



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

July 13, 2006

Honorable John M. Spratt Jr.
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Congressman:

At your request, the Congressional Budget Office (CBO) has estimated the funding provided through 2006 for operations in Iraq, as well as funding required for those operations over the 2007-2016 period under the two scenarios you specified.

If you wish further details on this estimate, CBO will be pleased to provide them. The CBO staff contacts are David Newman for defense costs and Sam Papenfuss for foreign relations costs, who can be reached at (202) 226-2840, and Allison Percy for costs for veterans, who can be reached at (202) 226-2900.

Sincerely,

A handwritten signature in cursive script that reads "Donald B. Marron".

Donald B. Marron
Acting Director

Attachment

cc: Honorable Jim Nussle
Chairman

Honorable Duncan Hunter, Chairman
Honorable Ike Skelton, Ranking Member
House Committee on Armed Services

Honorable Jerry Lewis, Chairman
Honorable David R. Obey, Ranking Minority Member
House Committee on Appropriations

Honorable John M. Spratt Jr.
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Honorable Steve Buyer, Chairman
Honorable Lane Evans, Ranking Member
House Committee on Veterans' Affairs

Honorable Henry J. Hyde, Chairman
Honorable Tom Lantos, Ranking Member
House Committee on International Relations

Honorable Judd Gregg, Chairman
Honorable Kent Conrad, Ranking Member
Senate Committee on the Budget

Honorable John W. Warner, Chairman
Honorable Carl Levin, Ranking Member
Senate Committee on Armed Services

Honorable Thad Cochran, Chairman
Honorable Robert C. Byrd, Ranking Member
Senate Committee on Appropriations

Honorable Larry E. Craig, Chairman
Honorable Daniel K. Akaka, Ranking Member
Senate Committee on Veterans' Affairs

Honorable Richard G. Lugar, Chairman
Honorable Joseph R. Biden Jr., Ranking Minority Member
Senate Committee on Foreign Relations

Estimated Costs of U.S. Operations in Iraq Under Two Specified Scenarios

July 13, 2006

Summary

At the request of the Ranking Member of the House Budget Committee, the Congressional Budget Office (CBO) has estimated the funding provided for military and diplomatic operations in Iraq through June 30, 2006, as well as the related costs incurred by the Department of Veterans Affairs (VA) for medical care, disability compensation, and survivor benefits. CBO has also projected the costs of those activities over the next 10 years under two scenarios specified by the Ranking Member.

The Congress has appropriated \$432 billion for military operations and other activities related to the war on terrorism since September 2001. According to CBO's estimates, from the time U.S. forces invaded Iraq in March 2003, \$290 billion has been allocated for activities in Iraq, of which \$254 billion has gone to the Department of Defense (DoD) and other defense agencies for military operations. Approximately \$14 billion has been provided to establish, train, and equip Iraqi security forces.¹ Another \$22 billion has been appropriated for reconstruction and relief efforts, diplomatic and consular operations, embassy construction, economic support, and foreign aid.

In addition to the amounts specifically appropriated for the war on terrorism, CBO estimates that from 2003 to the end of fiscal year 2006, VA will spend about \$1 billion on medical care, disability compensation, and survivor benefits resulting from military activities in Iraq.

In the first scenario specified by the Ranking Member of the House Budget Committee, the number of forces deployed in and around Iraq would be reduced from the current level of approximately 190,000 to 140,000 in 2007 and would continue to decline rapidly until all troops were withdrawn from the Iraq theater of operations by the end of calendar year 2009. By CBO's estimates, that scenario would require additional appropriations totaling \$166 billion for military operations over the 2007-2016 period.

In the second scenario, the number of troops deployed to the Iraq theater of operations would decline less rapidly, from 170,000 in 2007 to 40,000 by the end of calendar year 2010 and would remain at that lower level through 2016. By CBO's estimates, that scenario would require the appropriation of \$368 billion for military operations over the 2007-2016 period.

1. Funds for indigenous security forces were appropriated to the Department of State in 2004 and have been provided to DoD since 2005.

Because the costs of establishing Iraqi security forces, conducting diplomatic and consular operations, and providing foreign aid are not directly related to the intensity or duration of military operations, CBO assumes that those costs would be roughly the same under both scenarios. Funding for security forces and diplomatic operations totaled \$6 billion in 2006. Funding for those purposes would continue at that level for several years before declining to approximately \$1 billion annually, CBO estimates. Thus, funding for Iraqi security forces could total approximately \$15 billion over the next 10 years, and funding for diplomatic operations and foreign aid could cost another \$15 billion over the same period.

Finally, additional costs for VA's medical care, disability compensation, and survivor benefits over the 2007-2016 period would sum to approximately \$6 billion under the first scenario and \$8 billion under the second one, CBO estimates. Thus, additional costs over the 2007-2016 period would total an estimated \$202 billion under the first scenario and \$406 billion under the second one (see Table 1).

