs of care for disabled veterans borne by their families.<sup>27</sup> Further, state and local governments assume some of the costs of veteran's care and benefits.

<sup>20</sup> See Catherine Lutz, "U.S. and Coalition Casualties in Iraq and Afghanistan," for Costs of War, 21 February 2013. FOIA requests show 90,000 medivacs. Bilmes, "The Financial Legacy of Iraq and Afghanistan."

<sup>21</sup> This estimate assumes that reductions spending under the Budget Control Act and increases in demand will yield expenditures that are the same between FY2013 and FY2014. The Pentagon provides limited visibility in its accountability. See the Government Accountability Office, "Global War On Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs," GAO-05-882, September 2005.

<sup>22</sup> Based on Winslow Wheeler, "Unaccountable" estimates growth in the Base portion of the military budget attributable to the war over the budget projected before 2001. The FY2013 cost is based on estimated war spending.

<sup>23</sup> Based on Bilmes 2013 estimate of the portion of the DoD outlays in the base (non-war appropriations) directly related to war include increases in TRICARE RESERVE, recruiting, pay indexing, personnel, concurrent receipt, all of which exceed 25%, but to be conservative Bilmes used a 25% cum base increase. The FY2013 cost is based on estimated war spending. Bilmes, "The Financial Legacy of Iraq and Afghanistan."

<sup>24</sup> Bilmes, "The Financial Legacy of Iraq and Afghanistan": VA medical including direct outlays for Iraq/Afghanistan veterans + directly related medical costs related to: Traumatic Brain Injury; Spinal injury; Women veterans.

<sup>25</sup> Bilmes, "The Financial Legacy of Iraq and Afghanistan": Disability Pay for fully disabled veterans (90-100%) service-connected.

<sup>26</sup> Bilmes, "The Financial Legacy of Iraq and Afghanistan": Costs of War: Other VA costs directly related to Iraq/Afghanistan, including investments in: Claims processing for new claims; Mental health/PTSD; IT investment related to claims; Prosthetics; Readjustment Counseling for new veterans.

<sup>27</sup> Zoë H. Wool, "The War Comes Home: Institutionalizing Informal Care and the Family Consequences of Combat Injuries," Costs of War, February 2013.

The costs incurred outside the U.S. — by the United States allies and by the people of and governments of Afghanistan, Pakistan, and Iraq total in the billions of dollars. For example, the UK spent about \$14 billion in Iraq from 2003-2011 and was projected to spend about \$30 million in Afghanistan by the time of their complete withdrawal.<sup>28</sup> By one estimate, the budgetary costs of German military involvement in Afghanistan is more than \$15 billion (12 billion Euros), at the low end, and not including medical costs, or the costs of financing the German participation in the war.<sup>29</sup>

While the U.S. has given assistance to the governments of Afghanistan, Pakistan, and Iraq, there are still hundreds of billions of dollars worth of reconstruction and military costs borne by the governments of Iraq and Afghanistan. Further, there is also increased military spending in Pakistan (beyond what the US has given in military aid) and a burden of refugee flows in these countries. In addition, there is a budgetary burden to international institutions involved in humanitarian assistance in the war zones, which is shared broadly by many of the world's governments. This burden includes the costs of work by UN agencies, non-governmental organizations, humanitarian organizations such as the International Committee for the Red Cross and Handicap International, and regional governments that care for refugees and displaced people in the war zones.

### **Macroeconomic and Interest Costs**

The macro-economic effects of the wars for the U.S. economy are ongoing. Earlier Costs of War project analysis, by Heidi Garrett-Peltier, James Heintz, and Ryan Edwards, showed that **the wars likely costs tens of thousands of jobs, affected the ability of the U.S. to invest in infrastructure and probably led to increased interests costs on borrowing, not to mention greater overall Federal indebtedness.**<sup>30</sup>

The spending for overseas contingency operations (OCO) was funded primarily by borrowing, not additional taxes. No additional taxes were raised for these wars; indeed, taxes were cut in many categories for most of the war years, and they recently rose only for households with incomes over \$400,000.

