

The Fiscal Opacity Cycle

HOW AMERICA HID THE COSTS OF THE WARS IN IRAQ AND AFGHANISTAN

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ABSTRACT

Between 2006 and 2013, Joseph E. Stiglitz and Linda J. Bilmes co-authored a series of papers, articles, congressional testimonies, and a best-selling book¹ investigating the budgetary and economic costs of the U.S. wars in Iraq and Afghanistan. The full scale of those costs exceeded \$3 trillion, including long-term disability benefits and medical care for veterans, war-related increases in the Pentagon base budget, social-economic burdens on veterans and costs to the economy.

Most of this amount was hidden from public view. This chapter examines how it was possible for the United States to commit trillions of dollars to the “post-9/11” conflicts with almost no public debate or accounting for the expenditures. The chapter shows that the methods used to pay for these conflicts differed from the methods used in previous U.S. wars such as Vietnam and Korea. The current wars have been funded through emergency and other mechanisms that circumvented congressional budget rules and kept war spending outside regular budget caps; bypassing standard systems of reporting that ensure transparency and accountability. The chapter examines several contributory factors to this lack of fiscal transparency, including (a) a disengaged public who neither fought in the military nor bore the cost of the conflicts in the form of higher taxes; (b) a military that relied on private contractors to an unprecedented degree; and (c) weak oversight that failed to provide accountability for spending. This led to a “fiscal opacity cycle” in which Congress and the executive branch were able to fund the wars without making budgetary trade-offs against other national priorities.

The lack of accountability for war spending had a real and significant impact on policy choices and outcomes. The impact included increased overspending, waste, profiteering and corruption, poor provision for military veterans of these wars, and nonstrategic military spending.

INTRODUCTION

The United States wars in Iraq and Afghanistan are the longest and most expensive conflicts in U.S. history. Since 2001, U.S. expenditures for military operations in Afghanistan, Iraq, and the surrounding region have amounted to \$4.4 to \$6 trillion,² taking into account medical care and disability compensation for veterans, structural increases to the military health care system, replenishment of equipment and weaponry, restoring the Reserves and National Guards to pre-war levels of readiness, social and economic costs, and conservative estimates for maintaining a long-term military and diplomatic presence in the region.

Direct budgetary outlays for the conflicts exceeded \$2 trillion in the period 2001–2016, not including war-related spending in the U.S. Departments of Energy, State, Labor, Social Security, Medicare, Homeland Security, and the National Security Agency; state and local governments; and indirect costs at the Pentagon. The large sums borrowed to finance operations in Iraq and Afghanistan will also impose substantial long-term debt servicing costs. Future interest on money borrowed to finance the wars is excluded in these figures.³

Apart from the huge sums involved, there are three striking features of this spending.

First, the largest portion of that bill is yet to be paid. Since 2001, the United States has expanded the quality, quantity, availability, and eligibility of benefits for military personnel and veterans. This has led to unprecedented growth in the Department of Veterans Affairs (VA) and the Department of Defense budgets. In addition to the immediate requirements to provide medical care, there is at least \$1 trillion in accrued liabilities for providing lifetime medical costs and disability compensation for those who have survived injuries. These benefits will increase further over the next forty years as veterans' age and require medical attention and disability compensation.⁴ Long-term deferred costs also include structural increases to military personnel and health care systems; depreciation of military equipment; and maintaining a long-term military and diplomatic presence in the region. There are also far-reaching social costs,

including the costs of impaired quality of life; as well as economic and financial costs.⁵

Second, this spending has taken place “off-budget.” Unlike any other war in U.S. history, these conflicts have been funded almost entirely through extraordinary budget mechanisms that circumvent the regular congressional budget process, either partially or entirely. Between 2001 through 2015, Congress enacted some \$2 trillion in direct appropriations for the wars in twenty-seven separate bills.⁶ All but two of them were designated as “emergency” or “Overseas Contingency Operations” (OCO).⁷ Unlike the regular defense and domestic budgets, these types of appropriations were not subject to congressional budget caps; therefore Congress did not have to choose between war funding and other spending.

Third, there is no official record of total expenditures or accounting for how money has been spent. Estimates of total budgetary costs⁸ range from \$1.7 trillion to more than \$4.4 trillion but the constant among those who have attempted to tally it up is that no one really knows⁹ (Belasco 2009, 2011, 2014; Stiglitz and Bilmes 2008, 2012; Edwards 2010; Watson Institute/Brown University 2011, 2015). The Congressional Budget Office (CBO), Congressional Research Service (CRS), Government Accountability Office (GAO), Inspector Generals, and auditors have reported that they cannot fully account for where the money has been spent. The Pentagon has reported “lost visibility” over tens of billions of dollars. Defense analysts have been unable to explain why the direct operating costs have risen from \$1 million per troop in 2008 to \$4.9 million per troop in FY 2017¹⁰—a 490 percent increase. Even taking into account the “known factors” such as operating tempo of the war, the size of the troop force, and the use of equipment and weapons, the CRS noted that “none of these factors appear to be enough to explain the size of and continuation in increases in cost” (Belasco 2011). Nor can this increase be explained by the small amounts to date appropriated for military activities to fight ISIL (Heeley and Wheeler 2016).