Estimate of Funding Provided to Date for Defense Activities, Iraqi Security Forces, Diplomatic Operations, and Foreign Aid

The Congress has appropriated \$432 billion for Operation Iraqi Freedom, Operation Enduring Freedom, Operation Noble Eagle, and other activities in support of the war on terrorism since September 2001, CBO estimates (see Table 2).² Those funds were provided to the Department of Defense, the Department of State, and other agencies in five regular appropriation acts and seven supplemental appropriation acts.³

That funding can be divided into three major categories: defense activities, support for indigenous security forces, and diplomatic operations and foreign aid. Funding for

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2. Operation Enduring Freedom includes military operations in and around Afghanistan and other overseas counterterrorism activities. Operation Noble Eagle refers to domestic homeland security missions, such as combat air patrols over major metropolitan areas, undertaken by DoD in response to the terrorist attacks of September 11, 2001. DoD has requested funding for Operation Noble Eagle in its regular budget since 2005, so CBO has not included funding for it since then in its estimates here. Additional activities that received funding include restructuring Army and Marine Corps units, classified activities other than those funded by appropriations for the Iraq Freedom Fund, and other operations. CBO has not assigned the costs for those additional activities to a named operation but includes those amounts in its overall estimates of funding provided for the war on terrorism.
 3. The estimate of funding includes about \$5 billion that was transferred from appropriations for DoD's routine operations to pay for costs associated with the war on terrorism. Information on those transfers was derived from reports submitted to the Congress by DoD's comptroller. Those amounts do not include transfers within appropriation accounts, about which DoD is not required to report, because there is no systematic method for identifying such reprogrammings. Informal communications from DoD indicate that such transfers could total about \$1 billion each year.

Table 1.**Estimated Costs of U.S. Operations in Iraq Under Two Scenarios**

(Budget authority in billions of dollars, by fiscal year)

| | 2003- | | | | | | | | | | | Total, 2007- |
|----------------------------------------------------------------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2016 |
| Scenario One: Assuming Removal of All Troops by the End of Calendar Year 2009 | | | | | | | | | | | | |
| Defense Activities | 254 | 69 | 52 | 31 | 10 | 4 | 1 | 0 | 0 | 0 | 0 | 166 |
| Iraqi Security Forces | 14 | 3 | 3 | 3 | 2 | 1 | 1 | 1 | * | * | * | 15 |
| Diplomatic Operations and Foreign Aid | 22 | 3 | 3 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 15 |
| Veterans' Programs | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 6 |
| Total | 291 | 75 | 59 | 36 | 14 | 6 | 3 | 3 | 2 | 2 | 2 | 202 |
| Scenario Two: Assuming Reduction of Troops In-Theater to 40,000 by Calendar Year 2010 | | | | | | | | | | | | |
| Defense Activities | 254 | 82 | 67 | 49 | 30 | 25 | 22 | 22 | 23 | 24 | 24 | 368 |
| Iraqi Security Forces | 14 | 3 | 3 | 3 | 2 | 1 | 1 | 1 | * | * | * | 15 |
| Diplomatic Operations and Foreign Aid | 22 | 3 | 3 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 15 |
| Veterans' Programs | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 8 |
| Total | 291 | 88 | 74 | 55 | 34 | 28 | 25 | 25 | 25 | 25 | 26 | 406 |

Source: Congressional Budget Office.

Notes: * = less than \$500 million.

Numbers may not add up to totals because of rounding.

Estimates of funding during the 2003–2006 period are based on analysis of appropriation acts, the Department of Defense's obligation reports, and budget justification material from the Department of Veterans Affairs. Estimates of funding during the 2007–2016 period are CBO's projections for the specified scenarios.

Table 2.

Estimated Appropriations Provided for Operations in Iraq and the War on Terrorism, 2001 to 2006

(Billions of dollars)

| | Operations in Iraq | Other Operations ^a | Total |
|-----------------------------------------|--------------------|-------------------------------|------------|
| Defense Activities | 254 | 127 | 381 |
| Indigenous Security Forces ^b | 14 | 3 | 17 |
| Diplomatic Operations and Foreign Aid | 22 | 12 | 34 |
| Total | 290 | 142 | 432 |

Source: Congressional Budget Office.

- a. Other operations include Operation Enduring Freedom, Operation Noble Eagle, and additional activities. Operation Enduring Freedom includes military operations in and around Afghanistan and other overseas counterterrorism activities. Operation Noble Eagle refers to domestic homeland security missions, such as combat air patrols over major metropolitan areas undertaken by the Department of Defense (DoD) in response to the terrorist attacks on September 11, 2001. DoD has requested funding for Operation Noble Eagle in its regular budget since 2005, so funding for that operation since that time is not included here. Additional activities include restructuring Army and Marine Corps units, classified activities other than those funded by appropriations for the Iraq Freedom Fund, and other operations.
- b. Indigenous security forces include local police and military units in Iraq and Afghanistan.
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defense activities (budget function 050) supports the Department of Defense, the Intelligence Community Management Account, and some activities of the U.S. Coast Guard. Funding for indigenous security forces—which has, at different times, been appropriated for accounts in both budget function 050 and budget function 150 (for international affairs)—is used to train and equip local military and police units in Iraq and Afghanistan. Funding for diplomatic operations and foreign aid (budget function 150) encompasses the activities of the Department of State and the U.S. Agency for International Development.

