

**The “Ghost Budget”: Explaining U.S. Budgetary
Deviations During the Post-9/11 Wars**

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ABSTRACT

The post-9/11 wars in Iraq, Afghanistan, and nearby locations were characterized by the largest single deviation from standard budgetary practice in U.S. history. This thesis explains why and how the wars (from 2001 through 2019) were funded entirely differently from previous U.S. wars. Those differences include both the method of budgeting (circumventing usual procedures and limits) and how the wars were paid for and financed (without tax increases or spending cuts and relying exclusively on debt). This combination effectively established a parallel or “ghost” budgetary process, exempt from regular government spending constraints, which became institutionalized as a second source of military spending.

The development of a “Ghost Budget” is neither predicted nor explained by the existing scholarly writing on budgetary practice or theory. The literature on budgetary practice during war is limited. It does not adequately explain the political, military, and economic factors that led to the emergence of an institutionalized, second-tier defense budget.

The thesis makes three specific contributions to the literature on war finance. First, it presents evidence, based on data mining of historical documents, that the President and Congress paid less attention to the funding and financing of the post-9/11 wars than was the case in previous conflicts. Second, it demonstrates that the Ghost Budget outcome was the result of an interplay between changes in the Congressional budgetary process, a more assertive military establishment, and the conditions in global capital markets. Third, it analyzes the implications of this anomalous form of war budgeting, arguing that it decreases accountability for war spending and reduces legislative control over war policy.

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This thesis was driven by my longstanding obsession with the cost of the U.S. wars in Iraq and Afghanistan—America’s longest and most expensive conflict. I resolved to understand how it was possible to spend many trillions of dollars over a period of 18 years without more public debate, and to answer the question that was plaguing me: Why was there no public outcry?

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GLOSSARY

ANSF	Afghan National Security Forces
ASCE	American Society of Civil Engineers
ARRA	American Recovery and Reinvestment Act of 2009
AVF	All-Volunteer Force
AUMF	Authorization for Use of Military Force
BBEDCA	Balanced Budget and Emergency Deficit Control Act of 1985
BAA	Budget and Accounting Act of 1921
BCA	Budget Control Act of 2011
BEA	Budget Enforcement Act of 1990
BTMs	Budget Transmittal Memos
CBO	Congressional Budget Office
CBICA	Congressional Budget and Impoundment Control Act of 1974
CEA	Council of Economic Advisers
COIN	Counterinsurgency
CPI	Consumer Price Index
CR	Continuing Resolution
CRS	Congressional Research Service
CSIS	Center for Strategic and International Studies
DCA	Defense Cooperation Account
DERF	Defense Emergency Response Fund
DoD	Department of Defense
DMDC	Defense Manpower Data Center
ECI	Employment Cost Index
EDI	European Deterrence Initiative
EGTRRA	Economic Growth and Tax Relief Reconciliation Act of 2001
EOP	Executive Office of the President
FOIA	Freedom of Information Act
FRED	Federal Reserve Economic Data, Reserve Bank of St. Louis
FY	Fiscal Year
GAO	Government Accountability Office
GDP	Gross Domestic Product
GWOT	Global War on Terror
ICE	Immigration and Customs Enforcement
IG	Inspector General
IMF	International Monetary Fund
ISIL	Islamic State of Iraq and the Levant
MRAP	Mine-Resistant Ambush Protected
NSC-68	National Security Council 68
OASI	Old Age and Survivors Insurance
OCO	Overseas Contingency Operations
OECD	Organisation for Economic Cooperation and Development
OEF	Operation Enduring Freedom
OIF	Operation Iraqi Freedom
O&M	Operations and Maintenance
OMB	Office of Management and Budget
ONE	Operation Noble Eagle
OSD	Office of Secretary of Defense

PAYGO	Statutory Pay-As-You-Go Act of 2010
PCT	Public Choice Theory
PPBE	Planning, Programming, Budgeting, and Execution
PPBS	Planning, Programming, & Budgeting System
QE	Quantitative Easing
R&D	Research and Development
RDT&E	Research, Development, Test, and Evaluation
SEAEF	Southeast Asia Emergency Fund
SIGAR	Special Inspector General for Afghanistan
SOTU	State of the Union
S&L	Savings and Loans
SSDI	Social Security Disability Insurance
TARP	Troubled Asset Relief Program
UN	United Nations
UPLs	Unfunded Priority Lists
VA	Department of Veterans Affairs
WHCF	White House Central Files
WMD	Weapons of Mass Destruction

CHAPTER 1 INTRODUCTION

§ 1.1 The Research Question

The post-9/11 wars were the longest and possibly the most expensive conflicts in United States history. Estimates of the cost range from \$2.0 tn (McGarry & Epstein, 2019) using the narrowest definition of war spending, to \$6.4 tn (Crawford, 2019b), which includes indirect costs, such as veterans' disability benefits.¹ Stiglitz and Bilmes estimated the costs at \$3.6–4 tn (Stiglitz & Bilmes, 2008; 2010).

The wartime budgetary process from 2001 to 2019 was the largest single deviation from standard budgetary practice in American history (Bilmes, 2013; Hormats, 2007; Kreps, 2018a). Although there are variations in how the United States funded past wars, the post-9/11 conflict was an anomaly. Every prior U.S. conflict entailed some mix of tax increases and domestic spending cuts (Hormats, 2007; Zielinski, 2016), as shown in Table 1.1. Previous wartime budgets were incorporated into regular base defense appropriations after a short initial period, following which they became subject to the same constraints, trade-offs, and political debate as the rest of the military budget.² Historically, the President and Congress engaged actively in crafting a strategy to pay for each conflict, including extensive discussions on how to do it (Fisher, 2013).

By contrast, the post-9/11 wars were funded without tax increases or explicit reductions to the domestic non-military budget. War spending was never integrated into

¹ Lower-bound estimates include only *direct* incremental costs, such as supplemental combat pay. Higher estimates also include *indirect* incremental costs, such as veterans' benefits, replacement of National Guard equipment, and loan forgiveness to coalition partners. The Costs of War Project (Crawford, 2019b) also includes interest on debt for the conflict and homeland security spending attributable to the post-9/11 wars, whereas Stiglitz and Bilmes exclude these costs. For a complete taxonomy of war costs, see Stiglitz and Bilmes (2012). These totals refer to the *incremental* costs of war, not to basic defense spending incurred regardless of conflict. For example, supplemental combat pay and call-up of reservists are included, but regular military salaries are excluded.

² "Defense appropriations" are defined in this thesis as the National Defense budget function 050. The Department of Defense (DoD) budget accounts for 96% of the function (Belasco & Towell, 2014).

the base defense budget. The President and Congress were far less engaged in developing war funding policies than in previous wars. I will demonstrate that there was little debate over war funding strategy. Something previously unthinkable happened: post-9/11 war spending gradually evolved into a permanent second defense budget.

Table 1.1 Taxes and Budget Cuts During America’s Wars

	War of 1812	Civil War	Spanish American War	World War I	World War II	Korea War	Vietnam War	Gulf War	Post 9/11 Wars
Tax Increases	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Non-war Budget cuts	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No

Source: (Fisher, 2000; Hormats, 2007; Kreps, 2018a; R. M. Miller, 2007; Zielinski, 2016)

Taken together, the government’s budgetary and fiscal policies constitute the way resources are identified and provided to pay for a war. The primary focus of my research is the *budgeting* for the wars. This term refers to the full federal budget cycle during which funds are planned, requested, justified, evaluated, authorized, appropriated, apportioned, obligated, and executed to fund the conflict (R. M. Miller, 2007). Such money may be enacted in the regular annual budget (the “base” budget), in supplemental spending bills, or both. The budget process can be conducted “on-budget” (within Congressional spending limits and calculated against the total surplus or deficit) or “off-budget”-- exempt from the limits and not counted against the total budget surplus or deficit (Schick, 1995).³

³ “Off-budget” refers to spending and/or revenue that is outside of the regular budget process and excluded from budget caps, sequestration, and pay-as-you-go requirements.

The post-9/11 wars were funded “off-budget” until 2010. After 2011, war funding used a new budgetary mechanism, what I have termed a “hybrid,” that was exempt from regular Congressional rules and spending limits. This hybrid budget was separate from the annual defense base budget, even though it was submitted during the annual budget cycle (Belasco, 2014; Epstein & Williams, 2017).

In addition to budgeting, I examine how the wars were financed and the interplay between budgetary, fiscal, and financial policies. Historically, U.S. wars have been financed through some combination of higher taxes, reductions in non-war spending, fees, dedicated war bonds, borrowing, and monetary expansion (Hormats, 2007; Kreps, 2018a; Zielinski, 2016). The post-9/11 conflict marked the first time since the American Revolution in 1776 that the United States financed a war entirely through debt (Epstein & Williams, 2017; Hormats, 2007; Kreps, 2018a; Stiglitz & Bilmes, 2010).

The combination of *budgetary* policies (exempting war spending from budget caps and totals, and appropriating funds in supplemental bills outside the annual budgetary process), *funding* policies (paying for war operations without taxes or offsetting cuts), and *financing* methods (relying entirely on debt) constituted what I have termed a “Ghost Budget.”

I have chosen to call this set of circumstances a “Ghost Budget” in reference to Samuel Taylor Coleridge’s description of the ghost in literature as “visibility without tangibility” (Coleridge, 2019, p. 30). The enormous sums spent to wage the wars were apparent to all participants—but the tangible impact was largely absent. The war spending was hidden behind irregular budgetary procedures that avoided hard choices in Congress and public scrutiny. The ghost in literature has often been used as “a metaphor for the weight of the past” (Kunz, 2016, p. 107). So in this case: war budgets appeared every year in the record of past Congressional appropriations, but they were excluded

from projections of future government spending. And because the spending was financed entirely through long-term borrowing, U.S. taxpayers have not felt a tangible impact, even after 18 years.

The term “ghost” appears frequently in government reports on the post-9/11 wars, referring to alleged people, places, or projects that turned out to be phantoms, and where the funds vanished. The Special Inspector General for Afghanistan Reconstruction (SIGAR) has written about “ghost projects” that appeared only on paper, as well as “ghost workers,” “ghost schools,” “ghost teachers,” “ghost students,” and “ghost seminars” (SIGAR, 2009, 2016, 2017, 2019b). The Department of Defense has acknowledged the serious problem of “ghost” soldiers and “ghost” police in Helmand Province, Afghanistan, where the United States appropriated \$68 bn from Fiscal Year (FY) 2002 onwards.⁴

The amount of money involved was significant both in scale (adding trillions of dollars to defense spending) and as a percentage of military spending. Since 2003, direct federal spending on the post-9/11 war budget constituted at least one tenth of total annual defense spending, reaching more than 20% of expenditures from 2006 through 2011 and remaining at 10% per year from FY 2012 through FY 2019. This “Overseas Contingency Operation” (OCO) budget⁵ became a second defense war chest, exempt from regular budgetary checks and balances, which the Pentagon used to support a wide range of non-war pursuits.⁶

⁴ See, for example, the letter from Deputy Assistant Secretary of Defense for Afghanistan, Pakistan and Central Asia Jedidiah P. Royal to John Sopko dated October 3, 2016, regarding DoD efforts to identify and eliminate “ghost personnel” from the Afghan National Security and Defense Forces (ANSDF; J. Royal, personal communication, October 3, 2016).

⁵ Government documents use the term OCO to refer to the entire budget stream since 9/11 (McGarry & Epstein, 2019).

⁶ L. Korb, Interview No. 9, September 19, 2016; R. Hale, Interview No. 24, November 7, 2017.

The central question of the thesis is: Why did standard budgetary practice break down in funding the post-9/11 wars?⁷ This evolution poses a puzzle for the standard theories of federal budgeting. These assume a large degree of incrementalism, negotiation, and compromise between interest groups, and reliance on existing budgetary patterns, rules, limits, and deliberations. The thesis investigates how this budget breakdown occurred and examines the implications for budget policy and theory. Finally, the thesis explores the impact on national security spending, war finance, and broader public policy. I will argue that the existence of this Ghost Budget has had far-reaching implications for the conduct and course of the post-9/11 wars and for defense policy more generally.

The thesis compares war funding policies and decision-making (including the role of the President, the Congress, and the military) during the post-9/11 wars to two previous United States conflicts: Korea and Vietnam. I selected Korea and Vietnam as benchmarks because both were expensive, multi-year conflicts in which the United States deployed personnel, equipment, and weaponry overseas; appropriated money over several years; and suffered major casualties.⁸ In these and earlier wars, Congress appropriated the majority of funds to pay for them out of the same budgetary “pot” as regular military spending after an initial period of 12–24 months (Hormats, 2007; R. M. Miller, 2007).⁹ This mechanism ensured open discussion of “trade-offs” between different spending needs, with the budget process forcing Congress to reconcile competing national spending priorities. The literature on federal budgets prescribes such a system as a normative

⁷ This question meets the two criteria in King, Keohane, and Verba (1994, p. 15) that a research question should be important in the real world, and contribute to an identifiable scholarly literature.

⁸ U.S. Fatalities (In Theater): Korea: 36,574; Vietnam: 58,220; post-9/11 Wars: 7,046 (DeBruyne, 2017; U.S. Department of Defense “Casualty Status,” 2020). Total deaths among all parties are estimated at 3.5 million in Korea and over 2 million in Vietnam (Rummel, 1998).

⁹ The time period varied depending on where the initial appropriation fell in the annual budget cycle.

formula for ensuring that the legislative branch has stable checks and balances to guide choices about where public money is spent (Lindblom, 1993; Wildavsky, 1979).

The thesis uses a multi-method approach recommended by King, Keohane, and Verba (1994) and George and Bennett (2005). It draws from a range of evidence that includes archival documents, Presidential records, Congressional transcripts and budget documents, elite interviews with experts, original data mining of documents, financial analysis, and regression analysis. Its primary method is process tracing,¹⁰ with the purpose of identifying why and how the unorthodox OCO budget emerged.¹¹

The emergence of the Ghost Budget had two major implications for public policy. First, it weakened the main lever through which Congress maintains control of a war, namely its control of the purse. The U.S. Constitution grants Congress the power to declare wars and the power to fund them, which many argue serve as checks on Presidential war powers (Fisher, 2000; Weiler & Callanan, 2008). However, the main leverage that Congress has to control war policy is through the appropriations process (Fisher, 2000, 2013). I will show that the 1974 budget reforms, enacted by Congress in an effort to strengthen its role in federal budgeting, in practice actually weakened its control over war spending (Fisher, 2000, 2013). The overall Congressional budget process became dysfunctional, a view shared by budget experts in both parties.¹² I will argue that this budgetary breakdown created a vacuum that enabled the military bureaucracy to gain significant control over resources at the expense of the legislative branch (Fukumoto & Sharma, 2015; Martin, 2011).

¹⁰ King, Keohane, and Verba (1994, p. 31) note that drawing a causal inference requires good descriptive inference. In this case, process tracing has provided the material needed to understand the phenomena that occurred, including the sequence of events in the budget breakdown and the mechanisms used.

¹¹ The puzzle described is a “deviant” case where process tracing is helpful to identify the causal mechanisms (George & Bennett, 2005).

¹²A. Rivlin, Interview No. 22, October 24, 2016.

The Ghost Budget curtailed the normal checks and balances over military spending. I will argue that paying for the war outside regular procedures weakened the institutional mechanisms for Congressional control over military actions, diminished accountability for war expenditures, and weakened fiscal discipline over the defense budget. Furthermore, I will show that the two-tiered budget produced different outcomes in terms of the total cost of the war and the nature of the military activities that were funded (Fukumoto & Sharma, 2015; Martin, 2011).

The second implication is that the Ghost Budget made it easier for the government both to engage in the wars and to prolong them.¹³ I will show that the absence of tax increases or spending cuts reduced the amount of legislative and public debate and oversight over the conduct of the wars.¹⁴ The consequence of borrowing all the money for the conflict was to transfer the financial cost—both the trillions of dollars of current spending and the expensive contingent liabilities—to future generations (Bilmes, 2013). Overall, the costs of the wars were made less visible and gradually removed the topic of war from the public consciousness (Kreps, 2018a).

In addition, relatively few Americans carried the burden of fighting in the wars. Conscription ended in 1973, close to the end of the Vietnam War. Less than one half of one percent of Americans were deployed to Iraq or Afghanistan, the lowest percentage in any foreign war in modern U.S. history.¹⁵ As a result, although the United States has been at war for over 18 years, the majority of its citizens neither fought in nor paid for the conflict. According to military historian Andrew Bacevich:

¹³ J.E. Stiglitz, Interview No. 28, January 6, 2017; J. Galbraith, Interview No. 2, January 5, 2016; A. Bacevich, Interview No. 13, September 23, 2016.

¹⁴ Chapter 2 compares Congress's role during Korea, Vietnam, and the post-9/11 wars based on my analysis of content and word counts during hearings.

¹⁵ Approximately 0.43% of the adult U.S. population has been deployed to military operations comprising the post-9/11 wars, compared with 12% in World War II, 1.76% during Korea, and 1.5% during the peak years of fighting in Vietnam (1967–70; Kane, 2016).

We don't feel the pain of casualties and we are not required to pay for anything, so people just don't care. If taxes were increased linked to continued military involvement it would cause people to re-engage their attention. Politicians would realize this is an issue. Right now, it has zero political salience. The American public is consigned to the role of spectator.¹⁶

The thesis also investigates the implications of the Ghost Budget for the literature on budgeting and war finance. The classic tenets in the budgeting discipline maintain that government budgets are: (i) able to reconcile among competing claims for resources; (ii) responsive to the need for stability in the system; (iii) deliberative; (iv) controlled by legislative rules and procedures; and (v) mostly incremental, with limited change from year to year (Fenno, 1966; Schick, 1972; Wildavsky, 1961, 1964). A critical assumption in the literature is that resources are always scarce and finite (Schick, 2007). Therefore, the budget process itself forces lawmakers to prioritize between competing spending needs.

The budgets for the Korean and Vietnam wars roughly conformed to this pattern. In both conflicts, war spending was incorporated into the base budget after the initial period and subsequently had to compete for resources in the legislative arena based on established rules and procedures (Daggett, 2010; R. M. Miller, 2007). Lawmakers negotiated over how to budget and finance the wars, including holding the traditional “guns vs. butter” discussions (R. M. Miller, 2007; Wildavsky, 1979).

My research will show that this kind of debate took place far less frequently during the post-9/11 wars. A key anomaly in post-9/11 war funding was that resources were effectively *unlimited*. With funding exempt from procedural limits, not subject to trade-offs, and financed by debt at historically low interest rates, the key determinant of war funding became the internal budgeting process in the defense establishment. In most

¹⁶ A. Bacevich, Interview No. 13, September 23, 2016.

cases, the President and the White House Office of Management and Budget (OMB) approved, and Congress appropriated, whatever amount the military requested. The budget literature (Cothran, 1993; Joyce & Mullins, 1991; Rubin, 1990; Schick, 1980; Wildavsky, 1988) does not predict or justify such deviations in budgeting. Although there are some exceptions to the usual pattern (discussed below), none of them explains the puzzle posed by the Research Question.

The present research also contributes to the study of budgeting and financing extended conflicts. There is scant attention in the literature to the subject of *how* war financing decisions are made (R. M. Miller, 2007; Webber & Wildavsky, 1986; Zielinski, 2016). The exceptional funding structure for the post-9/11 wars shows, however, that *how* wars are funded can influence the content of war spending and potentially influence both military spending and strategic decisions on the conduct of the wars, as well as on budgetary decisions for non-war priorities (Bilmes, 2013; Fisher, 2000).

§ 1.2 Evolution of the Ghost Budget

When the United States invaded Afghanistan on October 7th, 2001 in response to the September 11th attack on the World Trade Center, funding was provided through a \$22.9 bn “emergency supplemental” appropriation (McGarry & Morgenstern, 2019, p. 10). For the next decade, Congress enacted emergency supplemental funding to pay for what President George W. Bush termed a “Global War on Terror” (GWOT).¹⁷

Shortly after the military effort began in Afghanistan, the Bush Administration started to plan for a possible invasion of Iraq (Fukumoto & Sharma, 2015; Stiglitz & Bilmes, 2008; B. Woodward, 2004). In March 2003, the United States launched

¹⁷ The term GWOT was used to refer to military operations in Afghanistan, Iraq, and surrounding areas from 2001 until 2009, when President Obama replaced it with “Overseas Contingency Operations.”

Operation Enduring Freedom (OEF), an operation that deployed over 100,000 U.S. military personnel to Kuwait alongside troops from more than 30 countries.¹⁸ By 2009, there were 187,200 U.S. “boots on the ground” in Afghanistan and Iraq, supported by a similar number of military contractors (Belasco, 2010).

“Supplemental” spending refers to appropriations enacted outside the regular budget cycle. The *initial* use of supplemental funding (such as the aforementioned measure passed in late 2001) is consistent with previous budgetary practice during the ramp-up period in prior wars (R. M. Miller, 2007). The United States made similar disbursements at the outset of U.S. interventions in Korea and Vietnam.

In these previous wars, funding migrated to the base budget as soon as there was even a partial projection of costs (Daggett, 2006). By contrast, over 91% of direct war spending from 2001 to 2011 was appropriated using emergency supplemental funds, compared with 35% for Korea and 32% for Vietnam (R. M. Miller, 2007).

Supplemental appropriations had never been used to fund a conflict on such a large scale and over such a sustained period of time (Hormats, 2007). The difference between the use of supplemental emergency and exempt appropriations compared to base appropriations during Korea, Vietnam, and the post-9/11 period is shown in Figure 1.1.

¹⁸ The initial invasion on March 20, 2003 included 130,000 troops, including those from the U.S.(100,000), the United Kingdom (28,000), and small numbers from other countries (Battle, 2010).

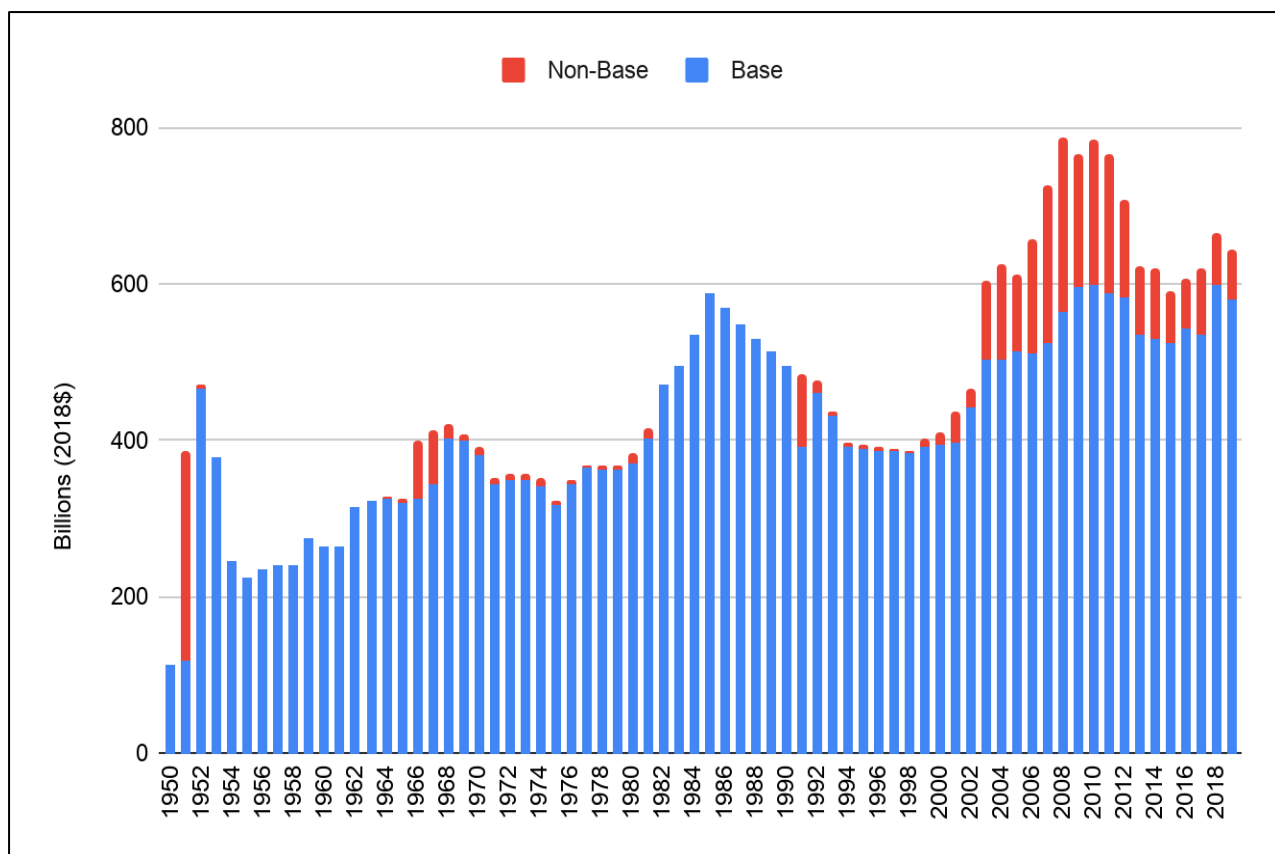


Figure 1.1 Base and Non-Base DoD Budget, FY 1950–FY 2019

Source: (McGarry & Morgenstern, 2019, p. 4)

An even greater divergence from historical precedent was designating the entire decade as an “emergency.” In federal statute, emergency spending is defined as “unanticipated...sudden...urgent... unforeseen...and temporary.”¹⁹ The intent is to disburse money quickly in situations where detailed budgetary reviews would cause unacceptable delay, such as earthquakes or hurricanes (Weiler & Callanan, 2008). Funding designated as “emergency” does not proceed through regular legislative appropriations and oversight processes and is exempt from annual budget limits imposed by Congress (Daggett, 2010).