How can it be that there is no official record, explanation, or even a framework for tallying the full costs for America’s most expensive war?

The absence of any account for war expenditures is contrary to the global push for transparency.¹¹ As Stiglitz observes, “There is, in democratic societies, a basic right to know, to be informed about what the government is doing and why . . . there should be a strong presumption in favor of transparency and openness in government” (Stiglitz 1999). This idea has taken root worldwide, promoted by the World Bank, the

International Monetary Fund (IMF), and the United Nations. In the past thirty years, more than 100 countries have enacted “right to freedom of information (RTI)” laws¹² (Mendel 2014). Transparency is linked to better accountability, civic engagement, and reduced corruption (Fung, Graham, and Weil 2007; Khagram, Fung, and De Renzio 2013). Some have even hailed transparency as a “basic human right” (Birkinshaw 2006).

The United States has been at the forefront of this effort. The public “right to know” is enshrined in popular culture, based on several articles of the U.S. Constitution (Wiggins 1956). Over the past half-century, the United States has enacted the Freedom of Information Act (FOIA 1966), the “Sunshine Act” (1976), and numerous laws and executive orders that expanded the public’s access to government information.

Presidents George W. Bush and Barack Obama both took steps to expand the disclosure of government spending.¹³ President Bush signed the Federal Funding Accountability Act in 2006, which required full disclosure to the public of all entities receiving federal funds, and established the “USAspending.gov” website. On taking office, President Obama signed two executive orders further expanding fiscal transparency, calling on the Office of Management and Budget to promote openness throughout the executive branch and pledging that his administration would be “the most open in history” (Obama 2009).

This chapter will show that despite a nominal U.S. desire to foster “transparency” in government, the executive and legislative branches adopted policies that effectively hid the costs of the post-9/11 wars. The spending for these wars was concealed by a variety of budget tricks, including circumventing regular appropriations pathways, deferring payments, combining war and non-war expenditures, underestimating depreciation and financing operations through debt. Hence unlike any previous U.S. war, the budget for the Iraq and Afghanistan wars is nearly invisible—a “ghost budget.”

Three main factors played out during these conflicts that enabled the United States to continue funding the war in this unprecedented manner. These were

1. Historically low levels of public participation and engagement, in terms of both military service and financial contribution
2. Unprecedented use of private defense contractors to conduct the war
3. Limited oversight and monitoring of war spending

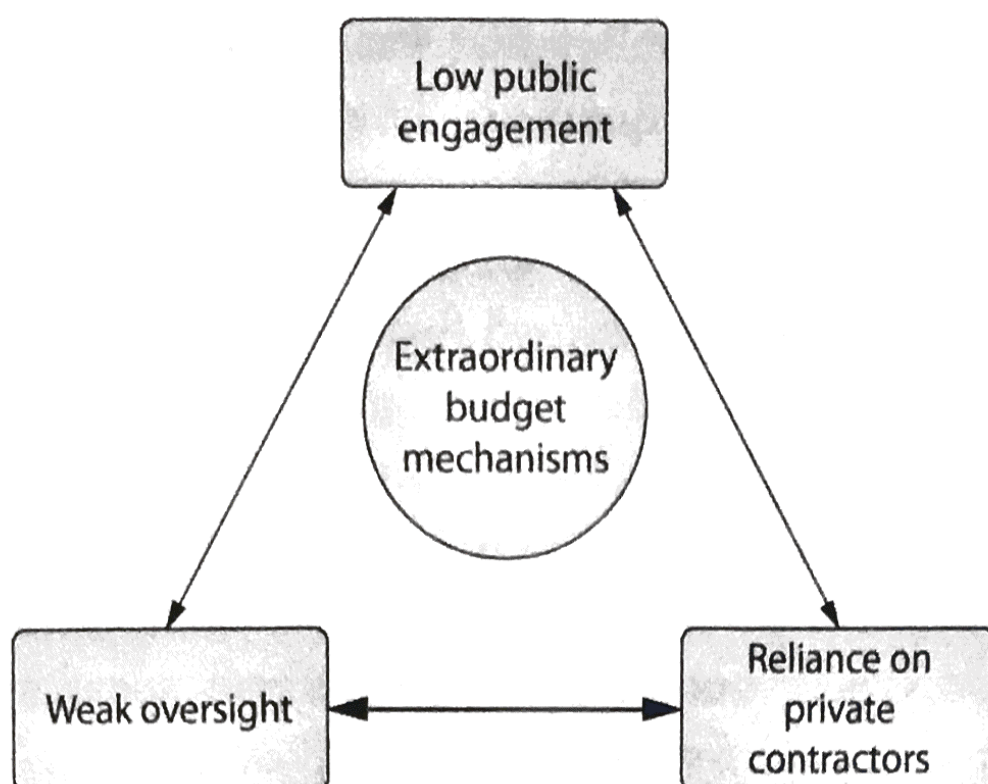


Figure 21.1 Fiscal Opacity Cycle

These three factors were self-reinforcing and emerged as a circular process (the “fiscal opacity cycle”) shown in figure 21.1.