Of the \$432 billion appropriated for the war on terrorism, \$290 billion was allocated to support activities related to Iraq, CBO estimates. The Department of Defense and other defense agencies accounted for \$254 billion of that \$290 billion. Funding for Iraqi security forces constituted another \$14 billion, and the Department of State and related agencies received \$22 billion for diplomatic operations and foreign aid.⁴

Funding for Defense Activities

With some exceptions, such as the Iraq Freedom Fund and the Iraq Security Forces Fund, the appropriation acts that provided funding to DoD and other defense agencies for the war in Iraq and the war on terrorism did not apportion those funds among the various operations. For its estimate, CBO allocated the defense funding provided to date on the basis of information on how those funds were obligated. Such information is provided in cost-of-war execution reports prepared by the Defense Finance and Accounting Service (DFAS). Those reports present obligations by major operation (Iraqi Freedom, Enduring Freedom, and Noble Eagle) and service (Army, Navy, Air Force, Marines, and defense agencies).

Funding for Fiscal Years 2003 to 2005. As of April 2006, the latest date for which the obligation reports have been provided, nearly all of the appropriations provided in 2003, 2004, and 2005 had been obligated. Of the \$239 billion provided for defense activities related to the war on terrorism in those three years, \$167 billion will ultimately be obligated for Operation Iraqi Freedom, CBO estimates (see Table 3).

The DFAS obligation reports do not include obligations from approximately \$18 billion appropriated since 2003 for classified programs related to the war on terrorism.

4. CBO's estimate of \$290 billion in funding for activities in Iraq differs from a recent estimate of \$318 billion by the Congressional Research Service. See Amy Belasco, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, CRS Report for Congress RL33110 (Congressional Research Service, June 16, 2006). CRS included in the costs for Iraq approximately \$13 billion of \$18 billion provided for certain classified activities since 2003. CRS also included about \$8 billion of \$11 billion provided for the restructuring of Army and Marine Corps forces. CBO did not incorporate those amounts in its estimate of funding for operations in Iraq because DoD is not allocating such costs to the named operations and because some or all of those amounts might be spent regardless of whether U.S. forces were deployed in Iraq. CRS also counted approximately \$6 billion in funding transfers that CBO believes originated as supplemental appropriations that were already included in the estimate.

Table 3.**Estimated Defense Funding Provided for Operation Iraqi Freedom, 2003 to 2006**

(Billions of dollars, by fiscal year)

| | Public Law | 2003 | 2004 | 2005 | 2006 | Total, 2003- 2006 |
|----------------------------------------------------------------------------------------------------------------|---------------------------------|-----------|-----------------|-----------|-----------|-------------------------|
| Emergency Wartime Supplemental Appropriations Act, 2003 | P.L. 108-11 (April 2003) | 45 | | | | 45 |
| DoD's Transfers in 2003 from Regular Appropriations ^a | n.a. | 1 | | | | 1 |
| Department of Defense Appropriations Act, 2004 | P.L. 108-87 (September 2003) | | -4 ^b | | | -4 |
| Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 | P.L. 108-106 (November 2003) | | 52 | | | 52 |
| Department of Defense Appropriations Act, 2005 | P.L. 108-287 (August 2004) | | 18 ^c | | | 18 |
| DoD's Transfers in 2004 from Regular Appropriations ^a | n.a. | | 1 | | | 1 |
| Emergency Supplemental Appropriations for Defense, the Global War on Terror, and Tsunami Relief Act, 2005 | P.L. 109-13 (May 2005) | | | 51 | | 51 |
| DoD's Transfers in 2005 from Regular Appropriations ^a | n.a. | | | 1 | | 1 |
| Department of Defense Appropriations Act, 2006 | P.L. 109-148 (December 2005) | | | | 42 | 42 |
| Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 | P.L. 109-234 (June 2006) | | | | 45 | 45 |
| DoD's Transfers in 2006 from Regular Appropriations ^a | n.a. | | | | 0 | 0 |
| Total | | 46 | 68 | 53 | 87 | 254 |

Continued

Table 3.

Continued

Source: Congressional Budget Office.

Notes: n.a. = not applicable.

Numbers may not add up to totals because of rounding.

CBO estimated funding provided for Operation Iraqi Freedom in these appropriation acts by allocating funds on the basis of obligations reported by the Department of Defense (DoD).

The figures exclude approximately \$11 billion in budget authority provided in 2005 and 2006 for restructuring Army and Marine Corps units, approximately \$18 billion in budget authority for classified activities, and \$9 billion in funding for Iraqi security forces.

- a. DoD's comptroller submitted transfer reports to the Congress. For each year, most transfers were of funds appropriated in that year; small amounts were transferred from funds appropriated in prior years.
 - b. Rescission of funds appropriated in 2003 in PL. 108-11.
 - c. The Congress appropriated those funds in August 2004 and made them available upon enactment, so the appropriation was recorded as budget authority in 2004.
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DoD has not allocated those costs among the named operations, so CBO has no basis for determining how much—if any—of that funding is directly attributable to requirements in a particular geographic area or operation. However, CBO has included in its estimate of the cost of operations in Iraq \$7 billion appropriated to the Iraq Freedom Fund for classified activities, in view of the targeted nature of that funding.

The DFAS obligation reports also exclude almost \$11 billion in supplemental appropriations in 2005 and 2006 for restructuring Army and Marine Corps units. Although DoD included funding for force restructuring in its supplemental appropriation requests for 2005 and 2006, CBO has excluded those amounts from its estimate of the cost of operations in Iraq because they are part of broader plans to modernize the structure and equipment of the Army and Marine Corps that the services would implement regardless of whether the United States was involved in military operations in Iraq.