The emergency designation for the post-9/11 period provided benefits to several stakeholders. First, it allowed the administration to request war funds at various times

¹⁹ See § 102(4) (20).

during the year, outside the annual budget cycle.²⁰ Second, it enabled the administration to present an artificially low federal budget deficit because the President did not include war funding in his annual “base” defense budget request. This rosy presentation was particularly helpful to the Bush Administration as it pursued its electoral pledge to cut taxes, despite the growing cost of the war.²¹ Third, the “emergency” designation freed Congress from the need to find offsetting budget cuts elsewhere in the budget. Legislators had room to pay for rising entitlement spending and to add to the Pentagon’s base budget while also providing funding for the war.²² This was particularly useful after 2011, when Congress enacted strict caps on the federal budget in an attempt to rein in the overall deficit. Finally, emergency funding requests gave the Pentagon far greater control over spending, since such requests were simpler to prepare and subject to weaker oversight (Belasco, 2011).²³ The political need to “support our troops” made it a certainty that Congress would approve—and the President would then sign—these spending bills, irrespective of how much funding was requested.²⁴

Despite these advantages, the war funding policy attracted criticism for lack of transparency, the short time frame for Congressional approval, and the fact that it was easy for Congress to add “pork” (money unrelated to the war) to the bills since they were outside statutory budget limits. A key critic was then-Senator Barack Obama, who pledged to end “hidden” appropriations if elected President. In his first Presidential address to Congress in 2009, he declared: “For seven years, we have been a nation at war. No longer will we hide its price.”²⁵

²⁰ Since 1974, the fiscal year has run from October 1 to September 30 (Heniff, Lynch, & Tollestrup, 2012).

²¹ L. Korb, Interview No 9, September 19, 2019.

²² Entitlement spending refers to mandatory appropriations for programs such as Social Security that are funded based on a set formula and do not require annual legislative approval.

²³ R. Nabors, Interview No. 12, September 20, 2016.

²⁴ P. Eaton, Interview No. 34, March 2, 2017.

²⁵ See Obama’s speech to Joint Session of Congress, February 2009 (Obama, 2009a).

As President, Obama made only two “rather modest” changes.²⁶ First, he replaced the term “GWOT” with “OCO.”²⁷ More importantly, the Obama administration agreed to submit a “placeholder” estimate for future OCO spending at the same time as it put forward its annual base budget proposals. Despite this shift, the policies that comprised the Ghost Budget endured and became institutionalized. In a highly unusual action, Congress exempted OCO/GWOT funds from the strict spending caps introduced by the Budget Control Act (BCA) of 2011 (Epstein & Williams, 2017). In consequence, with the base defense budget subject to an upper spending limit, the Pentagon became even more dependent on the (uncapped) OCO budget.²⁸ Moreover the OCO placeholders, which were intended to provide greater transparency, in practice gave Congress even less control. My research will show that OCO mutated into “a permanent way of operating.”²⁹

§ 1.3 Summary of the Present Hypothesis

I will argue in this thesis that the Ghost Budget emerged in response to the convergence of three factors: the breakdown in the Congressional budget process; budget maximizing by the defense establishment; and atypical economic conditions that enabled virtually unrestricted low-cost borrowing. The evidence presented in the thesis will demonstrate that these factors were necessary conditions for the Ghost Budget and that the absence of any one of them could have prevented the phenomenon. Several alternative explanations are examined and rejected.

²⁶ A. Rivlin, Interview No. 22, October 24, 2016.

²⁷ See all CRS, CBO, and DoD reports since 2010.

²⁸ When the Budget Control Act of 2011 (BCA) was passed, some budget authority was still outstanding for GWOT.

²⁹ L. Korb, Interview No 9, September 19, 2016; R. Hale, Interview No. 24, November 7, 2016; and A. Carter, Interview No. 45, November 27, 2017.

§ 1.3.1 Breakdown of the Congressional Budget Process

The environmental and structural changes that have led to dysfunction in the Congressional budgeting system were a necessary condition for the emergence of the Ghost Budget. Leading budget scholars have described the federal budget process as “imploded” (Meyers, 2014, p. 1), “in a state of collapse” (Hanson, 2015, p. 1), and “a failure” (Posner, 2015).

The root of these problems can be traced to the budget reforms of 1974. In an effort to reassert control over the “power of the purse” following the Watergate scandal,³⁰ Congress passed the sweeping Congressional Budget and Impoundment Control Act (CBICA) of 1974 to promote the revival of Congressional budgeting (Ryu, 2014). The act was the first major reform in federal budgeting since 1921. One of its key changes was to set up Budget Committees in the House and Senate to determine the size of the total budget pie and how to divide it among functional areas.³¹

The Budget Committees are widely recognized as failures (Rivlin & Domenici, 2015). Since 1974, Congress has never fully enacted the federal “budget,” and there have been only four years (1977, 1989, 1995, and 1997) in which it has ratified all 12 bills that comprise the annual discretionary budget on time (DeSilver, 2018). Instead the government has been funded using stopgap measures, such as “continuing resolutions” (CRs), that simply fund government programs at the same level as the previous year. The CBICA also opened up the budget process to allow a wider role for special interest groups (Schick, 1980; Wildavsky, 1988). The defense lobby became especially powerful in advocating for the OCO funding structure, due to the influence of major defense

³⁰ Article 1 of the Constitution grants Congress the power to impose and collect taxes and to appropriate money—often called the “power of the purse.” The President has no power to raise taxes or disburse money.

³¹ The Act also created the Congressional Budget Office (CBO) and the Congressional Research Service (CRS).

contractors who were used extensively in Iraq and Afghanistan (Schwartz & Church, 2013).

These general budgetary problems were compounded by Congress adopting a “sequester” in 2011 which imposed across-the-board cuts on all discretionary spending, including the military base budget, however exempting war funding from the sequester.³²

In addition to the problems in the annual budget cycle, the federal budget has faced a structural deficit in nearly every year between 1974 and FY 2019.³³ This deficit is largely due to the increase in mandatory spending, including entitlement programs various tax credits, and interest on the national debt (Levit, Austin, & Stupak, 2015). Mandatory spending rose from less than 30% of all federal spending in 1962 (before the creation of Medicare and Medicaid) to 60% of the federal budget by 2019. This represents an increase from 4.1 % to 12.7% of GDP in 2019, and is projected to reach 14.2% by 2025 (CBO, 2019; Levit, Austin, & Stupak, 2015).³⁴ Over 96% of the defense budget falls into the remaining “discretionary” portion of the budget that must be appropriated on an annual basis.³⁵ OCO provided a way to increase the defense budget within the overall budget context of shrinking discretionary spending.

§ 1.3.2 Military Institutional Budget Maximization

The breakdown of the Congressional budget process created conditions under which it was expedient to employ a Ghost Budget for war spending. But this is not sufficient to explain why other priorities, such as homeland security, were not exempted

³² R. Hale, Interview No. 24. November 7, 2016; and A. Carter, Interview No. 45. November 27, 2017.

³³ Apart from 1998–2001.

³⁴ Derived from OMB Table 11.3 – Outlays for Payments for Individuals by Category and Major Program: 1940-2024; OMB Table 10.1 – Gross Domestic Product and Deflators used in Historical Tables: 1940-2024; OMB Table 8.4 – Outlays by Budget Enforcement Act Category as Percentages of GDP: 1962–2024.

³⁵ Military retirement benefits, which comprise about 3.5% of total defense spending, are considered mandatory expenditures.

from budget limits. It does not explain why the war budget continued to be segregated from the rest of the defense budget, despite historical precedent and opposition from budget purists. And it does not explain why the President was unwilling to request additional taxes to pay for the war, even when over three fourths of the U.S. public supported the war.³⁶

A critical factor was the desire of the defense establishment to secure an increase in defense spending after 2001.³⁷ During the 1990s, President Bill Clinton capitalized on the post-Cold War “peace dividend” to reduce military spending and personnel. By September 11, 2001, military spending as a percentage of GDP had fallen to a post-WWII low of 2.9% (approximately one fifth of the post-war peak of 14.4% in 1953).³⁸ This policy helped produce a fiscal surplus in the years 1998–2001. However, it was unpopular within what President Dwight D. Eisenhower famously dubbed the “military-industrial complex.”³⁹ Even before the 9/11 attacks, a vocal group of pro-military conservatives was urging the United States to peg defense spending at 4% of GDP regardless of any specific national security threats facing the country (Eaglen, 2007).

The 9/11 attacks precipitated a sea change in the narrative. Following the U.S. invasion of Afghanistan, the downward budget trend in the military was reversed. Between FY 2001 and 2017, the Pentagon’s base budget grew by more than \$1 tn (Epstein & Williams, 2017). The infusion of supplemental cash through emergency and OCO war money brought the total DoD budget back to 4% of GDP by 2008, as shown in Figure 1.2. Throughout the period, the military acted to maximize its budget, consistent

³⁶ According to Gallup, 79% of U.S. voters supported the war in the months prior to the United States invasion in March 2003 (Saad, 2002).

³⁷ L. Korb, Interview No. 9, September 19, 2016.

³⁸ See Office of Management and Budget (2017).

³⁹ Eisenhower’s final speech as President, January 1961 (Eisenhower, 1961); L. Korb, Interview No. 9, September 19, 2016; and W. Wheeler, Interview No. 14, September 23, 2016.

with the idea that bureaucrats are rationally motivated to seek larger budgets, as a measure of the success, prestige, and power of their institutions (Niskanen, 1971; Simard, 2004).

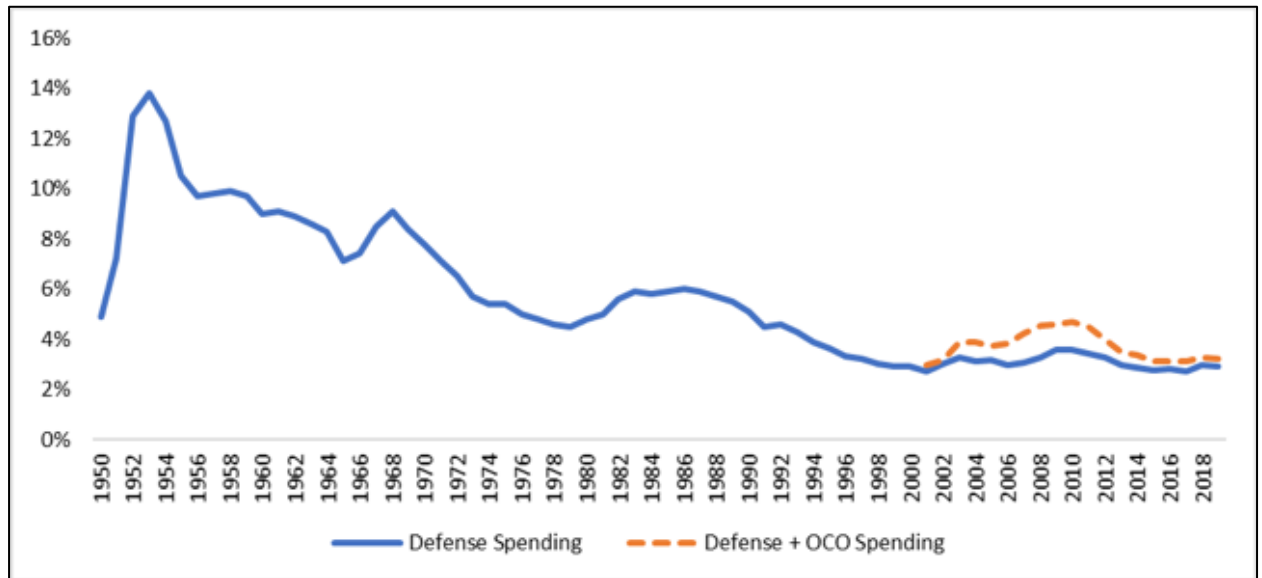


Figure 1.2 U.S. Defense Spending as Percentage of GDP, 1950–2019
 Source: (OMB Historical Table 3.1, 2019; OSD, Table 2-1, 2019).

My research will show that the DoD tried to shift as much spending as possible into OCO, for several reasons. The funds were more reliable, there was less risk of Congress or the President rejecting it, and OCO money had fewer restrictions on how it could be spent.⁴⁰ In later years the Pentagon’s “budget arbitrage” strategy became the institutional response to get around the 2011 budget caps (Fukumoto & Sharma, 2015).⁴¹ Once these items were placed in the base budget, they were integrated into the permanent military budget (Martin, 2011). I will argue that the Pentagon leveraged the two buckets of money to grow its base budget far above what would otherwise have been possible.

⁴⁰ J. Mateczun, Interview No. 4, May 1, 2016; L. Korb, Interview No. 9, September 19, 2016; G. England, Interview No. 15, September 26, 2016; R. Hale, Interview No. 24, November 7, 2016; W.S. Gould, Interview No. 26, November 22, 2016; T. Harrison, Interview No. 31, February 7, 2017; and A. Carter, Interview No. 45, November 27, 2017.

⁴¹ W. Wheeler, Interview No. 14, September 23, 2016 and R. Nabors, Interview No. 12, September 20, 2016.

§ 1.3.3 Atypical Economic Environment

Neither the Congressional budget dysfunction nor the spending ambitions of the military would have been sufficient for the Ghost Budget without the economic conditions that prevailed in global financial markets. The post-9/11 wars took place during a period of low interest rates and low inflation. Consequently, the U.S. Treasury was able to borrow trillions of dollars to pay for the wars (and simultaneously finance the tax cuts of 2001 and 2003) without having any material effect on the amount of debt service being repaid through the annual budget.

The reasons for this atypical environment include a global savings glut fueled by current account surpluses in Japan and major developing countries, notably China. These countries' central banks plowed their excess holdings of U.S. dollars back into U.S. Treasuries. After the global financial crisis of 2008, interest rates fell further as central banks loosened monetary policy to contain the recession. Investor demand for U.S. government securities grew even larger in a “flight to quality” (Bernanke, Gertler, & Gilchrist, 1994).

The fundamental underpinning of budgetary theory—that stakeholders within the system will trade off priorities because money is scarce—did not hold. Indeed, by 2011, the decline in interest rates meant that the Treasury could refinance outstanding debt at lower and lower cost. The percentage of the annual budget devoted to public debt service in the fourth quarter of 2018 was far less than in Q4 of 2001, even though total outstanding federal debt held by the public climbed over the period from \$3.4 tn to \$16.1 tn (FRED, Federal Debt Held by the Public, 2020)—an increase from 32% to 77% of GDP.

§ 1.3.4 Conclusion of Hypothesis

The hypothesis is that the Ghost Budget satisfied the needs of each of the key stakeholders. Congress was able to appropriate money for the war without being forced to make difficult reductions in military spending, domestic programs, or sensitive entitlement programs. The President was able to deliver tax cuts while total government spending grew rapidly. The military was able to reverse the decline in its base budget and add a second stream of funding that was insulated from an uncertain budgetary process. The unusual funding structure was made possible by the convergence of budgetary dysfunction in Congress, a powerful defense bureaucracy fighting for a greater share of the budgetary “pie,” and a unique economic situation in which there was sustained global demand for U.S. Treasury bonds.

§ 1.4 How this Question Addresses Gaps in the Literature

The thesis question addresses a puzzle left by the two relevant fields of literature: budget decision-making theory and war finance studies.⁴²

Budgeting is a universal government activity, but it has proven difficult to theorize (Key, 1940; Schick, 1980). V.O. Key's iconic essay, the “Lack of Budgetary Theory” (1940), decried the lack of a formal theory to explain how budgets are allocated. Aaron Wildavsky, after studying 56 government agencies for 15 years, pioneered a framework for understanding budgeting in 1961 (L. R. Jones, 1995). Wildavsky demonstrated that budgeting followed a set of norms and rules, with stable patterns of interactions among the various actors (Wildavsky, 1964). Along with Fenno, Schick, Rubin, and others, Wildavsky established several budgeting principles: first, budgets can

⁴² Budgeting “theory” includes budget decision-making, and is also a subtopic within public administration, public finance, organizational management, and political science (Bartle, 2001).

reconcile many competing interests; second, they are responsive to the larger need for stability in the system; third, budgets are dominated by legislative procedures and rules; and finally, that, in most cases, budgets change only marginally from year to year (Fenno, 1966; Rubin, 1990; Schick, 1980, 1995; Wildavsky, 1961, 1964, 1988).

These concepts have largely endured. Most government budgets are path-dependent based on previous budget allocations (Schick, 2000). Government agencies typically request modest annual increases (5% range) to their base budgets (R. M. Miller, 2007). Deviations from the pattern are usually temporary, and budgets then return to the norm so that the process moves by predictable incremental change (L. R. Jones, 1995). Wildavsky proposed this as both a descriptive model (fitting the behavior he observed) and as a normative model (promoting stability in the system).

The incremental view has been updated to reflect the rise of entitlement spending and the political influence of special interest groups (Wildavsky, 1988); the role of rational decision making (Musgrave, 1980; Schick, 1966); and the influence of economic forces (Nice, 2002; Wildavsky, 1975). Notwithstanding these revisions and exceptions, incrementalism is the pattern that best explains how the base budget grows over time (Swain & Hartley Jr, 2001).

The period since 9/11 saw a radical and sustained realignment in allocation of resources into defense that took place largely *outside* the base budget. This contravenes the premise that large bureaucracies find it in their best interests to grow their core base. Neither the scale of change nor the parallel OCO mechanism can be explained by the existing literature.

There are two plausible reasons advanced for big non-incremental budget changes, but neither explains the Ghost Budget. Baumgartner and Jones (1993) showed that in many important U.S. policy shifts, long periods of stability were punctuated by

short, sudden episodes of dramatic change they call “budget punctuations.” Their argument draws a parallel with the scientific theory of “punctuated equilibrium,” borrowing from the work of paleontologist Stephen Jay Gould, who discovered that evolution proceeded in sudden bursts following long periods of stability (S. J. Gould & Eldredge, 1993). Baumgartner and Jones describe situations in which a long-term status quo is disrupted, for example, by new ideas about policy problems that can arise from external events (John, 2015). However, the key characteristic of a “budget punctuation” is a period of intense focus during which decision-makers suddenly devote time, energy, and resources to obtaining information about something that was previously ignored or considered routine (Baumgartner & Jones, 1993). As an example, Baumgartner and Jones cite the Watergate-era Congressional budget reform, which was a 15-month period of concentrated activity in which Congress overhauled and replaced the budget system that had existed since 1921 (Ryu, 2014). Another example would be the creation of the Homeland Security Department, when Congress merged 22 separate government agencies into a single new federal cabinet-level department in a period of a few months after the 9/11 attacks.

The Ghost Budget does not fit this description. There was no explicit decision to break with historical precedent and fund the post-9/11 wars differently. Rather, the process was an evolution in which a separate budget for the war (representing an annual budget increase of 10–25%) gradually became institutionalized within the DoD, and diverted to non-war purposes. I will argue that this evolution was in part made possible by the vacuum left by the 1974 budget reforms, the economic context, and institutional military behavior. It was never a deliberate policy shift.⁴³

⁴³ J. Bolten, Interview No. 6, September 19, 2016; R. Nabors, Interview No. 12, September 20, 2016.

A second possible explanation for disruptive non-incremental change is what Caiden terms budget “time-bombs” (Caiden, 1989). These are defined as episodes in which the government is forced to make a dramatic budget adjustment to avert or contain an impending disaster. Caiden writes that the regular incremental budgeting process is poorly suited to cope with large-scale crises stemming from problems that accumulate over many years (Caiden, 1989). Examples include the Savings and Loans Crisis of the 1980s (where Congress stepped in to bail out the failing S&L institutions) and the 1988 decision to spend \$125 bn to clean up hazardous radioactive waste.⁴⁴ These “time-bombs” could be likened to the eruption of a long-simmering volcano, where Congress is obliged to take emergency action.

Legislators pay *heightened* attention to the topic during a budget punctuation or a “time-bomb.” By contrast, the Ghost Budget was characterized by the *absence* of Congressional oversight and action throughout the period. My research shows that the President and the Congressional appropriations and fiscal committees devoted *less* time to consideration of war funding policies during the post-9/11 wars than during previous extended conflicts.

I also examined three other possible explanations for the emergence of the Ghost Budget: the absence of conscription, the degree of public deference toward the military following the September 11th attacks, and the unprecedented use of private defense contractors throughout the conflict. None of these provides a satisfactory explanation for what occurred. According to the experts interviewed for this thesis, the choice of funding mechanism for the wars was independent of the decision to use an all-volunteer force

⁴⁴ During the 1980s, U.S.-insured depository institutions became insolvent at the fastest rate since the Great Depression, and the Federal Savings and Loan Insurance Corporation became insolvent in 1989. Congress passed a bailout bill costing \$187 bn over ten years.

(AVF) and contractors.⁴⁵ Budgeting for the wars as emergencies and financing them through debt lessened the tangible impact of the war costs on the public, and likely diminished public attention to the wars (Kreps, 2018a). Most interviewees felt that the Ghost Budget pattern of funding could have evolved even had conscription been reinstated, given the economic, budgetary, and political circumstances that prevailed.⁴⁶

With respect to public attitudes toward the military, there is no evidence that these shifted significantly over time. Public opinion polls from 1946 through 2011 showed a consistent level of respect and support for providing government benefits to veterans of wars throughout the period, including Vietnam (Roper Center for Public Opinion Research, 2011).

The U.S. military employed private contractors to an unprecedented extent for virtually every aspect of war operations. Initially I considered whether the heavy reliance on contractors was one of the core requirements for the Ghost Budget to emerge. This hypothesis was rejected by all the experts interviewed, who argued that the military had greater control over hiring, firing, and paying contractors than regular troops. They also pointed out that from 1985 to 2015 the role of contractors increased government-wide (Light, 2017), yet no other government entity had been granted the budgetary exemptions that were given to the military.⁴⁷ I concluded that the heavy use of contractors were a supporting element for two of the main explanatory factors. First, the emergency/OCO funding ensured that contractors continued to be paid during the multiple Congressional

⁴⁵ J. Bolten, Interview No. 6, September 19, 2016; L. Korb, Interview No. 9, September 19, 2016; R. Hale, Interview No. 24, November 7, 2016; W.S. Gould, Interview No. 26, November 22, 2016; and G. Adams, Interview No. 32, February 15, 2017.

⁴⁶ J. Galbraith, Interview No. 1, January 5, 2016; J. Bolten, Interview No. 6, September 19, 2016; R. Hale, Interview No. 24, November 7, 2016; and J.E. Stiglitz, Interview No. 28, January 6, 2017.

⁴⁷ According to Paul Light, the total U.S. federal workforce is 9.1 million, including 2 million federal employees, 3.7 million contract employees, 1.6 million grant employees, 1.3 million active-duty military personnel, and 492,000 postal service employees (Light, 2017).

budget breakdowns that occurred between 2001 and 2019. The defense industry lobbied hard to maintain this continuity. Second, the war funds were apportioned in a way that gave the Pentagon extra flexibility to hire contractors and to substitute them for regular troops as needed. However, the use of contractors was not itself a necessary condition for the emergence of the Ghost Budget.

§ 1.4.1 Deviation from Standard Budget Theory

A basic premise of budget theory is that the primary function of a budget in a democracy is to reconcile competing stakeholder interests (Fenno, 1966; Schick, 1972; Wildavsky, 1961, 1964). The budget can be viewed as the commons, in which diverse claims for public funds get aired, justified, debated, and settled. Public budgeting is marked by “frequent serious conflict,” as different factions fight over budgetary decisions, allocation, and distribution of resources (Nice, 2002). In a democracy, as key budget theorists have noted, the budget process becomes the vehicle for making choices (Schick, 2007).