Using a standard macroeconomic model of the U.S. economy, Ryan Edwards estimates that as of 2014, the U.S. has already incurred an additional approximately \$316 billion in interest on borrowing to pay for the wars.<sup>31</sup> Over the next several decades, assuming no more military spending on these wars, but also no additional tax increases or spending cuts, **cumulated interest costs on borrowing to pay for the wars will ultimately rise to dwarf the**

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<sup>28</sup> BBC, "Iraq War in Figures," 14 December 2011, <http://www.bbc.co.uk/news/world-middle-east-11107739>.

James Kirkup, "Afghan War Will Cost British Taxpayers £20 billion by Time Mission is Complete," *The Telegraph* 19 May 2012, <http://www.telegraph.co.uk/news/worldnews/asia/afghanistan/9275712/Afghan-war-will-cost-British-taxpayers-20-billion-by-time-mission-is-complete.html>.

<sup>29</sup> Tilman Brück, Olaf J. de Groot, and Friedrich Schneider, "The Economic Costs of the German Participation in the Afghanistan War," *Journal of Peace Research*, (November 2011) vo. 48, no. 6, pp. 793-805.

<sup>30</sup> See respectively, research briefs by Heidi Garrett-Peltier, "The Job Opportunity Costs of War," Costs of War, June 2011; James Heintz, Military Assets and Public Investment, " Costs of War June 2011, and Ryan D. Edwards, "Post-9/11 War Spending, Debt, and the Macroeconomy," Costs of War, June 2011.

<sup>31</sup> Edwards calibrates a standard Solow model to model feedbacks from deficit-financed government defense spending into current GDP, the capital stock, and interest rates. See Edwards, "Post-9/11 War Spending, Debt, and the Macroeconomy."



**\$1.5 trillion of direct military spending from 2001-2013, adding more than \$7.9 trillion to the national debt.**<sup>32</sup> Thus, although military spending will not continue to rise over the next 40 years, interests costs will dwarf total war costs unless Congress devises another plan to pay for the wars.

The severity of the burden of war-related interest payments will depend on many factors, not least, the overall future health of the U.S. economy, interest rates, government fiscal policy, and national saving. But unfinanced war spending has played a significant role in raising our national debt, and it has few of the benefits associated with reductions in taxes and increases in spending intended to combat the great recession that have also raised the debt.

#### **Future Military and Veterans Related Spending**

There are two major categories of future spending — DoD spending in FY2015 and 2016 and future costs for the care of veterans. Total costs for the veterans of these wars will increase over time. As Linda J. Bilmes notes, peak spending on veterans' disability and medical care, for every war, occurs decades after wars end.<sup>33</sup> The costs for veterans of these wars will be comparatively greater than for past wars. Specifically, veterans of the wars in Iraq and Afghanistan often return with multiple traumas, as well as respiratory and cardiac trouble. Further, and as each veteran ages, their health care needs will become more complex and expensive. Of those who have been discharged, Bilmes estimated in 2013 that their care over the next forty years would cost approximately \$836 billion through 2053. Table 4 details Bilmes 2013.

**Table 4. Future Obligations for Veterans' Care FY2014-2053**<sup>34</sup>

Categories of Veterans' Care	Present Value 2014-2053
Veterans Administration Medical	287.6
Social Security Disability	42.3
Veterans Administration Disability	419.7
VA Related	86.6
<b>Total</b>	<b>836.1</b>

In June 2014 Bilmes updated her estimate of future spending on Veterans care and now projects that **through 2054, Net Present Value costs for veterans disability, medical, and associated costs of administration for care of veterans will be more than \$1,000 trillion.**<sup>35</sup> This new estimate includes the greater number of veterans in the system, and is still likely an underestimate of the final cost because more Iraq and Afghan soldiers will enter the VA system over the next several years.

<sup>32</sup> Edward's calculation is based on only the direct war appropriations noted in table 2 for DoD and State Department.

<sup>33</sup> Bilmes, "The Financial Legacy of Iraq and Afghanistan."

<sup>34</sup> Long Term Present Value of Medical Care, Social Security, and Disability Claims already submitted through 2014-2053. Bilmes, "The Financial Legacy of Iraq and Afghanistan."

<sup>35</sup> Linda Bilmes in email communication with the author, 25 June 2014.