Funding for Fiscal Year 2006. Title IX of the Department of Defense Appropriations Act, 2006 (P.L. 109-148) provided \$50 billion for the war on terrorism, \$42 billion of which could be allocated to activities in Iraq, CBO estimates. Of the total amount, approximately \$44 billion, or 88 percent, had been reported as obligated by April 2006. DoD has not reported any obligations of the \$66 billion provided in the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (P.L. 109-234) because those funds were provided after the date of the most recent obligation report.

Because an appreciable amount of the funding provided for 2006 had not been reported as obligated as of April, CBO allocated the funding provided to DoD for that year on the basis of the percentage of obligations reported for each operation in fiscal year 2005 and fiscal year 2006 to date. Approximately 85 percent of the obligations reported during that period have been in support of Operation Iraqi Freedom.⁵ However, because those reports do not include obligations for most classified activities or Army and Marine Corps restructuring, obligations for Operation Iraqi Freedom

account for slightly more than 75 percent of the total funding provided for that period, CBO estimates. Thus, of the \$111 billion appropriated to defense activities related to operations in Iraq and the war on terrorism in 2006, CBO estimates that \$87 billion will be used for activities in the Iraq theater of operations.

Funding for Iraqi Security Forces

The Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (P.L. 108-106) provided \$18.7 billion for the Iraq Relief and Reconstruction Fund—an account administered by the Department of State—and allocated \$3.2 billion from that account (later increased to \$5.1 billion)

5. Operation Enduring Freedom accounted for another 14 percent of reported obligations, and Operation Noble Eagle accounted for the remaining 1 percent.

to recruit, train, and equip Iraqi security forces. Subsequent supplemental appropriation acts provided funding for that purpose to DoD, rather than to the Department of State. The Congress appropriated \$5.7 billion to the Iraq Security Forces Fund in 2005 and \$3.0 billion in 2006 (see Table 4).

Funding for Diplomatic Operations and Foreign Aid

Unlike the legislative language making appropriations for defense activities, the provisions governing funding for diplomatic operations and foreign aid are clear on how those funds are to be apportioned among activities for Iraq, Afghanistan, and other nations. Since 2003, the Congress has provided a total of \$34 billion for diplomatic operations and foreign aid related to the war on terrorism, \$22 billion of which has been for activities in Iraq. Those funds were used to finance relief and reconstruction operations, reestablish diplomatic relations, construct a new embassy, increase security for diplomatic personnel, operate the Coalition Provisional Authority, and provide economic support and development aid to the Iraqi government. Appropriations totaled \$3 billion in 2003, \$15 billion in 2004, \$1 billion in 2005, and \$3 billion in 2006.

Estimate of VA's Spending on Medical Care, Disability Compensation, and Survivor Benefits Through Fiscal Year 2006

CBO has estimated the cost to the Department of Veterans Affairs for assistance provided to service members, veterans, and their families as a result of Operation Iraqi Freedom. Through the end of fiscal year 2006, the estimated costs total about \$1 billion, primarily for medical care. Those costs cover medical care provided at VA facilities, disability compensation paid to veterans with service-connected disabilities, and Dependency and Indemnity Compensation (DIC) benefits paid to survivors of service members.

The estimate does not include the costs of disability retirement pay, disability severance pay, or Survivor Benefit Plan payments by DoD, most of which would be offset by VA benefits. Nor does it include payments from the Servicemembers' Group Life Insurance or Traumatic Servicemembers' Group Life Insurance programs. The additional costs to those insurance programs arising from Operation Iraqi Freedom are paid by DoD and have been included in the estimate of funding for defense activities.

Costs for Medical Care

From 2003 through 2005, VA spent \$0.3 billion on medical care for veterans of Operation Iraqi Freedom, CBO estimates. Spending in 2006 is projected to total another \$0.4 billion. Most of those costs were incurred by medical and rehabilitation facilities operated by VA.

Table 4.

Funding for Iraqi Security Forces, Diplomatic Operations, and Foreign Aid Provided for Iraq, 2003 to 2006

(Billions of dollars, by fiscal year)

| | Public Law | 2003 | 2004 | 2005 | 2006 | Total, 2003- 2006 |
|----------------------------------------------------------------------------------------------------------------|---------------------------------|----------|-----------|----------|----------|-------------------------|
| Emergency Wartime Supplemental Appropriations Act, 2003 | P.L. 108-11 (April 2003) | | | | | |
| Diplomatic operations and foreign aid | | 3 | | | | 3 |
| Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 | P.L. 108-106 (November 2003) | | | | | |
| Iraqi security forces | | | 5 | | | 5 |
| Diplomatic operations and foreign aid | | | 15 | | | 15 |
| Department of Defense Appropriations Act, 2005 | P.L. 108-287 (August 2004) | | | | | |
| Diplomatic operations and foreign aid | | | 1 | | | 1 |
| Emergency Supplemental Appropriations for Defense, the Global War on Terror, and Tsunami Relief Act, 2005 | P.L. 109-13 (May 2005) | | | | | |
| Iraqi security forces | | | | 6 | | 6 |
| Diplomatic operations and foreign aid | | | | 1 | | 1 |
| Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 | P.L. 109-234 (June 2006) | | | | | |
| Iraqi security forces | | | | | 3 | 3 |
| Diplomatic operations and foreign aid | | | | | 3 | 3 |
| Total, Iraqi Security Forces | | 0 | 5 | 6 | 3 | 14 |
| Total, Diplomatic Operations and Foreign Aid | | 3 | 15 | 1 | 3 | 22 |

Source: Congressional Budget Office.