The theory does not consider an edge case where competing demands do not need to be reconciled because resources are effectively not constrained.⁴⁸ Unlike budgets during the Korean, Vietnam, and First Gulf War, the post-9/11 war budget failed to serve this reconciliation function. Few war-related budget trade-offs were ever considered, largely due to the availability of low-cost borrowing.

The literature also holds that the budget is largely shaped by rules and procedures. A vast amount of literature is devoted to budgeting procedures and strategies (LeLoup, 1978b; Meyers, 1994; Wildavsky, 1986; Wildavsky & Caiden, 2004). The war funding

⁴⁸ The only real limit was the debt ceiling, but few lawmakers linked the increased debt to the cost of the war.

strategy during Korea and Vietnam adhered largely to the norms. As documented in the thesis, the topic was debated within the administration, the budget office, and the CEA.⁴⁹ The record shows exhaustive debates in the Truman and Johnson administrations about how to pay for the wars, including discussion of tax rises, domestic spending cuts, bonds, spending trade-offs, and deferring other defense expenditures (Bator, 2007; Drea, 2011; R. M. Miller, 2007). War spending was integrated into the base budget and subject to regular vetting in the Congressional appropriations and authorizing committees.

The post-9/11 war budgets, however, circumvented regular legislative rules, procedural guidelines, and constraints (Daggett, 2010; R. M. Miller, 2007). Emergency spending requests were developed largely outside the OMB's executive budget process; submitted at random intervals to Congress; and bypassed the conventions for budget execution, apportionment, and committee reviews.⁵⁰ Despite the introduction of strict rules and timetables for enacting budgets under the CBICA, Congress evaded this process for 18 years.

§ 1.4.2 War Finance Literature

The war finance literature focuses primarily on the *effects* of war finance—for example, the impact of war financing policies on the economy. There is limited discussion of how or why specific financing decisions are made or of the mechanisms through which wars are financed (Tilly & Ardant, 1975).

Rosella Capella Zielinski (2016) addresses part of the question regarding why governments choose a particular strategy to pay for war. Zielinski does not address the *budgetary* issues (how the war is paid for in the budget). However, she does propose a

⁴⁹ F. Bator, Interview No. 39, July 12, 2017 and W. Polk, Interview No. 27, December 7, 2016.

⁵⁰ S. Silverberg, Interview No. 10, September 19, 2016; T. Gates, Interview No. 8, September 19, 2016; and T. Evilsizer, Interview No. 7, September 19, 2016.

framework for explaining how it will be *financed*. Her heuristic model (Zielinski, 2016, “War finance strategy model,” Figure 1.2, 28) lays out the circumstances in which a nation is likely to impose taxes. It predicts that in countries such as the United States with strong overall capacity, the government will use “extractive capacity” (impose taxes) to pay for war costs if (a) there is high fear of inflation *or* (b) strong public support for the war.

Zielinski’s model (reprinted as Figure 1.3) provides a useful framework for identifying factors that are important in how a country decides to finance a war. These include the inflationary environment, the level of public support for the war, and the country’s underlying economic ability to tax and borrow. But the framework does not predict the financial strategy adopted during the post-9/11 wars. When the United States invaded Afghanistan in 2001, there was nearly universal public support, with 89% of Americans in favor of the invasion (R. J. Reinhart, 2019). Nearly three quarters of the public also supported sending troops to Iraq in March 2003 (Gallup, 2003).

Based on Zielinski’s model, George W. Bush could have been expected to raise taxes. In fact, he did precisely the opposite—cutting taxes substantially in 2001 and again in 2003. Moreover, when Obama took office in January 2009, he decided to allow some of the tax breaks enacted under Bush to expire,⁵¹ even though support for the wars had fallen to 66% for Afghanistan and 43% for Iraq. Based on the Zielinski model, Obama would not have restored top marginal income tax rates to pre-war levels.

⁵¹ The 2001/2003 taxes enacted under George W. Bush were originally scheduled to sunset in ten years.

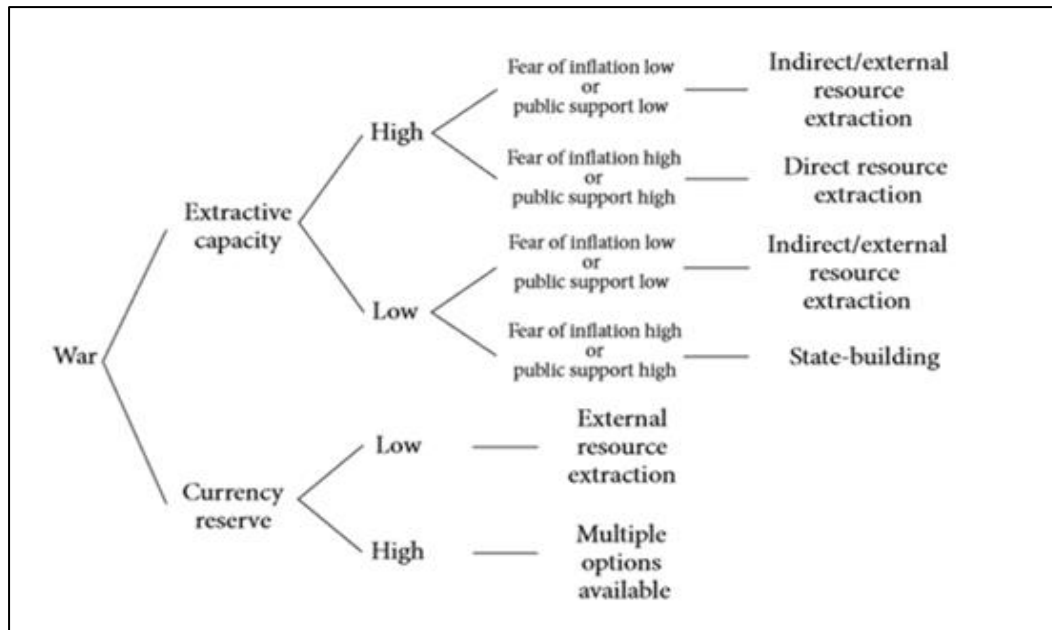


Figure 1.3 Zielinski War Finance Strategy Model

Source: (Zielinski, 2016, p. 28)

The Zielinski model has three flaws. The first is a problem in disaggregating cause and effect. As she points out, taxation makes a war less popular (Zielinski, 2016). Thus, the decision to raise taxes may itself turn popular opinion against the war or its supporters. This factor likely influenced George W. Bush’s hostility to taxes. He had watched his father, former President George H.W. Bush (1988–92), lose the Presidency in 1992 after reneging on his “read my lips, no new taxes” pledge made during the 1988 campaign (Greene, 2000).⁵² Moreover, Congress was implacably hostile to any form of new taxes, and most Republican Congressmen and Senators had signed a “no tax pledge.”⁵³ Given this political environment, any new tax linked to the war could have turned the public against the war, and therefore against the political leadership. It is almost inconceivable that George W. Bush would have agreed to raise taxes for the war, even if there had been inflationary pressures in the economy.

⁵² George H.W. Bush had campaigned on an anti-tax platform and uttered the phrase “read my lips, no new taxes” during his speech accepting the 1988 Republican nomination for President. Reneging on this pledge is widely viewed as the reason he lost the Presidential election in 1992 (Greene, 2000).

⁵³ The “Taxpayer Protection Pledge,” launched in 1986, commits members of Congress in writing to oppose tax increases. Most Republicans and some Democrats have signed it (Bartlett, 2011).

Second, the model overlooks war-specific political preferences and pressures. For example, President Harry S. Truman believed passionately in a balanced budget. Prior to the outbreak of the Korean War, he had been trying to cut defense spending to help repay America's World War II debts. In 1951, Truman felt that the public should not incur further war debt but rather "pay-as-you-go" as a *moral* imperative (R. M. Miller, 2007). Quite possibly he would have insisted on raising taxes to pay for the war even in the absence of inflationary pressures.

Third, the Zielinski model does not fully address how the war interacts with the macroeconomy. For example, the decision on how to finance a war may depend on the size and cost of war financing required relative to the size of the economy. If the relative burden is small, the war may be financed through the normal budget without the need for any special financing provisions, at least at the beginning.⁵⁴ This was the case with the 1991 Gulf War. Although a majority of the expenses were later paid by U.S. allies in the Gulf, the initial military operations were financed using the Pentagon's own resources (Daggett, 2006; Weiler & Callanan, 2008). The impact on the overall economy was not large enough to warrant a separate financing decision.

President Lyndon B. Johnson was not averse to deficit financing at the outset of the Vietnam War. His war financing strategy was influenced by fear of anything that might have derailed his domestic programs.⁵⁵ Zielinski uses inflation as a proxy for this fear, but it is better explained in terms of the position of the economy in the business cycle (i.e., whether it was operating below its potential or above). Moreover, the timing of Johnson's war funding policies (borrowing and then finally switching to tax funding once the economy grew in response to both domestic "Great Society" spending and war-related

⁵⁴ J.E. Stiglitz, Interview No. 28, January 6, 2017 and S. Coorey, Interview No. 38, July 5, 2017.

⁵⁵ F. Bator, Interview No. 39, July 12, 2017; and W. Polk, Interview No. 27, December 7, 2016.

spending) were dictated by a complex set of political negotiations related both to the macroeconomic cycle and his political imperatives.⁵⁶

The Zielinski model does not account for the impact of financial markets. George W. Bush and Obama had almost unlimited access to debt financing from international capital markets—an option that was simply not available during either the Korean or Vietnam wars when markets were small and localized.

In another book on war finance, Sarah Kreps argues that the absence of taxes to pay for the post-9/11 wars undermined the social contract between the public and government (2018a). Her research found that the public experiences debt differently from paying taxes. Taxes are tangible and painful, which makes people pay close attention to what they are being used for. Kreps argues that the public would be more attentive to the costs and the duration of a conflict if it is financed through taxation. However, Kreps does not fully explain why the current wars have been financed through debt. In her analysis, taxes themselves serve as a type of yardstick for how much value the public attributes to the war. Where the value is low (as in a “limited” far away war), the public is less willing to pay higher tax rates. She argues that debt financing severs this relationship, since the public no longer associates the value of war with the level of taxation (Kreps, 2018a).

Kreps’ argument underplays the role of economics in determining the choices a country makes in paying for war. Kreps cites Korea, when the public soured on high taxes two years into the war, as a turning point in the U.S. public’s willingness to fund limited wars. But Truman was determined to pay for war costs through taxes, and he raised top marginal rates to 92%. It is not evident that the public grew weary of taxes due to the limited nature of the conflict rather than the scale of the taxes themselves. During the

⁵⁶ J.E. Stiglitz, Interview No. 28, January 6, 2017.

Vietnam war, rising inflation obliged Johnson to impose a 10% tax surcharge in 1968, despite three fourths of the public being opposed to the measure (Kreps, 2018a).

A related omission is that Kreps does not consider the role of budgetary policy and, specifically, the interplay between tax policy and the budget. Unlike previous military conflicts, the post-9/11 war spending was funded almost entirely through emergency and exempt spending vehicles, which bypassed standard budgetary processes that would have forced lawmakers and the Pentagon to consider spending trade-offs, and increased accountability for war spending. In short, it was not simply the financing of the war through debt that concealed the full costs of the post-9/11 wars, but the specific (and unique) budgetary strategy also played a critical enabling role.

§ 1.5 Research Methods

I developed, tested, and confirmed my hypotheses using “elite” interviews, analysis of archival documents, and “data mining” of Congressional transcripts and budget documents.

I first developed the hypotheses with the assistance of a small number of unstructured “elite” interviews with key players involved in the war-funding decisions. I then conducted a second set of interviews with officials that focused more narrowly on specific aspects of the budgetary, legislative, executive, military, and economic factors.

Interviews were conducted with central participants during the Bush and Obama Administrations, including former Secretary of Defense Ashton Carter, former Deputy Secretary of Defense Gordon England, and former Chiefs of Staff to Presidents Bush and Obama, as well as with budget scholars; defense budget experts; Congressional budget experts; and political, military, and Congressional leaders and economists. The historical comparisons examined in the thesis benefited in particular from the insight of three

individuals who played a major role during the Vietnam era: the late Dr. Francis Bator, who served as Deputy National Security Advisor and Special Assistant to Johnson from 1965–67; Dr. William Polk, a noted historian who served as an advisor to Presidents Kennedy and Johnson from 1961–65; and Dr. Daniel Ellsberg, who served at the DoD under Secretary of Defense Robert McNamara and is well-known for making the “Pentagon Papers” public in 1971. In most cases, these interviews have been taped and transcribed.

§ 1.5.1 Archival Research

The thesis draws extensively on archival materials for the periods corresponding to the Korean, Vietnam, and post-9/11 conflicts. These comprise thousands of pages of Congressional records and Presidential papers, memos, meeting notes, and other documents taken directly from the Truman Presidential Library and the Johnson Presidential Library, as well as online data sources such as ProQuest.

The data mining techniques used an analysis of word frequency—the number of sentences containing a word, phrase, or intersection of words and phrases—in order to compare the post-9/11 period to the other two wars. The objective was to measure empirically the amount of time that the main actors in each war devoted to thinking about war costs in their public roles (in speeches, meetings, hearings, and so forth). Through these techniques, I show that this topic was a materially lower priority during the Iraq and Afghanistan conflicts than during Korea and Vietnam. It is an important part of my hypothesis that the lack of focus on the costs of war contributed to the emergence of the Ghost Budget.

§ 1.5.2 Technical Analysis

The thesis uses various forms of technical analysis to demonstrate the impact of war funding policies post 9/11 compared to previous wars. This includes analysis of the distribution of taxes during Korea, Vietnam, and the post-9/11 wars; effects on budgetary deficits, domestic spending policies, and national debt; and an analysis of the impact of low interest rates on government spending, showing how the war spending acted as an economic stimulus.

§ 1.6 Structure of Thesis Chapters

Chapter 1: Introduction

This chapter introduces the thesis and Research Question.

Chapter 2: Comparing Previous Extended Conflicts: Korea, Vietnam, Post-9/11

Chapter 2 examines budgeting for the Korean War and compares it to Vietnam and to the post-9/11 wars along several dimensions. These include how war funding decisions were made by the President and the executive and legislative branches; the structure of appropriations and taxes enacted to pay war costs; the process of enacting war spending bills and tax policies; and trade-offs in military vs. domestic spending that took place. The chapter presents the findings of data mining analysis across the three war periods.

Chapter 3: Vietnam and the Central Role of War Budgets

Chapter 3 provides a more detailed examination of budgeting during the Vietnam period, showing that war funding decisions were central to the prosecution of the war. The chapter examines Presidential decision-making; budgeting and fiscal policies; and

Congressional use of the “power of the purse.” The war funding controversies during Vietnam contributed to the Congressional budget reforms of 1974, which I cite as one of the explanatory factors for the Ghost Budget.

Chapter 4: The Evolution of the Ghost Budget

Chapter 4 documents the sequence of events that led to the Ghost Budget and the “structural mechanisms” (Tilly, 2001) that emerged in post-9/11 war funding, including bypassing the regular budget process, circumventing budget caps, enacting deferred spending, financing through debt, separating war funding from defense budgets, and shifting categories between war appropriations and base funding. The chapter examines the path dependency of decisions on emergency and supplemental appropriations, based on interviews and government records.

Chapter 5: Dysfunction of the Congressional Budget Process

Chapter 5 details the breakdown in the overall Congressional budget process, and how this dysfunction facilitated the use of budgetary anomalies for funding the post-9/11 wars. The chapter examines how specific flaws in the design of the 1974 CBICA and other post-Watergate laws made it more difficult for Congress to budget for the wars effectively. I also examine how the CBICA enabled a greater role for special interest groups in the budget process, particularly the private defense contractors who benefited directly from the OCO budget.

Chapter 6: Economic Conditions that Enabled the Ghost Budget

The post-9/11 wars were fought during a remarkable period in global capital markets. Chapter 6 examines the circumstances that enabled the U.S. government to borrow virtually unlimited amounts of money at historically low interest rates, and how

those conditions were necessary to enable the Ghost Budget. The chapter also examines how war funding acted as a “backdoor” economic stimulus following the economic crisis of 2008, thus muting criticism among economists.

Chapter 7: Military Support for the Ghost Budget

Chapter 7 examines the role of the military in determining the funding structure for the post-9/11 wars. The chapter focuses on the incentives for the DoD to find a mechanism for war spending outside its base budget, including greater flexibility in budget execution and the opportunity to maintain the “Golden Ratio” among the three Armed services. The chapter explains how the DoD used wartime funding to grow its base budget and to leverage this increase to pay for a wide range of military needs that were only tangentially, or entirely unrelated, to the wars.

Chapter 8: Implications and Conclusions

No decision is as important for a government as the decision to go to war. The decisions over how to pay for 18 years of wars in Iraq and Afghanistan extend far beyond the initial choices made to engage in those conflicts. Chapter 8 examines the implications of the war funding decisions for oversight of war spending, conduct, cost, and duration of the war, as well as for budgetary policy and theory. The consequences of recent events in Iraq and Afghanistan for the Ghost Budget are discussed briefly in the Epilogue.

CHAPTER 2 COMPARING PREVIOUS EXTENDED CONFLICTS: KOREA, VIETNAM, POST-9/11

§ 2.1 Chapter Summary

A central question in analyzing the funding of post-9/11 interventions in Afghanistan and Iraq is whether such policies have been used before. How did these funding practices compare to previous wars?

To answer this, I looked at two earlier U.S. wars with similar characteristics: Korea (1950–1953) and Vietnam (1965–1975).⁵⁷ Both were extended conflicts with significant deployment of U.S. troops and equipment overseas and required Congressional funding appropriations over multiple budget cycles. As detailed in Table 2.1, the Korea, Vietnam, and post-9/11 conflicts share a number of important characteristics, including scale, duration, and cost. World Wars I and II accounted for higher shares of GDP (13.6% and 35.8% of GDP respectively) and thus were less suitable as comparators to the post-9/11 wars (Daggett, 2010). In addition, the introduction of Social Security and other social programs beginning in the 1930s meant that in Korea and Vietnam, as in post-9/11, war expenditures had to be balanced against spending on domestic programs.

⁵⁷ Although the United States became involved in Vietnam in 1961 and continued through 1975, the vast majority of U.S. budgetary outlays occurred during the years 1965–1973 (Daggett, 2010).

Table 2.1 Comparison of Korean, Vietnam, and Post-9/11 Wars⁵⁸

	Korea	Vietnam	Post-9/11
Duration of Active Military Operations	1950–1953 (3.1 years)	1965–1975 (10.1 years)	2001–2020 (Afghanistan: 18+ years, Iraq: 8.9+ years)
War President(s)	Harry Truman (1945–1953)	Lyndon Johnson (1963–1969), Richard Nixon (1969–1974)	George W. Bush (2001– 2009), Barack Obama (2009–2017), Donald Trump (2017– present)
War Cost as Percentage of GDP in Peak Year of War ⁵⁹	4.2% (1952)	2.3% (1968)	1.3%–2.0% (2010)
Direct Operational Costs	\$377 bn (\$2018)	\$813 bn (\$2018)	\$2.3–\$5.4 tn
Deployed Troops ⁶⁰	1,789,000	3,403,000	3.7–4.1 million

The present chapter examines the Korean War across several dimensions. These include the budgetary structure of war appropriations; the decision making employed by the President and his advisors regarding how to pay for the wars; the role of Congress in shaping war funding policies and overseeing war expenditures; and the extent to which the war funding conformed to established budgetary and financial norms, rules, and procedures. Chapter 3 examines these topics more fully with respect to the Vietnam War.

The findings demonstrate that, whereas the two earlier wars largely conformed to the standard budgetary norms and patterns described in the budget literature, post-9/11

⁵⁸ Korea and Vietnam costs are adjusted to 2018 dollars and exclude U.S. military assistance to Korea after 1952 (Daggett, 2010). Lower-bound post-9/11 cost estimates exclude veterans' costs, interest on borrowings, military medical care, and deferred costs (Belasco, 2014; McGarry & Morgenstern, 2019); upper-bound estimate includes these costs (Crawford, 2019b).

⁵⁹ Peak U.S. GDP for Afghanistan and Iraq wars combined are estimated at 1.3% to 1.7%, using the narrowest definition of costs (Daggett, 2010). Costs including indirect costs such as veterans' and military medical spending (but excluding borrowing costs) equal 1.9 to 2.0% of GDP (Stiglitz & Bilmes, 2012).

⁶⁰ Statistics for Korea and Vietnam: "America's Wars Fact Sheet" (U.S. Department of Veterans Affairs, 2017); post-9/11 statistics from "Costs of War" (Crawford, 2019b).

policies diverged significantly from previous norms of both budgeting (the process and mechanics of paying for the wars) and financing (raising the money to make the payments). During the Korean conflict, the President and Congress actively debated how to pay for the war, including who would pay and how much, as part of determining the overall war funding strategy. Most war spending was integrated into the regular defense budget after an initial period. The war was funded in large part by increased taxes and reductions in non-war spending, and the policy on war funding was linked to a broader political strategy for securing public support for the war effort. As a consequence of the approach to budgeting and finance, the costs of the war were subject to far greater oversight in Congress as compared to the post-9/11 period.

§ 2.2 History of U.S. War Funding

Historically, one of the central questions that arises during wartime is how to pay for the war (Tilly & Ardant, 1975; Webber & Wildavsky, 1986). Decisions on war funding during Korea and Vietnam were based, at least in part, on the precedents established during previous conflicts. It is beyond the scope of this thesis to review that entire history; however, it is helpful to outline earlier policies in order to illustrate how these practices were largely path-dependent on the decisions taken in previous wars.

All U.S. wars prior to 9/11 were paid for in part by higher taxes and budget cuts enacted specifically to cover some or all of the costs of war spending. One third of the costs of World War I and one half of the costs of World War II were funded by higher taxes (Hormats, 2007; Kreps, 2018a). There is evidence that those decisions were in turn influenced by earlier conflicts. For example, President Woodrow Wilson's treasury secretary, William Gibbs McAdoo, decided to raise taxes to defray World War I costs after studying tax policy during the U.S. Civil War (Weisman, 2002).

In both World Wars, the sitting Presidents and the Congress were highly focused not only on *how* to pay for the wars but also on *who* would pay. The archival record shows that President Woodrow Wilson, President Franklin D. Roosevelt, and many lawmakers of their respective eras were concerned with ensuring an equitable distribution of the fiscal burden and that the public perceived their decisions as being fair (Howell, Jackman, & Rogowski, 2013; Weisman, 2002).

During World War I, the topic of war costs and how to pay for them was a national debate. Democrats in Congress advocated using war taxes as a way to redistribute income, arguing that fighting the war required “conscription of wealth” as well as “conscription of men” (Hormats, 2007, p. 120). An important issue was the extent to which the tax burden would be borne by individual taxpayers, as opposed to corporations. Wilson argued that corporations benefited from the war through increased demand for their products and hence should be taxed more heavily (Weisman, 2002). To make higher income taxes palatable to voters, Congress raised corporate income taxes from 1% at the start of the war to 12% and enacted an excess corporate profits tax. The top marginal income tax rate for individuals was also raised (to 77%); however, only 13% of the workforce paid any income taxes at that time (Weisman, 2002).

In both World Wars, as well as during Korea and Vietnam, paying taxes was explicitly linked to patriotism and support for U.S. troops (Kreps, 2018a; R. M. Miller, 2007; Zielinski, 2016). During World War I, Wilson appealed to the population to buy war bonds, in what he called “capitalizing patriotism” (Hormats, 2007, p. 122). He viewed Liberty bonds not only as sound economic policy (as a way to curb consumption and thus reduce the likelihood of inflation) but also as a way for ordinary people to support the war effort. Paying for the war became a mechanism for building consensus around the war effort.

During World War II, Roosevelt described paying taxes as a “patriotic duty.” Two days after the Pearl Harbor attack, Roosevelt held a fireside chat in which he famously said:

It is not a sacrifice for the industrialist or the wage earner, the farmer or the shopkeeper, the train man or the doctor to pay more taxes, to buy more bonds, to forego extra profits, to work longer or harder at the task for which he is best fitted; rather it is a privilege (Roosevelt, 1941).

Roosevelt clashed with lawmakers repeatedly over how progressive the taxes would be. He succeeded in raising taxes on business, imposing a “wealth tax,” and raising inheritance taxes, as well as expanding the number of taxpayers to roughly 80% of the workforce by 1945 (Piketty & Saez, 2003).