Not all of the 2.5 million people who served deployments in the war zones have left the military. This is thus a conservative estimate of costs for veteran's care — if only because, unfortunately, the war in Afghanistan will continue to produce more people with complex wounds and conditions. For instance, in 2013, thirty individuals had major limb amputations due to battle related injuries in Afghanistan.<sup>36</sup> More than 1500 individuals have had major limb amputations through December 2013 according to the office of the Army Surgeon General.<sup>37</sup> Further, costs will increase as more troops move from active duty care to care in the Veterans Administration and the Social Security Administration.

### **What Portion of Costs Are Due to Each Major War?**

As noted in Table 2, Congressional appropriations for the Iraq war zone in the DOD and State Department budgets were approximately 52 percent of the total in war appropriations to DOD and State from FY 2001 through FY2014. Although the appropriations for Iraq were higher than for Afghanistan, the longer duration of the Afghan war has meant that Afghan appropriations have "caught up" to Iraq. Further, the long duration of these wars, and the fact that they occurred simultaneously, involving many of the same personnel and equipment has meant that their expenses and future costs are increasingly difficult to disaggregate.

In the previous version of this paper, I assumed 65 percent of the costs of veterans care and disability expenses could be attributed to the Iraq war.<sup>38</sup> In this updated analysis, I have essentially apportioned 50 percent of all additional war-related expenses to each war zone because disaggregating these costs is extremely difficult. For instance, while more soldiers served in Iraq, many soldiers (about 30 percent) served multiple deployments in both war zones. Further, the trauma and injury soldiers experience is often cumulative and the VA does not track injuries by war zone, but by time of service.<sup>39</sup> Similarly, equipment was often used in both war zones, so the costs to repair and replace equipment may not be separable by war zone at the aggregate level. Further, pay and health care costs rose for the entire military due to the wars. War appropriations for Iraq and Afghanistan were not funded with new taxes, but by borrowing. This adds interest costs war to spending, specifically, the interest costs already paid, and future interest costs.<sup>40</sup> Keep in mind that the interest costs are conservative, since more than the DOD and State Department appropriations went on the Bush and Obama administration's war "credit card."

Thus, if one accounts for the initial difference in appropriations, but also factor in the longer duration of the Afghan war and the fact that other war-related costs are not easily

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<sup>36</sup> This does not include veterans' education benefits under the GI Bill.

<sup>37</sup> Hannah Fischer, "A Guide to U.S. Military Casualty Statistics: Operation New Dawn, Operation Iraqi Freedom, and Operation Enduring Freedom," *Congressional Research Service*, RS22452, 19 February 2014, p. 6.

<sup>38</sup> The peak number of troops deployed in Iraq was 170,000 soldiers in 2007 and about 32,000 were reported as wounded in action in Iraq. U.S. troop levels in Afghanistan peaked at about 101,000 in 2011 and so far more than 19,000 have been wounded in action as of January 2014. In the past two years, the severity of the injuries of troops returning from Afghanistan has grown. See Catherine Lutz, "U.S. and Coalition Casualties in Iraq and Afghanistan" and Fischer, "A Guide to U.S. Military Casualty Statistics," p. 1.

<sup>39</sup> Linda Bilmes also argues that there is no "reasonable way to divide costs." Email communication, 20 June 2014.

<sup>40</sup> Again, the severity of the burden of war-related interest payments will depend on many factors, not least, the overall future health of the U.S. economy, interest rates, government fiscal policy, and national saving.

disentangled, the costs for Iraq are c. \$1.71 trillion, not including future war costs of veterans care; \$2.21 trillion including future costs of veterans care to 2054. The share of total costs attributable to Afghanistan/Pakistan is c. \$1.65 trillion, not including future war costs of veterans care; the cost of Afghanistan will be \$2.15 trillion including future costs of veterans care to 2054.