EXTRAORDINARY BUDGET MECHANISMS

Hiding trillions of dollars in government spending is not easy. To do this, Congress and the executive branch used the structural mechanisms of paying for the war as an “emergency,” conflating war and non-war military appropriations, and deferring much of the spending to the future.

These practices were known to be a budget ruse. During the 2008 presidential campaign, Barack Obama criticized the use of hidden appropriations and pledged to end them if elected. In his first presidential address to Congress, Obama said: “For seven years, we have been a nation at war, No longer will we hide its price” and called for “an honest, more accurate and fiscally responsible estimate of federal spending [on the wars] . . . that would end “budget gimmicks and wasteful spending.”

Yet, the Obama administration continued the same practices with only minor adjustments. Funding for the wars was designated as “Overseas Contingency Operations” in the FY 2011 budget, but this was a distinction without a difference. Like emergency funds, “OCO” was exempt from budget caps and sequestration requirements. The Pentagon was required to designate a “placeholder” amount for OCO funding in advance, but this could be changed when it was actually submitted. OCO evolved into an extra, separate military budget, containing a mixture of

war funding and non-war funding that was subject to its own set of rules and virtually impossible to question. The process continued to be an end-run around the congressional apparatus for controlling and vetting appropriations.

This method of funding obscured fiscal accountability in three main ways: (1) off-budget funding; (2) co-mingling of war and non-war monies; and (3) deferred spending.

1. *Off-budget funding*: Funding designated by Congress as “emergency” or “OCO” does not count against government spending caps¹⁴ and bears a lower threshold for justifying and providing details about the money requested. The statutory definition of emergency spending is “unanticipated . . . sudden . . . urgent . . . unforeseen . . . and temporary”¹⁵—where the intent is to disburse money quickly in dire situations such as earthquakes, or similar conditions in which detailed budgetary reviews would cause an unacceptable delay. Congress has used special supplemental emergency/OCO bills to pay for nearly all the expenditures related to Iraq and Afghanistan since 2001. By contrast, during the Korean and Vietnam wars, Congress quickly shifted from the initial use of “emergency” supplemental funding to integrate most war appropriations into the regular defense budget (Martin 2011).¹⁶

2. *Co-mingling of war/non-war monies*: The purpose of supplemental war funding, according to Congress is for *incremental* expenses related to the war.¹⁷ However, there is no specific definition of “incremental” and the OCO and emergency designations can be applied to *any* account. In practice this means that war spending is deeply buried among hundreds of thousands of individual line item expenditures in the defense budget with no straightforward way to disaggregate these costs. Expenditures for Iraq and Afghanistan were intermingled (e.g., money was appropriated for construction, equipment, and personnel in both theaters) so as to make the two conflicts inseparable from a fiscal viewpoint.

The Department of Defense grew by \$1 trillion between 2001 and 2014 (Belasco 2014) in addition to receiving at least \$1.7 trillion in extra war spending. Some line items were clearly related to the war even though they were not categorized as such, including increased medical costs for troops deployed to the war theater, recruiting bonuses, and expenses related to the National Guards and Reservists participating in the wars (Stiglitz and Bilmes 2006, 2008; Bilmes 2007, 2013). However, much of the increased regular appropriations were supporting equipment, weapons, technology,

and other procurement where it was not possible to determine the war versus non-war breakdown.

Compared to the Korean and Vietnam wars, the post-9/11 period was distinctive because war spending was not integrated into the regular defense appropriations process. In both previous eras, the president, the Pentagon, and Congress had debated the need for war funding, and had paid for the war through a combination of tax increases, nondefense spending cuts, and deferred routine defense spending (all of which were robustly debated). Since 2001, however, the additional money needed to fight the wars was appropriated through the last-minute emergency supplemental bills (with virtually no debate); or in the OCO budget, in which the need to be “war-related” was applied inconsistently.

The Pentagon and Congress have changed the definition of “war-related” several times. Initially, war requests were supposed to be directly related to the operations in Iraq and Afghanistan. In FY 2007, the Pentagon expanded “war-related” to include the “longer” war on terror, which meant that nearly anything could be requested this way. In 2009, the Office of Management and Budget (OMB) restored parts of the earlier “war-related” criteria, but adopted a broader geographic span, to include not only Iraq and Afghanistan but Pakistan, Kazakhstan, the Horn of Africa, the Persian Gulf, the Indian Ocean, and other countries. Given that a high percentage of military spending is multiyear funding for activities that take place over a period of time, it became almost impossible to disentangle war and non-war spending.

