

HOUSE BUDGET COMMITTEE

Democratic Caucus

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The Cost of War and Reconstruction in Iraq: An Update

**An Analysis by the House Budget Committee's
Democratic Staff**

September 23, 2003

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

Introduction

President Bush has requested a second supplemental appropriation of \$87 billion, mainly for the conflict in Iraq, but also for operations in Afghanistan. This supplemental would more than double the cost of the conflict in Iraq, and it is unlikely to be the last request. Though we have yet to see the full cost of the conflict in Iraq, it is evident that the cost of the post-combat phase will exceed the cost of the combat phase.

This study seeks to lay out the potential fiscal impact of the conflict in Iraq by presenting three scenarios. Each scenario is based on different assumptions about the scope and duration of the presence of U.S. forces for post-combat stabilization operations and the reconstruction of Iraq. None of these scenarios is intended to predict the actual course of events. The scenarios cover a range of possibilities to illustrate the potential impact of Iraq on the budget. In the absence of any detailed current estimates of the cost to the U.S. taxpayer of our involvement in Iraq, these estimates are intended to serve as a starting point for public discussion on the issue. We would welcome the emergence of other estimates, based on differing assumptions, to help develop the most complete picture possible of the potential cost of U.S. involvement in Iraq.

The United States has undertaken a vast commitment to rebuild the nation of Iraq, to create a representative government out of a country with no history of democracy, and a market economy out of a statist economy that has been grossly mismanaged for years. It is important that the Congress and the American people have a clear understanding of the commitment this effort requires.

This analysis concludes that if Congress approves the 2004 supplemental the President has submitted, and does not spend any new money on Iraq after 2004, the cost to the United States, including interest on the public debt, will reach \$178 billion over the next decade. This includes only the cost of operations in Iraq, and excludes all estimated costs from the 2003 and 2004 supplementals related to Afghanistan. Last fall, the Democratic staff of the House Budget Committee released an analysis concluding that the cost of a war in Iraq, including interest on the public debt, would probably reach \$100 billion and could rise to \$200 billion. This is likely to prove a conservative estimate of the total costs.

Under a reasonable set of assumptions, the cost of our operations in Iraq will reach \$237 billion and could reach \$418 billion over the next 10 years. Because there is no proposal to offset or pay for the war or the post-war effort, it has to be assumed that the cost will increase the deficit and the national debt.

The following table summarizes the potential cost of these scenarios:

Summary of Scenarios

(Budget authority in billions of dollars, 2003-2013)

	<u>Scenario A</u>	<u>Scenario B</u>	<u>Scenario C</u>
Forces Remain in Iraq Through	2006	2008	2010
Cost of Post-War Military Presence	\$92.8	\$117.5	\$167.6
Total U.S. Reconstruction Costs	\$28.3	\$48.3	\$73.3
Combat and all Other Costs	\$48.0	\$54.3	\$61.0
Savings from No-Fly Zone Enforcement	-\$15.3	-\$15.3	-\$15.3
Interest Costs	\$83.9	\$104.0	\$131.7
Total Cost of Conflict in Iraq	\$237.8	\$308.9	\$418.3

Notes: Post-War Military Presence costs include five months of FY2003 (May 1 through September 30) spending at the \$3.9 billion per month level estimated by the Department of Defense.

Savings represent termination of enforcement of no-fly zones known as Operation Southern Watch and Operation Northern Watch as well as the Army's exercises in Kuwait known as Desert Spring.

Summary of Methodology Used in this Analysis

This analysis treats the funds appropriated for 2003 (along with the associated debt service) as a fixed cost, because most of this money has already been spent. For fiscal year 2004, this analysis assumes that a supplemental of \$87 billion will be enacted, more or less in line with the amounts the President requested on September 17, 2003. For both fiscal years 2003 and 2004, an adjustment was made to remove from those supplementals the estimated amounts for Operation Enduring Freedom in Afghanistan and other costs unrelated to Iraq.

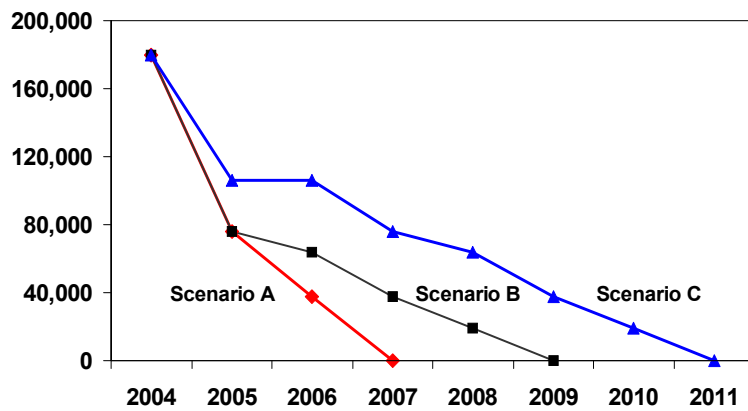
For 2005 and future years, the two major categories of expenditures are (1) the cost of operating U.S. forces in and around Iraq, and (2) the cost of reconstruction. This study analyzes three scenarios in which the difference in costs is primarily a function of the length of time and level of effort required for the presence of U.S. forces and for reconstruction.

All scenarios assume the presence of military personnel from other nations at least equal to current levels, and are also consistent with the presence of additional foreign troops. Under each scenario, multinational forces equal or greater to the current level are assumed to be present

for the same length of time that U.S. forces are present. The chart below shows the drawdown of U.S. military personnel levels in and around Iraq assumed under each scenario.

Every scenario assumes that some portion of the cost of reconstruction will be borne by other nations, international institutions, the proceeds of Iraqi oil revenues, or some combination thereof. No scenario foresees the United States paying for 100 percent of the reconstruction costs. This analysis assumes that, at least in the short run, the proceeds of Iraqi oil revenue will

Possible Future U.S. Military Force Levels in Iraq



be devoted in part to funding non-reconstruction costs such as the basic services to be provided by the new government of Iraq, and that oil revenues therefore will not be sufficient in the near term to fund Iraq's reconstruction without substantial assistance from the United States. Those who believe that international contributions or increased Iraqi oil export revenues will be substantial and will arrive early will lean toward the scenarios in which the U.S. cost is lowest. Those who are skeptical will lend more credence to the high-U.S. cost scenarios.

More details on the methodology used in this analysis are contained in Appendix One.

Description of the Scenarios Examined

None of the scenarios discussed in this study is a specific prediction. The base case in which no new spending is required after 2004, and the three plausible scenarios, are meant to illuminate the range of potential costs of operations in Iraq. These costs are summarized in the following table.

Potential Cost of Conflict in Iraq, 2003- 2013

(Budget authority in billions of dollars)

	<u>2003</u>	<u>2004</u>	<u>Costs After 2004</u>	<u>Total Costs 2003-2013</u>
No New Costs After 2004	56.6	71.8	50.4	178.8
Scenario A	56.6	71.8	109.4	237.8
Scenario B	56.6	71.8	180.6	308.9
Scenario C	56.6	71.8	289.9	418.3

Note: Debt service costs are shown in the years those costs are incurred.

No New Costs After 2004

The most optimistic scenario assumes that the United States incurs no costs beyond the 2004 supplemental, other than the interest on the debt from the 2003 and 2004 supplementals. This means that all our troops leave by September 2004. It also implies that any reconstruction costs beyond the additional \$20 billion in U.S. funds requested for 2004 will be provided by non-U.S. funding sources ranging from international donors to Iraqi oil revenues.

Even under these assumptions, which are quite optimistic, this operation will increase deficits and the public debt by \$178 billion, including \$66 billion in interest costs.

Scenario A: Things Go Well

Under the next scenario, U.S. forces remain in Iraq through 2006. In 2005, the level of forces drops to the level that the Congressional Budget Office (CBO) says can be sustained by relying on the active Army and Marine Corps (76,000).¹ This force is then cut in half, to an average of about two division equivalents (38,000) in 2006, with U.S. forces leaving Iraq at the end of 2006.