### Total Costs including Likely Future Spending

At the time of completion of the first version of this paper (March 2013), the President had not made a request for FY2014 or other future years. I estimated appropriations for continuing DOD and State/USAID operations in Afghanistan, Iraq and Pakistan through FY2014 would be about \$65 billion (using pre-surge spending as the guide for likely AfPak spending in 2013).<sup>41</sup> Actual appropriations for FY2014 for both wars, including modifications due to the Budget Control Act, were about \$85 billion. The Obama administration has asked for \$79.4 billion for FY2015 for overseas contingency operations, most of which will likely be spent in Afghanistan.<sup>42</sup> By the time the US is done fighting in Afghanistan, and has completely withdrawn, the budgetary costs could be as much as for Iraq.

**Table 5. Costs to Date and Future Costs of Wars<sup>43</sup>**

<b>FY2001-FY2014 Costs</b>	<b>\$billions</b>
1. Total DOD (Afghanistan, Iraq, Operation Noble Eagle (ONE))	1,485.6
2. State and US AID (Afghanistan, Iraq, and Pakistan)	105.1
3. Estimated additions to the Pentagon base	836.1
4. Total medical and disability for veterans	160.4
5. Additions to Homeland Security	471.6
6. Interest on Pentagon War Appropriations	315.7
<b>Subtotal FY2001-FY2014 Costs</b>	<b>3,374.5</b>
<b>Estimates of Future Spending</b>	
Pentagon and State/USAID (Afghanistan, Iraq, Pakistan, and ONE) FY2015 <sup>44</sup>	79.4
Future Veterans' costs for medical and disability, FY2015-2054	1,000
<b>Subtotal Future War-related Spending</b>	<b>1079.4</b>
<b>Total Costs to Date and Estimated Future Federal Budget Costs</b>	<b>4, 453.9</b>
<i>Cumulative Interest through 2054 on war appropriations through FY2013<sup>45</sup></i>	<i>&gt;7,900</i>

<sup>41</sup> These include some equipment reset (replacement) costs.

<sup>42</sup> Office of the Under Secretary of Defense (Comptroller) Chief Financial Officer, *United States Department of Defense, Fiscal Year 2015 Budget Request, Overview*, March 2014, p. 14.

<sup>43</sup> Using current dollar budget figures, rounded to the nearest \$100 million.

<sup>44</sup> The President's requested OCO budget for FY2015. Congress has routinely appropriated more than requested for OCOs.

<sup>45</sup> As estimated by Ryan Edwards, and rounded to the nearest \$100 billion. See Edwards, "Post-9/11 War Spending, Debt, and the Macroeconomy."

About 32,000 U.S. troops remained in Afghanistan in a combat role through mid 2014. In late May 2014, President Obama announced a withdrawal to 9,800 troops by the end of 2014. US forces are projected to be reduced to 4,900 troops in Afghanistan in 2015.<sup>46</sup> Although President Obama has announced the deployment of several hundred advisors to Iraq and the tasking of an aircraft carrier group to the Gulf in June 2014, the President has formally requested \$79.4 for FY2015. I do not make an estimate for the costs of the advisors and carrier group, nor for the costs of any airstrikes that may occur in Iraq subsequent to these deployments.<sup>47</sup> There are contingency funds in the base budget that are reserved for such operations.<sup>48</sup>

### **Conclusion: Pre-War Optimism and the Reality**

By my conservative estimate, the wars in Iraq and Afghanistan have cost and will cost about \$4.5 Trillion, including future veterans care and the President's request for FY2015, but not including all future interest on debt associated with the wars. But, as suggested earlier, even this estimate does not include all the costs of the war for which it is difficult to come to a reasonable estimate or which are small and scattered in various other federal budgets. I have not estimated the costs of soldiers who will move into the category of Veterans in the future. I also have not included the various costs of veterans care that have fallen to state and local governments, other costs externalized to military families and Americans more generally, or the macro-economic consequences of the war.

This conservative Costs of War project estimate exceeds pre-war and early estimates of the costs of the Iraq and Afghanistan wars. Indeed, optimistic assumptions and a tendency to undercount have, from the beginning, been characteristic of the estimates of the budgetary costs and the fiscal consequences of these wars. Nowhere is this clearer than estimates of the budgetary costs of the Iraq war. But, unlike the Afghanistan war, there were at least some pre-war estimates of the costs that the US would likely incur for invading and occupying Iraq.