Notes: Numbers may not add up to totals because of rounding.

Funds for Iraqi security forces were initially appropriated to the Department of State (under budget function 150) in 2004. In 2005 and 2006, funds for that purpose were appropriated to the Department of Defense (under budget function 050).

Disability Compensation and DIC Costs

Veterans who incur a service-connected disability are eligible to apply for monthly disability compensation benefits from VA. Those payments are based on VA's assessment of the veteran's level of disability. From 2003 through 2006, CBO estimates, VA will spend \$0.1 billion on disability compensation benefits for injuries sustained in Operation Iraqi Freedom.

Dependents of veterans who die on active duty or as a result of service-connected conditions are eligible for monthly DIC payments from VA. According to CBO's estimates, VA will spend about \$50 million from 2003 through 2006 on DIC payments to the surviving dependents of service members who die in Operation Iraqi Freedom.

Estimate of Future Funding Requirements for Defense Activities, Iraqi Security Forces, Diplomatic Operations, and Foreign Aid

CBO estimated the cost of continued U.S. involvement in Iraq under two scenarios specified by the Ranking Member of the House Budget Committee regarding the size of deployed forces and the duration of their deployment. In scenario one, deployed forces would be withdrawn from Iraq by the end of calendar year 2009. In scenario two, deployed forces would decline to 40,000 after calendar year 2010 and remain at that level through 2016.

Estimating war costs is always difficult because of uncertainty about the pace and scale of future military operations. However, preparing estimates is even more difficult without better insight into the costs already incurred, even under assumptions about deployed forces as specified for this analysis. The Administration has provided little detail on actual costs to date, making it hard to use past expenditures to predict future costs. Estimates based on standard models and cost factors have been consistently less than the amounts requested by the Administration for the war on terrorism. Those models may not fully reflect the unique circumstances of the operations or may not completely capture the types of expenses that the Administration is funding through supplemental appropriations.

Funding for security forces and for diplomatic operations and foreign aid is also difficult to project because those costs are not directly related to the number of deployed U.S. troops and will ultimately reflect geopolitical judgments made by the President and the Congress.

CBO used appropriations for defense and international affairs activities in Iraq in 2006 as the basis for estimating future costs. For military operations, CBO adjusted those costs on the basis of the percentage change in the military force levels. Estimates of some costs, such as those for military personnel, are very sensitive to changes in force levels, while others, such as those for procurement and certain elements of operation and maintenance (O&M), are somewhat less sensitive.

Estimate of Future Funding for Defense Activities

CBO's estimate of future costs of military operations in Iraq represents the incremental amount that DoD would incur above the cost of its routine operations. For instance, the estimate excludes items such as basic pay for most active-duty military personnel but includes the monthly pay of reservists called to full-time duty. Basic pay for active-duty personnel in excess of the number of people for which funding was requested in DoD's regular budget is also included because those personnel are being retained in the military as a direct result of overseas operations and DoD has been funding their compensation with supplemental appropriations.

In 2006, the Congress appropriated \$111 billion for defense activities related to the war in Iraq and the war on terrorism (along with another \$5 billion for indigenous security forces, which will be discussed separately).⁶ CBO estimates that, of that \$111 billion, \$87 billion will be allocated to the cost of operations in Iraq as follows:

- \$14 billion for military personnel,
- \$55 billion for operation and maintenance,
- \$15 billion for procurement, and
- \$3 billion for research and development, construction, and revolving funds.

Categories of Spending. Funding for military personnel covers pay for reserve personnel called to active duty as well as special payments, such as hazardous-duty pay, for both reserve and active-duty personnel. It also covers the cost of mobilized reservists supporting the various operations in the United States as well as the cost of maintaining the number of active-duty troops above levels assumed in DoD's regular budget requests. Military personnel appropriations also pay for the costs of death benefits and DoD's subsidies of the Servicemembers' Group Life Insurance and Traumatic Servicemembers' Group Life Insurance programs.

Operation and maintenance funding covers expenses for air, land, and sea forces, such as the cost of fuel, spare parts, food, clothing, body armor, and medical support. It also covers the cost of transporting personnel, equipment, and material to, from, and within Iraq and pays for continued training by deployed units. O&M also includes incremental civilian personnel costs associated with operations in Iraq, contracts for installations support (such as the establishment and operation and maintenance of housing and dining facilities), and contracts for other logistics services (such as equip-

6. The Congress provided \$56 billion in P.L. 109-148 and \$68 billion in P.L. 109-234 for a total of \$124 billion in additional appropriations for defense in 2006. Of that amount, \$8 billion funded hurricane recovery, border security, and other purposes unrelated to the war.

ment maintenance).⁷ In addition, the O&M appropriation includes funding for the Defense Health Program. Much of the incremental cost for that program is for providing medical care to activated reservists and their families.