By choosing to impose war taxes, previous Presidents forced legislators to hold fiscal hearings on how the conflicts were being financed. The original research presented in this chapter shows that, in addition to the appropriations committees that approve defense budgets, Congressional authorizing committees (the committees that ratify tax policy) carefully weighed options and trade-offs to pay for the Korean and Vietnam Wars.

The budgeting and financial decisions for Korea thus largely followed the pattern set during previous conflicts. Consistent with federal budgeting laws at the time, the President, his budget office, and other advisors within the Executive Office of the President (EOP)⁶¹ played a dominant role in formulating the fiscal strategy.⁶² The Presidential role included formulating the budget request as well as the amounts requested. These topics were debated in Congress, which was assertive in demanding

⁶¹ The “Executive Office of the President” structure was created by Roosevelt in 1939. It encompasses the President, his immediate staff, and offices that report to the President such as the OMB and the Council of Economic Advisors (CEA).

⁶² Federal budgeting during both wars was governed by the Budget and Accounting Act of 1921 (BAA), which assigned the President the lead role in planning, formulating, and requesting budgets and established the Bureau of the Budget (now OMB) within the EOP. Prior to 1939, the Bureau was located in the Treasury.

specific information or changes in budget or tax policy (Fisher, 1993). The President's office also got involved in smaller-scale decisions affecting the military, such as whether the DoD could reprogram or shift funds from non-war accounts into war spending, how to use carryover funds from previous years, and how to execute war budgets once enacted. Notes in the Presidential archives reveal that the Presidents and their political, economic, and budget advisors actively debated a range of options for raising war funds,⁶³ including postponing domestic investments, issuing war bonds, raising taxes, and deficit spending (Hormats, 2007; R. M. Miller, 2007; Zielinski, 2016). War costs were covered through a combination of tax increases, offsetting cuts to non-war expenditures, and, in some cases, borrowing (Hormats, 2007; Webber & Wildavsky, 1986; Zielinski, 2016).

In summary, although decision makers faced unique political, national security, and economic issues in each conflict, the Korean War had several core characteristics.

First, the President played a pronounced role in determining war funding policy, including considering the range of options for funding the war and the effects of war spending on the national economy. Second, the bulk of war spending (after an initial period) was requested through the regular defense budget, augmented with small amounts of supplemental appropriations as needed for the remainder of the war. Third, Truman requested (and Congress approved) tax increases and other measures for the explicit purpose of funding war costs, with taxes structured progressively by design. Fourth, both the Congressional authorizations and appropriations committees devoted a significant level of attention and debate to the question of how to fund the wars. Finally, the President and Congress made direct trade-offs between war spending and other spending,

⁶³ The Truman and Johnson archives reviewed for this thesis comprised Presidential papers and notes taken by their advisors during meetings.

including domestic and non-war defense expenditures. Vietnam shared all of these characteristics.

The post-9/11 wars diverged markedly from this pattern. Military operations were largely funded “off-budget” through emergency supplemental and special legislation that was exempt from budget caps. No tax increases or budget reductions were enacted to offset war costs. For the first time since the Revolutionary War, the post-9/11 operations were financed entirely by debt (Hormats, 2007; Kreps, 2018a). My research found that the post-9/11 Presidents were relatively passive in their dealings with Congress and the public and in choosing the war budget strategy. The Congressional appropriations and authorizing committees devoted less time in hearings to this topic (especially to the subject of how the war should be paid for), despite having greater statutory responsibilities for the budget in the post-1974 era than during earlier wars. Finally, the Pentagon gained influence over the budget process in the post-9/11 period, using the war budget as a way to gain greater control over spending and to grow its own base budget.

§ 2.3 Methodology

The findings presented are based on historical research, including data mining thousands of archival documents and Presidential papers from the Truman and Johnson Presidential Libraries, as well as Congressional hearings, CEA reports, and appropriations bills and reports. The purpose of this analysis was to determine the extent to which the post-9/11 wars were different from previous extended conflicts across a number of variables. This research was supplemented by in-person interviews and analysis of the legislative record. Table 2.2 provides an overview of the analysis undertaken.

Table 2.2 Summary of Comparative Research Analysis

Comparison Item	Criteria Searched For	Methodology
Presidential State of the Union (SOTU) addresses	No. of mentions of war funding needs	Data mined 28 SOTU messages to find intersections of words and phrases Manual review to check results
Presidential Budget Transmittal Memos (BTMs)	Total No. of words No. of words related to war funding needs/policies	Counted total words Data mined 28 BTMs (208,430 total words) for key words Manual review to refine results
Presidential decision-making on war funding	Key words and phrases used frequently Evidence of strong opinions on war spending Evidence of trade-offs	Reviewed 1,839 pages of Presidential memos, speeches, meeting notes, CEA reports, other materials from Truman and Johnson Library archives
Congressional Authorizing (fiscal) Committees	No. of relevant hearings No. of times war funding issue discussed Evidence of spending trade-offs (guns vs. guns or guns vs. butter)	Data mined 113 Senate Finance and House Ways & Means Committee hearings during Korea, Vietnam, and post-9/11 wars to find intersections of words/phrases Manual review to refine results
Congressional Appropriations Committees	No. of relevant hearings No. of times war funding policies/emergency/OCO funding were discussed Evidence of spending trade-offs	Data mined 214 Congressional Appropriations Committees (House and Senate Subcommittees on Defense) hearings to find expanded intersections of words/phrases Manual review to refine results Data mined Budget Committee hearings related to war appropriations
War funding Appropriations bills	No. of supplemental war appropriations Date of supplemental appropriations	Compiled records from CBO, Congressional Record, DoD Comptroller's Reports, U.S. financial statements, and budget analysis by Miller (2007)
Tax rates and decisions regarding taxes	Top marginal and median tax rates Tax changes over time	Analyzed tax impact on income levels using Piketty, Saez, and Zucman database (2018)

§ 2.3.1 Presidential Leadership and Attention to War Funding

The thesis quantifies the level of Presidential leadership and attention to war funding using a series of proxies, including the number of instances in which each President addressed the topic in speeches and budget transmittal documents, the number

of words devoted to the topic in these communications, the specific budgetary measures (such as tax increases and spending cuts) proposed to Congress, and the record of deliberations on war funding strategy among Presidential advisors such as the CEA.

I reviewed Presidential “State of the Union” (SOTU) speeches (the constitutionally mandated annual Presidential address to the public) and the Presidential Budget Transmittal Memos (BTMs) to Congress as indicators of how much each President spoke about war costs and wartime finance strategy to the Congress and the American public. To do this, I ran the transcripts of 28 Budget Messages and 28 SOTU addresses⁶⁴ through data mining software, which allowed analysis of the text for the intersection of discussions on costs and war, and then manually reviewed the scraped data, ensuring that each sentence accurately reflected a discussion of strategies to fund the war (see Appendixes II-A and II-B). CEA annual reports were analyzed using a similar method.

§ 2.3.2 Senate and House Authorizing and Appropriations Committees

A second stream of research examined the main Congressional committees. I examined a total of 214 hearings of the Senate Appropriations Committee, Subcommittee on Defense and the House Appropriations Committee, Subcommittee on Defense (hereafter referred to as the Senate Appropriations Subcommittee on Defense and the House Appropriations Subcommittee on Defense) to compare the extent to which Congress discussed or debated war costs and wartime budget strategy in each conflict. These subcommittees were selected because they have jurisdiction over all defense appropriations, including regular and supplemental appropriation bills, and continuing

⁶⁴ Transcripts were obtained from the American Presidency Project at the University of California, Santa Barbara.

resolutions for the DoD. Moreover, these subcommittees have existed throughout the three war periods, allowing for a smooth comparison. I employed a similar method to data mine a further 113 hearings of the Senate Finance Committee and the House Ways and Means Committee, the fiscal authorizing committees which approve tax policies. These committees have a wide jurisdiction over trade, tariffs, confirmation of Treasury nominees, and other topics, so the data mining was restricted to hearings that were directly relevant to taxation.

Two steps were employed to derive these results: one to identify the hearings and a second to determine the number of sentences during the hearings in which war funding was mentioned in any degree of detail. The findings are summarized in Tables 2.9 and 2.10. The source for base and supplemental funding amounts for the Korean, Vietnam, and post-9/11 war periods included Congressional records, data records in and the annual National Defense Budget estimates produced by the Under Secretary for Defense (Comptroller), widely known as the “Green Book.”⁶⁵

I compared wartime taxation data using information compiled by the Tax Policy Center; the U.S. Census Bureau; and the Piketty, Saez, and Zucman income inequality database (2018). Income thresholds were matched to federal income tax rates tracked by the Tax Foundation and data from the Census Bureau.

§ 2.3.3 Limitations

There are certain limitations in comparing war budgets across different periods.⁶⁶ First, the structure and composition of government spending was different in earlier

⁶⁵ The annual National Defense Budget estimates published by the Office of the Under Secretary of Defense (Comptroller) are widely referred to as the “Green Book,” due to its green-colored cover.

⁶⁶ Prior to the Cold War, the United States did not maintain a large peacetime military force, so defense budgets mostly comprised war budgets during World Wars I and II.

periods. For example, the defense function 050 comprised a larger percentage of the total national budget during Korea and Vietnam. In the year immediately preceding the wars, defense outlays as a percentage of total federal outlays were 32.2% in Korea, 43% in Vietnam, and 16.4% for Afghanistan (Office of Management and Budget, 2017a).

Second, the tax system was adjusted many times; in particular, the number of tax brackets was compressed in the 1970s and the pattern of taxes shifted as a greater number of households earned dual incomes (Piketty et al., 2018).

Additionally, the DoD cost accounting system, which involves allocating military costs directly or indirectly to the wars, has been different for each period, so that the classification of war versus non-war spending within the federal budget may not be fully comparable. During both Korea and post-9/11, it was difficult to distinguish between war spending and expenditures related to the defense buildup more generally. For the Korean War, I have drawn from Richard Miller's cost accounting estimates (2007), adjusting spending figures for comparability with the Stiglitz-Bilmes taxonomy for war cost accounting (2012).

For the post-9/11 period, there are a number of differences in the structure of the defense budget; for example, pay scales and benefits for military personnel have increased, relative to previous wars, since the introduction of the AVF in 1974. However, it should be noted that throughout the thesis I am not comparing the costs of the wars *per se* but rather how those costs were paid for and financed and the reasons for these differences.

Finally, the 1974 budget reforms created an additional set of committees, the House and Senate Budget Committees, which did not exist in previous wars. The House Budget Committee discussed war funding during at least five hearings; however, the

committee lacked jurisdiction over war appropriations and fiscal policies, as explained in later chapters.⁶⁷

§ 2.4 Paying for the Korean War (1950–1953)

U.S. military involvement in Korea began in June 1950 following North Korea's invasion of South Korea. President Harry S. Truman, who had assumed the Presidency following Roosevelt's death in 1945, narrowly won reelection in 1948. Truman led the policy debate on the U.S. strategy to pay for the war. Congress ratified his proposals to cut domestic spending and to raise taxes on three occasions.

There are three important points in Truman's record.

First, Truman played a direct, active leadership role in shaping decisions about how the United States should fund the Korean War effort. This issue dominated Truman's discussions with White House advisors, his addresses to Congress, and his appearances before the American public from immediately after the beginning of the war until the end (Fordham, 1998).

Second, Truman believed that it was fundamentally wrong to pass the costs on to the next generation in the form of debt. Throughout his Presidency, he argued that the way the United States approached the financing of the war carried both moral and economic consequences for the nation (Zielinski, 2016). Although Truman was alert to the threat of inflation and the size of the deficit, more fundamentally he felt that it was morally right for current taxpayers to bear the bulk of war costs and that the burden should fall heaviest on higher income groups (Howell et al., 2013; Neustadt, 1954). These beliefs shaped his tax and fiscal policies.

⁶⁷ House Budget Committee hearings are examined in Chapter 5.

Third, Truman made substantial budgetary trade-offs—including sacrificing his cherished domestic spending objectives—in order to fund the Korean War. Prior to the outbreak of war, Truman was concerned about the amount of debt left over from World War II. He had hoped to retire it by reducing military spending. His campaign platform in 1948 had been the “Fair Deal,” a plan to raise the minimum wage, enact national health insurance, reduce taxes for low-income Americans, and build public housing, which he outlined in his first SOTU address in 1949 (Neustadt, 1954). Truman was forced to abandon the majority of these proposals in order to pay for the Korean war and build up the U.S. military in the face of perceived communist threats (Fordham, 1998; Neustadt, 1954).

§ 2.4.1 Presidential Engagement and Decision-making

When Truman assumed office in January 1949, he hoped to enjoy a peace dividend with which to expand domestic programs. The defense community, however, wanted to rebuild the U.S. military after World War II. Worrying about the Soviet Union, the American intelligence and defense agencies circulated a number of draft strategic papers calling for increased military preparedness in the late 1940s. This process culminated in 1950 with the publication of National Security Council-68 (NSC-68),⁶⁸ a document that called for much higher military spending to contain communism.

Truman felt that the public was weary of taxes, debt, and military spending (Howell et al., 2013; Kreps, 2018a; R. M. Miller, 2007). The economy was barely growing, and large employers were beginning to shed workers even as the country demobilized. Polls taken in March 1950 (three months prior to the Korean war) showed

⁶⁸ NSC 68/1: U.S. Objectives and Programs for National Security. September 21, 1950 (Administration of Harry S. Truman, 1950).

that 74% of voters were focused on domestic issues, such as unemployment, taxes, rent control, and the cost of living (Strunk, 1950). Truman's advisors were split. His CEA chairman Leon Keyserling, who had originally opposed more military spending (on the grounds that the nation could not afford it), began to reappraise higher military spending as a way to stimulate the economy.⁶⁹ Still, Truman resisted this approach and called for a minimalist defense budget and for reducing excise taxes that had been imposed during World War II (Bank, Stark, & Thorndike, 2008). The public supported his cuts to military spending by a margin of three to one (Strunk, 1950).

Everything changed after North Korea invaded the South on June 25, 1950. From the moment the Korean War began, Truman was highly focused on the costs of the war and how to pay for them (Zielinski, 2016). Truman's approach rested on standard budgetary precepts that funding was finite, and therefore higher defense spending required increased revenues (which he called for in the form of taxes) and lower non-defense spending (which he called for in cuts to non-war expenditures; R. M. Miller, 2007).

When war broke out on the Korean peninsula, Truman immediately began working with his administration and Congress to develop a plan to fund this unexpected crisis. Reversing his previous desire to reduce taxes, Truman wrote to the Chairman of the Senate Finance Committee on July 25, 1950 asking to modify the tax cut bill under debate to instead *raise* corporate and individual income taxes to help fund the war (Hilinski, 1951):

The increased military appropriations [for the war] will entail sharply increased Federal expenditures. We embark on these enlarged expenditures at a time when the Federal budget is already out of balance.... We must make every effort to

⁶⁹ Interim Report by the National Security Council re: Implications of NSC 68, c. August 1950; National Defense - National Security Council; Subject File; Harry S. Truman Administration; Elsey Papers (*Report NSC 68*, 1950).

finance the greatest possible amount of needed expenditures by taxation, and we must distribute the tax burden fairly among the different groups of people.⁷⁰

The Senate obliged. Ultimately Truman's proposed tax cuts metamorphosed into a tax increase of \$5 bn (\$42.6 bn in 2018 dollars), including everything Truman requested (Bank et al., 2008). During the autumn of 1950, Truman spent a great deal of time with his political and economic advisors assessing the potential costs of the war and defining alternatives to pay for it, as well as estimating the impact of war deficits on the economy. By the end of that year, Truman began advocating for what would become his signature "pay-as-we-go" approach. This had two main elements: increasing government revenues by raising taxes and cutting non-defense expenditures (Zielinski, 2016).

In a televised "Radio and Television Report to the American People on the National Emergency" in December 1950, Truman outlined his plan for taxes and spending cuts:

I have directed that recommendations be prepared, for early submission to the Congress, to put the increased cost of the defense as nearly as possible on a "pay-as-you-go" basis. I have also instructed the Director of the Budget to reduce the nonmilitary expenditures in the new Federal budget to the minimum required to give effective support to the defense effort.⁷¹

From 1950 to 1953, Truman mentioned "pay-as-we-go" over 203 times in public addresses, public papers, and internal White House documents.⁷² He mentioned wartime finance decision-making in every Annual Budget Message to the Congress (FY 52–FY 54)⁷³ and SOTU address (1951–1953),⁷⁴ as well as in dozens of major speeches to the public.

⁷⁰ "Letter to Honorable Walter F. George." July 25, 1950. Papers of L. Laszlo Ecker-Racz Box 1 - Tax Program - 1950 II (Ecker-Racz, 1950).

⁷¹ "Radio and Television Report to the American People on the National Emergency." December 15, 1950. (Truman, 1950c).

⁷² Data mining of Truman Archives (Truman, 2017b).

⁷³ Data mining of Truman Archives (Truman, 2017a).

⁷⁴ Data mining of Truman Archives ("State of the Union," 2017).

Truman's budget leadership is evident in his annual BTMs to Congress. Prior to the 1974 budget reforms, Presidents typically produced longer memos—reflecting the broader role of the President in setting the guidelines for the national budgets. Even taking this difference into account, Truman devoted over twenty times as many words to how the war would be paid for and financed in FY 1952 and FY 1953 than the post-9/11 Presidents combined (see Table 2.3).

Table 2.3 Mention of War Costs in Presidential Budget Transmittal Memos

Year	President	Total Words	War Funding Words	% War
FY51	Truman	30,969	391	1.30%
FY52	Truman	22,887	1,014	4.40%
FY53	Truman	29,820	1,273	4.30%
FY65	Johnson	9,010	131	1.50%
FY66	Johnson	7,726	14	0.20%
FY67	Johnson	10,194	689	6.80%
FY68	Johnson	10,257	305	3.00%
FY69	Johnson	13,062	730	5.60%
FY70	Johnson	15,807	453	2.90%
FY71	Nixon	10,048	201	2.00%
FY72	Nixon	7,567	219	2.90%
FY73	Nixon	10,526	116	1.10%
FY02	Bush	283	0	0.00%
FY03	Bush	566	0	0.00%
FY04	Bush	762	8	1.00%
FY05	Bush	1,029	7	0.70%
FY06	Bush	848	0	0.00%
FY07	Bush	1,038	0	0.00%
FY08	Bush	733	13	1.80%
FY09	Bush	962	0	0.00%
FY10	Obama	1,934	0	0.00%
FY11	Obama	2,763	0	0.00%
FY12	Obama	3,887	71	1.80%
FY13	Obama	3,957	0	0.00%
FY14	Obama	3,175	0	0.00%
FY15	Obama	3,198	0	0.00%
FY16	Obama	2,608	0	0.00%
FY17	Obama	2,728	0	0.00%
FY 18	Trump	591	1	0.20%
FY 19	Trump	1,446	0	0.00%

Source: Data mining

In these messages, Truman focused on the need for higher taxes, reduced domestic spending, and shared sacrifice for the war. For example, in his first budget message after the war began, Truman called for higher taxes, stating: “When the American people

resolved to undertake the defense program now under way, they accepted also the necessity for the increases in their taxes that the new level of expenditures requires.”⁷⁵

He also made it clear that the war would require prioritizing national expenditures:

For the third time in this century we as Americans must subordinate our peacetime goals to what is required for the survival of the Nation. ... We will pay much heavier taxes. We must defer, in many cases, new governmental programs to enrich our national life and contribute to our individual and family welfare.⁷⁶

Truman made these arguments in all three of his SOTU addresses during the war (see Table 2.4). Delivering one of the first-ever televised SOTU speeches, Truman laid out a 10-point plan for the Korean War and called for “a major increase in taxes to meet the cost of the defense effort” (Truman, 1951a).

⁷⁵ “Special Message to the Congress: Recommending a Pay As We Go Program,” February 2nd, 1951. Public Papers of the President, page 2 (Truman, 1951c).

⁷⁶ “Special Message” (Truman, 1951c).

Table 2.4 Mentions of War Costs in State of the Union Addresses

Year	President	Mentions War Costs	Total Sentences
1950	Truman	No	0
1951	Truman	Yes	2
1952	Truman	Yes	7
1953	Truman	Yes	3
1965	Johnson	No	0
1966	Johnson	Yes	1
1967	Johnson	Yes	4
1968	Johnson	Yes	4
1969	Johnson	Yes	2
1970	Nixon	No	0
1971	Nixon	No	0
1972	Nixon	Yes	1
2001	W. Bush	Yes	1
2002	W. Bush	Yes	2
2003	W. Bush	No	0
2004	W. Bush	Yes	1
2005	W. Bush	No	0
2006	W. Bush	No	0
2007	W. Bush	No	0
2008	W. Bush	No	0
2009	Obama	Yes	2
2010	Obama	No	0
2011	Obama	Yes	2
2012	Obama	Yes	2
2013	Obama	No	0
2014	Obama	No	0
2015	Obama	No	0
2016	Obama	No	0
2017	Trump	No	0
2018	Trump	No	0
2019	Trump	Yes	1

Source: Data mining

§ 2.4.2 Budgeting and Financial Structure

One framework for comparing Presidential budgetary decision-making is offered by LeLoup (1978b), who outlines three broad levels of budgetary decisions: priority,

program, and operations. Priority decisions consist of annual choices on revenue and spending totals (fiscal priorities) and subtotals by topic and function (issue priorities).⁷⁷ Program decisions consist of agency requests, programmatic authorizations, and specific line-item appropriations (which may be annual, multi-year, or ongoing funding). Operational decisions relate to the actual execution of the budget.

By this yardstick, the archives show that Truman was intimately involved not only in priority decisions, but also in programmatic and even operational decisions, meeting with his budget and military advisors to scrutinize how defense money was being spent and calling on the DoD to justify individual line items above the war buildup that it sought (Neustadt, 1954). This contrasts with subsequent wars. During Vietnam, President Lyndon B. Johnson delegated most programmatic and operational details of the Vietnam campaign to Defense Secretary Robert McNamara, although he sometimes became involved in programmatic decisions (Drea, 2011). Presidents George W. Bush and Barack Obama were seldom directly engaged below the priority level.⁷⁸ President Donald Trump has not been involved in the budget at this level of detail, with the exception of several programmatic decisions regarding specific priorities (including the border wall with Mexico, and funding for the U.S. Immigration and Customs Enforcement [ICE] agency).⁷⁹

Once war broke out, Truman reversed his efforts to curtail defense spending. In late July 1950,⁸⁰ he submitted a massive supplemental defense funding request to

⁷⁷ The federal budget is divided into 20 “functions” which are broad functional areas that serve a shared purpose. For example, the defense function “050” includes funding for the nuclear program that is in the Department of Energy.

⁷⁸ J. Bolten, Interview No. 6, September 19, 2016; W. Daley, Interview No. 18, October 3, 2016; and P. Schiliro, Interview No. 21, October 21, 2016.

⁷⁹ S. Collender, Interview No. 44, November 8, 2017.

⁸⁰ The Korean War started 5 days before FY 1950 ended on June 30, 1950, so all funding for the war was designated in the FY 1951 budget.

Congress to provide for the unexpected U.S. operations in Korea. This was followed by three smaller supplemental budget requests in December, March, and April.⁸¹ Although there was some grumbling in Congress regarding the size of the request, Congress approved Truman’s funding plan (Fordham, 1998).

Over the next two years, most war spending was incorporated into the DoD’s base budget. Truman proposed small additional supplementals in FY 1952 and FY 1953. In total, 33% of the Korean War funding was provided through supplemental requests and 67% through the base budget (see Figure 2.1).

By comparison, 32% of Vietnam and 91% of the first decade of the Afghanistan/Iraq wars were funded through supplemental appropriations. The difference in the pattern of base compared with supplemental funding may be seen in Figures 3.2 (Vietnam) and 4.2 (Post-9/11).