In mid-September 2002 Lawrence Lindsey, then President Bush's chief economic adviser, estimated that the "upper bound" costs of war against Iraq would be \$100 to \$200 billion. Overall, Lindsey suggested however that, "The successful prosecution of the war would be good for the economy."<sup>49</sup> On 31 December 2002, Mitch Daniels, the director of the Office of Management and Budget estimated that the costs of war with Iraq would be \$50-60 billion.<sup>50</sup> Daniels suggested that Lindsay's estimates were much too high, although neither official provided details for the basis of their estimates.

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<sup>46</sup> Rebecca Kaplan, "White House: U.S. Will have 9,800 troops in Afghanistan after 2014, CBS News, 27 May 2014, <http://www.cbsnews.com/news/white-house-u-s-will-have-9800-troops-in-afghanistan-after-2014/>.

<sup>47</sup> Mark Landler, and Michael R. Gordon, "Obama Orders 300 Advisors to Iraq," *The New York Times*, 20 June 2014, p. 1.

<sup>48</sup> Office of the Secretary of Defense Department of Defense Contingency Operations Base Budget, Fiscal Year (FY) 2015 "Justification for Component Base Contingency Operations and Overseas Contingency Operation Transfer Fund," March 2014.

<sup>49</sup> Lindsey, quoted in *Wall Street Journal*, 15 September 2002.

<sup>50</sup> Elizabeth Bumiller, "Threats and Responses: The Cost; White House Cuts Estimates of Cost of War with Iraq," *The New York Times*, 31 December 2002.

There were other pre-war estimates for Iraq. For instance, in September 2002 U.S. House of Representatives Budget Committee Democratic staff estimated costs of \$48-60 billion, assuming 30-60 days of combat and a 2 ½ month occupation.<sup>51</sup> The headline in *The Wall Street Journal* covering the Congressional estimate read, "Lindsey Overestimated Costs of Iraq War, Democrats Say."<sup>52</sup> Later in 2002, Yale economist William Nordhaus suggested a nearly \$2 Trillion cost for the Iraq war if the war were to be protracted and difficult. He argued while the main component of costs could be higher oil prices (\$778 billion), a long war could cost \$140 billion in direct military spending and another \$615 billion to pay for occupation, peacekeeping, reconstruction and nation-building, and humanitarian assistance.<sup>53</sup> To this, Nordhaus added an estimated \$391 billion in negative macroeconomic consequences.

The most comprehensive estimate of the long-term budgetary costs of both wars — including direct and indirect spending and other economic effects — is *The Three Trillion Dollar War* by Joseph E. Stiglitz and Linda J. Bilmes.<sup>54</sup> The Stiglitz-Bilmes estimate was conservative in many respects. Not counting the increased burden to our national debt, the costs of war have and will exceed even their cautious estimates.

There are many reasons not to compare the budgetary costs of war in one era to the next — not least because wars are very capital intensive, and the costs of equipment changes, and also because each war has its own characteristic strategy. Yet, if estimates of spending on previous U.S. wars are known with any reliability, the military DOD/State Department direct spending on the Iraq War may have already exceeded the military combined military spending of the Korean and Vietnam Wars.<sup>55</sup>

In sum, no matter how one counts the Iraq War was one of the most costly in U.S. history, not only for Americans, but for the people of many governments. It is also arguable that the fact of taking up a war in Iraq prolonged the U.S. war in Afghanistan, raising the cost of the Afghanistan war and ultimately the entire costs of the U.S. wars begun after 9/11.

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<sup>51</sup> *Assessing the Costs of Military Action Against Iraq: Using Desert Shield/Desert Storm as Basis for Estimates*, An Analysis by the House Budget Committee. September 2002.

<sup>52</sup> Bob Davis, "Lindsey Overestimated Costs of Iraq War, Democrats Say" *The Wall Street Journal*, 24 September 2002.

<sup>53</sup> William D. Nordhaus, "The Economic Consequences of a War with Iraq," in American Academy of Arts and Sciences, *War With Iraq, Costs, Consequences, and Alternatives* (Cambridge: American Academy, 2002) pp. 51-86.

<sup>54</sup> Joseph E. Stiglitz and Linda J. Bilmes, *The Three Trillion Dollar War: The True Costs of the Iraq Conflict* (New York: Norton, 2008).