Under this scenario, which may represent the best case, U.S. reconstruction costs in Iraq are assumed to total \$28 billion — \$3 billion in 2003, \$20 billion for 2004, as contained in the Administration's current request, plus an additional \$5 billion over three subsequent years.

¹ Congressional Budget Office, An Analysis of the U.S. Military's Ability to Sustain an Occupation of Iraq, September 3, 2003.

Ambassador L. Paul Bremer, III, has indicated a need of \$50 billion to \$100 billion for Iraq's reconstruction. In this scenario, the total costs of reconstruction are assumed to fall in the low end of this range, and about 50 percent of the \$50 billion total would be shouldered by the United States (the Administration's request for \$20 billion already represents a 40 percent U.S. share, if total reconstruction costs are \$50 billion). The remaining half would be supplied by non-U.S. funding sources such as other nations, international institutions, and Iraq's oil export revenues.

Under this scenario, the eleven year (2003-2013) cost of operations in Iraq will increase deficits and the public debt by \$237 billion, including \$84 billion in interest costs.

Scenario B: Middle Case

The next, less optimistic scenario assumes that U.S. forces will remain in Iraq through 2008. In 2005 the level of U.S. military personnel in Iraq declines to the level that CBO says the active Army and Marine Corps can sustain (76,000). In 2006 this force drops again to the level the active Army can sustain without the Marines (64,000). This is then cut in half, to about 38,000, in 2007, and cut in half again to one division equivalent plus support (around 19,000) in 2008. Our forces redeploy to the United States after 2008.

This scenario assumes total reconstruction costs in Iraq of \$75 billion, the midpoint of the \$50 billion to \$100 billion range, with the U.S. bearing 60 percent of the reconstruction costs. Thus, U.S. costs are assumed to total \$48 billion — \$3 billion in 2003 plus the \$20 billion for 2004 in the current Administration request plus \$25 billion over the subsequent five years. The remaining 40 percent would be supplied by non-U.S. funding sources such as other nations, international institutions, and Iraq's oil export revenues.

In this scenario, the eleven year (2003-2013) cost of operations in Iraq will increase deficits and the public debt by \$308 billion, including \$104 billion in interest costs.

Scenario C: Things Go Worse

In decidedly less favorable circumstances, this scenario assumes that U.S. forces remain in Iraq through 2010. In 2005 and 2006 our presence in Iraq drops to the level that CBO says we can sustain using all uncommitted and available forces, which is about 106,000 personnel. In 2007, the U.S. troop presence drops to the level the active Army and Marine Corps can sustain (76,000). In 2008, the force level drops to the level the active Army can sustain without the Marines (64,000). This level is then cut in half, to about two division equivalents (38,000) in 2009, and cut in half again to one division equivalent plus support (around 19,000) in 2010. All troops are gone from Iraq by the end of 2010.

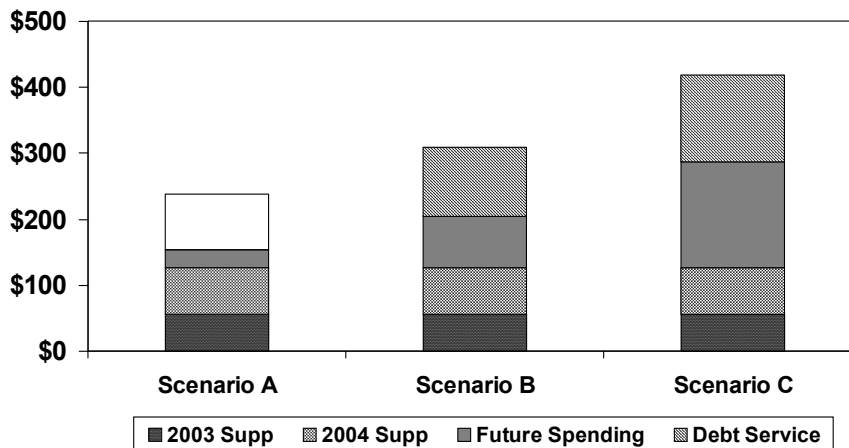
In this scenario, U.S. reconstruction costs in Iraq are assumed to total \$73 billion — \$3 billion in 2003 plus the \$20 billion for 2004 contained in the current Administration request plus an additional \$50 billion over the subsequent seven years. Under this scenario, the total costs of reconstruction in Iraq reach the top of the \$50 billion to \$100 billion range, with about 70 percent of the \$100 billion total borne by the United States. The remaining 30 percent would be supplied by non-U.S. funding sources, such as other nations, international institutions, and Iraq’s oil export revenues.

In this scenario, the eleven year (2003-2013) cost of operations in Iraq will increase deficits and the public debt by \$418 billion, including \$131 billion in interest costs.

The chart below shows the distribution of costs over time under each scenario

Potential Costs of Conflict in Iraq

Budget Authority in Billions of Dollars, 2003-2013



Appendix One: Methodology and Assumptions

This analysis considers the full cost of the conflict in Iraq, beginning with the 2003 supplemental that funded the cost of major combat operations and the initial months of the post-combat stabilization and reconstruction effort.²

FY 2003 Costs

This analysis treats the estimated \$56.5 billion in Iraq-related costs for 2003 (along with the associated debt service) as a fixed cost, because most of this money has already been spent. This analysis excludes the airline and homeland security portions of the 2003 supplemental (a total of \$8.5 billion) and includes only the estimated \$56.5 billion in defense and international spending in the supplemental that was related to Iraq.

The total funding required for Iraq for 2003 reflects a reduction of \$3.5 billion that was rescinded from the 2003 Iraq supplemental in the defense appropriations bill for 2004.

FY 2004 Costs

For fiscal year 2004, this analysis assumes the supplemental funding amount of \$87 billion submitted by the President on September 17, 2003 will be enacted, but the figures in this analysis include only those costs related to operations in Iraq.

The table on the next page shows the estimated funding for Iraq contained in the 2003 enacted supplemental and the 2004 supplemental request.

Treatment of Expenses for Afghanistan

The Administration's supplemental request for 2003 made no estimate of how much of the funding requested and provided for the Department of Defense (DOD) was intended for Iraq and how much was for Afghanistan or other purposes. There were no limitations or legal restrictions imposed on the use of defense funding for either operations in Afghanistan (Operation Enduring Freedom) or Iraq (Operation Iraqi Freedom) in the enacted supplemental, and no requirement to report funding separately for each operation. However, DOD is assigning expenses to each operation separately in its internal accounting.

² Public Law 108-11, the Emergency Wartime Supplemental Appropriations Act, 2003, was signed into law on April 16, 2003. This legislation contained a total of \$79.0 billion in budget authority, of which \$62.4 billion was for activities in the national defense function (function 050) and \$8.1 billion for activities in the international affairs function (function 150). The remainder of the funding in that act was for aid to the civilian aviation industry and for domestic homeland security activities, and is excluded from the calculations in this analysis.

In the 2004 supplemental request, the Administration stated the estimated division of the funding requested between Iraq and Afghanistan. The supplemental requests approximately \$51

Estimated Funding for Iraq in 2003 and 2004 Supplementals
(Budget Authority in Billions of Dollars)

	<u>2003</u>	<u>2004</u>
Defense	62.4	65.6
Iraq	53.3	51.5
Afghanistan/Other	9.1	14.1
International	8.1	21.4
Iraq	6.6	20.3
Afghanistan/Other	1.5	1.1
Domestic/Aviation	8.5	0.0
Total Supplemental Funding	79.0	87.0
Subtotal Iraq-Related Funding	60.0	71.8
Less Rescission	-3.5	0.0
Net Iraq-Related Funding	56.5	71.8

Note: Division of supplemental funding between Iraq and Afghanistan and other programs represents a House Budget Committee Democratic staff estimate.

billion for military operations in Iraq and \$11 billion for military operations in Afghanistan. However, the President's supplemental request for 2004 contains no legal restrictions on DOD's ability to use all funds made available for either operation as they see fit, regardless of their estimates or intentions at the time the funding was requested. Thus the actual division of funds spent on Iraq or Afghanistan in 2004 could change.