3. *Deferred spending*: Third, the government significantly expanded programs, benefits, and eligibility rules that will increase the long-term costs of the wars. Compensation and benefits were raised by 47 percent for Reservists and National Guards, primarily in the form of long-term deferred benefits (GAO 2007). Veterans’ benefits (including eligibility, rate of compensation, physical and mental health care, and other benefits) were expanded significantly. These include “accrued” costs which have been promised, but not yet paid. Stiglitz and Bilmes have estimated that higher survival rates from injuries, better medical treatments, more generous disability compensation, and near-epidemic levels of physical and mental health conditions among returning troops mean that the cost of providing lifetime disability and health care benefits will surpass \$1 trillion (Bilmes 2013; Stiglitz and Bilmes 2012). Other deferred spending includes \$40 billion in concurrent military benefits, adjustments to Social Security Disability Insurance, and payments for contractor disability claims (Bilmes 2013).

The sheer volume of money, contracts, and off-budget financing of the wars and the commitments to large future expenditures that were not accounted for represent “constructed barriers” to fiscal transparency (Heald 2012). The question remains as to why this historically unprecedented pattern has persisted over fifteen years, with little serious opposition or questioning.

The literature on war finance does not provide a satisfactory answer. Budgets are usually described as being incremental, providing in a normative sense both a framework for society to reconcile competing demands for scarce resources and ensuring fiscal stability. Both the Korean and Vietnam wars followed this pattern (Wildavsky 1974). By contrast, the post-9/11 wars have been funded outside of the regular budget negotiation process, thus avoiding the need to reconcile competing demands. The economic environment (low interest rates, high demand for U.S. debt, and low inflation) has allowed the government to finance these expenditures entirely through debt, pretending that money is not scarce.

This chapter focuses on one aspect of this situation, which is the lack of transparency and accountability for these expenditures. There were three important factors that contributed to this fiscal opacity: (1) a disengaged public, (2) increased participation by private contractors, and (3) weak oversight. These factors were interrelated and reinforced each other, creating the fiscal opacity cycle.

HISTORICALLY LOW LEVELS OF PUBLIC PARTICIPATION AND ENGAGEMENT IN TERMS OF BOTH MILITARY SERVICE AND FINANCIAL CONTRIBUTION

The absence of conscription and the use of an all-volunteer force and private contract support combined with historically low taxes reduced public interest in the wars, lowered media attention, and took pressure off Congress to demand accountability. This made it easier for Congress and the executive branch to choose the politically expedient method of funding the wars using “emergency” off-budget money financed by debt.

The wars in Iraq and Afghanistan were the first major U.S. conflicts fought entirely by a combination of an “all-volunteer” military force (AVF) and large-scale use of private contractors.¹⁸ The percentage of the population mobilized in the armed forces is small relative to the population in comparison to previous conflicts.¹⁹ Less than 1 percent of

the U.S. adult population was deployed to the combat zones with no threat of conscription for the remainder. The only time the nation had a lower percentage of its young people serving was during a brief period between World War I and World War II.

The Afghanistan and Iraq conflicts were also the only significant U.S. wars in which the (current) general population was not obliged to bear the financial burden in the form of higher taxes. Hormats (2007) and Webber and Wildavsky (1986) have documented that taxes were raised during the Spanish-American War, War of 1812, Civil War, World Wars I and II, and the Korean and Vietnam wars.²⁰ These taxes were significant. For example in 1914, Congress enacted a progressive income tax, with the top rate hitting 77 percent for incomes over \$500,000. During World War II, Congress increased the top income tax rate to 91 percent, expanded the number of people required to pay taxes, and launched a massive war bond program. No previous war has been financed entirely through debt.²¹

The tax burden of the post-9/11 wars was significantly lower than during the wars in Korea and Vietnam. Not only were *top* marginal rates much higher (table 21.1), but the threshold for paying higher rates was lower. For example, the threshold for paying the top marginal rate of 39.6 percent for a household today is \$417,000. Households earning the dollar equivalent of \$417,000 during the Korean and Vietnam wars would have paid at least 71 percent and 63 percent, respectively (figure 21.2). In 1953, the threshold for paying a similar rate of 41 percent was merely \$103,000 in today's dollars. Households earning \$103,000 in today's dollars would pay 25 percent, whereas the equivalent taxpayers during the Korea and Vietnam wars would have paid 41 percent and 32 percent, respectively.²²

Table 21.1 Comparison of Top Marginal Tax Rates During Korea, Vietnam, and Post-9/11 Wars

War (and final year)	Top Marginal Tax Rate (%)
Korea (1953)	92
Vietnam (1969)	77
OEF/OIF (2003–2013)	35.0
OEF/OIF (2014–2016)	39.60

Note: OEF: Operation Enduring Freedom (Afghanistan); OIF: Operation Iraqi Freedom (Iraq).

