The Uncertain Cost of the Global War on Terror

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Executive Summary

The economic cost of the war is less important than the human costs. The Iraq War alone has so far cost the lives of roughly 100,000 Iraqi civilians and wounded many times more. It has driven over two million out of the country, displaced more than two million within Iraq, and reduced eight million Iraqis to dire poverty. It has killed over 3,700 Coalition forces, including over 3,600 American military personnel, and wounded well over 27,000.

At the same time however, the dollar cost of the war is scarcely something that U.S. strategy and military planning can ignore. There is no end in sight to either the conflict in Iraq or Afghanistan, and there is no way to predict the final cost in either blood or dollars. The costs of the global war on terror in FY2007 continued to escalate at an alarming pace. As enacted, DoD received $165.8 billion for FY2007, or more than 40 percent above FY2006 and 50 percent higher than the $110 billion projected by OMB last year.

If Congress approves the FY2008 war requests, the Congressional Research Service (CRS) estimates that total funding for Iraq and the Global War on Terror would reach about $758 billion, including about $567 billion for Iraq, $157 billion for Afghanistan, $29 billion for enhanced security, and $5 billion unallocated. According to the Congressional Budget Office (CBO), the Defense Department is currently obligating an average of almost $11 billion a month for expenses related to its operations in Iraq and Afghanistan and for other activities related to the war on terrorism. Most of that sum (more than $9 billion per month) is related to Iraq.

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

There is no way to do more than guess at the ultimate cost of the Iraq War, the Afghan War, and the war on terrorism. CBO projected the cost of war for the 2008-2017 period under two scenarios. The first case assumes a more rapid drawdown of the troops deployed in Iraq, Afghanistan and other places in support of GWOT operations; the cost in such a situation would range from $481 to $603 billion, depending on the duration of the surge in Iraq. Under a second scenario, assuming a more gradual drawdown, the extra cost for the next decade would be between $924 and $1,010 billion, again depending on how long the current level of troops is maintained in Iraq.
Table of Contents

Table of Contents .................................................................................................................. 3
Introduction ............................................................................................................................. 4
GAO Estimates ....................................................................................................................... 4
CRS Estimates ....................................................................................................................... 5
FY2007 and FY2008 Costs ................................................................................................. 7
The Impact of Troop Numbers ......................................................................................... 7
Rising O&M Costs ............................................................................................................... 7
Rising Investment Costs ...................................................................................................... 8
Areas That Cannot Be Accurately Costed ......................................................................... 8
Estimates of Monthly Costs ............................................................................................... 9
Authority versus Obligations ............................................................................................ 10
CBO Estimates of Possible Future Costs ......................................................................... 14
Introduction

The economic cost of the war is less important than the human costs. The Iraq War alone has so far cost the lives of roughly 100,000 Iraqi civilians and wounded many times more. It has driven over two million out of the country, displaced more than two million within Iraq, and reduced eight million Iraqis to dire poverty. It has killed over 3,700 Coalition forces, including over 3,600 American military personnel, and wounded well over 27,000.

At the same time, the dollar cost of the war is scarcely something that U.S. strategy and military planning can ignore. There is no agreement as to how the dollar cost of the Iraq War and other recent U.S. conflicts should be costed, and there is no way to predict their ultimate cost. The same is true of the conflict in Afghanistan and the overall war on terrorism. What is clear is that the cost of the Iraq War in dollars has been much greater than the Bush Administration planned in going to war. Figure 1.1 shows that the United States incurred incremental costs that have gone far beyond the level of the global war on terrorism before the invasion of Iraq and beyond the estimate of a total near $70 billion that U.S. officials used in planning what they initially thought would be a short and decisive war against Saddam Hussein.

GAO Estimates

There are many different ways to estimate the cumulative cost of the war on terror. According to the Government Accountability Office, from fiscal year 2001 through July 2007, Congress has provided DoD with about 542.9 billion for its efforts in support of GWOT. To arrive at this estimate, GAO assessed DoD’s appropriations and reported obligations for military operations in support of GWOT.