While a precise accounting of the amounts spent in 2003 and 2004 on Afghanistan is unknown at this time, based on the information available to date for 2003 and 2004, we estimate that approximately \$25 billion in 2003 and

2004 defense and international discretionary funding from these two supplementals will be used for operations entirely or partially unrelated to Iraq. These funds go primarily to operations in Afghanistan. Our calculations have reduced the totals contained in the 2003 and 2004 supplementals by this amount in order to produce a more accurate estimate of the cost of operations in Iraq. In this analysis, all projections of the additional costs are projections of costs related only to Iraq, and do not assume or include additional funding for Afghanistan.

Costs for 2005 and Future Years

The post-combat costs of operations in Iraq – the stationing of U.S. forces and the reconstruction of Iraq, along with the long-term debt service costs, are greater than the cost of the combat phase of the war. The adjacent chart demonstrates the shares of the total cost devoted to each major cost element in the middle scenario. Approximately one-half of the total cost is for post-war stationing of U.S. forces and reconstruction, one-third of the cost is for interest on the debt, and the remainder is for all other expenses including the combat phase of the war.

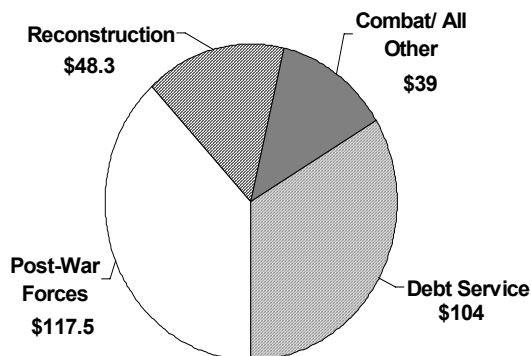
Factors and Methodology Common to all Scenarios

Cost of Stationing U.S. Forces

The most expensive aspect of our post-combat presence in Iraq, both today and in any of the scenarios examined in this study, is the cost of stationing and operating U.S. military forces. These costs are basically a function of the size of the U.S. presence in Iraq, that is, the number of military personnel (with associated civilian and contractor support). While the level of personnel varies among the three scenarios, the pace of operations is assumed to be the same under each, so that the funding required is a function of the number of people deployed. In other words, this analysis assumes that on average people are working with the same level of resources on a per-person basis in each scenario.

Potential Budget Impact of Iraq Conflict : Scenario B

Billions of Dollars, 2003-2013



Prepared by the House Budget Committee Democratic Staff

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The pace of operations assumed in generating these costs is higher than the levels experienced in a normal peacetime environment where troops are permanently stationed overseas, but below the level associated with full-scale intense combat involving extensive use of air and ground combat forces. The cost factors used in this analysis, if applied to the number of personnel currently serving in Iraq, lead to an estimated cost well below the \$3.9 billion per month that DOD officials claim we are currently spending, because sufficient data is not yet available to explain the higher level of current spending.

Several scenarios make use of CBO estimates of force levels that can be sustained over long periods of time that were contained in a recent analysis conducted for Senator Robert Byrd.³

Reconstruction Costs

The cost to the U.S. taxpayer of Iraqi reconstruction will depend on two variables, neither of which can be fully known at this time: first, the total cost of Iraqi reconstruction; and second, the share of that total funded by the United States, as opposed to other nations, international institutions such as the International Monetary Fund or the World Bank, or Iraqi oil revenue.

The total cost of Iraqi reconstruction is not known. In preparation for an October conference of potential donors, the United Nations, World Bank, and other multilateral institutions are preparing a detailed assessment of Iraq's reconstruction needs, but the report has not yet been completed. The report will provide an important estimate, but over time costs of reconstruction could grow above and beyond that estimate if destruction of infrastructure (e.g. oil pipelines, electrical facilities) continues to occur.

The Administration has offered preliminary estimates of the likely cost of reconstruction. Ambassador Bremer has stated that costs might run between \$50 billion and \$100 billion.⁴ In connection with the September request for \$87 billion in supplemental appropriations for military and reconstruction costs, the Administration stated that Iraq's needs were "enormous and urgent," and that between \$50 billion and \$75 billion would be needed.⁵

The percentage of the total costs that will be borne by the United States is also unknown. Possible sources of funding for Iraq's reconstruction include: other nations; international institutions; revenues from Iraqi oil exports; and recovered Iraqi assets. The size of the potential contributions cannot yet be precisely determined.

Given the unknowns, it is very difficult to predict specific outcomes. The three scenarios are only illustrative of possible outcomes. They start with the range of total Iraqi reconstruction costs cited by Administration officials, and then examine what the cost to the American taxpayers would be under varying assumptions about what percentage of the total bill will be assumed by the United States. Though informed by the considerations outlined above, the three scenarios do not assume the precise level of international contributions to Iraq's reconstruction, the specific volume of Iraq's oil exports, the future price of oil, or the disposition of Iraqi debts.

³ Congressional Budget Office, *An Analysis of the U.S. Military's Ability to Sustain an Occupation of Iraq*, September 3, 2003.

⁴ Interview on CNBC "Capital Report," July 31, 2003.

⁵ White House Fact Sheet, "Request for Additional FY 2004 Funding for the War on Terror," September 8, 2003.

Offsetting Savings

Each scenario assumes savings from the cancellation of the longstanding air operations to enforce the northern and southern no-fly zones over Iraq known as Operation Northern Watch and Operation Southern Watch. These operations were terminated earlier this year. Each scenario makes a similar assumption that the Army's exercises in Kuwait, now known as Operation Desert Spring, are also canceled. The cancellation of these operations generates savings of \$1.4 billion to \$1.7 billion per year.

Other Costs

There are additional items included in an "Other" category under each scenario that attempt to capture likely costs that are not tied as directly to the number of U.S. troops or the pace or scope of reconstruction. This category includes additional intelligence costs, payments to coalition partners beyond 2004 (e.g., the cost of supporting the multinational division led by Poland), and the administrative costs of running the Coalition Provisional Authority. For the most part, these costs are assumed to continue at the levels projected for 2004 for as long as U.S. forces are assumed to be deployed under each scenario. In addition, security assistance payments of \$500 million per year to Iraq or other countries in the region are assumed to commence in the year after U.S. forces leave Iraq.

Items Not Specified in these Cost Projections

Several factors, including actions taken by other nations, could have a major impact on the cost of U.S. operations in Iraq. The factors described below were taken into account in estimating the cost of each scenario, even though they do not appear in the tables detailing the potential costs.

Additional Military Personnel from Other Nations

If other nations provide additional military personnel, the level of U.S. forces could be reduced. Alternatively, those additional troops could be devoted to improving security in lieu of reducing the level of U.S. forces. These scenarios do not explicitly tie reductions in the number of U.S. forces to the addition of a third multinational division or other foreign forces, or to the particular number of Iraqi police or military personnel that have been trained, in a one-for-one replacement fashion. Rather, the faster draw-down of U.S. forces under the more optimistic scenarios could reflect any combination of additional trained Iraqi or foreign forces or a more rapid improvement in the security situation.

Under each scenario, multinational forces equal to or greater than the current level are assumed to be present for the same length of time that U.S. forces are present. To the extent that additional foreign forces beyond the current levels are present, these scenarios assume such additional forces will not be subsidized by the United States.