Operation and maintenance funds are also used to restore worn-out and damaged equipment. However, such restoration tends to take place well after the equipment is used in a theater of operations. Deployed forces may not be able to deliver such equipment to depots in the United States for repair until they return from overseas deployments, and the depots' work on the large amount of equipment used in the war may then take many months. Thus, funding for such repairs might be provided well after the damage was incurred, and the department would continue to pay those costs for another year or two after deployments ended. Therefore, CBO anticipates that depot maintenance costs will continue at the current level for two years, even if the number of deployed forces declines immediately.

Procurement funds pay for the acquisition of ammunition and new equipment, such as armored vehicles, trucks, aircraft, command-and-control systems, and support equipment. They also pay for the replacement of equipment that is destroyed in combat or worn beyond repair. CBO expects that a drop-off in the cost of replacing lost equipment will lag behind the reduction in deployed forces by one or two years.

Research and development funding covers the study and advancement of new technology that will improve the combat capabilities of military forces. Construction funding pays for building new facilities in the theater of operation. Revolving funds provide resources to DoD accounts such as the Transportation Working Capital Fund and the Defense Working Capital Funds to cover higher-than-expected fuel costs and to replace war reserve materiel and prepositioned supplies and equipment.

Estimated Future Costs. To estimate the cost of operations in Iraq over the 2007-2016 period, CBO adjusted the amounts appropriated for those purposes in 2006 to account for the changes in force levels specified in the two scenarios.⁸ As a starting point for both scenarios, the Ranking Member of the House Budget Committee specified troop levels in Iraq at their current level of 138,000. However, the number of troops deployed inside Iraq is less than the total number of forces involved, which includes a considerable number of personnel supporting those operations from neighboring countries such as Kuwait, as well as from the United States. For its estimate, CBO considered all personnel involved in the operation. In 2006, that number includes approximately 190,000 troops deployed to the Iraq theater of operations (including

7. Funding to train and equip Iraqi security forces was provided as part of the O&M appropriation in 2005 and 2006 but is presented separately in this analysis.

8. CBO has estimated those future costs starting in 2007. Because \$93 billion has been appropriated in 2006 for operations in Iraq, CBO does not anticipate that additional appropriations will be requested or provided this fiscal year. Thus, funding for 2006 was included in the discussion of funding provided to date.

neighboring countries) and approximately 50,000 reservists mobilized in the United States to train for upcoming deployments to Iraq or to perform the duties of active-duty personnel who have been deployed to Iraq.

To support operations in Iraq in 2006, DoD has about 10,000 military personnel on active duty in excess of the number included in the department's regular budget submission for that year, CBO estimates. DoD has sought funding for all pay and allowances for those personnel through supplemental appropriation requests. Some of those personnel are deployed overseas, and the additional costs of their deployment are also funded in supplemental appropriations.

Scenario One. In the first scenario, the number of troops deployed overseas in support of operations in Iraq would decline from 190,000 to 140,000 in 2007 and to 50,000 in 2009. All troops would be withdrawn by the end of that calendar year. The number of mobilized reservists in the United States would decline from 50,000 to 40,000 in 2007 and to zero by the end of 2009. Finally, CBO expects, DoD would continue to retain 10,000 personnel above budgeted levels until 2008; that number would decline to an average of 5,000 in fiscal year 2009 before dropping to zero by the start of fiscal year 2010.

CBO estimates that this scenario would require the appropriation of \$69 billion in 2007 and \$166 billion over the 2007-2016 period (see Table 5). DoD would continue to incur costs totaling approximately \$10 billion to repair and replace equipment in the two years following the withdrawal of U.S. forces.

Scenario Two. In the second scenario, the total number of personnel in the Iraq theater of operations would decline less rapidly than in the first one. From the current level of 190,000, the number would decline to 170,000 in 2007 and then drop by approximately 40,000 troops in each of the following three years—with an additional reduction in 2010 until 40,000 troops remained at the end of calendar year 2010. Each year thereafter through 2016, 40,000 troops would be deployed in the Iraq theater of operations. Under this scenario, the number of reservists mobilized in the United States would decline from 50,000 to 45,000 in 2007 and would then decline further to level out at 10,000 for each year over the 2010-2016 period. Similarly, the number of personnel on active duty would exceed the number requested DoD's regular budget by approximately 10,000 during the 2007-2009 period and would then decline to 5,000 in 2010 and to zero by 2011. CBO estimates that implementing this scenario would require the appropriation of \$368 billion over the 2007-2016 period (see Table 6).

Estimate of Future Funding for Iraqi Security Forces

CBO estimates that the cost to train and equip indigenous Iraqi security forces would be approximately the same under either of the scenarios. The Congress provided just over \$3 billion for that purpose in 2006. According to CBO's estimates, appropria-

Table 5.**Scenario One: Estimated Costs of Military Operations in Iraq, Assuming Removal of All Troops by the End of Calendar Year 2009**

(Budget authority in billions of dollars, by fiscal year)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total, 2007- 2016 |
|-------------------------------------------------------------|-----------|-----------|-----------|-----------|----------|----------|----------|----------|----------|----------|-------------------------|
| Military Personnel | 11 | 8 | 4 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 23 |
| Operation and Maintenance | | | | | | | | | | | |
| Personnel support, operations support, and transportation | 38 | 27 | 14 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 81 |
| Repair of worn equipment | 6 | 6 | 5 | 4 | 2 | 0 | 0 | 0 | 0 | 0 | 24 |
| Procurement | | | | | | | | | | | |
| Replacement of worn equipment | 6 | 6 | 5 | 3 | 2 | 0 | 0 | 0 | 0 | 0 | 23 |
| Other procurement | 7 | 5 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 14 |
| Research and Development, Construction, and Revolving Funds | * | * | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Total | 69 | 52 | 31 | 10 | 4 | 1 | 0 | 0 | 0 | 0 | 166 |