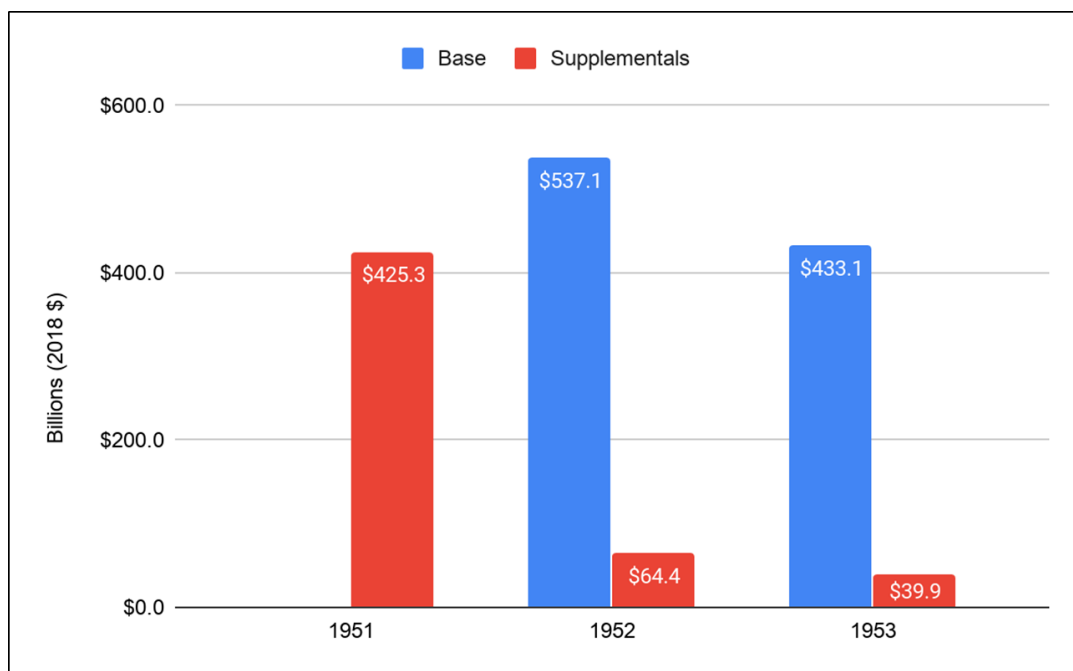


Figure 2.1 Base and Supplemental Funding during the Korean War, FY 1951–1953
Source: (R. M. Miller, 2007; Office of the Under Secretary of Defense (Comptroller), 2018a, 2019c)

⁸¹ See Appendix II-A.

Some three quarters of the funds in the Korean supplementals could be attributed either directly or indirectly to operations in Korea, with 25% likely related to the general defense buildup and less than 2% going to miscellaneous (“pork”) items (R. M. Miller, 2007). This is a marked contrast with the post-9/11 supplementals, which routinely contained billions of dollars for spending that was unrelated to the wars (Belasco, 2014; T. Harrison, 2014).

During the Korean War, the war funding provided in the base budget and the supplementals was awarded to the Army, Navy (including the Marines), and Air Force in approximately equal shares. This symmetry, which has persisted in the military ever since Korea, is widely known as the “Golden Ratio” principle of defense budgeting (Keck, 2013).⁸²

§ 2.4.3 Financing the War Through Taxation

Truman’s most enduring legacy regarding Korean War funding was his determination to raise taxes to fund the war effort. Unlike Johnson, who delayed seeking higher taxes during the Vietnam War until his advisors convinced him there was no alternative,⁸³ or George W. Bush, who cut taxes at the outset of the wars in Afghanistan and Iraq, Truman wanted to raise taxes immediately once the war had begun (Hormats, 2007; R. M. Miller, 2007; Zielinski, 2016). He argued that the personal income tax should be the major source of additional revenue for the war because “[it] is the personal income tax above all else which takes into account of difference in ability to pay.”⁸⁴ His rationale

⁸² The Army, Navy (including the Marines), and Air Force have been funded at approximately 28% of total defense appropriations each since 1950.

⁸³ F Bator, Interview No. 39, July 12, 2017.

⁸⁴ “Letter to Honorable Walter F. George.” July 25, 1950. Papers of L. Laszlo Ecker-Racz Box 1 – Tax Program – 1950 II (Ecker-Racz, 1950).

for “pay-as-you-go” was laid out in a radio and TV address to the American public in September 1950:

There is only one sensible way to do this [pay for our increased defenses]. It is the plain, simple, direct way. We should pay for them as we go, out of taxes. There are very good reasons for this. To the extent that we finance our defense effort out of taxes now, we will avoid an enormous increase in the national debt. During World War II, we borrowed too much and did not tax ourselves enough. We must not run our present defense effort on that kind of financial basis.⁸⁵

Truman proposed and pushed through Congress three major tax bills, the Revenue Act of 1950, the Excise Act of 1950, and the Revenue Act of 1951. The first one increased corporate income tax rates from 38% to 45% and rescinded personal income tax reductions that had been enacted in 1945 and 1948 at the end of World War II (American Bar Association, 1950).⁸⁶ The second and third bills raised income tax rates and increased taxes on cars, alcohol, gasoline, and other excise taxes. Congress made these tax increases temporary, set to expire in 1953.

A theme of Truman’s war tax speeches was his promise to distribute the burden fairly across society, calling for “just, equitable taxation.”⁸⁷ At the time of his election in 1948, the top marginal rate of federal income tax was already 91% (down from a peak of 94% at the end of World War II). Truman restored it to 92%. Taxes were raised across the board. Median federal income tax rates also rose from 22% in 1950 to 27% in 1953. The total share of GDP derived from taxes grew from 14.1% to 18.2% over the same period (see Table 2.5). The pattern was broadly similar in Vietnam, where taxes were raised on the higher income groups.

⁸⁵ “Radio and Television Address to the American People Following the Signing of the Defense Production Act.” September 9, 1950. Public Papers of the President (Truman, 1950b, p. 2-3).

⁸⁶ “Letter to Honorable Walter F. George.” July 25, 1950. Papers of L. Laszlo Ecker-Racz Box 1 – Tax Program – 1950 II (Ecker-Racz, 1950).

⁸⁷ “Radio and Television Address to the American People Following the Signing of the Defense Production Act.” September 9, 1950. Public Papers of the President (Truman, 1950b, p. 3).

By contrast, the burden of taxes fell on all three measures during the post-9/11 wars. In total, federal taxes contributed an average of 17.5% of GDP during the 3 years of the Korean War and 17.3% during the 9 peak years of the Vietnam War but only an average of 16.5% during the post-9/11 conflict, as shown in Table 2.5.

Table 2.5 Top Marginal Federal Income Tax Rates in Korea, Vietnam, and Post-9/11⁸⁸

War Period	Top Marginal Tax Rate (%)	Median Tax Rate (%)	Total Federal Taxes as % of GDP	
Korean War	1950	91.0%	22.0%	14.1%
	1951	91.0%	22.4%	15.8%
	1952	92.0%	23.4%	18.5%
	1953	92.0%	27.0%	18.2%
Vietnam	1965	70.0%	22.0%	16.4%
	1966	70.0%	22.0%	16.7%
	1967	70.0%	22.0%	17.8%
	1968	75.3%	22.0%	17.0%
	1969	77.0%	22.0%	19.0%
	1970	71.3%	22.0%	18.4%
	1971	70.0%	23.0%	16.7%
	1972	70.0%	23.0%	17.0%
Post-9/11	2001	39.6%	27.5%	18.8%
	2002	38.6%	27.0%	17.0%
	2003	35.0%	25.0%	15.7%
	2004	35.0%	25.0%	15.6%
	2005	35.0%	25.0%	16.7%
	2006	35.0%	25.0%	17.6%
	2007	35.0%	25.0%	17.9%
	2008	35.0%	25.0%	17.1%
	2009	35.0%	25.0%	14.6%
	2010	35.0%	25.0%	14.6%
	2011	35.0%	25.0%	15.0%
	2012	35.0%	25.0%	15.3%
	2013	39.6%	25.0%	16.8%
	2014	39.6%	25.0%	17.5%
	2015	39.6%	25.0%	18.2%
	2016	39.6%	25.0%	17.5%
2017	39.6%	25.0%	17.0%	
2018	37.0%	24.0%	16.2%	
2019	37.0%	24.0%	16.5%	

Source: (U.S. Department of the Treasury, Internal Revenue Service, FRED, U.S Individual Income Tax: Tax Rates for Regular Tax: Highest Bracket, 2020)

The income tax code was more complex in earlier war periods, with 26 separate brackets in the 1950s and 33 during Vietnam, compared with only six to seven during the post-9/11 period (The Tax Foundation, 2013). Consequently, the number of households in

⁸⁸ The tax change in 2013 reflects the scheduled “sunset” of the income tax cuts enacted in 2001.

the very top brackets paying 92% was small during the 1950s. However, the top rate of income taxes increased across all high-income brackets during Korea and Vietnam, whereas these rates fell on the top earners during the post-9/11 period (Piketty & Saez, 2003; Piketty et al., 2018).

I also looked at the marginal federal tax rate for a given household income. This shows that the tax burden was more progressive during Korea and Vietnam than during the post-9/11 conflict. For example, in FY 2001 (the year the United States invaded Afghanistan) a household earning \$300,000 would have paid a 39.1% top marginal tax rate. By 2018, that rate had fallen to 35%. By contrast, a household with the *equivalent* income during Korea and Vietnam would have paid a top marginal rate of 71% in 1953 and 61% in 1973 (see Figure 2.2).

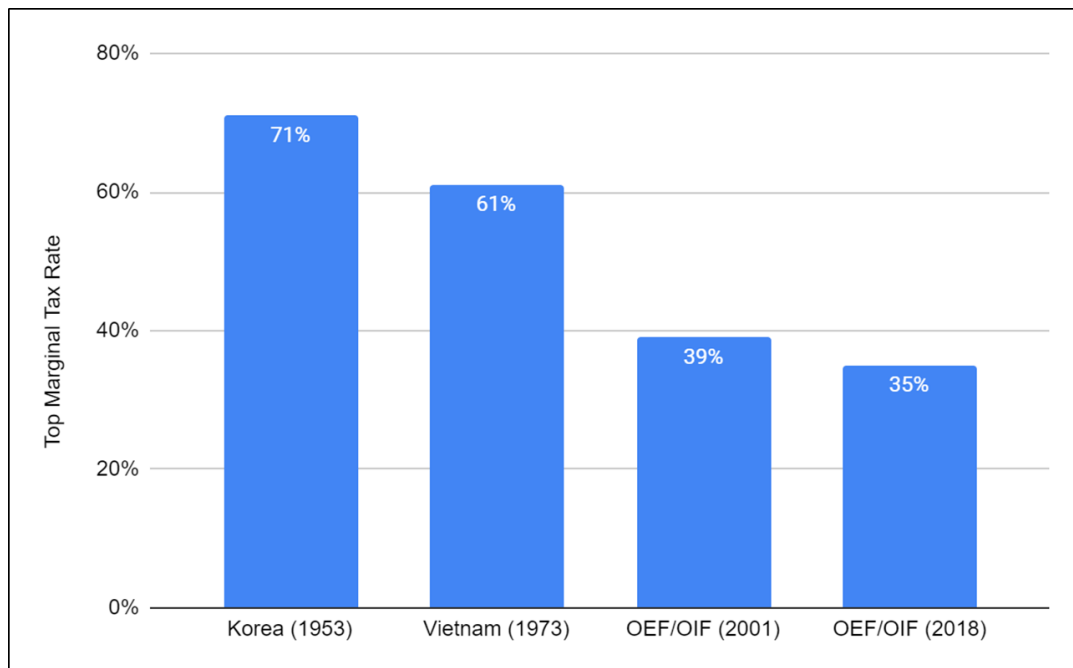


Figure 2.2 Wartime Federal Tax Rate for a Household Earning \$300,000 (in \$2001)
Source: (Piketty et al., 2018; The Tax Foundation, 2013)

The bracket compression, which primarily occurred during the late 1970s and early 1980s, makes it difficult to compare the overall tax burden simply by looking at top marginal rates. Reviewing median incomes shows that the impact on median-income

households was also significant. These households paid higher amounts of taxes by the end of the Korean and Vietnam wars, whereas the equivalent households paid substantially less after 18 years of post-9/11 wars, as shown in Table 2.6.

Table 2.6 Change in Median Income Taxes During Korea, Vietnam, and Post-9/11⁸⁹

War	Median Income (2018\$)	Taxes (Start)	Taxes (End)	Change
Korea	\$31,688	\$6,970	\$8,555	+ \$1,585
Vietnam	\$56,012	\$12,322	\$12,881	+ \$559
Post-9/11	\$61,552	\$16,927	\$15,387	- \$1,540

Source: (Piketty et al., 2018; The Tax Foundation, 2013)

Looking beyond federal income taxes, Piketty et al. (2018) aggregated federal, state, and local taxes, as well as payroll, corporate, excise, property, and estate taxes in an effort to estimate the total tax burden (not just income taxes). They found that overall, the top 1% of taxpayers paid some 42% of their income in taxes during the 1950s compared with 36% in 2016 (prior to the Trump tax cuts). The reduction is clearly substantial, although the difference is not as dramatic as might be assumed from simply looking at marginal income tax rates (Greenberg, 2017).⁹⁰

In a recent analysis, Saez and Zucman analyzed overall tax rates from 1918 through 2018. They found that the overall tax burden for the top 400 American taxpayers fell from above 70% in 1950 to 23% in 2018. Meanwhile for the bottom 90% of taxpayers, overall tax rates grew from 18% in 1950 to 29% in 1974, peaking at 30% in

⁸⁹ Post-9/11 “End Taxes” refer to 2018 median taxes. Subsequent tax rates were even lower.

⁹⁰ Also see “Taxes on the Rich Were Not That Much Higher in the 1950s” (Greenberg, 2017).

1980 before falling back to 26%. The rate for the bottom 50% rose from 17.8% in 1950 to 26% in 1974 and has remained largely stable. The trendline of taxes, showing the decline in taxation of the very wealthy, can be seen in Figure 2.3.

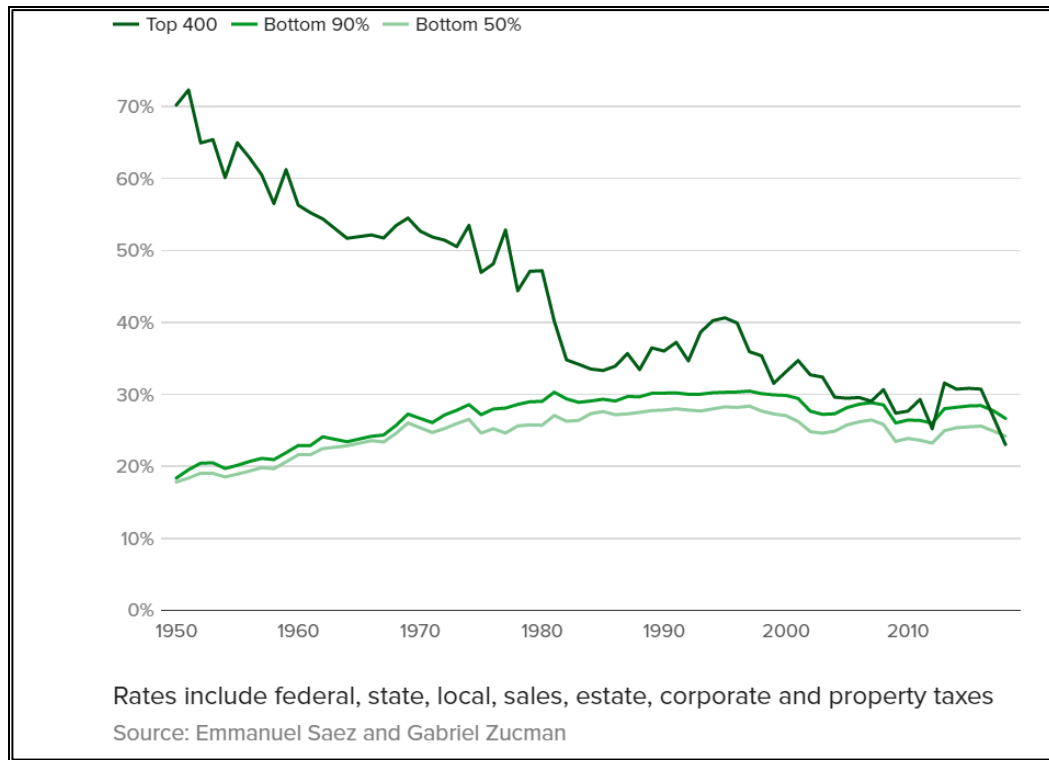


Figure 2.3 Tax Rates on Top .01% and Bottom 50%, 1950–2018
Source: (Saez & Zucman, 2019)

The reduction in taxes during the post-9/11 wars from an already low level is a stark contrast to the Truman policies. Not only did Truman raise taxes, but he did so progressively. By contrast, tax policy during the post-9/11 period has been regressive, exacerbated by the widening income gap between the top 1% and rest of the population.⁹¹

⁹¹ The distribution of total income to the top 1% doubled from 9% in 1953 to more than 20% in 2012 (Piketty, Saez, & Zucman, 2018). Although this widening inequality is not a direct result of war tax policy, the effect is that the wealthiest households pay an even smaller percentage of their incomes in the post-9/11 period.

§ 2.4.4 Why Did Truman Rely So Much on Taxes?

A vital question is why Truman embraced higher taxes as the preferred form of war-financing. Zielinski (2016) argues that the preference for tax increases stemmed largely from fear of inflation. However, a review of Truman’s papers and materials in the archives shows that, while inflation played a supporting role, the main driver was Truman’s strong belief that higher taxes were the principled way to pay for the war.

We could try to escape the financial cost of defense by borrowing—but that would only transfer the financial problem to our children...The sensible and honest thing to do now is to tax ourselves enough, as we go along, to pay the financial costs of defense out of our current income.⁹²

Truman’s enthusiasm for taxes stemmed largely from his beliefs in the “conscription of wealth” argument—the view that taxes were the fairest way to distribute the burden. As his Treasury Secretary, James Snyder, testified to the Senate Finance Committee in 1951:

You passed a bill up here to draft boys of 18, to send them to war. I think it’s just as important that we draft some of the profits to help pay for the expenditures.⁹³

Truman also believed the country already had too much debt. Borrowing levels had soared during World War II, pushing the level of outstanding U.S. federal government debt to a peak of nearly 120% of GDP (OMB Historical Table 7.1, 2019). By 1950, it was dropping but still at an elevated level of more than 90% of GDP. Truman was determined not to repeat the experience of World War II. As he told Congress, paying for the war with current taxes would better enable the country “to meet our future needs whatever they may be.”⁹⁴

⁹² “Special Message to the Congress: Recommending a Pay As We Go Tax Program,” February 2nd, 1951. Public Papers of the President (Truman, 1951c, p. 2).

⁹³ See also Bank, Stark, and Thorndike (2008).

⁹⁴ Special Message to the Congress: Recommending a Pay as We Go Tax Program, February 2, 1951 (Truman, 1951c).

While inflationary pressures were not the only nor even the primary driver of Truman's policy, they almost certainly helped him gain support for higher taxes. There was an alignment of interests in that the Pentagon and State Department viewed higher taxes as a way to support higher defense spending. The need for taxes to offset any risk of inflation (which could jeopardize defense spending) was even mentioned in NSC-68.

Zielinski also argues that taxes are more likely to be used for war financing in an environment where there is a threat of inflation *and* the public supports the war (Zielinski, 2016). Regarding public opinion, indeed in August 1950 a Gallup poll showed that 77% of voters approved of the decision to go to war (J. Mueller, 1971, p. 361) and 70% supported increased taxes to fund military spending (R. M. Miller, 2007). However, this fact masks a more complex picture. In November 1949, seven months before the outbreak of war, Americans opposed proposals to raise taxes by a margin of 68% to 14% (Strunk, 1950).⁹⁵ This quick turnaround in public opinion may have been a result of Truman's strong personal advocacy for higher taxes.

Truman pushed for higher taxes through thick and thin. He supported higher taxes in 1950 when inflation was only 1.1%, and he kept on advocating for them in 1952 and 1953, even after the public soured on the war and on him (Kreps, 2018a). By the third year of the war, Truman was increasingly unpopular and decided not to seek reelection in 1952. Nonetheless, he continued to push for the extension of the higher rates enacted under his "pay-as-we-go" program, stating:

In response to my recommendations, the Congress raised tax rates in 1950 and again in 1951 ... If the increases are allowed to expire as scheduled, the Government will lose about 2 billion dollars in revenue in the fiscal year 1954...⁹⁶

⁹⁵ 18% had no opinion.

⁹⁶ "Annual Budget Message to the Congress: Fiscal Year 1954." January 9, 1953. Public Papers of the President (Truman, 1953).

Congress rebuffed his request in 1952 as public support for higher taxes deteriorated (even as inflation grew to nearly 8%). Kreps argues that a key factor in the ability to impose taxes, overlooked by Zielinski, is that the *type* of war matters to public support. Kreps points out that the electorate in 1950 had no experience of limited conflict, so it was initially prepared to make a fiscal sacrifice. She posits that “the public became disillusioned with limited war, and essentially put its collective wallet away” once it started to believe that the operation was not a “total” war (Kreps, 2018a, p. 118).

Kreps draws on a range of evidence to support the general point that individuals are more likely to support high taxes in a situation of “total” war (Kreps, 2018a, p. 26). However, it is not evident that the limited nature of the conflict was the decisive factor in turning the public against high tax rates during Korea. By 1952, Truman had already increased tax rates twice to extremely high levels, and the public had endured years of high taxes stretching back to World War II. There may have been a strong desire to pay lower tax rates regardless of the distant military stalemate in Korea.

§ 2.4.5 Role of the Council of Economic Advisors

I also examined the extent to which the President’s CEA took up the topic of war funding strategy and advised the President. Under the leadership of liberal economist Leon Keyserling, Truman’s CEA focused a great deal on the impact of the Korean War on the economy. Reviewing its annual reports from the period, the CEA discussed how to prevent the economy from overheating, and how to ensure that the President could increase the defense budget (as proscribed in NSC-68) without significantly increasing the deficit. The CEA played an active role in advising the President to raise taxes.

Comparing the number of mentions of war funding issues in the CEA Annual reports for the three wars, it is obvious that the Council devoted far more attention to the

topic during Korea and Vietnam than in Iraq/Afghanistan. As shown in Table 2.7, the CEA addressed the topic of war funding and how it affected the economy in all three of its reports during Korea, and in four out of nine reports during Vietnam. (The CEA even published special reports on economic planning related to the war during the peak years of the Vietnam War.) By contrast, the topic was only addressed in one formal CEA annual report during the 9/11 era.

Table 2.7 Comparison of CEA Annual Reports in Korea, Vietnam, and Post-9/11 Eras

	Korea (1951-53)	Vietnam (1965-75)	Post-9/11 (2002-2018)
Total Reports	3	9	15
Mentions	3	4	1
Percentage of Mentions	100%	44%	7%

Source: Data mining

The CEA documents offer some insight into what was on the minds of the President’s economic advisors. For example, the 1952 Annual Report of the CEA addresses the Korean War directly. It was divided into sections on: (i) defense; (ii) aid to allies; (iii) productive capacity; (iv) civilian strength; (v) inflation; and (vi) equality of sacrifice. The report includes a lengthy section on “Equality of Sacrifice,” which begins:

The year 1952 is not going to be an easy year for the economy. It is going to be a year of strain. We must expect this and prepare to bear some inconveniences and hardships...⁹⁷

⁹⁷ 1952 Economic Report of the President, Annual Report of the Council of Economic Advisers (U.S. President & Council of Economic Advisers, 1952, p. 24).

By contrast, the CEA reports during the post-9/11 period barely mention the war spending for Iraq and Afghanistan, even at the peak of post-9/11 war spending in FY 2008, when the United States spent at least \$200 bn⁹⁸ on the wars (some 8% of the total budget, and 20% of discretionary spending). The CEA reports during the Bush and Obama eras did not focus on the wars at all, devoting instead chapters to topics such as health care, clean energy, HIV/AIDS, small business, and the world economy.

§ 2.4.6 Budget Cuts and Trade-offs

The second pillar of Truman's war-financing policy was to cut domestic spending. His "pay-as-you-go" policy required making trade-offs in federal expenditures to keep non-war spending as low as possible. This required a delicate political balancing act to maintain support from his own party (which had elected him to invest in domestic programs) and the military (which advocated the massive Cold War defense buildup outlined in NSC-68). For example, in early 1951 he declared that:

We stand behind the Fair Deal and the Democratic platform as much today as ever. We do, however, recognize that in an emergency like the present, first things come first, and our defense programs must have top priority.⁹⁹

From early on, Truman voiced support for reexamining all areas of the federal budget to make cuts in order to pay for mounting war costs:

In the months ahead the Government must give priority to activities that are urgent—like military procurement and atomic energy and power development. It must practice rigid economy in its nondefense activities. Many of the things we would normally do must be curtailed or postponed.¹⁰⁰

Despite political opposition, over the next three years Truman's administration proposed cuts across virtually every government program, including sacred cows such as veterans'

⁹⁸ Using the most conservative estimate and excluding spending for veterans.

⁹⁹ "The President's News Conference." January 11, 1951 (Truman, 1951b).