Reconstruction Funding by International Donors

An international donors' conference is scheduled to be convened in Spain in late October. That conference may provide a basis for estimating how much international donors are likely to contribute to Iraq's reconstruction. A donors' conference for Afghanistan in January 2002 yielded pledges over a number of years totaling \$4.5 billion. There is some pessimism about the eagerness of other countries to contribute large sums to Iraq's reconstruction, given the refusal of a number of potential major donors to join the U.S.-led military coalition.⁶ Because none of the scenarios assume the United States pays 100 percent of the reconstruction costs, each scenario implicitly assumes that some portion of reconstruction costs will be funded by other sources such as international donors or the proceeds of oil revenues, as discussed below.

Oil revenues

Iraq's oil resources are an important potential source of revenue to fund reconstruction efforts. The extent to which these resources will be able to pay for reconstruction depends on two unknowns: the amount of oil that Iraq is able to export, and the price of oil. It seems unlikely that Iraqi oil will generate sufficient revenues in the next two years to fund more than a small portion of the cost of reconstruction, especially given the other claims on those revenues discussed below. As a recent bipartisan staff report from the Senate Foreign Relations Committee put it, "there is no oil windfall on the horizon."⁷

Current Administration estimates project total revenue from Iraqi oil exports of \$12 billion for next year and about \$20 billion for each of the two subsequent years.⁸ The Administration estimates that achieving the \$20 billion in oil revenue anticipated for 2005 and 2006 would require Iraqi oil exports of about 2 million barrels per day.⁹ This level of exports would exceed the average export level of 1.6 million barrels per day achieved during the final phase of the U.N. Oil-for-Food Program (December 2002-March 2003) and approach pre-war

⁶ Press reports have stated that European diplomats have recently indicated that the donors' conference in Madrid may yield only \$1 billion or less. Steven Weisman, "Rocky Path for Bush: Effort to Remake Iraq Hits Roadblocks," *New York Times*, September 18, 2003. German Chancellor Gerhard Schroeder has been quoted as saying on the subject of German contributions that "We have no plans to offer money." Frederick Kempe and Marc Champion, "Schroeder Is Ready to Help The U.S. Rebuild Iraq Now," *Wall Street Journal*, September 18, 2003.

⁷ "Iraq: Meeting the Challenge, Sharing the Burden, Staying the Course," Report of the U.S. Senate Committee on Foreign Relations, July 2003.

⁸ Testimony of Alan Larson, Undersecretary of State for Economic, Agricultural, and Business Affairs before the U.S. Senate Banking, Housing, and Urban Affairs Committee, Subcommittee on International Trade and Finance, September 16, 2003; White House Press Briefing by Press Secretary Scott McLellan, September 10, 2003.

⁹ Larson testimony, September 16, 2003.

assessments of Iraq's net export capacity of 2.3 - 2.5 million barrels per day.¹⁰ *As discussed in the following section, even if these levels are achieved, a majority of these revenues is not expected to be available to finance reconstruction.*

Achieving the export level of 2 million barrels per day envisioned for 2005 and 2006 will require substantial improvements over the current situation. In July 1990, prior to Iraq's invasion of Kuwait, Iraqi oil exports reached about 3 million barrels per day. However, exports for August, 2003 averaged 700,000 barrels per day due to repeated sabotage of Iraqi oil infrastructure.¹¹ Administration officials have indicated that billions of dollars of investment will be required just to achieve even the levels for 2004-2006 indicated above.¹²

Beyond 2006, if things go well, Iraqi oil revenues could exceed \$20 billion per year, depending on the level of exports and the price of oil. While a substantial spike in Iraq's oil exports might result in downward pressure on world oil prices, expanded exports hold the potential of increasing oil revenues over the long term. But achieving such an expansion would require substantial investments. A December 2002 report on the Iraqi oil sector by the Council on Foreign Relations and the Baker Institute concluded that returning Iraqi oil exports to the levels before the Persian Gulf War would require an investment of \$5 billion, in addition to annual operating costs of \$3 billion. The December 2002 report could not, of course, take into account the additional cost of repairing the damage to the Iraqi oil sector that has occurred since the time the report was issued.¹³

In short, while expanding Iraqi oil exports might generate revenues that could be used to fund reconstruction, this is likely a long-term proposition, and Iraq's reconstruction requires large sums of money in the short term. The Administration's projections for the next three years do not envision the progress in the oil sector needed to fund their estimates of reconstruction costs.

¹⁰ United Nations Report of the Secretary General Pursuant to Resolutions 1447 (2002), 1472 (2003) and 1476 (2003), May 28, 2003; Department of Energy, Country Analysis Brief for Iraq, August 2003.

¹¹ Larson testimony, September 16, 2003; On the sabotage of Iraqi oil infrastructure, see, for example, Frank Davies and Sumana Chatterjee, "Congress Willing to OK Iraq Funding; Seeks More Details on Spending Plan," Knight-Ridder News Service, September 9, 2003.

¹² Larson testimony, September 16, 2003.

¹³ "Guiding Principles for U.S. Post-Conflict Policy in Iraq," Report of an Independent Working Group Sponsored by the Council on Foreign Relations and the James A. Baker III Institute for Public Policy of Rice University, December 2002. The report states: "Notwithstanding the value of Iraq's vast oil reserves, there are severe limits on them . . . as a source of funding for post-conflict reconstruction efforts Put simply, we do not anticipate a bonanza."

Additional claims on oil revenues

Even if Administration estimates of oil revenues prove accurate, a substantial portion of these revenues will be needed to finance the operations of the emerging Iraqi government. The Coalition Provisional Authority's budget for the Interim Government of Iraq totals \$6.1 billion for the six-month period July-December 2003.¹⁴ Maintaining this level would require \$12 billion a year -- given the lack of other resources, these funds would presumably come from oil export revenues.

There is also another prior claim on oil revenues. A substantial portion of Iraqi oil revenues in recent years has gone to pay the cost of importing food and other humanitarian goods through the U.N. Oil-for-Food Program. According to the United Nations, prior to the war approximately 60 percent of Iraq's families were relying on the food ration under the Oil-for-Food Program to meet all household food needs.¹⁵ Sustaining these efforts will be another claim on oil revenues.

Given the Administration's estimates of the cost of Iraqi reconstruction and existing demands on Iraqi oil revenues, it seems likely that substantial resources beyond those generated from oil will be needed to fund reconstruction. Finally, it is important to note that Iraq owes substantial foreign debts and unpaid claims. Estimates of the amount of Iraq's foreign debt range from \$70 billion to \$120 billion.¹⁶ In addition, unpaid compensation claims against Iraq are estimated to be \$116 billion.¹⁷ The disposition of these debts remains uncertain and the estimates we have made here do not make any explicit assumptions on this subject, but these debts and claims may constitute another significant demand on Iraqi oil revenues.

Recovered Assets

The CPA budget for Iraq includes \$1.7 billion in funds frozen by the United States, as well as \$0.8 billion recovered in Iraq. The CPA budget for July-December 2003 includes expenditure of these funds, which means they would not be available for future reconstruction

¹⁴ Ministry of Finance, Ministry of Planning, Coalition Provisional Authority, "Republic of Iraq, Budget Revenues and Expenses, 2003, July-December, Budget Summary."

¹⁵ United Nations, Report of the Secretary-General pursuant to paragraphs 7 and 8 of Security Council resolution 1409 (2002), November 12, 2002.

¹⁶ Testimony of Undersecretary of the Treasury for International Affairs John B. Taylor, before the Senate Banking, Housing, and Urban Affairs Committee, Subcommittee on International Trade and Finance, September 16, 2003.

¹⁷ "Iraq: Meeting the Challenge, Sharing the Burden, Staying the Course," Report of the U.S. Senate Committee on Foreign Relations, July 2003.

costs.¹⁸ The United States is reportedly continuing its efforts to identify and freeze assets of the former Iraqi government, but there are no suggestions that these efforts will yield additional funds that would make more than a modest contribution to reconstruction efforts.¹⁹

Relationship Between These Scenarios and the CBO Baseline

The baseline budget projections released by the Congressional Budget Office in late August were prepared using the standard procedures that CBO is required to use. The most important of these for purposes of this discussion is the “current services” rule — the requirement to use current year spending as a baseline and to project future spending by adjusting those amounts for inflation. Because a supplemental to fund the cost of the war in Iraq, as well as other programs, was enacted for 2003, the funding enacted for 2003 was carried forward to each future year in the new baseline budget projections. Thus, the CBO August baseline already assumes funding for a new supplemental for 2004, and similar additional funding as if a new supplemental would be enacted for each subsequent year. The baseline contains \$80 billion in budget authority for such programs in 2004, rising to \$100 billion by 2013.