<sup>55</sup> U.S. Commerce Department, "Statistical Summary: America's Major Wars," cited in Nordhaus, "The Economic Consequences of a War with Iraq," p. 55.

**Appendix to Table 2. Major US Appropriations for DOD and State/USAID by War Zone FY2001-FY2013, in Current \$Billions**

Spending by War Zone/Operation (Overseas Contingency Operation)	2001-2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Cumulative Total through FY2013
<b>Iraq</b>														
DOD	0	50	56.4	83.4	98.1	127.2	138.8	92	66.5	45	9.6	3	1	771
State/ USAID	0	3	19.5	2	3.2	3.2	2.7	2.2	3.3	2.3	6.2	4.78	1.37	52.753
<b>Iraq total</b>	<b>0</b>	<b>53</b>	<b>75.9</b>	<b>85.4</b>	<b>101.3</b>	<b>130.4</b>	<b>141.5</b>	<b>94.2</b>	<b>69.8</b>	<b>47.3</b>	<b>15.8</b>	<b>7.68</b>	<b>814.6</b>	<b>823.753</b>
<b>Afghanistan</b>														
DOD	20	14	12.4	17.2	17.9	37.2	40.6	56.1	87.7	114	105.5	85	522.6	685.6
State/ USAID	0.8	0.7	2.2	2.8	1.1	1.9	2.7	3.1	5.7	4.1	4.3	2.5	29.4	33.023
<b>Afghanistan total</b>	<b>20.8</b>	<b>14.7</b>	<b>14.6</b>	<b>20</b>	<b>19</b>	<b>39.1</b>	<b>43.3</b>	<b>59.2</b>	<b>93.4</b>	<b>118.1</b>	<b>109.8</b>	<b>87.5</b>	<b>552</b>	<b>718.623</b>
<b>Pakistan Security</b>	1.42	1.51	0.82	1.31	1.26	1.13	1.14	1.67	2.74	2.40	1.24	2.361	.361	19.345
<b>Operation Noble Eagle (ONE)</b>	13	8	3.7	2.1	0.8	0.5	0.1	0.1	0.1	0.13	0.14	0.148	.151	28.969
<b>Budget for Major War Operations</b>	<b>35.22</b>	<b>77.21</b>	<b>95.02</b>	<b>108.81</b>	<b>122.36</b>	<b>171.13</b>	<b>186.04</b>	<b>155.17</b>	<b>166.04</b>	<b>167.93</b>	<b>126.98</b>	<b>97.22</b>	<b>1413.19</b>	<b>1590.69</b>

Totals may not add due to rounding. Sources: Amy Belasco, "The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11" CRS 29 March 2011, for FY2001-2010. Pat Towell and Daniel H. Else, "Defense: FY2013 Authorization and Appropriations," CRS 5 September 2012, for DOD FY2011-2013; Pat Towell and Amy Belasco, "Defense: FY2014 Authorization and Appropriations," Congressional Research Service, R43323, 8 January 2014.. Susan B. Epstein, Marian Leonardo Lawson and Alex Tiersky, "State, Foreign Operations, and Related Programs: FY2013 Budget and Appropriations," CRS 23 July 2012, for State Department Spending FY2011-2013. Pakistan, K. Alan Kronstadt and Susan B. Epstein, "Pakistan: U.S. Foreign Assistance," CRS, 4 October 2012 and previous CRS reports for Pakistan, FY2001-FY2012. K. Alan Kronstadt, and Susan Epstein, "Direct Overt U.S. Aid Appropriations for and Military Reimbursements to Pakistan, FY 2002-FY2015. Congressional Research Service Office of the Under Secretary of Defense, Office (Comptroller) "Fiscal Year 2013 Budget Request: Overview" February 2013. Office of the Secretary of Defense, "Fiscal Year (FY) 2013 President's Budget: Contingency Operations (Base Budget)" for Operation Noble Eagle, FY2011-2013. Office of the Secretary of Defense Department of Defense Contingency Operations Base Budget, Fiscal Year (FY) 2015 "Justification for Component Base Contingency Operations and Overseas Contingency Operation Transfer Fund," March 2014, p. 3.