¹⁰⁰ "The President's Midyear Economic Report," p. 6 (Truman, 1950a).

benefits and military programs unrelated to the Korean effort. He argued that civilian spending cuts alone were not sufficient to pay for the war, reminding voters that:

More than 75 percent of the Federal budget goes for the payment of past wars, and to keep us out of an anticipated third world war... Yet these fellows [Republicans] who want to misrepresent the facts will tell you that the budget can be balanced from [cuts in] civilian expenditures. And it's just a damn lie.¹⁰¹

Truman's administration insisted that it was "imperative to examine all federal programs" that compete for resources,"¹⁰² and that this extended throughout government. Despite the overall defense buildup, his administration forced the military to reduce spending in some areas. For example, Director of the Budget Frederick J. Lawton proposed reductions of \$7–8 bn in the FY 1951 budget, including cuts to veterans' programs and civilian military employees. Testifying before the House Ways and Means Committee on Feb 8, 1951, Lawton said:

The VA uses manpower excessively... its administrative costs could and should be reduced without impairment of any services for veterans.... The Armed Forces are notorious for extravagant use of civilian manpower (Lawton, 1951).

Lawton persuaded Congress to trim \$200 m (\$2 bn in 2018 dollars) from the VA and \$500 m (\$4.9 bn in 2018 dollars) from the civilian military by eliminating 150,000 civilian defense staff.

The legacy of Truman's war funding policy was that the country ended the war with a lower debt as a percentage of GDP than when it began (as shown in Table 2.8), despite higher defense spending and a slow-growing economy. This contrasts with Vietnam, which ended with slightly higher total debt and the post-9/11 period during which the national debt tripled, with war costs being an important contributory factor.¹⁰³

¹⁰¹ "Address in Spokane in the Auditorium of the Eagles Lodge" (Truman, 1952).

¹⁰² "The President's Midyear Economic Report," p. 6 (Truman, 1950a).

¹⁰³ National debt grew as a result of fiscal contraction during the 2008 financial crisis, growing entitlements, and cyclical adjustments, as well as war expenditures. See Chapter 5.

Table 2.8 Debt Reduction During Korean War (\$2018 bn)

FY	U.S. Federal Revenue	Total Federal Outlays	Total Defense Budget	Federal Debt	Debt as a % of GDP
1950	459	495	144	2,688	89.1%
1951	598	527	229	2,517	74.3%
1952	769	786	429	2,410	72.4%
1953	752	822	489	2,456	68.2%

Source: (OMB Historical Table 3.1, 2019; U.S. Department of the Treasury, Bureau of the Fiscal Service, 2019).

§ 2.5 Role of Congress

The Korean War is often cited as the first “unauthorized” American war (Fisher, 1975; Howell et al., 2013). Truman committed U.S. troops in Korea on the basis of a proposed UN Security Council resolution without first securing Congressional approval (Fisher, 1993).¹⁰⁴ George W. Bush cited this precedent when the United States invaded Iraq.¹⁰⁵

However, Truman immediately went to great lengths to gain support from important members of Congress. The UN action was an essential part of this effort. The day after the Security Council called on North Korea to withdraw its forces, Truman and

¹⁰⁴ In fact, Truman committed U.S. troops on June 26, 1950, one day before the Security Council called for military action. The U.S. Senate subsequently ratified the action in the “United Nations Participation Act of 1945.”

¹⁰⁵ The UN Security Council passed Resolution 1441 on November 8, 2002, calling on Iraq to comply with several previous resolutions on disarmament. George W. Bush cited this resolution as a cause for the U.S. invasion in March 2003, although then-Secretary General Kofi Annan said that the U.S. action was not sanctioned by the UN.

Secretary of State Dean Acheson convened a group of Senators and Congressmen at the White House. Acheson explained the events of the preceding 48 hours by stating that the President had taken action due to the “weakening” of the Korean forces and a state of “near-panic” among western European governments.¹⁰⁶

But Truman linked the U.S. military actions directly to the UN resolution.

According to the Elsey Papers:

The President thanked Mr. Acheson for his summary but pointed out that the Secretary had overlooked a most important element in the situation: namely that the United States had called for a special meeting of the Security Council in New York on Sunday, June 25, and that our military assistance was being given pursuant to the Security Council resolution passed at that meeting. The Secretary of State was quite obviously embarrassed at his failure to mention the United Nations (1950, p. 3–4).¹⁰⁷

Truman spent the morning giving assurance that the mission was related to the UN:

Sen. Wiley wanted to know if orders to McArthur were pursuant to the Security Council’s resolution. The President assured him that they certainly were... Sen. Connally asked if we would continue to press our case in the United Nations. The President and the Secretary of State assured him that all of our actions would be carried out through the United Nations. Sen. Alexander Smith wanted to be sure that the military assistance we were giving to Korea was actually pursuant to the Security Council resolution. He was assured by the President that it was—that everything we were doing for Korea was in support of the Security Council resolution...(Elsey, 1950).

For the next three years, Congress was an active partner with Truman in making decisions about Korea, including choosing how to pay for the war (Fisher, 2013). The level of engagement during each war period can be seen by looking at the sheer number of hearings at which Congress examined questions of tax and budget policy.

Two sets of Congressional committees were directly involved in raising revenues and appropriating money: the Senate Finance Committee and the House Ways and Means

¹⁰⁶ See Elsey (1950, pp. 3–4).

¹⁰⁷ George M. Elsey served as Administrative Assistant to the President, 1949–1951.

Committee (which control tax and revenue policies) and the Senate and House Appropriations Committees, Subcommittees on Defense (which approve budgetary legislation for the military). The Senate Finance Committee deliberated on the topic of war funding at five of the nine relevant hearings.¹⁰⁸ The House Ways and Means Committee discussed it at seven out of ten hearings, as shown in Table 2.9. The Senate Appropriations Defense Subcommittee examined war funding at more than one third of its hearings, and the equivalent House subcommittee focused eight of ten hearings on this topic (see Table 2.10). These percentages are comparable to Vietnam but far exceed the level of engagement by those committees during the post-9/11 wars.

These committees also received advice on how to reduce war spending from the Joint Committee on Reduction of Nonessential Federal Expenditures, known as the “Byrd Committee.”¹⁰⁹ This committee (which had no legislative authority) existed from 1941 to 1974 for the purpose of making recommendations to appropriators (Koempel, Murray, & Tabit, 2010).¹¹⁰

I reviewed the content of all the hearings in order to draw a broad comparison of the deliberations that took place during each of the three war periods. During Korea, the tone of the hearings was informed and cooperative. Individual lawmakers questioned Truman budget officials respectfully on the details of revenue estimates, costs, spending, and timing of outlays. The purpose in most cases was to weigh the pros and cons of potential spending trade-offs (for example, could a particular expenditure item be deferred?) or to advocate for specific spending reductions. The tone of the Vietnam hearings was more adversarial, with lawmakers demanding information and threatening

¹⁰⁸ Excludes hearings on topics such as trade agreements, tariffs, customs duties, banking, bonded debt, Social Security, and confirmation of appointees.

¹⁰⁹ It was known as the “Byrd Committee” due to the important role of Senator Robert C. Byrd.

¹¹⁰ The Joint Committee was abolished in the 1974 CBICA, with its duties transferred to the CBO.

to withhold funding if they did not receive it. Yet in both cases Congress participated actively in making recommendations and decisions about how the wars would be paid for. The post-9/11 hearings were distinctive for the relative absence of such interactions.

§ 2.5.1 Fiscal Committees

In order to make any changes to the federal tax code, a President must first secure approval from the fiscal committees, whose members are typically among the most powerful members of Congress.¹¹¹ During the Korean War, the Senate Finance Committee discussed war funding on at least five occasions. Even though spending policy is normally the purview of the appropriations committees, Senators questioned administration officials about expenditures and overall war funding policies, as well as about taxes, and played an active role in shaping tax policy during the war.

¹¹¹ Eight Presidents, eight Vice Presidents, 21 Speakers of the House, and four Supreme Court justices have served on the House Ways and Means committee.

Table 2.9 Mentions of War Funding Policies in Hearings of the Fiscal Authorizing Committees during the Korea, Vietnam, and Post-9/11 Conflicts

		Korea (1950-1953)	Vietnam (1965-1973)	Post-9/11 (2001-2017)
Senate Finance Committee	Total Hearings	55	134	681
	Relevant Hearings	9	10	20
	Mentions	5	7	1
	Percentage of Mentions	56%	70%	5%
House Ways & Means Committee	Total Hearings	49	200	612
	Relevant Hearings	7	19	47
	Mentions	5	14	7
	Percentage of Mentions	71%	74%	15%

Source: Data mining

In the first year of hearings on Truman’s tax proposals, the Senate committee—particularly Senator Robert Taft of Ohio and Senator Eugene Milliken of Colorado—pressed Elmer B. Staats, Assistant Director of the Bureau of the Budget, to clarify the “pay-as-you-go” concept. As Milliken said, “I think everyone will agree on the pay-as-you-go principle, short of the point where it injures the economy seriously. But we are trying to grope around here trying to find what that point *is*.”¹¹²

¹¹² See Revenue Act of 1951, Hearings before the Committee on Finance, U.S. Senate, 82nd Congress, on HR 4473, June 28–July 3, 1951 (1950). Emphasis in the original.

In 1951, as Truman sought his second tax levy, the committee insisted that the second round of taxes be constructed to sunset in 1953. Committee members, including Senator Walter George, demanded that any further taxes should be contingent on whether the war carried on (as opposed to Truman, who opposed the expiration of the higher rates on the assumption that the war would continue; Kreps, 2018).

The House Ways and Means Committee focused on reviewing the minutiae of how the administration would reduce spending. For example, Committee chairman Robert L. Doughton insisted that (Budget Director) Lawton report the details on each type of the 80,311 vehicles (e.g., the number of station wagons, one-ton trucks, and 15 other categories of vehicle, who drove them, miles driven, and purposes) owned by each federal department, in an effort to get the government to reduce this number to pay for the war. The Committee devoted several days of hearings to examining hundreds of specific line items flagged for reduction by the Byrd Committee, such as whether \$412 m in flood control for 1952 could be postponed.¹¹³

§ 2.5.2 Appropriations Committees

The Congressional appropriations committees review and approve the level of federal spending through multiple subcommittees. The Senate Appropriations Subcommittee on Defense held 17 relevant hearings,¹¹⁴ and debated war funding in six (35%) of them, as shown in Table 2.10. The comparable House committee held hearings in eight out of ten such hearings (80%) as shown in Table 2.10.

The data mining revealed that the committees discussed not just particular spending items (for example, the cost of a specific ship or arms contract) but also how the

¹¹³ See Revenue Revision of 1951 Part 1 (1951).

¹¹⁴ Hearings that were related to the war, at which war funding could be a subject for discussion.

war was being paid for. The hearings focused on oversight of war spending, the potential duration of the war, the need for supplemental appropriations, and whether the funding was being placed correctly within the DoD budget.

Table 2.10 Mentions of War Funding Policies in Hearings of the Appropriations Committees During the Korea, Vietnam and Post-9/11 Conflicts

		Korea (1950–1953)	Vietnam (1965–1973)	Post-9/11 (FY 2001– 2017)
Senate Appropriations Subcommittee on Defense	Total Hearings	17	53	29
	Mentions	6	42	5
	Percentage of Mentions	35%	79%	17%
House Appropriations Subcommittee on Defense	Total Hearings	10	65	39
	Mentions	8	35	3
	Percentage of Mentions	80%	54%	15%

Source: Data mining

These hearings reveal a collaborative and, in most cases, respectful relationship between the appropriators, the Defense Department, and the Budget Office. During the appropriations hearings, lawmakers scoured the defense budget for potential savings, and even the military adopted the phrase “adequate security at minimum cost.” Speaking to the Appropriations Committee in February 1953, Secretary of Defense Charles Erwin Wilson remarked: “It is my hope that we can make progress by examining this budget

together...our approach is based on the belief that we are all devoted to the task of achieving adequate security for our country at minimum cost.”¹¹⁵

The committee directed the DoD to move the bulk of the war requests into the base budget. In February 1953, Wilson asked members of the House Appropriations Subcommittee on Defense whether he should put funding into his regular FY 1954 (base) budget request for the Department, or to leave it to be funded through supplementals if necessary.¹¹⁶ It would have been advantageous for Wilson to keep war funding outside his base budget because the war account would absorb the Committee’s full budget allocation. However, by this time Committee had turned against the use of supplementals (R. M. Miller, 2007). Although the tone was genteel, there is no question that the Committee wanted Wilson to integrate war funds in the regular defense request on the then-expectation that the war would continue.¹¹⁷

Secretary WILSON: The question is, do we put the present rate of expenditure of the Korean War into the 1954 budget? I am speaking now for budgetary purposes only. There is no official forecast as to when the war will be over, but do we put in the figure for the whole year, or do we hedge it and put it in for half the year? And then about the first of July, or in another 3 or 4 months, ask you for some more money, if the war is going on?

Representative SHEPPARD. That would depend upon the policy of the committee; whether we were going to consider supplementals or not. If we are not going to consider supplementals, obviously it would have to be projected into the original presentation. That would be best.

Representative MILLER. So it would be wiser if the appropriation would be for the full [base] budget, what we expected to happen, and then if it happens there are savings, so much the better.

Secretary WILSON. In other words, if I realistically have to put the Korean War in, I am going to have to put it in [to the base request].

¹¹⁵ Department of Defense and Related Independent Agencies Appropriations for 1954 (1953).

¹¹⁶ Spending from July 1953–June 1954.

¹¹⁷ Department of Defense and Related Independent Agencies Appropriations for 1954 (1953).

§ 2.6 Conclusion

The Korean War was funded according to the expected conventions for U.S. wartime funding. The President proposed tax increases and spending cuts, which the Congressional authorizers and appropriators debated, amended, and ultimately approved. The President's views appear to have been shaped by his personal beliefs, as well as by his economic and military advisors.

The President made his case about the financial burden of the war directly to the public and urged voters to support higher taxes and lower domestic spending. His economic advisors discussed the impact of the war on the economy and provided advice, which he accepted. By and large, the President and the Congress collaborated on setting budgetary and fiscal policy. This ensured that Truman was able to get the necessary Congressional support to implement his policy of higher taxes. The relationship between Truman and Congress regarding war funding can be described by Neustadt's phrase that the framers of the Constitution "created a government of separated institutions *sharing* powers" (Neustadt, 1964, p. 42).

Money for the war was initially appropriated through a large supplemental bill. However, the majority of the war budget was subsequently integrated into the regular military spending request, which was vetted by the relevant appropriations committees in Congress.

In short, budgetary and financial policy during the Korean War largely followed established norms, rules, and procedures.

CHAPTER 3 VIETNAM AND THE CENTRAL ROLE OF WAR BUDGETS

§ 3.1 Chapter Summary

War funding was a central issue in the prosecution of the Vietnam War and arguably a key factor in determining its outcome. Congress repeatedly sparred with Presidents Lyndon B. Johnson and Richard M. Nixon over war appropriations and taxes (Fisher, 1998; Schick, 1980). A series of epic battles between the executive and Congress culminated on May 15, 1973, when Congress voted to cut off funding for the bombing of Cambodia and thereafter refused to fund most of the requests for continued assistance to the South Vietnamese military.¹¹⁸ This action effectively ended America's involvement in the war.

This chapter will show that, despite the complexities and drama of the Vietnam War, the United States budgeted for and financed the conflict in a fairly conventional way. The military secured the majority of war funds through the regular appropriations process, which covered 68% of the cost of the war through the base DoD budget (R. M. Miller, 2007). Although Johnson initially resisted raising taxes, the United States eventually paid for Vietnam through a combination of higher taxes, increased borrowing, and domestic spending cuts. As Johnson announced in 1967, he intended to “borrow a part of it, tax a part of it, and save a part of it.”¹¹⁹ The central players—including the three Presidents directly involved in the war (Johnson, Nixon, and Gerald Ford), their economic advisors, the military, and Congress—all paid close attention to the costs of the

¹¹⁸ See Memorandum for the Record of January 8, 1975 in which President Gerald Ford asks Congressional leaders for assistance to provide ammunition to the South Vietnamese (Ford, 1975).

¹¹⁹ Johnson's News Conference on the Tax Message, Washington, DC; August 3, 1967 (L. B. Johnson, 1967b).

war, how to pay for it equitably, and what impact war funding policy might have on the economy.

Johnson's efforts to pay for the war without sacrificing his Great Society agenda has become a textbook case of "guns vs. butter" budgetary trade-offs.¹²⁰ Johnson attempted to hide the escalation of the war from Congress in order to protect funding for his domestic agenda. He also *pursued* the war in part to maintain support for his domestic goals (Helsing, 2000; Howell et al., 2013).

The extensive body of literature on the Vietnam War makes it challenging to limit the discussion. This chapter focuses on the topic of war funding during the period 1965–1973 (when the war received the bulk of appropriations) and compares it to Korea and the post-9/11 period. Although it is impossible to disentangle war funding from war policies completely, I have focused on how the war funding decisions were made and how the mounting costs of the war influenced government policy.

§ 3.2 Paying for the Vietnam War (1965–1975)

The major military expenditures of the Vietnam War began in mid-1965 under Johnson and lasted until U.S. troops withdrew from the country in March 1973.

Johnson assumed the Presidency in November 1963, following President John F. Kennedy's assassination. He was elected President in his own right one year later with 61% of the vote. His election platform was to implement the Civil Rights Act that he had pushed through Congress in July 1964, together with a promise to enact a series of social welfare programs that he dubbed the "Great Society."¹²¹ Meanwhile, Johnson also

¹²⁰ See high-school social studies textbook Boldt and Kassis (2004): "Activity 4 provides a lesson on the impact of economic trade-offs during the Vietnam War, when society had to choose between spending money to fight the war or spending money on the War on Poverty."

¹²¹ Johnson first used the phrase "Great Society" in a speech at Ohio University on May 7, 1964.

presided over the largest U.S. troop deployments and war expenditures of the Vietnam War. Two-thirds of the 58,200 Americans killed in the entire conflict died while he was President (see Table 3.1). Johnson was obliged to determine how this war effort should be funded while sustaining his “Great Society” initiatives.

Table 3.1 U.S. Troop Deployments and Combat Deaths in Vietnam, 1960–1975

Year	President	U.S. Troops Deployed	U.S. Combat Deaths
1960	Eisenhower/Kennedy	900	5
1961	Kennedy	3,205	16
1962	Kennedy	11,300	53
1963	Kennedy/Johnson	16,300	122
1964	Johnson	23,300	216
1965	Johnson	184,300	1,928
1966	Johnson	385,300	6,350
1967	Johnson	485,600	11,363
1968	Johnson	536,100	16,899
1969	Johnson/Nixon	475,200	11,780
1970	Nixon	334,600	6,173
1971	Nixon	156,800	2,414
1972	Nixon	24,200	759
1973	Nixon/Ford	50	68
1974	Ford	0	1
1975	Ford	0	62
Total		2,637,155	58,209

Source: (U.S. Department of Defense Manpower Center, 2016)

Nixon won the Presidency in November 1968 after Johnson declined to run for a second term. He was in charge of budgetary policy from 1969 until U.S. forces finally withdrew from Vietnam four years later. Some of the heaviest bombing of the war took place on his watch. Nixon was reelected in 1972 but, as his personal standing crumbled

under the weight of Watergate revelations, funding battles with Congress intensified. With military victory on the ground unattainable, Nixon started to wind down the war, ending the draft and reducing troop deployments. As Secretary of State Henry Kissinger said later, “the intellectual establishment, having got us into the war, didn’t know how to get us out. They couldn't face the fact that Nixon was more or less cleaning up their mess” (Hattenstone, 1999).

There are several factors to bear in mind when comparing the Vietnam War to Korea. First, Vietnam was a continuation of the “Cold War.” President Harry Truman had declared America’s desire to “contain” communism and to prevent it from gaining territory (known as the “Truman Doctrine”) in 1947.¹²² This philosophy was the foundation of all U.S. foreign policy throughout the period. The United States began sending money and supplies to South Vietnam in 1954—barely a year after the truce in Korea. Vietnam, like Korea, was divided into a “democratic” south and communist north.¹²³ President Dwight D. Eisenhower committed a small number of U.S. forces to the defense of South Vietnam after France, the colonial power, was forced out. Eisenhower justified the intervention in Southeast Asia in his famous speech that compared the spread of communism to knocking over “a row of dominoes” (Howell et al., 2013).

In Congress, the fact that Vietnam was part of the larger anti-communist effort ensured the support of conservative Southern lawmakers, who staunchly opposed communism. However, those states had voted against Johnson in the 1964 Presidential election. Throughout his Presidency, Johnson tried to leverage the Vietnam War to placate this faction of Congress in order to get them to go along with his domestic

¹²² Truman first articulated the “Truman Doctrine” in 1947, in respect to Soviet threats to Greece and Turkey.

¹²³ Vietnam was divided at the 17th parallel in 1954 by the Geneva Convention; the U.S. State Department had divided Korea at the 38th parallel in 1945.

programs (Fisher, 1998). This dynamic was critical to his decisions regarding war funding.

A second distinction was that the nature of combat in Vietnam was markedly different from Korea and earlier wars. The majority of those fighting in Korea were regular soldiers. The fighting was characterized by periodic, fierce battles between U.S. troops and the North Korean/Chinese armies that took place mostly on open ground in the style of World War II (Millett, 2010). America's objective was clear: to drive the North Korean communists back to the original line of division, relying on its stronger air power as a strategic advantage. The United States used conventional tanks, infantry, and air support—with which the Pentagon and Congressional appropriators had experience in terms of estimating costs and budgeting (A. Mitchell, 2013).

By contrast, Vietnam was a guerrilla war. In this respect, the asymmetric warfare was more of a precursor to Iraq and Afghanistan (Polk, 2007). Most of the fighting took place in the jungles of South Vietnam (and later in Cambodia; see Figure 3.1) in locations where rebels were mixed in with civilians, and U.S. troops had trouble distinguishing between the two.¹²⁴ The Pentagon had little experience in fighting this type of war, which involved deploying small “search and destroy” units and frequent interaction with the communist insurgents. The DoD found it difficult to estimate the costs and requirements for such an operation (Drea, 2011). Moreover, it was far more difficult for outside observers to discern who was gaining advantage on the ground and to assess the likely consequences for troop deployments. Both the Johnson and Nixon administrations took advantage of this confusion to mislead the public about the full extent of the United States' involvement in Vietnam (Howell et al., 2013).

¹²⁴ J. Mateczun, Interview No. 4, May 1, 2016; W. Polk, Interview No. 27, December 7, 2016.



Figure 3.1 Location of Vietnam Fighting
 Source: (National Geographic Society, 2012)

A third factor was that the conflict on the Korean peninsula ended without a clear “winner,” whereas in Vietnam the United States unambiguously lost. In Korea, the North and South signed an armistice in 1953 that created two states separated by a 2-mile “demilitarized zone” (a situation that continues to this day).

Fear of losing the Vietnam War dominated funding disputes under Nixon, who tried unsuccessfully to engineer a similar face-saving end to the conflict. Under his leadership, the United States engaged in multiple Vietnam policies, including escalation,

de-escalation, expansion into Cambodia (1970) and Laos (1971), “Vietnamization,”¹²⁵ peace talks, and finally withdrawal (Fisher, 2013; Howell et al., 2013).

The Vietnam War ended in 1973 after the United States and South and North Vietnam signed the Paris Peace Accords, which called for a cease-fire and peaceful reunification. Ferocious fighting continued for two more years (during which Congress limited the amount of funding the United States could provide to South Vietnam) until the South surrendered in 1975, when the few remaining Americans were airlifted out of the country. Some analysts attribute the fall of South Vietnam to the United States shutting off funding in this period. For example, Melvin Laird, who served as Nixon’s Secretary of Defense (1969–1973), broke 30 years of silence to publish an article in 2005 in which he blamed America’s loss in Vietnam directly on Congress’s refusal to pay for the continuation of the war. “The United States had not lost when we withdrew in 1973,” he wrote, “[i]n fact, we grabbed defeat from the jaws of victory two years later when Congress cut off the funding for South Vietnam that had allowed it to continue to fight on its own” (Laird, 2005, p. 25).

For the purposes of this thesis, the single most relevant feature of the Vietnam War is that funding was at the center of the narrative. Many aspects of the war made Vietnam increasingly unpopular with the American public, including the draft, the high casualty toll, and the bombing of innocent civilians overseas. Yet the question of how to pay for the war (and the consequences of different funding policies) and the trade-offs between military and domestic spending were debated at every level of government. Ultimately, budgetary policy provided the leverage for Congress to terminate the fighting using its “power of the purse” (Fisher, 2000).

¹²⁵ Vietnamization refers to the U.S. effort to transfer combat responsibilities to the South Vietnamese forces.