Over the ten year period 2004 to 2013, this assumption that we would enact each year a new supplemental as large as the 2003 supplemental adds over \$1 trillion to CBO’s projections of the national debt, including \$818 billion in discretionary outlays and \$220 billion in debt service. Two key points should be kept in mind. First, there is no reason to believe that the cost of the conflict in Iraq will be as much in each of the next ten years as it was in 2003.

Second, the estimated spending in this analysis cannot be added to the deficit estimates in the CBO August baseline. This analysis attempts to make more realistic projections of these future costs. To avoid double-counting, we removed the extrapolation of the 2003 supplemental into each future year from the CBO August baseline. A table included with this report lists the unified and on-budget deficits that are consistent with the CBO projections once the assumption of a new supplemental each and every year is removed.

It is also important to note that while future Iraq costs were probably overstated in CBO’s August baseline, the costs of other legislation that is just as likely to occur as the costs described in these scenarios were excluded from the CBO baseline due to the same scorekeeping conventions that dictate how baselines are constructed.

¹⁸ Ministry of Finance, Ministry of Planning, Coalition Provisional Authority, “Republic of Iraq, Budget Revenues and Expenses, 2003, July-December, Budget Summary.”

¹⁹ Taylor testimony, September 16, 2003.

Appendix Two: Summary of September 2002 Study

The magnitude of the impact of the conflict in Iraq on the federal budget was foreseen correctly by some analysts.

Last September, *The Wall Street Journal* reported that the President's then-chief economic adviser, Lawrence Lindsey, estimated that war with Iraq would cost the United States \$100 billion to \$200 billion.²⁰ Two days later, the *Associated Press* reported that OMB Director Mitchell E. Daniels, Jr., believed that Mr. Lindsey's estimate was "very, very, high." As it turns out, when all costs are considered, Mr. Lindsey's estimate of \$100 billion to \$200 billion was conservative.

At the same time, the Democratic staff of the House Budget Committee released an analysis that projected the likely cost of a war with Iraq.²¹ That analysis concluded:

The Full and Total Cost of a New War with Iraq is Likely \$100 Billion to \$200 Billion. The analysis concludes that a U.S. force of 250,000 personnel that achieves the goal of ousting Saddam Hussein's regime in 60 days of combat that goes as smoothly as the Persian Gulf War will cost \$93 billion, including interest costs. When all of the other costs that would also be incurred – humanitarian assistance to refugees, reconstruction assistance, foreign assistance to obtain cooperation for U.S. military action, and interest costs due to increased borrowing to finance these other costs – are considered, the total would easily exceed \$100 billion. And if the war has an adverse impact on the U.S. or global economy, or proves more difficult and lengthier than assumed, \$200 billion may unfortunately prove to be a reasonable estimate.²²

That analysis examined two conflict scenarios, one using a smaller force and one using a larger force. It projected the cost of military operations at \$30.6 billion to \$59.8 billion, with the interest on those costs over ten years adding \$17.0 billion to \$33.2 billion, for a total cost of \$47.6 billion to \$93.0 billion. Included in the cost of military operations was a brief, two and a half month, post-war force presence.

The actual supplemental enacted for 2003 provided \$62.2 billion for the Department of Defense. It is likely that about \$9 billion of that amount was for activities in or around Afghanistan, leaving up to \$53 billion for DOD expenses related to Iraq.

²⁰ *The Wall Street Journal*, September 16, 2002.

²¹ Assessing the Cost of Military Action Against Iraq: Using Desert Shield/Desert Storm as a Basis for Estimates, September 23, 2002.

²² *Ibid.*, page 4.

Potential Cost of Iraq War
No New Direct Costs After 2004
 Billions of Current Dollars

		<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Five Years</u> <u>2004-08</u>	<u>Ten Years</u> <u>2004-13</u>	<u>Total</u> <u>2003-13</u>	<u>Costs</u> <u>After 2004</u>
Iraq-Related 2003 Discretionary	BA	56.6	0.8	1.7	2.4	3.0	3.3	3.6	3.8	4.0	4.3	4.5	11.3	31.4	88.0	30.6
Spending Plus Debt Service	OT	23.0	23.6	10.0	4.5	3.5	3.5	3.7	3.8	4.0	4.3	4.5	45.0	65.2	88.2	41.7
<u>FY2004 and Future Costs:</u>																
Cost of Stationing US Forces	BA	0.0	50.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.3	50.3	50.3	0.0
Through 2004	OT	0.0	38.0	9.5	1.4	0.4	0.1	0.0	0.0	0.0	0.0	0.0	49.5	49.5	49.5	11.5
U.S. Share of Iraqi Reconstruction	BA		20.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.3	20.3	20.3	0.0
No Costs Beyond 2004 Request	OT		10.2	5.1	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.3	20.3	20.3	10.2
Other Costs including CPA and	BA	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	1.2	1.2	0.0
support of coalition partners	OT	0.0	0.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	1.2	1.2	0.3
Cancel Northern Watch, Southern	BA	0.0	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7	-7.2	-15.3	-15.3	-13.9
Watch and Desert Spring	OT	0.0	-1.1	-1.3	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7	-6.8	-14.7	-14.7	-13.7
Subtotal FY2004 and Future	BA	0.0	70.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7	64.6	56.5	56.5	-13.9
Discretionary Costs	OT	0.0	48.1	13.5	5.1	-1.0	-1.4	-1.5	-1.6	-1.6	-1.6	-1.7	64.3	56.3	56.3	8.3
Debt Service on Future Costs	BA	0.0	0.6	1.9	2.8	3.5	3.8	4.0	4.2	4.3	4.5	4.6	12.6	34.2	34.2	33.6
	OT	0.0	0.6	1.9	2.8	3.5	3.8	4.0	4.2	4.3	4.5	4.6	12.6	34.2	34.2	33.6
Total Impact of Future Spending	BA	0.0	71.0	0.5	1.4	2.0	2.3	2.5	2.6	2.7	2.8	3.0	77.2	90.8	90.8	19.8
on Federal Budget	OT	0.0	48.6	15.4	7.9	2.4	2.5	2.5	2.6	2.7	2.9	3.0	76.9	90.5	90.5	41.9
Total Cost of War	BA	56.6	71.8	2.2	3.8	5.0	5.7	6.1	6.4	6.7	7.1	7.5	88.4	122.2	178.8	50.4
	OT	23.0	72.2	25.3	12.4	5.9	6.0	6.1	6.4	6.8	7.1	7.5	121.8	155.8	178.7	83.6
Memo: Total Discretionary Spending	BA	56.5	70.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7	64.6	56.5	113.0	-13.9
Memo: Total Debt Service	BA	0.1	1.4	3.7	5.2	6.5	7.2	7.6	8.0	8.4	8.7	9.1	23.8	65.6	65.8	64.3