Memorandum:

Assumed Troop Levels

| (Annual average) | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------------------------------------------------------|---------|---------|--------|--------|------|------|------|------|------|------|
| Deployed personnel | 140,000 | 100,000 | 50,000 | 10,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Mobilized reserves in the United States | 40,000 | 30,000 | 10,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Personnel on active duty in excess of budgeted levels | 10,000 | 10,000 | 5,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Source: Congressional Budget Office.

Notes: * = less than \$500 million.

Numbers may not add up to totals because of rounding.

All figures in the table are for fiscal years. The end of calendar year 2009, the point at which troops would be withdrawn from Iraq under scenario one, occurs at the end of the first quarter of fiscal year 2010.

Table 6.

Scenario Two: Estimated Cost of Military Operations in Iraq, Assuming Reduction of Troops In-Theater to 40,000 by Calendar Year 2010

(Budget authority in billions of Dollars, by fiscal year)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total, 2007- 2016 |
|-------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------------|
| Military Personnel | 13 | 10 | 7 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 57 |
| Operation and Maintenance | | | | | | | | | | | |
| Personnel support, operations support, and transportation | 45 | 36 | 24 | 14 | 12 | 12 | 13 | 13 | 13 | 14 | 196 |
| Repair of worn equipment | 6 | 6 | 6 | 5 | 3 | 2 | 2 | 2 | 2 | 2 | 35 |
| Procurement | | | | | | | | | | | |
| Replacement of worn equipment | 6 | 6 | 6 | 5 | 3 | 2 | 2 | 2 | 2 | 2 | 34 |
| Other procurement | 8 | 6 | 4 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 34 |
| Research and Development, Construction, and Revolving Funds | 3 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 12 |
| Total | 82 | 67 | 49 | 30 | 25 | 22 | 22 | 23 | 24 | 24 | 368 |

Memorandum:

Assumed Troop Levels

| (Annual average) | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------------------------------------------------------|--|---------|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| Deployed personnel | | 170,000 | 130,000 | 90,000 | 50,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| Mobilized reserves in the United States | | 45,000 | 40,000 | 20,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Personnel on active duty in excess of budgeted levels | | 10,000 | 10,000 | 10,000 | 5,000 | 0 | 0 | 0 | 0 | 0 | 0 |

Source: Congressional Budget Office.

Notes: Numbers may not add up to totals because of rounding.

All figures in the table are for fiscal years. The end of calendar year 2009, the point at which troops would be withdrawn from Iraq under scenario one, occurs at the end of the first quarter of fiscal year 2010.

tions would continue at that level in 2007 and 2008 as Iraqi units became operational, facilitating the reduction in deployed U.S. forces. By 2009, funding for security forces would decline as the Iraqi army and police became substantially established and the government of Iraq took over responsibility for equipping, training, and fielding its own police and armed forces. By 2014, such funding would decline to less than \$500 million annually. Under those assumptions, costs for Iraqi security forces would total \$15 billion over the 2007-2006 period, CBO estimates.

The United States will probably continue to provide some form of foreign military aid to Iraq throughout the period considered in this analysis, and for some period after that. As a matter of foreign policy, the United States provides such aid to many other countries, including, for instance, Egypt, Israel, Pakistan, and Jordan. CBO's estimate of funding for Iraqi security forces does not include such expenditures.

Estimate of Future Funding for Diplomatic Operations and Foreign Aid

CBO projected the future costs of diplomatic operations and foreign aid in Iraq on the basis of the amounts provided for those activities in 2006. For that year, the Congress appropriated about \$1.3 billion for diplomatic operations and another \$1.6 billion to assist local governments, promote economic development, and operate certain infrastructure. For 2007 and 2008, CBO estimates that annual costs for those purposes could be about \$3 billion, roughly equivalent to the amount provided in 2006. For the 2007-2016 period, CBO estimates that costs for diplomatic operations and foreign aid could total \$15 billion.

The cost of embassy operations in Baghdad is significantly greater than the cost of those operations in other countries. Additional security efforts at the embassy account for most of that difference. Of the \$1.3 billion appropriated in 2006 for operating the embassy in Iraq, \$946 million was provided for security costs.

CBO's estimate does not include the cost of routine diplomatic operations after 2009 (about \$300 million a year), but it includes additional security costs of roughly a billion dollars each year that may be incurred throughout the period covered by this analysis (see Table 7). (Those costs will depend heavily on future political and military developments in Iraq.) CBO's estimate also does not include the cost of foreign assistance to Iraq after 2009. Although CBO expects that such assistance will continue, it is not included beyond that date because it could then be considered a normal foreign policy matter, similar to the foreign assistance that the United States provides to many nations.