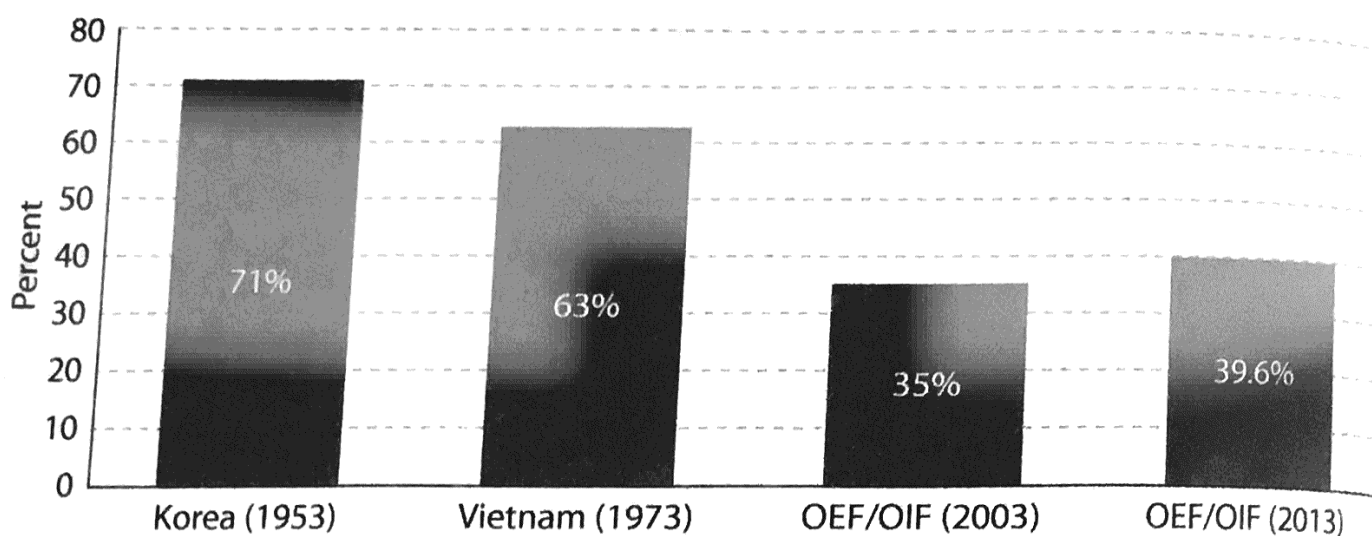


Figure 21.2 Comparison of Wartime Tax Rates During Korea, Vietnam, Afghanistan, and Iraq Wars

Note: Comparison of wartime tax rates for households earning the equivalent of \$417,000 (the threshold for paying top marginal tax rates in 2013). OEF: Operation Enduring Freedom (Afghanistan); OIF: Operation Iraqi Freedom (Iraq).

Source: “Federal Individual Income Tax Rate Adjusted for Inflation.” *Tax Foundation*.

By contrast, the period of Iraq/Afghanistan conflicts saw a series of tax cuts. In 2001 and 2003, the top four marginal income tax rates were reduced, the tax rate on capital gains and dividends was cut, the estate tax virtually phased out, the child tax credit increased, and taxes on married couples were lowered. Taxes were not raised again until 2011, when the deal to avoid the “fiscal cliff” restored top marginal income tax rates to their pre-2001 levels. However, unlike Presidents Truman and Johnson, respectively, the 2011 President Obama did not link tax policy to the costs of the wars (Miller 2007).

Moreover, the current wars were paid for by deficit spending, which meant that the financial burden of the wars was not borne by current taxpayers but rather deferred to the next generation. This led to the illusion that the war was free. Financing the war entirely through debt is an intergenerational trade-off, which is difficult to quantify, because the current generation may apply a different discount rate to futures ones.

The combination of low participation in the military and low tax obligations to pay for the war helped create an environment in which the costs of the war could be hidden. Russett (1990) and Parks (1957) provide support for this argument, showing that Americans are most interested in foreign policy when it has the greatest potential to affect them directly; and that public opinion can influence the level of military

spending. There is a phenomenon in the literature of “rallying around the flag” during national crises which, unless the crisis is sustained, dissipates quickly and the public returns to its previous levels of attention and support (Russett 1990).

The U.S. public overwhelmingly supported the 2001 invasion of Afghanistan and a majority favored the 2003 effort to topple Saddam Hussein, but in both cases, polls show that public attention and enthusiasm for the conflicts tapered off after the initial period, and public awareness of the wars remained at low levels throughout the conflicts. Research on longitudinal public opinion surveys and shares of the “news-hole” devoted to the wars show low and declining public interest and knowledge about the wars. For example, in April 2004, 55 percent of Americans were able to identify correctly the approximate number of U.S. fatalities in Iraq but by March 2008, only 28 percent could do so, with declines across every demographic group. Moreover, a majority of respondents *underestimated* the number of U.S. fatalities, which by that point had reached nearly 4000.²³ News coverage of the Iraq War fell during this period from 15 percent to 3 percent of the “newshole.” By 2011, it had fallen to 0.6 percent on this metric.

Apart from a brief spike in public awareness at the onset of the “surge,” public attention to the wars (measured by relative importance) has remained below 20 percent. This contrasts with the Vietnam era, when 45 percent of the public said that foreign affairs, focusing on Southeast Asia, was “the most important problem facing the country” from early 1965 through 1973 (Russett 1990).