**Potential Cost of Iraq War
Scenario A - Things Go Well
Billions of Current Dollars**

		<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	Five Years	Ten Years	Total	Costs
													<u>2004-08</u>	<u>2004-13</u>	<u>2003-13</u>	<u>After 2004</u>
Iraq-Related 2003 Discretionary	BA	56.6	0.8	1.7	2.4	3.0	3.3	3.6	3.8	4.0	4.3	4.5	11.3	31.4	88.0	30.6
Spending Plus Debt Service	OT	23.0	23.6	10.0	4.5	3.5	3.5	3.7	3.8	4.0	4.3	4.5	45.0	65.2	88.2	41.7
<u>FY2004 and Future Costs:</u>																
Cost of Stationing US Forces	BA	0.0	50.3	14.5	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	73.3	73.3	73.3	23.0
Through 2006	OT	0.0	38.0	20.2	10.6	2.8	0.7	0.1	0.0	0.0	0.0	0.0	72.3	72.5	72.5	34.4
U.S. Share of Iraqi Reconstruction	BA	0.0	20.3	3.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	25.3	25.3	25.3	5.0
2004 Request plus \$5 billion	OT	0.0	10.2	6.6	6.3	1.5	0.5	0.3	0.0	0.0	0.0	0.0	25.1	25.3	25.3	15.2
Other Costs including CPA and	BA	0.0	1.2	5.2	4.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	11.5	14.0	14.0	12.8
support of coalition partners	OT	0.0	0.9	4.2	4.2	1.3	0.6	0.5	0.5	0.5	0.5	0.5	11.3	13.8	13.8	12.9
Cancel Northern Watch, Southern	BA	0.0	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7	-7.2	-15.3	-15.3	-13.9
Watch and Desert Spring	OT	0.0	-1.1	-1.3	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7	-6.8	-14.7	-14.7	-13.7
Subtotal FY2004 and Future	BA	0.0	70.4	21.2	12.3	0.0	-1.0	-1.0	-1.1	-1.1	-1.1	-1.2	102.9	97.4	97.4	27.0
Discretionary Costs	OT	0.0	48.1	29.6	19.7	4.2	0.3	-0.6	-1.0	-1.1	-1.1	-1.2	101.8	96.9	96.9	48.8
Debt Service on Future Costs	BA	0.0	0.6	2.2	3.8	5.2	5.9	6.3	6.6	6.9	7.3	7.6	17.6	52.4	52.4	51.8
	OT	0.0	0.6	2.2	3.8	5.2	5.9	6.3	6.6	6.9	7.3	7.6	17.6	52.4	52.4	51.8
Total Impact of Future Spending	BA	0.0	71.0	23.4	16.1	5.2	4.9	5.2	5.6	5.8	6.1	6.4	120.5	149.8	149.8	78.8
on Federal Budget	OT	0.0	48.6	31.8	23.5	9.3	6.2	5.7	5.6	5.9	6.2	6.5	119.4	149.3	149.3	100.6
Total Cost of War	BA	56.6	71.8	25.1	18.5	8.2	8.2	8.8	9.4	9.9	10.4	10.9	131.8	181.2	237.8	109.4
	OT	23.0	72.2	41.7	28.0	12.8	9.7	9.3	9.4	9.9	10.4	11.0	164.4	214.5	237.5	142.3
Memo: Total Discretionary Spending	BA	56.5	70.4	21.2	12.3	0.0	-1.0	-1.0	-1.1	-1.1	-1.1	-1.2	102.9	97.4	153.8	27.0
Memo: Total Debt Service	BA	0.1	1.4	3.9	6.2	8.1	9.2	9.9	10.4	11.0	11.5	12.1	28.9	83.8	83.9	82.4

**Potential Cost of Iraq War
Scenario B - Middle Case
Billions of Current Dollars**

		<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	Five Years <u>2004-08</u>	Ten Years <u>2004-13</u>	Total <u>2003-13</u>	Costs <u>After 2004</u>
Iraq-Related 2003 Discretionary Spending Plus Debt Service	BA	56.6	0.8	1.7	2.4	3.0	3.3	3.6	3.8	4.0	4.3	4.5	11.3	31.4	88.0	30.6
	OT	23.0	23.6	10.0	4.5	3.5	3.5	3.7	3.8	4.0	4.3	4.5	45.0	65.2	88.2	41.7
<u>FY2004 and Future Costs:</u>																
Cost of Stationing US Forces Through 2008	BA		50.3	16.5	14.8	10.1	6.4	0.0	0.0	0.0	0.0	0.0	98.0	98.0	98.0	47.8
	OT		38.0	21.6	15.7	11.4	7.6	2.0	0.5	0.1	0.1	0.0	94.4	97.1	97.1	59.1
U.S. Share of Iraqi Reconstruction 2004 Request plus \$25 billion	BA	0.0	20.3	13.0	7.0	3.0	1.0	1.0	0.0	0.0	0.0	0.0	44.3	45.3	45.3	25.0
	OT	0.0	10.2	11.6	11.8	6.5	3.0	1.5	0.5	0.3	0.0	0.0	43.1	45.3	45.3	35.2
Other Costs including CPA and support of coalition partners	BA	0.0	1.2	5.2	4.2	4.2	3.2	0.5	0.5	0.5	0.5	0.5	17.8	20.3	20.3	19.1
	OT	0.0	0.9	4.2	4.2	4.1	3.4	1.2	0.6	0.5	0.5	0.5	16.8	20.1	20.1	19.1
Cancel Northern Watch, Southern Watch and Desert Spring	BA	0.0	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7	-7.2	-15.3	-15.3	-13.9
	OT	0.0	-1.1	-1.3	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7	-6.8	-14.7	-14.7	-13.7
Subtotal FY2004 and Future Discretionary Costs	BA	0.0	70.4	33.2	24.5	15.7	9.0	0.0	-1.1	-1.1	-1.1	-1.2	152.9	148.4	148.4	78.0
	OT	0.0	48.1	36.0	30.3	20.6	12.5	3.1	0.0	-0.7	-1.1	-1.1	147.5	147.8	147.8	99.7
Debt Service on Future Costs	BA	0.0	0.6	2.3	4.3	6.5	8.1	9.0	9.6	10.2	10.7	11.2	21.7	72.5	72.5	71.9
	OT	0.0	0.6	2.3	4.3	6.5	8.1	9.0	9.6	10.2	10.7	11.2	21.7	72.5	72.5	71.9
Total Impact of Future Spending on Federal Budget	BA	0.0	71.0	35.5	28.8	22.2	17.1	9.0	8.6	9.1	9.6	10.1	174.7	220.9	220.9	149.9
	OT	0.0	48.6	38.4	34.6	27.1	20.6	12.2	9.7	9.5	9.6	10.1	169.2	220.3	220.3	171.6
Total Cost of War	BA	56.6	71.8	37.3	31.2	25.2	20.4	12.6	12.4	13.1	13.8	14.5	185.9	252.3	308.9	180.6
	OT	23.0	72.2	48.3	39.0	30.6	24.1	15.8	13.5	13.5	13.9	14.6	214.2	285.5	308.5	213.3
Memo: Total Discretionary Spending	BA	56.5	70.4	33.2	24.5	15.7	9.0	0.0	-1.1	-1.1	-1.1	-1.2	152.9	148.4	204.9	78.0
Memo: Total Debt Service	BA	0.1	1.4	4.1	6.7	9.4	11.4	12.6	13.5	14.2	15.0	15.7	33.0	103.9	104.0	102.6

Potential Cost of Iraq War
Scenario C - Things Go Worse
 Billions of Current Dollars