Table 7.**Estimated Costs of Diplomatic Operations, Foreign Aid, and Support of Iraqi Security Forces Under Either Scenario**

(Billions of dollars, by fiscal year)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total, 2007- 2016 |
|---------------------------------------|------|------|------|------|------|------|------|------|------|------|-------------------------|
| Iraqi Security Forces | 3 | 3 | 3 | 2 | 1 | 1 | 1 | * | * | * | 15 |
| Diplomatic Operations and Foreign Aid | 3 | 3 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 15 |

Source: Congressional Budget Office.

Note: * = less than \$500 million.

Table 8.**Estimated Spending by the Department of Veterans Affairs on Medical Care, Disability Compensation, and Survivor Benefits**

(Billions of dollars, by fiscal year)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total, 2007- 2016 |
|--------------|------|------|------|------|------|------|------|------|------|------|-------------------------|
| Scenario One | 0.6 | 0.7 | 0.8 | 0.8 | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 6.3 |
| Scenario Two | 0.6 | 0.7 | 0.8 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 8.1 |

Source: Congressional Budget Office.

Estimate of VA's Spending on Medical Care, Disability Compensation, and Survivor Benefits for Fiscal Years 2007 to 2016

CBO estimates that under scenario one, VA would spend about \$6 billion from 2007 through 2016 for the costs of medical care, disability compensation, and DIC payments resulting from Operation Iraqi Freedom. Under scenario two, CBO projects, VA would spend \$8 billion for such costs over the next 10 years (see Table 8). Those estimates assume casualty rates (per deployed service member per year) similar to the rates experienced during the 2003-2006 period.

Costs for Medical Care

Under the assumptions in the first scenario, CBO estimates, VA would spend about \$5 billion from 2007 through 2016 on medical care for veterans with service-connected conditions incurred in Operation Iraqi Freedom. Under the second scenario, it would spend close to \$7 billion for that purpose.

In its 2007 budget submission, VA provided estimates of the cost of care for veterans of operations in Iraq and Afghanistan from 2005 through 2007. For 2008 through 2016, CBO projects that VA's costs to treat veterans of operations in Iraq will be related to the number of service members wounded in action, with a lag of one year to reflect time spent receiving care in DoD's facilities. Because most veterans return to work and obtain employer-sponsored insurance that they may prefer to use, CBO anticipates that most veterans who seek care at VA facilities will move out of the VA medical system over time, although some will continue to seek part or all of their care from VA. CBO projects that VA's per capita cost of care will grow at the same rate as national health expenditures, with nominal growth rates ranging from 6 percent to 7 percent from 2008 through 2016.

Costs for Disability Compensation

According to CBO's projections, VA's outlays for disability compensation related to operations in Iraq would total \$0.8 billion under scenario one and \$1.1 billion under scenario two over the 2007-2016 period. DoD provided data on the number and VA disability ratings of service members who were injured in and evacuated from Iraq and who later separated from the military. CBO applied projections of annual payments to people with varying disability ratings to estimate total costs for disability compensation. In addition, CBO assumed that approximately three times the number of claims associated with medical evacuation would eventually be made by veterans who incur service-connected conditions as a result of operations in Iraq that are not severe enough to require medical evacuation from the theater. CBO assumed that those additional veterans would, on average, receive a 40 percent disability rating.

Costs for Dependency and Indemnity Compensation

For the 10-year period from 2007 through 2016, CBO projects total spending on DIC for the surviving dependents of service members who die in Operation Iraqi

Freedom at \$0.4 billion under scenario one and \$0.5 billion under scenario two. To construct those estimates, CBO assumed that 60 percent of service members dying in that operation would have dependents eligible for DIC and that payment amounts would rise at about 2.2 percent per year in the future.

Estimate of Debt-Service Costs

For this analysis, CBO was asked to calculate the debt-service costs associated with the cost of the war in Iraq, assuming that all spending for operations in Iraq, both past and present, was financed with federal borrowing. (CBO does not typically include debt service in its cost analyses because there is no way to identify whether particular amounts of spending were or will be financed by higher taxes, by lower spending for other purposes, or by borrowing.)

Under that specified assumption, CBO estimates, interest payments on spending thus far for operations in Iraq would total \$178 billion over the 2003-2016 period. The path of spending generated by scenario one would add an additional \$86 billion in interest payments from 2007 through 2016. Under scenario two, interest outlays would be boosted by a total of \$130 billion over that 10-year period (see Table 9).

Table 9.

Estimated Interest Costs on Spending for Activities in Iraq

(Billions of dollars, by fiscal year)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total, 2003- 2016 |
|-----------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-------------------------|
| Interest on Spending Through 2006 | 0 | 1 | 3 | 7 | 11 | 14 | 15 | 16 | 16 | 17 | 18 | 19 | 20 | 21 | 178 |
| Additional Interest on Spending | | | | | | | | | | | | | | | |
| Scenario One | n.a. | n.a. | n.a. | n.a. | 1 | 4 | 6 | 8 | 9 | 10 | 11 | 12 | 12 | 13 | 86 |
| Scenario Two | n.a. | n.a. | n.a. | n.a. | 1 | 4 | 7 | 10 | 13 | 15 | 17 | 19 | 21 | 23 | 130 |

Source: Congressional Budget Office.

Notes: n.a. = not applicable.

These estimates assume that all spending for activities in Iraq is financed with federal borrowing, as is all spending for interest costs on that borrowing.