UNPRECEDENTED RELIANCE ON PRIVATE CONTRACTORS

Throughout the Afghanistan and Iraq conflicts, the U.S. military has relied heavily on private contractors to supplement the “all-volunteer force.” Contractors were hired for virtually every military function, including deterrence, combat operations, stabilization, and civil governance. The number of paid contractors working in the war zone exceeded the number of military troops during most years of the conflict. The ratio of private contractors per uniformed U.S. personnel was 1.2:1; by comparison, the ratio was 0.005:1 in the Gulf War and 0.02:1 in Vietnam.²⁴

Reliance on contractors forms an “intrinsic” barrier (Heald 2012) to transparency by increasing the complexity of the process and number

full budgetary impact. For example, the CBO uses short-term funding conventions that do not account for costs that occur beyond a ten-year time horizon (thus ignoring deferred veterans benefits), and the Pentagon ignores the long-term costs of depreciating equipment.²⁹ The U.S. Treasury did not reflect the financing costs of the war in terms of how much the war contributed to the growing national debt or to interest payments.

However, the weak oversight for war spending was exacerbated by the U.S. government wishing to hide the costs of the wars—which were becoming increasingly unpopular—from the electorate. There is evidence that the government deliberately withheld information that was needed for fiscal oversight. For example, Senator James Webb, a member of the Commission on Wartime Contracting, said: “One of the eye-openers for me as a member of the Senate Foreign Relations Committee was when we had testimony from the State Department discussing \$32 billion of programs that were going into Iraq reconstruction. As someone who spent a good bit of time as a bean-counter in the Pentagon, I asked if they would provide us . . . a list of the contracts that had been let, the amounts of the contracts, a description of what the contracts were supposed to do, and what the results were. And they could not provide us that list. For months we asked them. And they were unable to come up with a list of the contracts that had been let.”³⁰

CONSEQUENCES

The net result that the war costs as presented to the U.S. public were a partial snapshot, based on faulty accounting and incomplete budget and financial data. Public disengagement, private contractors, and an erosion of the oversight system created a “fiscal opacity cycle” in which the costs of war were largely hidden from view and the public had little incentive to press for fiscal transparency.

Even assuming that the government did not deliberately set out to hide the costs of the war from public view—the resulting lack of fiscal transparency produced many of the outcomes predicted by those who champion transparency. Fiscal transparency is held to promote accountability, civic engagement, and to decrease corruption. In this case, there was less accountability for taxpayer money, the population was disengaged from major decisions about the war, and there was widespread profiteering, waste, and fraud. Moreover the lack of controls over war expenditures led to specific negative consequences for veterans and for the regular military.

CONSEQUENCES FOR VETERANS

From 2007 to 2010, Stiglitz and Bilmes argued that the Department of Veterans Affairs (VA) was “overwhelmed” and unprepared for the demands of the conflicts (Bilmes and Stiglitz 2010; Bilmes 2007). This prediction was based on their discovery that the Pentagon was keeping two sets of casualty reports: a complete list of “non-mortal” casualties (for internal purposes only); and an abridged list, which reported only a subset of injuries sustained in combat, as narrowly defined. This second list, which excluded injuries incurred during training accidents, transport, accidents, disease, etc., was one-third the size of the total list. Yet, this second list was being shared with the media and the VA—resulting in the VA requesting inadequate funds for planning, medical care, and staffing.³¹

Stiglitz and Bilmes argued that all of these service members would be receiving costly health care and compensation, regardless of how they came by their injuries. Indeed, they pointed out that post-9/11 troops would require higher levels of disability compensation and medical care than previous generations of veterans due to the higher survival rates from injuries, better medical treatment, more generous disability compensation, and incidence of physical and mental health conditions among returning service members. They testified to Congress in 2010 that the cost of meeting obligations to the current veterans would be extremely high—and that it was being concealed.³²

Since then, the demand has risen even faster than Stiglitz and Bilmes’s estimates. The number of veterans seeking care in the VA system has risen from 4.2 million in 2001 to 6.6 million in 2014 (Baggalmen 2014)—despite the decline in the total number of U.S. veterans from 26 to 21.5 million in this time period. The VA budget has tripled (from \$70 billion to \$185 billion), nearly doubled its workforce to 353,000, and it has become the fastest-growing department in the federal government.

Yet, the VA has struggled to meet demand—and largely fallen short. The problems include lengthy waiting times at some VA hospitals, inability to fill thousands of vacancies for medical staff, and a lack of funding to pay for badly needed infrastructure repairs. The VA’s efforts to meet its own revised patient targets has led to widespread falsification of data related to patient access to doctors and other data manipulation. There is a chronic backlog of disability claims arising from the overwhelming number of veterans seeking benefits. Efforts to expedite the processing of

claims have produced an expensive secondary backlog in the number of legal appeals.