		<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Five Years</u>	<u>Ten Years</u>	<u>Total</u>	<u>Costs</u>
													<u>2004-08</u>	<u>2004-13</u>	<u>2003-13</u>	<u>After 2004</u>
Iraq-Related 2003 Discretionary	BA	56.6	0.8	1.7	2.4	3.0	3.3	3.6	3.8	4.0	4.3	4.5	11.3	31.4	88.0	30.6
Spending Plus Debt Service	OT	23.0	23.6	10.0	4.5	3.5	3.5	3.7	3.8	4.0	4.3	4.5	45.0	65.2	88.2	41.7
<u>FY2004 and Future Costs:</u>																
Cost of Stationing US Forces	BA		50.3	23.3	24.0	17.4	15.7	10.7	6.8	0.0	0.0	0.0	130.7	148.1	148.1	97.8
Through 2010	OT		38.0	26.9	23.8	18.8	16.4	12.0	8.0	2.2	0.5	0.2	124.0	146.9	146.9	108.8
U.S. Share of Iraqi Reconstruction	BA	0.0	20.3	20.0	12.0	8.0	4.0	2.0	2.0	2.0	0.0	0.0	64.3	70.3	70.3	50.0
2004 Request plus \$50 billion	OT	0.0	10.2	15.1	16.1	12.0	7.0	4.0	2.5	2.0	1.0	0.5	60.3	70.3	70.3	60.2
Other Costs including CPA and	BA	0.0	1.2	5.2	5.2	5.2	4.2	3.2	1.6	0.5	0.5	0.5	20.8	27.0	27.0	25.8
support of coalition partners	OT	0.0	0.9	4.2	5.0	5.1	4.3	3.4	2.0	0.8	0.6	0.5	19.5	26.8	26.8	25.8
Cancel Northern Watch, Southern	BA	0.0	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7	-7.2	-15.3	-15.3	-13.9
Watch and Desert Spring	OT	0.0	-1.1	-1.3	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7	-6.8	-14.7	-14.7	-13.7
Subtotal FY2004 and Future	BA	0.0	70.4	47.0	39.7	29.1	22.3	14.3	8.8	0.9	-1.1	-1.2	208.6	230.2	230.2	159.7
Discretionary Costs	OT	0.0	48.1	44.8	43.4	34.4	26.3	17.9	11.0	3.4	0.4	-0.5	197.0	229.2	229.2	181.2
Debt Service on Future Costs	BA	0.0	0.6	2.5	5.0	7.9	10.4	12.3	13.8	15.0	15.9	16.8	26.3	100.1	100.1	99.6
	OT	0.0	0.6	2.5	5.0	7.9	10.4	12.3	13.8	15.0	15.9	16.8	26.3	100.1	100.1	99.6
Total Impact of Future Spending	BA	0.0	71.0	49.5	44.6	37.0	32.8	26.6	22.6	15.9	14.8	15.6	234.9	330.3	330.3	259.3
on Federal Budget	OT	0.0	48.6	47.2	48.4	42.4	36.7	30.2	24.8	18.4	16.3	16.3	223.3	329.4	329.4	280.7
Total Cost of War	BA	56.6	71.8	51.2	47.0	40.0	36.1	30.2	26.4	19.9	19.0	20.1	246.2	361.7	418.3	289.9
	OT	23.0	72.2	57.2	52.9	45.9	40.2	33.9	28.6	22.4	20.6	20.8	268.3	394.6	417.5	322.4
Memo: Total Discretionary Spending	BA	56.5	70.4	47.0	39.7	29.1	22.3	14.3	8.8	0.9	-1.1	-1.2	208.6	230.2	286.6	159.7
Memo: Total Debt Service	BA	0.1	1.4	4.2	7.4	10.9	13.8	15.9	17.6	19.0	20.2	21.3	37.6	131.5	131.7	130.2

Deficits Including Potential Iraq Costs

Billions of Dollars

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Five Years</u> <u>2004-08</u>	<u>Ten Years</u> <u>2004-13</u>	<u>Total</u> <u>2003-13</u>	<u>Costs</u> <u>After 2004</u>
CBO August Baseline Deficits															
On-Budget Surplus/Deficit (-)	-562.4	-644.0	-519.5	-424.6	-421.5	-433.9	-425.5	-417.2	-298.3	-142.7	-105.4	-2,443.5	-3,832.7	-4,395.1	-3,188.7
Unified Surplus or Deficit (-)	-400.6	-479.7	-340.6	-225.3	-202.9	-196.5	-170.2	-144.6	-9.0	160.8	211.3	-1,445.0	-1,396.7	-1,797.3	-917.0
Remove Future Supplementals Assumed in Baseline															
Discretionary Spending	0.0	-37.3	-67.8	-79.0	-82.7	-86.0	-88.4	-90.7	-93.6	-94.8	-97.8	-352.9	-818.3	-818.3	-781.0
Debt Service	0.0	-0.4	-2.4	-6.2	-11.4	-17.2	-23.1	-29.3	-36.0	-43.1	-50.6	-37.7	-219.8	-219.8	-219.4
Total Deficit Impact	0.0	-37.8	-70.3	-85.1	-94.2	-103.2	-111.5	-120.0	-129.6	-137.9	-148.5	-390.6	-1,038.1	-1,038.1	-1,000.3
Adjusted Baseline Deficits (Includes Impact of Enacted 2003 Supplemental)															
On-Budget Surplus/Deficit (-)	-562.4	-606.3	-449.2	-339.5	-327.3	-330.7	-314.0	-297.1	-168.7	-4.8	43.1	-2,053.0	-2,794.6	-3,357.0	-2,188.4
Unified Surplus or Deficit (-)	-400.6	-441.9	-270.3	-140.2	-108.8	-93.3	-58.7	-24.5	120.6	298.7	359.8	-1,054.4	-358.6	-759.1	83.3
Additional Deficit Impacts from FY2004 and Future Costs of Iraq															
No New Costs	0.0	48.6	15.4	7.9	2.4	2.5	2.5	2.6	2.7	2.9	3.0	76.9	90.5	90.5	41.9
Scenario A	0.0	48.6	31.8	23.5	9.3	6.2	5.7	5.6	5.9	6.2	6.5	119.4	149.3	149.3	100.6
Scenario B	0.0	48.6	38.4	34.6	27.1	20.6	12.2	9.7	9.5	9.6	10.1	169.2	220.3	220.3	171.6
Scenario C	0.0	48.6	47.2	48.4	42.4	36.7	30.2	24.8	18.4	16.3	16.3	223.3	329.4	329.4	280.7
Unified Deficit/Surplus Including Potential Future Iraq Costs															
No New Costs	-400.6	-490.5	-285.7	-148.1	-111.2	-95.7	-61.2	-27.2	117.8	295.9	356.8	-1,131.3	-449.1	-849.7	41.4
Scenario A	-400.6	-490.5	-302.0	-163.7	-118.1	-99.5	-64.4	-30.2	114.7	292.5	353.3	-1,173.8	-507.9	-908.4	-17.3
Scenario B	-400.6	-490.5	-308.6	-174.8	-135.9	-113.8	-70.9	-34.2	111.1	289.1	349.7	-1,223.6	-578.9	-979.4	-88.3
Scenario C	-400.6	-490.5	-317.5	-188.6	-151.1	-130.0	-88.9	-49.3	102.2	282.4	343.5	-1,277.8	-688.0	-1,088.5	-197.4
On-Budget Deficit/Surplus Including Potential Future Iraq Costs															
No New Costs	-562.4	-654.9	-464.6	-347.4	-329.8	-333.2	-316.5	-299.8	-171.4	-7.7	40.1	-2,129.8	-2,885.2	-3,447.5	-2,230.3
Scenario A	-562.4	-654.9	-481.0	-363.0	-336.7	-336.9	-319.7	-302.8	-174.6	-11.0	36.6	-2,172.4	-2,943.9	-3,506.3	-2,289.0
Scenario B	-562.4	-654.9	-487.6	-374.1	-354.4	-351.3	-326.2	-306.8	-178.2	-14.5	33.0	-2,222.2	-3,014.9	-3,577.3	-2,360.0
Scenario C	-562.4	-654.9	-496.5	-387.9	-369.7	-367.4	-344.3	-321.9	-187.1	-21.2	26.8	-2,276.3	-3,124.0	-3,686.4	-2,469.1

Potential Cost of Conflict in Iraq, 2003-2013

(Budget Authority in Billions of Dollars)

	<u>2003</u>	<u>2004</u>	Costs <u>After 2004</u>	Total Costs <u>2003-2013</u>
2003 & 2004 Supplementals	56.6	71.8	50.4	178.8
Scenario A	56.6	71.8	109.4	237.8
Scenario B	56.6	71.8	180.6	308.9
Scenario C	56.6	71.8	289.9	418.3

Note: Debt service costs are shown in the years those costs are incurred.

