REPUBLICAN CAUCUS
THE COMMITTEE ON THE BUDGET
B-71 Cannon House Office Building
Washington, DC 20515
Representative Paul D. Ryan, *Ranking Republican*
Phone: (202)-226-7270
Fax: (202)-226-7174
Augustine T. Smythe, *Republican Staff Director*

WAR GAMES

THE PRESIDENT'S BUDGET AND $1.5 TRILLION IN WAR 'SAVINGS'

13 March 2009

The President's budget disparages gimmicks and declares "a return to honest budgeting." But his fiscal plan then goes on to claim $1.5 billion in war "savings" that, upon closer examination, prove to be an illusion.

The budget employs a deception, asserting $1.6 trillion in "savings" and $1.5 trillion in "deficit reduction" by projecting a benchmark level of future spending for operations in Iraq and Afghanistan that no one was anticipating. Put another way, the administration budget assumes an elevated path of war spending that was never going to be followed, and then claims savings through a reduction that was going to occur anyway.[1]

The maneuver would be troubling enough in itself. It is even more so considering these war spending "reductions" represent three-fourths of the $2 trillion in line-by-line budgetary "savings" the President promised in his Address to a Joint Session of Congress. It is equally disturbing in light of the President's vow to discard such "gimmicks" and "sleights of hand." The stratagem becomes thoroughly untenable to the extent the President plans to *spend* these nonexistent savings: the spending surely will occur, but the "newly available" resources will never materialize.

The discussion below explains this war funding ruse.

DESCRIPTION OF THE GIMMICK

For fiscal year 2008, Congress appropriated $192.5 billion to fund operations of the Department of Defense [DoD] and Department of State in Iraq and Afghanistan, according to the Office of

[1] The situation is the opposite of the post-Vietnam "peace dividend" that the late Senator Daniel Patrick Moynihan, then Director of President Nixon's Domestic Policy Council, termed "as evanescent as the morning clouds over San Clemente." He offered the description in August 1969, after administration analysts, investigating ways to use the expected savings from the Vietnam drawdown, found most of these resources were already committed to new expenditure programs including, but not limited to, some of President Johnson's Great Society initiatives. *The crucial difference, however, is that the savings after Vietnam actually existed; the current administration's post-Iraq savings, for the most part, do not*. (The 1969 account cited here comes from the late Herbert Stein, then a member of the Nixon administration's Domestic Policy Council, in "Remembrance of Peace Dividends Past," *The American Enterprise*, March-April 1990.)

Management and Budget [OMB].[2] This was the peak level of war funding, and it occurred for several reasons, including:

- President Bush ordered a temporary "surge" in operations in Iraq.
- The appropriation included $16.7 billion for the one-time purchase of Mine-Resistant Ambush Protected [MRAP] vehicles. (The Pentagon has ordered 15,838 such vehicles, but it now appears not all will be needed.)
- A sum of $4.2 billion was appropriated for the escalating cost of fuel. Some of this was to cover fuel price increases in base DoD programs, and was not associated with war costs.
- Congress added back $1.3 billion for Base Realignment and Closure [BRAC] commission funding that it did not fully fund in the Defense Department's base appropriations bill.

The situation has changed dramatically since enactment, on 30 June 2008, of the second fiscal year 2008 supplemental. On 9 September 2008, President Bush announced a reduction of 8,000 troops in Iraq. Slightly more than 2 months later, on 27 November 2008, the Iraqi government approved a Status of Forces agreement with the United States that calls for the withdrawal of all U.S. troops by 2011. Crude oil prices have fallen by more than a third, from $140 a barrel at the end of June 2008 to approximately $40 a barrel today.

Although the troop surge was temporary, and the Bush administration had already begun to wind down the war effort, the Obama administration took this peak level of $192.5 billion as a benchmark for war funding, and projected it forward for 11 years – fiscal years 2009 through 2019 – adjusting for inflation as well. In essence, this approach assumes the now-completed troop surge was slated to continue for the next 10 years, and that the Pentagon would continue buying 15,000 MRAPs every year as well. It also assumes funding costs associated with the closure of domestic military bases as part of the war effort, a plan no one has put forward. In fact, when Admiral Mullen, Chairman of the Joint Chiefs of Staff, was asked whether he made this 10-year projection, his answer was "no."[3]

In short, although no one was planning to continue the war at 2008 levels, the current administration has assumed these levels to manufacture a "baseline" projection of $2.1 trillion in appropriations for the war for 2010 through 2019. (See Table 1 attached at the end of this document.) The administration then claims war "savings" by subtracting its estimated war funding amounts from this inflated base.

For fiscal year 2010, the administration has requested $130 billion for operations in Iraq. For the subsequent 9 years, the President's budget includes a "placeholder" of $50 billion annually, for a total of $580 billion for the war for the 10-year period of 2010-19. The administration then compares this $580 billion in total war spending to the "baseline" level of $2.1 trillion and alleges

[2] OMB appears to have overstated war funding in fiscal year 2008. The Congressional Budget Office estimates a smaller war funding appropriation of $186 billion that year.

[3] http://www.foxnews.com/story/0,2933,502904,00.html

a total of $1.6 trillion in budget authority savings. It is noteworthy that more than 90 percent of the so-called "savings" come from "placeholder"[4] levels for 9 of the 10 years that the President claims as savings.

For the current year, fiscal year 2009, the administration appears to have used this approach as well, and assumed the $192 billion in total enacted 2008 spending for overseas contingency funding. But for his actual war funding request for the Department of Defense, the President asks for $83 billion in new spending ($76 billion for DoD and $7 billion for International Affairs) in addition to what already has been enacted, producing a 2009 war funding level of approximately $153 billion. Relative to the baseline, the President's request would then appear to provide $40 billion in fiscal year 2009 "savings."