Many of these problems would have been lessened if basic information about veterans' injuries and the costs of treatment and compensation had been shared—both within the government and with the public. This situation persists today. As of July 2016, the Department of Defense reports that 52,442 troops have been “wounded in action” in and around Iraq and Afghanistan. However, more than one million veterans of Iraq and Afghanistan have been treated at VA hospitals and clinics, representing 59 percent of all eligible service members.³³ By hiding the true number of service members who are wounded or injured, the government minimizes the scale of medical problems and shifts much of the burden to the veterans and their families.

CONSEQUENCES FOR NATIONAL SECURITY

Costly promises made during the war have reduced the flexibility of the Department of Defense to fund other priorities. These decisions extend far beyond the initial choices made to invade Afghanistan and Iraq and to expand U.S. military involvement in both countries; they include growing the defense medical system; increasing military pay, benefits, and retirement pensions; mobilizing National Guards and Reservists and granting them military benefits, supplementary pay increases, expansion of TRICARE subsidies, allowing “concurrent receipt” for veterans; and constructing new state-of-the-art medical facilities, such as the \$4.5 billion Walter Reed National Military Medical Center in Bethesda, Maryland.

These decisions may be necessary to sustain the all-volunteer force, which depends on a pipeline of recruits, and is sensitive to economic inducements (Simon and Warner 2007). But from a budgetary standpoint, these have been hidden costs of the war, in which cumulatively hundreds of billions of dollars of long-term costs have been added into the system without any discussion about how to pay for them. The military is already reeling under the large and rapidly growing cost of the TRICARE health care system, which has grown from \$19 billion to \$58 billion since 2001, and has become the fastest-rising cost in the entire defense budget. Additionally, Congress has refused to allow the Pentagon to rescind its “temporary” military pay raises enacted during the war years. The diversion of defense budget dollars to support these activities, as well as veterans, will dominate future defense spending and are set to

continue, with much of this growth now “baked in” to the consolidated national security budget. Assuming this pattern continues, there will be a much smaller amount of an already-shrinking defense budget available for core military functions. As a consequence of these wartime spending choices, the United States will face constraints in funding investments in personnel and diplomacy, training, research and development, energy efficiency, and new military initiatives. One likely result is that the United States will tilt in the direction of fewer military personnel in the forces, due to the long-term “baked-in” cost of maintaining active-duty troops. Budget considerations will favor greater investment in unmanned weaponry, robotics, and other technological solutions—which may or may not be a wise choice over the longer term. The legacy of decisions taken during the Iraq and Afghanistan wars will dominate future federal budgets for decades to come.

CONCLUSION

One of Joe Stiglitz’s most famous speeches was his 1999 Keynote Address to Amnesty International, “On Liberty, the Right to Know, and Public Discourse: The Role of Transparency in Public Life.” He argued that the consequences of secrecy can be grave, citing for example, the Cold War and the arms race, which were exacerbated by the military concealing information about Soviet economic weakness. He included fiscal transparency as an important element of the democratic process, referencing the U.S. Savings and Loan crisis as a consequence of flawed accounting. The post-9/11 wars are another example of how damaging a lack of transparency can be, both to our economy and to our democratic system of government. Joe’s contribution to this work has been profound.

NOTES

1. *The Three Trillion Dollar War: The True Cost of the Iraq Conflict* (by Joseph E. Stiglitz and Linda J. Bilmes; New York: Norton, 2008) was a *New York Times* best seller and has been translated into more than twenty languages. See also Linda J. Bilmes and Joseph E. Stiglitz, “The Long-Term Costs of Conflict: The Case the Iraq War” in *The Handbook on the Economics of Conflict* (edited by Derek L. Braddon and Keith Hartley; Cheltenham, UK: Edward Elgar, 2011) and Joseph E. Stiglitz and Linda J. Bilmes, “Estimating the Costs of War: Methodological Issues, with Applications to Iraq and Afghanistan” in *The Oxford Handbook of the Economics of Peace and Conflict* (edited by Michelle Garfinkel and Stergios Skaperdas; Oxford: Oxford University Press, 2012).

2. Based on the estimate of \$4.8 trillion by the Watson Institute/Brown University "Cost of War" study (April 2016) and other economic and social costs.

3. These financing costs are estimated at \$8 trillion (Watson Institute/Brown University 2015).

4. Spending for veterans' benefits peaks decades after a war. WWI veterans' benefits peaked in 1969 and for WWII in the 1980s (see Edwards 2010, 2014). See also Bilmes (2007).

5. Any estimation of macroeconomic costs, such as the link between oil prices and decisions of the Federal Reserve to loosen monetary and regulatory policy prior to the financial crisis, would raise the costs of the wars, even if only a small fraction of the "blame" is attributed to the decision to invade Iraq.

6. Including funds designated for Operation Enduring Freedom (OEF), Iraqi Freedom (OIF), Operation New Dawn (OND), and Noble Eagle; and appropriations related to the war effort for the Departments of State and Veterans Affairs.