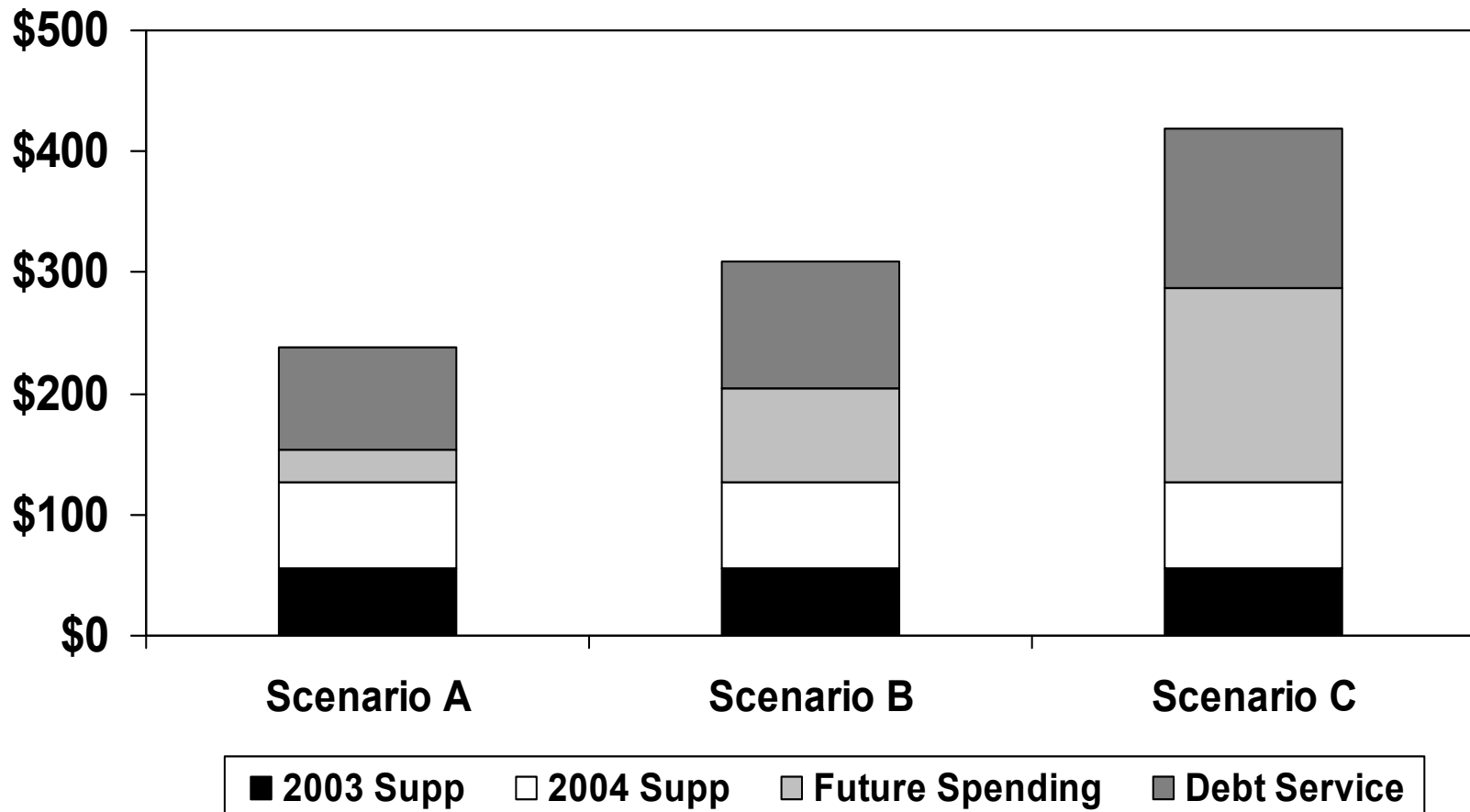
Summary of Scenarios 2003-2013

(Budget Authority in Billions of Dollars)

	<u>Scenario A</u>	<u>Scenario B</u>	<u>Scenario C</u>
Forces Remain in Iraq Through	2006	2008	2010
Cost of Post-War Military Presence	\$92.8	\$117.5	\$167.6
Total U.S. Reconstruction Costs	\$28.3	\$48.3	\$73.3
Combat and all Other Costs	\$48.0	\$54.3	\$61.0
Savings from No-Fly Zone Enforcement	-\$15.3	-\$15.3	-\$15.3
Interest Costs	\$83.9	\$104.0	\$131.7
Total Cost of Conflict in Iraq	\$237.8	\$308.9	\$418.3

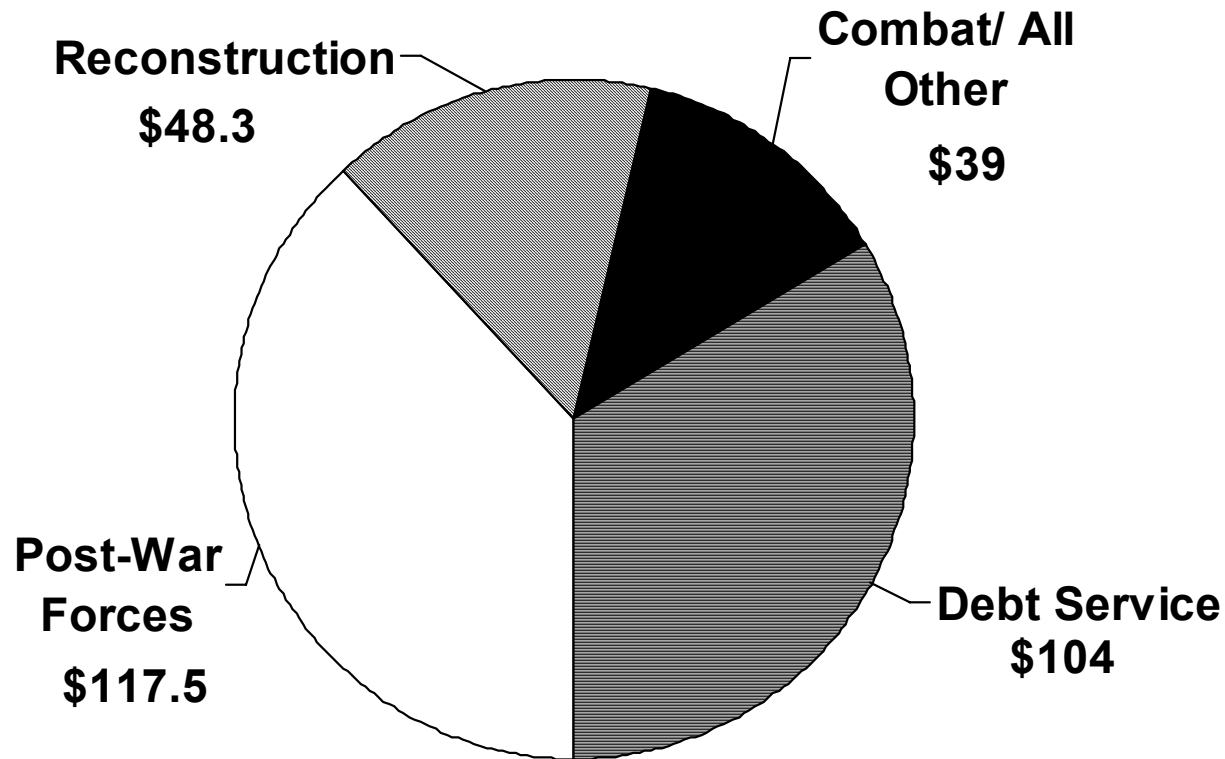
Potential Cost of Conflict in Iraq

Budget Authority in Billions of Dollars, 2003-2013



Potential Cost of Iraq Conflict: Scenario B

Billions of Dollars, 2003-2013



Possible Future U.S. Military Force Levels in Iraq