§ 3.3 Presidential Engagement and Decision-Making

In 1964, the United States was enjoying a period of prosperity, and Johnson had an ambitious vision for waging a war on poverty (Goodwin, 1976). Unlike Truman in Korea and President George W. Bush in Afghanistan/Iraq, Johnson did not choose to get involved in Southeast Asia. Rather he inherited a conflict for which he had no real appetite.¹²⁶ According to William Polk,¹²⁷ who participated in many of the discussions with Johnson at the time, Johnson just wanted to know “what would make the North Vietnamese stop fighting.” When it came to imposing a tax surcharge (which occupied two full budget cycles of his Presidency), Johnson had little interest in the details of tax policy or the economy. “I’m not even sure he knew what inflation was,” said Polk. “He was concerned about jobs at home. That’s what interested him.”

Unfortunately for Johnson, Vietnam was already a military and political quagmire. South Vietnamese President Ngô Đình Diệm had been assassinated in 1963, just 20 days before Kennedy was killed. The Chinese were supporting the communist guerillas in the North. When McNamara traveled to Vietnam in 1964, he reported that the situation was “unquestionably worse” than it had been during his visit the previous year (Helsing, 2000, p. 23). Although reluctant to go deeper into Vietnam, Johnson felt he had little choice. As he explained to historian Doris Kearns Goodwin,

Everything I knew about history told me that if I got out of Vietnam and let Ho Chi Minh run through the streets of Saigon, then I’d be doing exactly what Chamberlain did in World War II. I’d be giving a big fat reward to aggression (Goodwin, 1976, p. 196).

¹²⁶ F. Bator, Interview No. 39, July 12, 2017.

¹²⁷ W. Polk, Interview No. 27, December 7, 2016. Polk served as National Security Advisor to Kennedy and Johnson from 1961–1966.

Johnson began his Presidency confident that the United States could pay for both the war and his domestic agenda (Bator, 2007). Inflation was low, and Johnson's CEA predicted it would stay that way (Zielinski, 2016).¹²⁸ In 1965, Johnson persuaded Congress to approve \$1 bn (\$8.1 bn in 2018 dollars) for the "War on Poverty." At the same time he pushed through a tax cut, which his economic advisors touted as a Keynesian stimulus measure (L. C. Gardner, 1995). Even at this early date, Johnson feared that Vietnam might be expensive. As he told two reporters in January 1964: "I've got a brazen Communist attempt to conquer Asia on my hands...I gotta figure out how to pay for these fucking wars and keep my commitment to feed, educate and care for the people of this country" (L.C. Gardner, 1995, p. 196).

Johnson's approach to making decisions was quite different from Truman, even though both men ended up raising taxes and cutting domestic spending. Graham Allison's taxonomy for decision-making styles is a useful framework for contrasting the two (Allison, 1971). Truman conformed largely to Allison's "rational actor" model, which he defines as "consistent, value-maximizing choice within specific constraints" (Allison, 1971, p. 30). Truman had a consistent point of view on the need to "pay-as-you-go" for the war and to distribute the burden fairly. He evaluated the options and adopted specific fiscal policies designed to maximize tax revenue raised during the war while reducing domestic spending, based on his administration's assumptions about the budgetary, fiscal, political, and economic conditions.

By contrast, Johnson whirled in a plethora of deal-making, intransigence, personal ties, and negotiations, navigating between Southern Democrats and pro-Civil Rights members of his own party and outside interests, while relying on his coterie of advisors to

¹²⁸ July 30, 1965 CEA memo to Johnson (Zielinski, 2016).

put forth their competing points of view. Allison (1971) terms this approach the “governmental politics” (or “court” politics) model. Consistent with this framework, Johnson drew heavily on the technical advice of his inner circle of advisors, while also separating his military and economic aides into competing teams (Hormats, 2007).

§ 3.4 Financing the War

In considering how the Vietnam War was funded, I focused primarily on the Johnson period (1964–69), when the escalation of the war saw both troop levels and military spending rise rapidly. Both of these were reversed under Nixon. His challenge was centered more on dealing with Congress amid the growing unpopularity of the war than on the budgetary trade-offs, and hence will be discussed in the section on Congress below.

Johnson’s advisors began urging him to raise taxes in 1965, as the cost of the war and his new domestic programs escalated (Bator, 2007). Conservatives were becoming alarmed by the growing budget deficit. Moreover, the economy was already operating at close to full capacity, with unemployment falling to under 5% and GDP growing at 5.8% in 1964 (R. M. Miller, 2007). By contrast, the economy just prior to the Korean War was recovering from a recession, so it had room to grow. Johnson’s economic advisors worried that the jump in military activity would trigger inflation.¹²⁹ As Zielinski (2016) points out, the threat of inflation is often a catalyst for leaders to raise taxes during war. In addition, the liberal wing of the Democratic Party wanted to protect Johnson’s Great Society and feared that social programs would be cut unless he found a way to increase revenues (Howell et al., 2013; Kreps, 2018a).

¹²⁹ F. Bator, Interview No. 39, July 12, 2017.

Johnson rejected the advice on the grounds that it would invite (an unwelcome) Congressional debate over federal spending priorities. His mindset is evident in his response to McNamara, who sent him a private memo in 1965 “recommending a tax increase to avert a rise in inflation and the deficit” (Hormats, 2007, p. 212). Johnson replied, “Obviously you don’t know anything about politics...I’ll tell you what’s going to happen...In the course of the debate, they’ll say ‘You see, we’ve been telling you so. You can’t have guns and butter, and we’re going to have guns.’” He predicted that if he were to propose a tax program, “all those conservatives in the Congress would use it as a weapon against the Great Society” (Hormats, 2007, p. 212).

Johnson spent the next two years signing major legislation on education, civil rights, poverty, the environment, and housing (Goodwin, 1976). He established Medicare and Medicaid. In his SOTU address in January 1966, Johnson declared that the country could afford these benefits as well as the war:

I believe that we can continue the Great Society while we fight in Vietnam. But if there are some who do not believe this, then, in the name of justice, let them call for the contribution of those who live in the fullness of our blessing, rather than try to strip it from the hands of those that are most in need (L. B. Johnson, 1966).

Meanwhile, nearly all his advisors were advocating a tax hike in order to address rising inflation and the need to pay for growing federal outlays. Charles Schultze, the White House Director of the Budget, wrote to Johnson: “In short, under almost every conceivable circumstance—except a Vietnam settlement between July and November—a decision to raise taxes at least for the remainder of this year and early 1967 is clearly warranted.”¹³⁰

¹³⁰ “The Effect of a Tax Increase.” May 11, 1966. WHCF FI 9 – BOX 55 (Schultze, 1966).

The Chairman of the CEA, Gardner Ackley, recommended the tax could be structured as surcharges. In a memo to the President he said: “We are attracted by the fair-shares logic of the surcharge approach for corporate and individual income taxes. This adds the same percentage increase to the tax bill of every firm and person.”¹³¹

The Federal Reserve and the Treasury also supported the approach. Secretary of the Treasury Henry Fowler wrote to Johnson:

This surcharge is necessary as an interim measure if the Federal Government is going to be able to pay its bills out of current revenues in the fiscal year 1967.... This proposal would effect an equitable adjustment of changes in income after taxes between individuals and corporations that have taken place since the escalation in Vietnam.¹³²

By mid-1966, with spending rising for the Great Society as well as the war, the consensus in his administration was that Johnson would lose his domestic legacy without a tax surcharge (Fisher, 2013).¹³³ In another memo, Secretary of the Interior Stewart Udall presented Johnson with two choices:

First Alternative: Follow the Korean conflict pattern, shut down construction programs, defer some public work projects, and keep existing programs on a hold-the-line basis... Second Alternative: have a tax increase large enough to finance Vietnam and the President’s new programs as well.¹³⁴

Despite this pressure, Johnson stubbornly refused. According to Johnson’s former Deputy National Security Advisor Francis Bator, he twice explained the concept of an “overheating economy” to Johnson and pleaded with him on taxes. But Johnson was more concerned about the politics of Congress than about inflation.¹³⁵ According to Hormats, “Johnson was keenly aware that by allowing a debate on the financing of the war, he

¹³¹ “An Immediate Tax Program.” August 9, 1966. WHCF FI 9 – BOX 55 (A. Gardner, 1966).

¹³² “Memorandum to the President.” August 27, 1966. WHCF FI 11 – BOX 56 (Fowler, 1966).

¹³³ F. Bator, Interview No. 39, July 12, 2017.

¹³⁴ “Memorandum – Cabinet Meeting Agenda.” August 31, 1966. FI 4 – Budget Appropriations – BOX 23 (Udall, 1966).

¹³⁵ F. Bator, Interview No. 39, July 12, 2017.

would be opening a larger debate on the war itself and his entire program” (Hormats, 2007, p. 218).

In an effort to forestall Congressional attention on rising war costs, Johnson and McNamara deliberately misled Congress, the public, and Johnson’s own economic team about the deteriorating situation on the ground in Vietnam (Drea, 2011). They concealed the intensity and escalation of military operations and the rising casualties, and manipulated information about their plans for future deployments of troops and materiel (Bator, 2007; L. C. Gardner, 1995; Goodwin, 1976; M. Harrison, 2016; Hormats, 2007). In 1966, Congress questioned some details of McNamara’s low budget estimates, but no one within the DoD came forward with a truthful picture.¹³⁶ However, the full scale of the deception was not revealed until the summer of 1971, when Daniel Ellsberg leaked the “Pentagon Papers” to the press.¹³⁷

Scholars have debated Johnson’s behavior for decades. Bator’s theory is that Johnson believed the only way to secure his domestic goals was to retain the support of the anti-communist faction in Congress—and that the whole package could unravel politically if the full cost of the war and the programs were known.¹³⁸ Bator points out that Johnson “knew how to count votes” (Bator, 2007) and he had to accept his generals’ war buildup in order to secure civil rights and poverty legislation. As Bator writes:

For Johnson, no war meant no Great Society. Schematically...he thought he could choose among (1) war and no Great Society legislation, or (2) war and passage of Great Society legislation, or (3) no war and no Great Society legislation. But the

¹³⁶ D. Ellsberg, Interview No. 1, January 3, 2016. Ellsberg told me that he has devoted much of his life to understanding why individuals inside organizations conceal truths that “everyone knows,” studying, for example, the Catholic Church scandal and the football concussions in the NFL.

¹³⁷ The “Pentagon Papers” were a top-secret analysis of the Vietnam War from 1945 to 1967, commissioned by McNamara and conducted by 36 military experts, including Ellsberg, a former Marine and Harvard PhD who worked for the RAND Corporation. The report included 4,000 pages of documents and 3,000 pages of additional analysis. Johnson was not aware of the report.

¹³⁸ F. Bator, Interview No. 39, July 12, 2017 and D. Ellsberg, Interview No. 1, January 3, 2016.

fourth combination: no war with Great Society legislation was, he thought, not an available option (Bator, 2008, p. 366).

Zielinski suggests that timing also played a role. She points out that Truman raised taxes at the beginning of the Korean War when public opinion and Congress were backing him. During the early years of Vietnam, Congress was not yet worried about inflation and Johnson was confident that the growing economy would enable him to have both guns and butter (Zielinski, 2016). He also knew that a war tax would bring attention to the costs of the war. So he waited until 1967 to call for new taxes. By this time public opinion was turning against Vietnam (see Table 3.2).

Table 3.2 Public Opinion Toward U.S. Involvement in Vietnam, 1965–1973
 “In view of the developments since we entered the fighting in Vietnam, do you think the U.S. made a mistake sending troops to fight in Vietnam?”

Date	Yes (mistake)	No, (not a mistake)	No opinion
Aug 27–Sep 1, 1965	24%	61%	15%
Mar 3–8, 1966	25%	59%	16%
May 5–10, 1966	36%	49%	15%
Sep 8–13, 1966	35%	48%	17%
Nov 10–15, 1966	31%	51%	18%
Jan 26–31, 1967	32%	52%	16%
April 19–24, 1967	37%	50%	13%
July 13–18, 1967	41%	48%	11%
Oct 6–11, 1967	46%	44%	10%
Dec 7–12, 1967	45%	46%	9%
Feb 1–6, 1968	46%	42%	12%
April 4–8, 1968	48%	40%	12%
August 7–12, 1968	53%	35%	12%
Sep 26–Oct 1, 1968	54%	37%	9%
Jan 23–28, 1969	53%	32%	9%
Sep 22–29, 1969	58%	32%	10%
Jan 15–20, 1970	57%	33%	10%
April 2–7, 1970	51%	34%	15%
May 21–26, 1970	56%	36%	8%
Jan 8–11, 1971	59%	31%	10%
May 14–17, 1971	61%	28%	11%
Jan 12, 1973	60%	29%	11%

Source: Gallup Polls (Saad, 2016)

Politics brought matters to a head. The Democratic Party lost 47 seats in the November 1966 midterm elections. With the balance of power shifting towards conservative Southerners, Johnson finally agreed to propose higher revenues (R. M. Miller, 2007). In his SOTU address in January 1967, Johnson called for an immediate tax surcharge of 6% on individual and corporate taxes, with an exemption for the two lowest

brackets of taxable income, “to last for two years or for so long as the unusual expenditures associated with our efforts in Vietnam continue.” He devoted three sentences to explaining how this would affect the average person, declaring that “the overwhelming majority of Americans...will pay substantially less than \$5 a month” (L. B. Johnson, 1967a).

As Johnson had predicted, the plan set off a firestorm. Congressman Wilbur Mills of Arkansas, the chairman of the House Ways and Means Committee and a staunch critic of Johnson’s domestic spending, immediately opposed the surcharge plan and called for spending cuts instead (Drea, 2011). Public opinion was against the tax and in favor of reduced spending. A Harris public opinion poll found Americans opposed the surcharge “by a thumping 65% to 25%; while favoring cuts in spending by 75% to 11%.”¹³⁹ The Business Council’s Liaison Committee for the Council of Economic Advisers “unanimously opposed any immediate moves toward a tax increase...[however] they do continue to worry about the rising trend of Federal expenditures.”¹⁴⁰

Six months later, in August 1967, Johnson faced a Congress divided between liberals, who were unwilling to raise taxes to pay for the increasingly unpopular war, and conservative Southerners, who wanted to fund the war by cutting social programs (Bator, 2007). With inflation, deficits, war expenditures, and social unrest all rising, Johnson delivered a special message entitled “The Hard and Inescapable Facts” to explain deficits and the budget.¹⁴¹ He proposed a 10% tax surcharge and modest spending reductions while also making an impassioned defense of his domestic agenda:

There are times in a Nation’s life when its armies must be equipped and fielded, and the Nation’s business must still go on. For America that time is now....The

¹³⁹ “Harris Release for Monday,” February 24, 1967, WHCF 5-2 (3) – BOX 31 (1967).

¹⁴⁰ “Report from Business Council Meeting,” May 15, 1967, FG 11-3 – CEA – BOX 59 (1967).

¹⁴¹ Johnson, “Special Message to the Congress: The State of the Budget and the Economy,” August 3, 1967 (L. B. Johnson, 2005).

poor must be lifted from the prisons of poverty, cities must be made safe and livable, sick and undernourished bodies must be restored, our air and water must be kept clean, and every hour of our future must see new opportunities unfold.¹⁴²

Over the following year, there was a protracted struggle between Johnson and Congress, as Johnson and his DoD lowballed the estimates of war costs and troop deployments in an effort to conceal the rising costs of the war (L. C. Gardner, 1995; Hormats, 2007; R. M. Miller, 2007). Democrats were willing to consider the surcharge but wanted assurances that any expenditure reduction would not strike too deeply into social programs.¹⁴³ Mills refused to consider any tax changes without corresponding budget reductions. He advised Johnson to go on TV and “explain that he had to choose between guns and butter and he had chosen guns.” If the President did that, Mills said he would “back a tax increase all the way” (L.C. Gardner, 1995, p. 411).

Ultimately, Johnson conceded the need for budget trade-offs. In his final BTM, dated January 19, 1968, he wrote:

The budget I send you today reflects a series of difficult choices....But faced with a costly war abroad and urgent requirements at home, we have had to set priorities...“priority” is but another word for “choice.” We cannot do everything we would wish to do...we must choose carefully among the many competing demands on our resources.

By this time, inflation was climbing rapidly (the CPI grew from 2.8% in 1967 to 5.5% in 1969; FRED, 2020) there was a balance of payments crisis, a massive budget deficit, and 536,100 Americans were deployed to Vietnam. Amidst a widening war and national protests, Johnson negotiated with members of Congress until March 1968, when he made the shocking announcement that he would not seek reelection (Goodwin, 1976; Howell et al., 2013).

¹⁴² Johnson, “Special Message to the Congress: The State of the Budget and the Economy,” August 3, 1967 (L. B. Johnson, 2005).

¹⁴³ “Meeting with the Democratic Study Group,” May 14, 1968, WHCF BE 5 – BOX 25 (1968).

On June 28, 1968, Johnson signed the “Revenue and Expenditure Control Act of 1968,” imposing a 10% income surcharge on individuals and corporations through June 30, 1969. As part of the deal, Congress slashed \$6 bn from Johnson’s signature Great Society programs, with additional severe cuts scheduled for the following year. This package produced a surge in tax revenues and briefly restored the budget to surplus in FY 1969 (see Table 3.3). Johnson followed in the footsteps of Roosevelt (who accepted cuts in the New Deal to pay for World War II) and Truman (who sacrificed much of the Fair Deal for Korea). As Johnson had predicted at the start of his Presidency, “guns” had won out over “butter.”

Table 3.3 Taxes, Spending, and Deficits During Vietnam

FY	Total War Costs (Bn \$)	Total Federal Outlays (Bn \$)	Total Revenue (Bn \$)	% Revenue from Income Taxes	Surplus/Deficit (Bn \$)	Federal Debt (Bn \$)
1965	5.5	933	922	42%	(11)	2,545
1966	114.7	1,042	1,014	42%	(28)	2,546
1967	174.0	1,179	1,115	41%	(64)	2,550
1968	208.2	1,288	1,106	45%	(182)	2,665
1969	199.3	1,270	1,293	47%	23	2,530
1970	182.6	1,276	1,258	47%	(18)	2,484
1971	81.7	1,301	1,158	46%	(143)	2,526
1972	59.9	1,382	1,242	46%	(140)	2,612
1973	45.1	1,421	1,335	45%	(86)	2,697

Source: (R. M. Miller, 2007; OMB Historical Table 1.3, 2020)

§ 3.5 Budgeting and Financial Structure

The initial period of funding for Vietnam followed the orthodox pattern of supplemental budget requests followed by migrating the majority of war funding into the DoD base budget. However, as time passed the appropriators began to distrust the estimates presented by the Johnson (and later the Nixon) administration. This led to an increasingly adversarial relationship between the appropriations committees and the Pentagon. The appropriators attempted to gain more control over the DoD budget by limiting the department's flexibility to allocate resources, mandating more frequent reports, convening more oversight hearings, and eventually placing restrictions on war spending itself (Drea, 2011; R. M. Miller, 2007; Wooley, 1998). Congressional frustration over this process was one of the factors that led to the passage of the CBICA in 1974.

The first major funding request to Congress was in May 1965, when Johnson asked for \$700 m in supplemental appropriations specifically for the bombing campaign that had begun in March 1965 (Drea, 2011). Johnson and McNamara took steps to ensure that the figure was low enough to avoid provoking questions about the growing U.S. military involvement in Vietnam. They decided to ask for an amount less than \$1 bn, and they attached the request to another bill related to anti-communist efforts in the Dominican Republic (Drea, 2011). Congress approved this by a vote of 408 to 7 in the House and 88 to 3 in the Senate and structured the money as a transfer fund. This mechanism provided the DoD with maximum flexibility over how to allocate the funds (Drea, 2011).

Johnson hoped to ramp up operations without asking for more money until the beginning of 1966 by using unobligated carryover funds already in the defense budget.

The administration quietly transferred \$1 bn from the base for this purpose (R. M. Miller, 2007). But with troop levels growing rapidly, the administration was forced to request another \$1.7 bn supplemental for the “Southeast Asia Emergency Fund” (SEAEF) on Aug 4, 1965. McNamara assured Congress that this amount would suffice for the remainder of the calendar year (Drea, 2011). It was submitted as a routine amendment to the regular budget bill that had already cleared the House, and it passed easily in the Senate.

The record shows that Johnson and McNamara knew the \$1.7 bn would be inadequate (Drea, 2011). Troop numbers had already increased from 23,500 to 75,000, and that alone meant the military would need \$2.6 bn just to support those operations. McNamara knew he would need at least another \$10–\$13 bn given the planned buildup to over 100,000 and the increased aircraft, ground operations, artillery, and other equipment that would be needed to support them (Drea, 2011; McMaster, 1997; R. M. Miller, 2007). Nonetheless, in 1966 McNamara testified that “we have no desire to widen the war” and simply informed the Senate Appropriations Subcommittee on Defense that he would likely submit a more detailed supplemental in early 1966.¹⁴⁴

It became more difficult to conceal the costs of the war, in part because the Senate Armed Services Committee issued a report on readiness and preparedness. It dealt with “structural readiness” (total manpower, weapons, and units) and “operational readiness” (training, sustainability, maintenance, equipment, and personnel backfills) and called attention to the amount of money required per troop (Betts, 1995). When McNamara came back to Congress in 1966 asking for another supplemental for \$13.1 bn, Congress passed it overwhelmingly but gave the Pentagon much less flexibility. Unlike the initial

¹⁴⁴ Senate Committee on Appropriations, Subcommittee on Defense, August 4, 1965, p 761 (Department of Defense Appropriations, 1966 Part 1, 1965).

tranche of money, Congress insisted on placing 94% of the money into regular accounts over which it exercised controls (Drea, 2011; Goodwin, 1976; Helsing, 2000).

McNamara continued to underestimate the full extent of U.S. military activities in order to avoid greater scrutiny on the cost of the war (Howell et al., 2013; Kreps, 2018a). In March 1966, he told Representative Mendel Rivers that he saw no need for any further appropriations in 1966 and probably not in 1967 (Drea, 2011). He assured Representative George Mahon that the supplemental was sufficient to pay for an additional 220,000 troops, when in fact the Pentagon had already authorized the deployment of 375,000 (Drea, 2011).

One reason McNamara was able to understate the costs was that Johnson had separated Vietnam from the rest of the budgeting process run by the Bureau of the Budget (Drea, 2011). This move undermined the Bureau (which could not compare the relative costs of Great Society programs to the war) and gave the Pentagon greater autonomy. Helsing writes, “The Defense Department made its own budgets and then simply let the Bureau of the Budget know what its plans were” (2000, p. 54). This *modus operandi* continued throughout the Nixon administration and enabled Nixon to keep military budgets secret. Post-Watergate reforms attempted to strengthen the budget function to prevent such behavior (including establishing the OMB), but the budget staff was once again largely excluded from DoD war costing in the post-9/11 era.¹⁴⁵

According to Edward Drea, who wrote the definitive record of the period for the historical office of the Pentagon, McNamara spent more than 100 hours testifying before Congressional committees between January 20 and October 5, 1966, of which at least one third of the time was devoted to budget issues. McNamara faced unrelenting questions,

¹⁴⁵ L. Korb, Interview No. 9, September 19, 2016 and W. Wheeler, Interview No. 14, September 23, 2016.

but he was able to “dazzle the Appropriations Committee” (Drea, 2011, p. 144) and fudge the cost estimates in part by discussing them in terms of the new “Planning, Programming, and Budgeting System” (PPBS) he had instituted in the Pentagon.¹⁴⁶ According to Bator, this enabled McNamara, who was known as a numbers wizard, to discuss the budget estimates in “pure gobbledygook.”¹⁴⁷

Additionally, the nature of combat operations and the speed of escalation in Vietnam meant that planning the budget was a “nightmare” for the Pentagon, according to Major General Leonard Taylor, director of Army Budgeting for the Comptroller (L. B. Taylor, 1974). McNamara was able to argue plausibly that he could not predict the full costs.

Beginning in FY 1967, the administration requested the majority of funds for Vietnam through the baseline defense budget. Johnson’s BTMs for FY 1967 and FY 1968 mentioned the need for Vietnam funding extensively, with over 20 references in each document. In 1967, the President identified 17.5% of the defense budget as specifically dedicated to the war (Drea, 2011). In FY 1968, Johnson again placed the request in the base budget, designating 30% of the military base budget for Vietnam (R. M. Miller, 2007). Although it was difficult to know how the expenditures were being allocated to war and non-war accounts, McNamara claimed that he had deferred routine non-war defense spending as an economy measure, testifying that “we have stretched out and deferred programs which are not directly related to our near-term combat readiness” (R. M. Miller, 2007, p. 51).