As Figure 1.1 shows, the reported obligations related to GWOT have constantly increased over the past six years. GAO estimated that DoD’s reported obligations included $324.9 billion for operations in and around Iraq as part of Operation Iraqi Freedom, and about $76.5 billion for operations in Afghanistan, the Horn of Africa, the Philippines, and elsewhere as part of Operations Enduring Freedom. It also includes about $27.7 billion for operations in defense of the homeland as part of Operation Noble Eagle. Through April 2007, DoD’s total reported obligations were already more than three quarters of the total amount of obligations it reported for all of fiscal year 2006.

GAO specified that the $113.8 billion difference between DoD’s GWOT appropriations ($542.9 billion) and reported obligations ($429.1 billion) can be attributed to certain fiscal year 2007 appropriations and multiyear funding for procurement; military construction; and research, development, test, and evaluation from previous GWOT-related appropriations that have yet to be obligated, and obligations for classified activities, which are not included in DoD’s reported obligations.
CRS Estimates

Over the past years, the monetary cost of the wars in both Iraq and Afghanistan has risen steadily in ways that the United States has not been able to control and predict. A June 2007 report by Amy Belasco of the Congressional Research Service (CRS) found that the overall cost of the wars in Iraq and Afghanistan and other Global War on Terror operations since September 11, 2001, totaled $610 billion through May 25, 2007 (the date at which the FY2007 supplement had been enacted). This amount included appropriations for military operations, base security, reconstruction, foreign aid, embassy costs, and veterans’ health care for Operation Enduring Freedom (OEF), Operation Noble Eagle (ONE), and Operation Iraqi Freedom (OIF).4

There is no end in sight to either the conflict in Iraq or Afghanistan, and there is no way to predict the final cost in either blood or dollars. The United States does, however, now have enough experience to show how difficult it is to control such costs and even calculate them accurately. If one looks at past estimates based on budget authority—approved expenditures for the current and future fiscal years—Belasco estimated that of the $610 billion appropriated thus far, Iraq would receive about $450 billion (74 percent), OEF $127 billion (21 percent), and enhanced base security about $28 billion (5 percent), leaving about $5 billion that could not be allocated based on available information. Of this funding, 93% is for DoD, 7% for foreign aid programs and embassy operations, and less than 1% for medical care for veterans.
Figure 1.1 - GAO Estimate of DoD’s Reported GWOT Obligations for Fiscal Years 2001 though 2006 and from the Beginning of Fiscal Year 2007 through April 2007
($US Current Billions)

<table>
<thead>
<tr>
<th>Date</th>
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<tr>
<td>September 11, 2001:</td>
<td>Attacks on Pentagon and World Trade Center</td>
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<tr>
<td>October 7, 2001:</td>
<td>Military Operations Begin in Afghanistan</td>
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<tr>
<td>March 19, 2003:</td>
<td>Invasion of Iraq</td>
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Source: Government Accountability Office, “Global War on Terrorism,” GAO-07-783, July 2007, p. 4
FY2007 and FY2008 Costs

The costs of the global war on terror continued to escalate in FY2007 at a sharp pace. As enacted, DoD received $165.8 billion for FY2007, or more than 40 percent above FY2006 and 50 percent higher than the $110 billion projected by OMB last year.\textsuperscript{5} For FY2008, the administration has requested $141.7 billion for DoD’s war costs, $4.6 billion for foreign and diplomatic operations, and about $800 million for VA medical costs.

If Congress approves the FY2008 war requests, total funding for Iraq and the Global War on Terror would reach about $758 billion, including about $567 billion for Iraq, $157 billion for Afghanistan, $29 billion for enhanced security, and $5 billion unallocated.\textsuperscript{6} Moreover, the CRS report also noted that the Administration’s request included funds to cover the “surge” in troops only through September 2007; beyond that point, DoD’s FY2008 funding request would be inadequate if those troops will be asked to remain in theater for a longer period of time.