THE ADMINISTRATION'S 'JUSTIFICATION'

The administration has explained its approach by stating: "That's the traditional way in which budget projections have been done."[5] That assertion is incorrect. The Congressional Budget Office [CBO] employs the most recent enacted level – in the current case it would be $68.9 billion – and then carries that forward, adjusting for inflation. CBO does not go back an additional year to find the highest number. In addition, the House and Senate Budget Committees traditionally have taken emergency spending out of their baseline projections.

If the administration's explanation were applied more broadly, it would call for extending the $787-billion stimulus bill in the baseline; but the President's budget did not do this. Indeed, OMB removed from its baseline projections one-time "non-recurring" emergency spending for disasters, but did not apply this adjustment to its war baseline projections.[6]

The rationale also conflicts with the administration's baseline treatment of the alternative minimum tax [AMT]. As is well known, this tax threatens each year to ensnare more than 20 million additional taxpayers, producing substantial amounts of added tax revenue. Congress has responded by "patching" the tax – adjusting it to prevent new taxpayers from being subject to the AMT – on an annual basis. The President's budget – reasoning that no one ever intended for the government to collect this revenue – assumes the continuation of the AMT patch, but does not treat it as a new tax reduction If the same logic were applied to the war, where no one ever intended to continue operating at peak levels, then this spending would not be in the baseline.

[4] The administration's budget characterizes the $50 billion as follows: "The budget includes placeholder estimates of $50 billion per year for 2011 and beyond. These estimates do not reflect any policy decisions about specific military or intelligence operations." Source: Office of Management and Budget, *A New Era of Responsibility*, page 55.
http://www.whitehouse.gov/omb/assets/fy2010_new_era/A_New_Era_of_Responsibility2.pdf

[5] Testimony of Peter R. Orszag, Director of the Office of Management and Budget, to the Committee on the Budget, U.S. House of Representatives, 3 March 2009.

[6] Op.cit. See Table S-7, page 121, $167 billion in "non-recurring" disaster spending is removed from the baseline.

Finally, the administration has pointed to previous wars as a justification. But this too is unreasonable. During World War II, for example, Federal spending peaked at 43.6 percent of gross domestic product [GDP], the deficit exceeded 30 percent of GDP, and the debt held by the public reached 108.6 percent of GDP. The United States would have gone bankrupt had President Truman projected these levels for the next 10 years and then used them to justify a huge expansion in spending, deficits, and debt. Instead, he quickly wound down the war effort and Federal spending, deficits, and debt began a rapid decline: by 1948, spending was down to 11.6 percent of GDP, the government was running a surplus of 4.6 percent of GDP, and the debt stood at 84.5 percent of GDP and was rapidly declining.

RISK OF REPEATING THIS GIMMICK

Matters could quickly worsen if OMB continued this baseline maneuver in future budgets: the administration could manufacture additional ephemeral "savings" in subsequent budgets, promoting additional spending of resources that would never materialize. For instance, when the President submits his fiscal year 2011 budget next February, he could inflate the war funding level from the fiscal year 2009 enacted level ($152 billion, as he has proposed), add inflation, and extend it for 10 years. He could then assume a $50-billion placeholder for the outyears, and claim *another* $1 trillion or so in "savings" relative to the baseline. Moreover, if the actual pace of operations in Iraq or Afghanistan is higher in 2009, and Congress needs to provide more than the President requested for the war – not an unreasonable assumption, considering the President recently increased troop levels in Afghanistan – this would produce an even higher baseline from which to claim even more savings.

In other words, the longer the U.S. stays in Iraq and Afghanistan, and the more the government applies the administration's modern math, the more the government "saves." Given such logic, columnist George F. Will asks: "Why, one wonders, not 'save' $5 trillion by proposing to spend that amount to cover the moon with yogurt and then canceling the proposal?"[7]

[7] Will, "Paved With Magnificent Intentions," *The Washington Post*, 12 March 2009.

This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives. It has not been approved by the full committee and may not reflect the views of individual committee members.

Table 1: Overseas Contingency Funding, the Baseline, and the President's Budget
(in billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-19
Overseas Contingency Operations												
Current Policy Baseline (budget authority [BA])[a]	192	195	198	203	207	212	217	222	227	232	237	2,148
Budget Request (DoD) (BA)	76	130	—	—	—	—	—	—	—	—	—	130
Budget Outyear 'Placeholder' (BA)	—	—	50	50	50	50	50	50	50	50	50	450
International Affairs (BA)	7	—	—	—	—	—	—	—	—	—	—	—
Fiscal Year 2009 Enacted (DoD) (BA)	66	—	—	—	—	—	—	—	—	—	—	—
Fiscal Year 2009 Enacted (International Affairs) (BA)	4	—	—	—	—	—	—	—	—	—	—	—
Total Budget Request (BA)	153	130	50	50	50	50	50	50	50	50	50	580
Budget Minus Baseline (BA)	-40	-65	-148	-153	-157	-162	-167	-172	-177	-182	-187	-1,568
Outlay 'Savings' Relative to Current Policy Baseline	-31	-60	-119	-139	-150	-157	-163	-168	-173	-178	-184	-1,490

Source: House Budget Committee estimates based on Office of Management and Budget data. Figures may not add due to rounding.
[a] Baseline includes contingency funding for International Affairs. The administration did not request contingency operations funding for International Affairs for fiscal years 2010-19.