7. The Overseas Contingency Operation (OCO) designation was introduced in 2010 to replace the terminology of "emergency" and adopted for the FY 2011 budget. The OCO budget requests were submitted with the regular defense request, but OCO funding continued to be exempt from budget caps and separate from the regular defense budget.

8. Based on the Stiglitz and Bilmes (2012) taxonomy for estimating war costs.

9. Not including debt service or economic costs.

10. Direct OCO spending per troop has risen from \$1 million in 2008 to \$5.9 million in FY 2017, of which \$1 million could be explained by known factors (Heeley 2016). Belasco (2014) reports that per-troop costs in Afghanistan increased by 345 percent from \$870,000 in FY 2011 to \$3.9 million in FY 2015.

11. Transparency involves more than simply disclosing information. It also requires the "access, comprehension and use of it by the public" (Ginsberg et al. 2012).

12. Paraguay was the one-hundredth country to adopt freedom-of-information laws in September 2014 (Open Government Partnership).

13. Transparency, openness, and disclosure are related but slightly different concepts, in that "openness" might be a characteristic of the organization, and disclosure is the act of disseminating information, whereas transparency also requires external receptors capable of processing information made available (Heald 2006).

14. Each committee in Congress is allocated a specific amount of budget authority; funds designated as emergency or OCO do not count within these statutory budget limits.

15. See § 102(4) (20).

16. Other possible explanations (for example, that the military could not plan ahead sufficiently to request funds during the regular budget cycle) are not persuasive because in each year, the administration announced the supplemental war request months ahead of the budget submission.

17. The regular defense budget covers ordinary expenses such as salaries for service members, which are paid regardless of whether they are deployed. Troops are paid supplemental "hardship pay" and other benefits during wartime which may be considered an "incremental" expense.

18. The AVF was introduced in 1973. Although the military has employed contractors since the Revolutionary War, private contractors were engaged more extensively and in roles traditionally performed by the military during recent years.

19. To place participation in perspective, over 9 million military personnel served on active duty in the Vietnam era (August 1964 to May 1975). In the current conflicts, 1.8 million Americans have served over 15 years, since October 2001.
20. The 1991 Gulf War was mostly financed by U.S. allies.
21. Possibly excepting the Revolutionary War, during which the Colonies borrowed from France.
22. Calculated using "U.S. Federal Individual Income Tax Rates History, 1862–2013 (Nominal and Inflation-Adjusted Brackets)," Tax Foundation (October 2013) and the IRS's Tax Statistics database. "SOI Tax Stats—Individual Statistical Tables by Tax Rate and Income Percentile," IRS. <https://www.irs.gov/uac/SOI-Tax-Stats-Individual-Statistical-Tables-by-Tax-Rate-and-Income-Percentile> (2016).
23. Project for Excellence in Journalism "News Content Index" (February 2008).
24. Defense Science Board, "Contractor Logistics in Support of Contingency Operations," June 2014.
25. Report to Congress on Contracting Fraud, Under Secretary of Defense for Acquisition, Technology and Logistics (October 2011).
26. These were set up to investigate the \$110 billion (Afghanistan) and \$62 billion (Iraq) appropriated for reconstruction spending.
27. For example, "SPOT" or "Synchronized Pre-Deployment Operational Tracker" set up in 2008, which was supposed to track spending information on contracts awarded in the State Department, U.S. Agency for International Development (USAID), and the Pentagon. In 2010, GAO reported that "SPOT still cannot reliably track information on contracts, assistance instruments and associated personnel in Iraq and Afghanistan." GAO further stated that the data on personnel was unreliable due to "significant over- and undercounting."
28. See for example, GAO-11-886, "DOD, State, and USAID Cannot Fully Account for Contracts, Assistance Instruments, and Associated Personnel"; GAO-11-355, "U.S. Efforts to Vet Non-U.S. Vendors Need Improvement"; GAO-11-1, "DOD, State and USAID Face Continued Challenges in Tracking Contracts, Assistance Instruments, and Associated Personnel."
29. These structural flaws did not always increase the costs of war—in some cases, they obscured cost *savings*. For example, the United States reported that it saved some \$12 billion per year that had been required to enforce the Northern and Southern "No-Fly" zones over Iraq for a decade prior to the U.S. invasion (Stiglitz and Bilmes 2008).
30. August 31, 2011—Final Commission on Wartime Contracting in Iraq and Afghanistan News Briefing about its Final Report to Congress.
31. Using the "Freedom of Information Act (FOIA), Bilmes and Stiglitz uncovered this discrepancy in 2007.
32. Stiglitz and Bilmes (2008) predicted that by 2012, some 41 to 46 percent of new veterans would be enrolled in the VA health care system and that 39 to 43 percent would have applied for disability benefits. The percentage of Iraq and Afghanistan veterans receiving government medical care has grown to 59 percent of the total.
33. "Analysis of VA Health Care Utilization among Operation Enduring Freedom (OEF), Operation Iraqi Freedom (OIF), and Operation New Dawn (OND) Veterans," VHA, U.S. Department of Veterans Affairs (June 2014).

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