As Figure 1.2 shows, the costs of the war in Afghanistan have been rising as well, but it is the large increase in the funding requirements for Operation Iraqi Freedom that determined the sharp rise in the overall costs of the Global War on Terror. CRS pointed out that the $135 billion requested for Iraq in FY2007 represents not only a 40 percent increase from last year, but also a 150 percent increase from the level of funding in the first year of the war, FY2003.\textsuperscript{7}

The Impact of Troop Numbers

One of the major determinants of the costs of military activities is the total number of troops. However, the CRS report notes that troop levels have risen far less than costs: between FY2004 and FY2007 average troop strength for all three missions (OEF, OIF, and ONE) is projected to grow by only 5% - from 304,000 to 319,000 - while costs would more than double- from $73 billion to $166 billion.\textsuperscript{8} If one only looks at the number of troops deployed to Iraq and GWOT operations, average deployed troop strength increased from 220,000 to 270,000 or by about 20% whereas funding levels increased by 60%. Including the troops part of the “surge”, troop strength reaches 290,000 in FY2007, a 30% increase from FY2004. The FY2007 funding request however is more than double the amount in FY2004.\textsuperscript{9} In conclusion, the increase in the number of troops cannot explain the increase in costs.

Rising O&M Costs

The CRS report also estimated that budget authority for operations and maintenance (O&M) costs increased from $42.7 billion in FY2004 to $60 billion in FY2006. Some of the reasons for these cost increases are known and reflect the purchase of more body armor, the rise in oil prices, required maintenance on worn equipment, and funds to train and equip Afghan and Iraqi forces, previously carried in foreign operations accounts. With the enactment of the FY2007 Supplemental, operating costs would jump from $60 billion in FY2006 to $75 billion in FY2007, or by another 25%. This increase reflects the administration’s surge in troop levels and naval presence (about $5 billion), higher repair costs ($3 billion), more force protection gear (about $1 billion), a doubling in
transportation costs ($2 billion), increased LOGCAP contractor support ($300 million), and higher operational tempo. However, these factors do not adequately explain the entire increase in operating costs of $32 billion from FY 2004 to FY2007.

**Rising Investment Costs**

The rise in investment costs since FY2003 has also been dramatic with budget authority costs rising from $7.2 billion in FY2003 to $23 billion in FY2006. The FY2007 Supplemental calls for another large increase where procurement would grow from $23 billion to $45 billion, or almost a doubling of costs. The known reasons for this upsurge in war-related investment reflect the following:

- A push by both DoD and Congress to provide more force protection equipment and increase situational awareness;
- A decision to temporarily fund equipment for new Army and Marine Corps units, known as modularity and restructuring;
- Extensive upgrading of equipment;
- The growing bill to rebuild or replace damaged equipment, a process known as reset; and
- The building of more extensive infrastructure to support troops and equipment in and around Iraq and Afghanistan.

But as with troops and O&M costs, these reasons are insufficient to explain the level of increases or predict whether these procurement levels are temporary or likely to continue to rise.

**Areas That Cannot Be Accurately Costed**

While the CRS study seems to be the best estimate of the costs of the ongoing U.S. military engagements to date, it clearly states that there are costs it cannot properly estimate and that the DoD declined to provide a detailed breakdown of the costs by war. The big questions for which the CRS lacked accurate data to make precise cost estimates included the following:

- What is the estimated cost to reset—repair and replace war-worn equipment—and how might that affect the DOD’s regular or baseline budget?
- How are some types of war costs affected by policy and contracting decisions, as well as by operational needs and troop levels?
- How have deployed troop levels changed after the 9/11 attacks, and how could Congress get accurate information on past and future troop levels?
- What is the average cost per deployed troop of OIF and OEF, and how might that cost affect future war costs?
- What are estimates of future war costs?
- How might Congress improve reporting of war costs to get accurate and complete information to be used to assess current and future requests?

Answers to all of these questions would help Congress and independent analysts compare war spending to other spending, assess current requests, and project future costs.
Estimates of Monthly Costs

Another way of illustrating both how high the costs of asymmetric war can be, and how difficult it is to manage and predict them, is to examine costs and burdens in terms of expenditures per month, or what DoD personnel commonly refer to as the “burn rate.” This figure covers what might be characterized as the immediate costs of ongoing military operations—i.e., the war-related costs of military personnel and O&M—but it excludes funds for military equipment; research, development, test, and evaluation; and military construction intended to upgrade or replace equipment or facilities deemed necessary to conduct war operations.

According to the CRS, the only figures that show average monthly spending rates are based on obligations, which reflect contracts signed to provide goods or services and pay to military and civilian personnel as reported by the Defense Finance Accounting Service (DFAS). Obligations figures do not reflect outlays – or payments made when goods and services are delivered- which would be a better measure of spending rates and annual costs.

These average monthly obligation costs tend to vary sharply according to the intensity of operations and the size of the contracts signed in a given month. In June 2005, for example, the DoD’s obligations costs leapt from $3.0 billion the previous month to $12.8 billion because a large number of high-value contracts were signed in June. For the same reason, the cumulative average monthly obligation costs for FY2005 spiked to $7.1 billion as of June from $6.4 billion as of May simply because a new, war-related supplemental allowed for the signing of so many contracts. This one month peak in expenditures changed the estimated total obligation costs for OEF, ONE, and OIF for all of FY2005 from $76.8 billion to $85.2 billion.\(^{13}\)

Based on CRS estimates, average monthly obligations grew by about 40% between FY2003 and FY2006 from $6.2 billion to $8.8 billion with the most rapid increase in Iraq costs. Monthly obligations for OEF have hovered around $1 billion a month while Iraq costs increased from $4.4 billion to $7.4 billion in four years. In most recent DFAS reports analyzed by CRS, for October and November 2006, obligations were running about $10 billion a month with Iraq at $8.6 billion and Afghanistan at $1.4 billion.\(^{14}\) In a more recent separate estimate, the Congressional Budget Office stated that the Department of Defense is currently obligating an average of almost $11 billion a month for expenses related to the war on terrorism; most of this sum (more than $9 billion) is related to operations in Iraq.\(^{15}\)

From FY2003 through November 2006, DoD’s reported monthly obligations totaled $276 billion for Iraq, $69 billion for Afghanistan and other GWOT operations, and $27 billion for enhanced security. These figures do not include over $30 billion in classified activities. CRS estimates of monthly costs are higher because they also include obligations for intelligence and some other expanses.\(^{16}\)
Authority versus Obligations

The CRS breakdown of expenditures is shown in detail in Figures 1.2 through 1.4. It is clear from these totals that if one considers only the cost of the Iraq War, and not the Afghan conflict and other costs for the war on terrorism, the totals are much lower than for the overall cost of the “long war” plus Iraq since 9/11.\textsuperscript{17}

The cumulative estimated costs in \textit{budget authority} for all spending for the Iraq War alone for FY2001–FY2007 were $450.4 billion versus $610.5 billion for Iraq, Afghanistan, and the supplementals for the war on terrorism.

The annual totals in \textit{budget authority} estimated for the Iraq War alone were $53 billion in FY2003, $75.9 billion FY2004, $84.7 billion for FY2005, $101.7 billion for FY2006, and $135.2 for FY2007. The annual totals in \textit{budget authority} estimated for all the wars were $81.1 billion in FY2003, $94.1 billion FY2004, $107.6 billion for FY2005, $121.5 billion for FY2006, and $173 billion in FY2007.

The cumulative reported \textit{obligations} for DoD spending for the Iraq War alone from the start through November 2006 were lower still: $276 billion, including both operations and investment costs. This compared with $69 billion for Afghanistan and $27 billion for enhanced security. The total cost in obligations between FY2003 and FY2006 was $346.8 billion versus 404.3 in budgetary authority. Since only obligations are counted in estimating the extent to which the budget is balanced, and given the strain placed on the U.S. economy, the spend-out rate created a significantly lower burden figure.

The CRS estimates of the monthly averages in \textit{obligations} for the Iraq War alone were also significantly lower: $4.4 billion in FY2003, $4.8 billion in FY2004, $6.5 billion in FY2005, and $7.4 billion in FY2006. The same is true for the CRS estimates of the monthly cost of all the wars: $6.2 billion in FY2003, $6.2 in billion FY2004, $7.7 billion in FY2005, and $8.8 billion in FY2006.

The CRS did find that the estimates of expenditures being issued by the U.S. government understated the real cost of operations because they included only current obligations, not the cost in terms of worn equipment, future replacements, paying the long-term costs of increased pensions and payments for killed and wounded, and paying for a long list of additional costs such as support by the national intelligence agencies.
Figure 1.2 - CRS Estimates of Incremental and Unanticipated Spending on Iraq, Afghanistan, and the Global War on Terrorism: FY2001–FY2007 Enacted Supplemental

($)US Current Billions in Budget Authority

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<th>FY02</th>
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<th>FY06</th>
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<td>0</td>
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<td>101.7</td>
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<td>450.4</td>
</tr>
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<td>14.7</td>
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<td>8</td>
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<tr>
<td>Total</td>
<td>16.3</td>
<td>17.5</td>
<td>81.1</td>
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<td>107.6</td>
<td>121.5</td>
<td>173</td>
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Note: Includes Department of Defense spending, foreign aid and diplomatic operations, and foreign operations.

Figure 1.3 - CRS Estimates of Cumulative Costs of Incremental and Unanticipated Spending on Iraq, Afghanistan, and the Global War on Terrorism:

FY2001–FY2007 Enacted Supplemental

($US Current Billions in Budget Authority)

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<td>FY07 Supp</td>
<td>28.1</td>
<td>126.7</td>
<td>450.4</td>
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Note: Includes Department of Defense spending, foreign aid and diplomatic operations, and foreign operations.

Source: Adapted from Amy Belasco, “The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11.” Congressional Research Service, 28 June 2007 p.8
Figure 1.4 - CRS Estimates of Average Monthly Costs of Incremental and Unanticipated Spending on Iraq, Afghanistan, and the Global War on Terrorism:

FY2001–November 2006

(SUS Current Billions in Budget Obligations)

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

CBO Estimates of Possible Future Costs

As might be expected, experts can only guess at the total cost of the war, including the cost of the expenditures not reported by DoD and the State Department and which will be incurred in future years.

In its most recent estimate released on July 31st 2007, the Congressional Budget Office estimated that, since September 2001, lawmakers have provided $602 billion in budget authority specifically for military and diplomatic operations in Iraq, Afghanistan, and other regions in support of the war on terrorism, and for veterans’ benefits and services.\(^{18}\)

Funding for military operations and other defense activities totals $533 billion thus far, most of which has gone to the Department of Defense. Congress also provided $30 billion during 2004-2007 to train and equip Iraqi and Afghan security forces. In addition to defense related activities, CBO estimates that over $39 billion have been appropriated for diplomatic operations and foreign aid to Iraq, Afghanistan, and other countries that are assisting the United States in the war on terror (including $16 billion for the Iraq Relief and Reconstruction Fund.)\(^{19}\)

Calculations of different types of estimates, ranging from opportunity cost to total economic direct and indirect impacts on the U.S. economy, can be lower or much higher. There also are no reliable estimates as yet of just how much it will cost in future years to deal with accelerated equipment wear, replace equipment earlier than planned, or deal with deferred expenditures.\(^{20}\)

There is no way to do more than guess at the ultimate cost of the Iraq War, the Afghan War, and the war on terrorism. One outside study put the cost at $2.2 trillion by assuming the United States would still be active in Iraq through 2015, and one of the Congressional staff experts working on such figures put the figure at “well over a trillion dollars.”\(^{21}\)

CBO has estimated the total cost of the global war on terror for the next ten years under two illustrative scenarios. In the first scenario, the number of personnel deployed on the ground for the war on terrorism would be reduced from the 2007 average of about 210,000 to 30,000 by the beginning of 2010, and then remain at that level through 2017. CBO estimates that the cost under this scenario would range from $481 billion to $603 billion over the 2008-2017 period, depending on how long the current personnel level in Iraq is sustained.\(^{22}\) In the second scenario, the number of deployed troops would decline more gradually to 75,000 by the start of 2013, and remain at that level through 2017 (see Figure 1.6). Under this plan, the cost would range from $924 billion to $1,010 billion over the 2008-2017 period, again depending on how long the surge will last.\(^{23}\)

The above estimates do not provide a detailed breakdown of funding for Iraq and Afghanistan. However, in a previous report, CBO estimated the cost of two alternative scenarios for Iraq for the FY2007-FY2016 period. If the number of deployed troops falls to 40,000 by 2010, the cost would be $406 billion, and if all the troops are removed by the end of 2009 the cost would be $202 billion.\(^{24}\)

CBO also estimated that the future costs of continuing to train and equip indigenous security forces in Iraq and Afghanistan over the next decade will total approximately $50 billion. The extra costs associated with diplomatic operations and foreign aid in Iraq and Afghanistan would require $16 billion over the 2008-1027 period, CBO estimated.
Lastly, Veterans Administration (VA) spending for medical care, survivors’ benefits and disability compensation would add up to $9.4 or $12.7 billion over the next ten years, depending on which drawdown scenario is used in the estimation.\(^{25}\)

The truth is that no one can predict the total cost of the Iraq War, Afghanistan, and the war on terrorism, but it seems almost certain that they will eventually exceed $1 trillion – even if one ignores issues like opportunity cost, trade impacts, and the host of indirect costs that some outside government add to such figures.\(^{26}\)
Figure 1.5 - CBO’s Estimated Appropriations Provided for U.S. Operations in Iraq and Afghanistan and for the War on Terrorism, 2001 to 2007

Budget Authority in billions of dollars, by fiscal year

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| Total                                           | 14   | 19   | 88   | 111  | 81   | 120  | 170  | 602              |

Figure 1.6 - CBO’s Estimated Additional Costs of U.S. Activities in Iraq, Afghanistan, and the War on Terrorism Under Two Scenarios: FY2007-FY2017

Scenario One: The number of Deployed Troops is Reduced to 30,000 by 2010
Scenario Two: The Number of Deployed Troops Is Reduced to 75,000 by 2013

[Graph showing the number of deployed troops from 2007 to 2017 for different surge periods]

Source: Congressional Budget Office, “Estimated Funding for Operations in Iraq and the War on Terrorism,” July 31st, 2007
Endnotes

1 From fiscal year 2001 through fiscal year 2004, military operations in defense of the homeland (Operation Noble Eagle) were funded through supplemental appropriations. Since fiscal year 2005, DOD has funded these operations through its regular budget, and these amounts cannot be separately identified. DOD recently began including the obligations tied to this operation, about $3 billion, as part of its total funding, which is included in the $454 billion.


15 Congressional Budget Office, “Estimated Costs of U.S. Operations in Iraq and Afghanistan and of Other Activities Related to the War on Terrorism,” July 31, 2007 p.1


18 Congressional Budget Office, “Estimated Costs of U.S. Operations in Iraq and Afghanistan and of Other Activities Related to the War on Terrorism,” July 31, 2007 p.3

19 Congressional Budget Office, “Estimated Costs of U.S. Operations in Iraq and Afghanistan and of Other Activities Related to the War on Terrorism,” July 31, 2007 p.3


22 Congressional Budget Office, “Estimated Costs of U.S. Operations in Iraq and Afghanistan and of Other Activities Related to the War on Terrorism,” July 31, 2007 p.2

23 Congressional Budget Office, “Estimated Costs of U.S. Operations in Iraq and Afghanistan and of Other Activities Related to the War on Terrorism,” July 31, 2007 p.2