¹⁴⁶ PPBS was a resource planning and budgeting process for evaluating expenditures on a cost-benefit basis, using then-state-of-the-art systems planning techniques (Webber & Wildavsky, 1986).

¹⁴⁷ F. Bator, Interview No. 39, July 12, 2017.

§ 3.5.1 Use of Supplemental Appropriations in Vietnam

An important point is that Congress criticized the use of supplemental appropriations after the first year. For example, Representative Gerard Lipscomb, a Republican from California, complained that the FY 1966 supplemental was “rushed” and involved “poor budgetary procedure” (Drea, 2011, p. 146).

The dispute over the use of supplementals and the accuracy of the administration’s funding estimates erupted in 1967. McNamara testified that the base funding requested would be sufficient. Congress felt the estimates were obviously too low (R. M. Miller, 2007). Two months later, McNamara returned asking for supplemental requests totaling \$12.9 bn (about the same supplemental amount as the previous year), and Congress was highly critical. This argument over the use of supplemental funding tends to get overshadowed by the administration’s dishonesty about the war itself. For example, when Senator John Stennis grilled McNamara as to why he was still using supplementals in FY 1967, McNamara replied that he assumed the war would be winding down shortly (Hormats, 2007).

Congressional appropriators demanded that the DoD integrate its requests so that Congress could make trade-offs against non-war spending—exactly the outcome Johnson had feared (Drea, 2011; Hormats, 2007; R. M. Miller, 2007). Congress approved the supplemental requests but thereafter forced the administration to request most of the funding through the regular base budget. In total, DoD funding for war operations averaged 7.6% of regular budget authority, largely based on the supplementals in the early years (R. M. Miller, 2007). The pattern of supplemental funding (in \$2018 dollars) is shown in Figure 3.2.

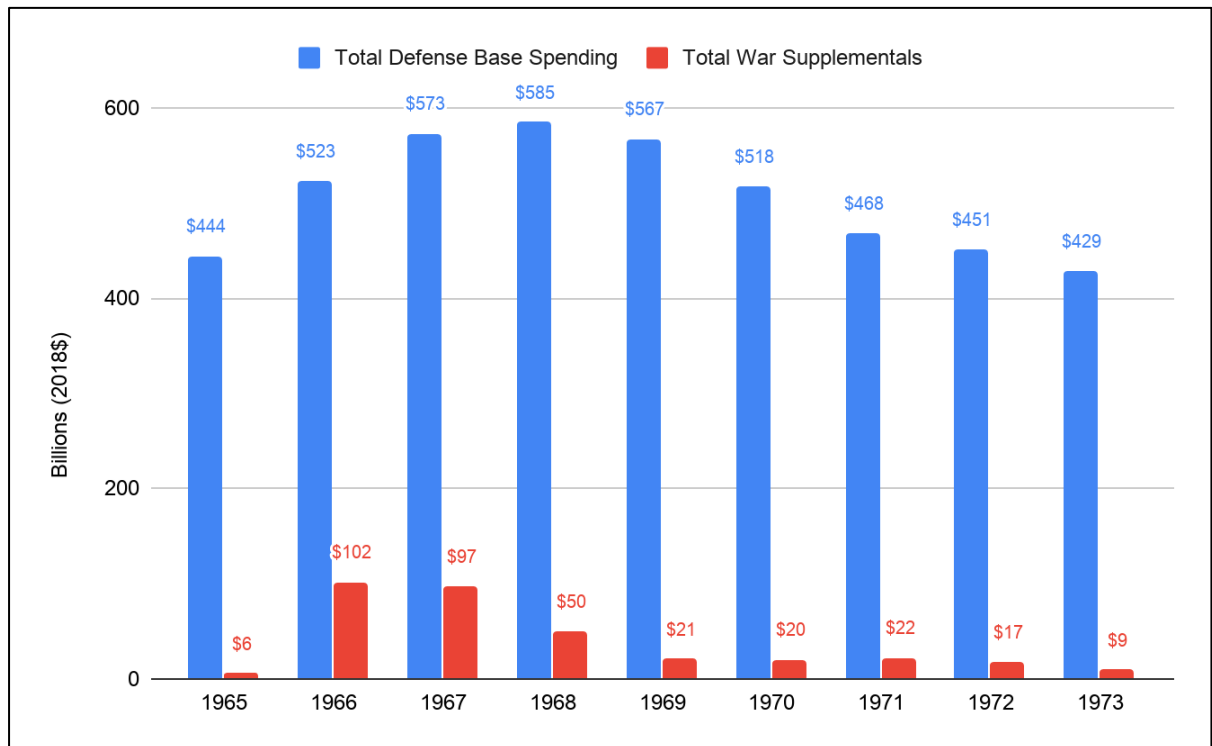


Figure 3.2 Defense Base and Supplemental Funding during Vietnam, 1965–1973 (\$2018)
 Source: (R. M. Miller, 2007; OSD, Table 5-1, 2019)

During this period, Johnson explored reducing non-war spending as an alternative to a tax surcharge. However, he found this idea unacceptable. In 1967, Schultze had estimated that \$1 bn in spending reductions would require “cutting 1) many Great Society programs which are just getting started, and 2) many politically popular programs. In short, we could not pick the cuts from among low priority programs but from where quick cuts could be made.”¹⁴⁸ Schultze subsequently drafted numerous additional memos and proposals to the President along these lines, but, as mentioned above, this process was kept separate from the DoD’s war plans.¹⁴⁹ It was not until his final BTM in 1968 that Johnson accepted the need for budget reductions.

¹⁴⁸ “Draft Message on the Tax Bill and Expenditure Reductions,” September 26, 1967, FI 4 – Budget Appropriations – BOX 24 (Schultze, 1967b).

¹⁴⁹ “Budget Reductions and the Continuing Resolution,” December 1, 1967, FI 4 – Budget Appropriations – BOX 24 (Schultze, 1967a).

§ 3.5.2 Financing the War through Taxation

Vietnam provides further evidence that raising taxes for war financing invites scrutiny from Congress and draws attention from the public. The fight over taxes drew the fiscal committees into the debate over how to pay for the war.

Unlike Korea, where Truman advocated tax increases at an early stage and used this advocacy as a patriotic clarion call, Johnson resisted higher taxes and embraced them only reluctantly and after a lengthy delay. A crucial distinction is that Truman had reduced his ambitions for the Fair Deal at the beginning of the war, whereas Johnson ramped up spending on his domestic programs in order to get out ahead of the war, according to Bator.¹⁵⁰ From 1965 to 1969, the administration spent three times as much on the Great Society as on the war (R. M. Miller, 2007).

Johnson's first tax measure of 1966, the Tax Adjustment Act, was a modest piece of legislation that expedited the timetable for corporate tax payments. It also widened Social Security to 1.8 million more people, thus avoiding much attention to the tax changes (Kreps, 2018a). Zielinski argues that Johnson was able to hold off a bigger tax increase in part because Wilbur Mills wasn't worried about inflation (Zielinski, 2016). Mills cared about the deficit and wanted Johnson to acknowledge how much the administration was spending. Mills also hinted that he would agree to support the surcharge if Johnson called it a "war tax" (CQ Almanac Online Edition, 1976).

Johnson linked the tax explicitly to the costs of the war—for example, asking in his SOTU address of January 1968, "Are we willing to tax our incomes an additional penny on the dollar to finance the cost of Vietnam responsibly?" (L. B. Johnson, 1968).

¹⁵⁰ F. Bator, Interview No. 39, July 12, 2017.

But he resisted naming it a “war tax” because he feared such a term could ignite opposition to the war.

That is precisely what happened. Johnson’s tax package included a surcharge on higher incomes, a 7% tax on new cars, and a phone tax. Kreps (2018a) identifies taxes as an essential mechanism through which government keeps the topic of war in the forefront of public consciousness. Consistent with her findings, the Johnson tax surcharge acted as a lightning rod for opposition to the war, with protesters especially angry at the phone tax. The tax contributed directly to awareness of the war (Kreps, 2018a). Moreover, the surcharge itself was highly unpopular, with public opinion running against it by more than five to one by January 1967 (Kreps, 2018a). There is some evidence that the public thought the surcharge was a 10% tax increase (L. C. Gardner, 1995), even though Johnson went to great lengths to explain that it amounted to only extra pennies for most people. As he stated in his last SOTU:

As I have repeatedly noted, the temporary surcharge represents a modest addition to our current tax bills. It would spread most equitably and fairly the cost of the commitments we must meet. It would exempt entirely from increased taxation about 17 million Americans whose low incomes place them within the first two tax brackets...the income of individuals subject to the surcharge the tax increase would average about one additional penny on the dollar (L. B. Johnson, 1969).

Johnson’s primary concern was to ensure that the tax burden was distributed in a progressive way, targeted to the top fractiles of households. The tax passed on June 28, 1968, retroactive to January 1 (for corporations) and April 1 for taxpayers. Top marginal rates jumped to 77% the following year; however, there were very few taxpayers in the top category due to the large number of tax brackets in use. Median taxpayers felt a small increase from 22 to 23% (see Table 3.4).

Table 3.4 Vietnam War Marginal and Median Tax Rates, 1965–1973

Year	Top Percent Tax Rate	Median Tax Rate
1965	70%	22%
1966	70%	22%
1967	70%	22%
1968	75.25%	22%
1969	77%	23%
1970	71.35%	23%
1971	70%	23%
1972	70%	23%
1973	70%	23%

Source: (U.S. Department of the Treasury, Internal Revenue Service, FRED, U.S Individual Income Tax: Tax Rates for Regular Tax: Highest Bracket, 2020)

Nixon turned out to be the beneficiary of Johnson’s tax increase. In 1969, when the full impact of the surcharge was felt, it produced a budget surplus. Nixon was able to extend the surcharge for another year while lowering it by five percentage points. He then eliminated it altogether in 1971. Nixon effectively used the tax as a way to signal that he was reducing war expenditures.¹⁵¹ In fact, he was not ending the war—as his bombing of Laos and Cambodia showed.

§ 3.6 Role of Congress and the Nixon Administration

Congressional activity on Vietnam reached a peak during the Nixon administration. With the Democrats controlling both houses of Congress, the mood became adversarial across a variety of domestic and international issues (Woods, 2003). It

¹⁵¹ F Bator, Interview No. 39, July 12, 2017.

is difficult to disaggregate how Congress handled war funding from the fraught politics surrounding Nixon, so I have considered them together in this section.

Over a period of nearly five years, Nixon engaged in an increasingly bitter fight with Congress over Vietnam. Congress repeatedly used the appropriations process to mount efforts to modify Nixon's war policies (Fisher, 2000; Schick, 1980). In total, there were 94 votes in Congress on amendments to restrict or terminate funding for the Vietnam War, nearly all taking place between 1970 and 1973 (CQ Almanac Online Edition, 1976). Although the majority of those efforts failed, they demonstrate the heavy involvement of lawmakers in war funding, and the extent to which they used the budget to try to influence events.

Two points should be considered when examining the role of Congress during Vietnam. First, the case was historically unusual. Howell, Jackman, and Rogowski (2013) studied Congress during numerous cycles and found that, in most cases, Presidents enjoy greater success in securing their budgetary objectives (across both domestic and foreign policy) in times of war than during times of peace. Vietnam is an outlier in their sample which the authors cannot fully explain.

Second, numerous factors converged during the Vietnam War that may have intensified Congressional activism. These include the economic context, the souring of public opinion (which turned against the war decisively in 1968–70), and mistrust of the administration due to Nixon's covert war policies and hostility toward Congress (Woods, 2003), combined with a rising level of social unrest.

While the broader cultural issues are beyond the scope of this thesis, it is likely that the mood of the times influenced how Congress weighed the use of taxpayer dollars to pay for the war. According to Vice Admiral Dr. John Mateczun, who served two tours

of duty in Vietnam defusing explosives as an enlisted soldier, and later and rose to become Commander of the Walter Reed National Military Center in Bethesda,

It's hard to understand the Vietnam mentality. There was no phone call. There was no Skyping. Letters took weeks to get back and forth. On March the 31st [1968], I was in Vietnam; President Lyndon B. Johnson announced that he was not going to run for reelection. On April the 4th, the Reverend Martin Luther King, Jr. was killed in Memphis. And on June 5th, Robert Kennedy was assassinated as well. I will tell you that those are hard times when you're far away and you wonder what it is that's happening at home. Times were troubled. When I came home I never wanted to have anything to do with the military ever again.¹⁵²

Unlike Johnson, Nixon had a keen interest in foreign policy. He appointed Kissinger as National Security Advisor on his first day in office.¹⁵³ Nixon believed he could achieve the holy grail of “peace with honor” that had eluded his predecessor (Schmitz, 2014). During his election campaign, Nixon claimed to possess a “secret plan” to end the war. After nine months in office, it became apparent that no such plan existed. Instead, using the same sleight-of-hand techniques that McNamara had employed earlier, Nixon relied on budget transfers, unspent military funds, reprogramming, deferred procurement, and other budgetary tricks to secretly finance hostilities in Cambodia and escalate the war (Raven-Hansen & Banks, 1995). The repeated abuse of some of these methods motivated Congress to overhaul the entire budget process in 1974 (Fisher, 2000).

§ 3.6.1 Congressional Hearings on Vietnam

Congressional appropriators held numerous hearings to discuss the funding of the war. My research (see Tables 2.9 and 2.10, summarized below in Tables 3.5 and 3.6) finds that the Senate Subcommittee on Defense held 53 hearings (79% of its total

¹⁵² J. Mateczun, Interview No. 4, May 1, 2016. Mateczun returned from Vietnam with what he says would now be considered “post-traumatic stress.” He later attended medical school, joined the U.S. Navy, and served as a psychiatrist during the Gulf War and 9/11 conflicts. He served as Commander of the Walter Reed Military Medical Center, Jr. Task Force, from 2008–2012.

¹⁵³ Kissinger was appointed National Security Advisor on January 20, 1969 and appointed Secretary of State in 1973.

hearings) at which lawmakers discussed war funding. The House Appropriations Subcommittee on Defense convened 65 hearings during the same period, of which more than half (54%) spent time considering funding issues. The fiscal committees devoted relatively more time to the topic of financing Vietnam than occurred in either Korea or Iraq/Afghanistan, with the House Ways and Means Committee debating the war surcharge (and related issues) at nearly three quarters (74%) of its hearings and the Senate Finance committee doing so at 70% of its relevant sessions.

Table 3.5 Percent of Appropriations Committee Hearings Mentioning Wartime Funding During the Korea, Vietnam, and Post-9/11 Conflicts

	Korea (1950–1953)	Vietnam (1965–1973)	Post-9/11 (2001–2017)
Senate Appropriations Subcommittee on Defense	35%	79%	17%
House Appropriations Subcommittee on Defense	80%	54%	8%

Source: Data mining

Table 3.6 Percent of Fiscal Authorizing Committee Hearings Mentioning Wartime Funding during the Korea, Vietnam, and Post-9/11 Conflicts

	Korea (1950–1953)	Vietnam (1965–1973)	Post 9/11 (2001–2017)
Senate Finance Committee	56%	70%	5%
House Ways & Means Committee	71%	74%	15%

Source: Data mining

Unlike the Korean hearings, the Congressional hearings during Vietnam were frequently acrimonious. Secretary of Defense Laird and the Nixon team frequently withheld information, in part by moving to classify large portions of the DoD budget in an effort to conceal details of the war (the stated purpose was to deny information to the enemy).¹⁵⁴ It is not clear whether the obfuscation exceeded the levels of the Johnson administration. For example, when McNamara was asked by Representative Leslie Arends (R-IL) if it was “outlandish or reasonable” to think the administration might seek an additional \$10 to \$14 bn for the FY 1966 war budget, McNamara replied that it was “both outlandish and shocking.”¹⁵⁵ But unlike McNamara, who tended to be long-winded, Nixon officials were typically terse when they appeared before Congressional committees.¹⁵⁶

While Congress held numerous hearings on different aspects of the war,¹⁵⁷ the appropriations process was the epicenter of challenges to administration policy. In response to the censorship imposed by the Nixon team, lawmakers worked across committees to find information. For example, in April 1969, Deputy Assistant Secretary of State William H. Sullivan told the Senate Foreign Relations Committee that U.S. troops were not on the ground in Laos or Thailand (Ely, 1993). But after months of haggling over a redacted transcript, word leaked out that the administration had admitted providing extensive military assistance to Laos, including “supplies and repair parts for US-furnished equipment, training and ammunition.” The testimony of a U.S. Air Force

¹⁵⁴ D. Ellsberg, Interview No. 1, January 3, 2016.

¹⁵⁵ Statement by Secretary of Defense, Robert S. McNamara, Before the Joint Subcommittee on Department of Defense Appropriations on August 4, 1965 (Gavel, 1972).

¹⁵⁶ D. Ellsberg, Interview No. 1, January 3, 2016. Ellsberg points out that the Pentagon Papers only go to 1967, so there is no fair basis for comparison.

¹⁵⁷ There is an extensive literature on related issues of secrecy and national security regarding the events of this period (Berman, 2014).

official at the hearing proved that U.S. aircraft had shifted to targets in Laos—where the number of air strikes had tripled in 1969—and although the cost of this was unclear, Senator Fulbright, the committee chair, provided a clue in saying that Laos “was not worth a billion U.S. dollars” (CQ Almanac, 1970). The Senate responded by taking the extraordinary step of voting, 73–17, to add a rider to the defense appropriations bill prohibiting the administration from sending ground troops into Laos and Thailand (Shaplen, 1970), thereby using the budget to prevent expansion of the war.

Legislative efforts to put limits on the use of funds for the war grew after 1969. The subcommittee sessions became launchpads for anti-war legislators to prepare amendments to appropriations bills. The Senate became a hotbed for anti-war activism, led by Democrats (Senate Majority Leader Mike Mansfield of Montana, Frank Church of Idaho, and George McGovern of South Dakota), as well as some Republicans (Senators John Sherman Cooper of Kentucky, Mark Hatfield of Oregon, and Edward Brooke of Massachusetts). These groups of lawmakers began introducing legislation to restrict the conflict in Southeast Asia.

In 1970, Nixon ordered a United States–South Vietnamese incursion into Cambodia. This invasion sparked some of the loudest public protests against the war. By this point, the Senate was voting regularly to approve measures to restrict funding, but the House was still defeating them. The issue consumed a vast amount of Congressional time and attention. In May and June, there was a six-week Senate debate on an amendment to bar the use of U.S. funds for any military operations in Cambodia. Nixon’s supporters in Congress filibustered the bill but, in any event, the Pentagon withdrew U.S. troops by the proposed June deadline. The following January, Congress enacted the Cooper–Church amendment, which prohibited the DoD from using appropriated funds to put U.S. ground

troops into Cambodia.¹⁵⁸ In November 1971, after days of debate, the House and Senate agreed on a compromise amendment to the appropriations bill (the so-called “Mansfield amendment”) stating that:

[It is] the policy of the United States to terminate at the earliest practicable date all military operations of the United States in Indochina and to provide for the prompt and orderly withdrawal of all US military forces at a date certain, subject to the release of all American prisoners of war (Finney, 1971).

This precipitated a further hardening of the relationship between Nixon and the Senate. Nixon said the Senate language was “without binding force” and made it clear that he would disregard it (Finney, 1971). Senator Frank Church issued a statement that the amendment was “not subject to dismissal by the President.” Church reportedly asked: “What is he [Nixon] going to do next? Dispatch Henry Kissinger to Capitol Hill to disband the Congress?” (Finney, 1971).

Throughout the 1972 election campaign, the Senate continued to support amendments restricting funding for U.S. military involvement in Southeast Asia, but the House continued to defeat them narrowly. For example, there were amendments that allowed funding only for certain purposes or provided it subject to meeting certain conditions (such as withdrawal of troops or bringing POWs home) or that had specific sunset dates, targets, retroactive provisions, and so forth. Much of the discussions within the committees focused on these details (Grimmett, 2007). In August 1972, the Senate voted 49–42 to terminate U.S. involvement in Vietnam completely (CQ Almanac Online Edition, 1976).

During the election campaign, Nixon tried to put the best spin possible on Vietnam. In his speech accepting the Republican Party’s nomination, he declared that his

¹⁵⁸ This amendment was slightly weaker than the initial one proposed by Cooper-Church because it did not prohibit the use of funds for aircraft.

administration had reduced the number of U.S. troops in Southeast Asia, ended the draft, and “gone tens of thousands of miles trying to seek a negotiated settlement of the war.”¹⁵⁹

Kissinger was meanwhile secretly engaged in talks that culminated in the Paris Peace Accords. In early 1973, Nixon announced the peace agreement that called for U.S. troops to leave Vietnam. However, the United States was still bombing Cambodia and Laos. Alarmed at the potential for an open-ended commitment, the House—for the first time—joined the Senate in voting to cut off all funds for military activities in Laos and Cambodia. Mindful of the budget tricks used in the past, the language specifically prohibited the use of any funds (existing or previously appropriated) to pay for any U.S. combat activities or support of combat activities anywhere in or near Vietnam, Laos, or Cambodia (R. M. Miller, 2007). As Watergate unfolded over the following year, Congress held firm on war funding, and the U.S. involvement in the region came to an end.

§ 3.7 Conclusion

During the Korean and Vietnam Wars, the U.S. government struggled to balance national priorities. Truman and Johnson were obliged to devote a great deal of attention to war costs. The record shows that they used their most important speeches of the year (the SOTU) to address the public on this issue. Both Presidents ended up raising taxes and cutting domestic spending, with Congress an active participant. In both cases, Congress played a decisive role in oversight of war spending and used its tax and appropriating powers to force changes in war policy. The policy of raising taxes *compelled* fiscal authorizers to examine the costs of financing the conflict. Higher taxes imposed financial

¹⁵⁹ Remarks on Accepting the Presidential Nomination of the Republican National Convention, August 23, 1972 (Nixon, 1974).

pain felt by the public and further increased the visibility of the war, as shown by Kreps (2018a).

Budgeting for the wars followed the established pattern of initial supplementals followed by on-budget base funding. During Vietnam, Congress denied Nixon the funding to single-handedly set war policies. Vietnam thus conforms to the normative idea that competing demands are debated and eventually decided through the budget process.

Moreover, in both Korea and Vietnam the mounting costs of military operations contributed significantly to ending the war. During Korea, the public grew tired of paying extremely high taxes for a faraway war (Kreps, 2018a; A. Mitchell, 2013; Zielinski, 2016). In Vietnam, the rising costs focused attention on the lack of military success despite the high level of casualties and a deeply unpopular draft. In both cases, the high costs, in addition to high casualties, contributed to souring public opinion (Verba et al., 1967). None of the Presidents involved—including Truman, Johnson, Nixon, and Ford—were able to escape reckoning with the financial dimension of the conflict.

All of this presents a stark contrast to the post-9/11 wars.

CHAPTER 4 THE EMERGENCE OF THE GHOST BUDGET

§ 4.1 Chapter Summary

From September 11, 2001 through FY 2020, funding appropriated to the DoD for the conflicts in Afghanistan and Iraq averaged 17% per year over and above the department's total budget authority (McGarry & Morgenstern, 2019). The funding pattern for the wars evolved in response to a series of political, economic, and military decisions and events. Unlike previous U.S. wars, there was no discernible strategy at the outset over costs, financing, or budgeting. The evolution was highly path dependent; each step foreclosed alternative choices and helped to determine subsequent ones. The shift from emergency supplementals to the OCO structure can be viewed as one of the "mutations" that occurred in response to the Congressional budgetary process, the political environment, and the global financial conditions. As former Pentagon budget analyst Franklin "Chuck" Spinney observed, "OCO war funding is a new species. It's a mutating, pulsating organism. Evolution is the right model."¹⁶⁰

Several drivers helped shape this evolution. First, although the initial funding process was based on historical precedent, it also satisfied President George W. Bush's desire to minimize the expected cost of the wars. At the outset, the Bush administration badly miscalculated the duration and complexity of the conflict and consequently underestimated the costs.¹⁶¹ Admitting to the true costs and associated budget deficits would have provided unwelcome evidence of this blunder.¹⁶²

¹⁶⁰ Franklin "Chuck" Spinney served in the Air Force as a flight dynamics engineer and later as a military analyst at the Pentagon. He authored the "Spinney Report" on costly weapons systems, which was featured on the cover of *Time* Magazine on March 7, 1983. See F. Spinney, Interview No. 33, February 16, 2017.

¹⁶¹ J. Bolten, Interview No. 6, September 19, 2016; J.E. Stiglitz, Interview No. 28, January 6, 2017; and R. Hale, Interview No. 24, November 7, 2016.

¹⁶² L. Korb, Interview No. 9, September 19, 2016.

Second, the Pentagon and the administration redefined what constituted “war costs” several times, gradually adopting more expansive definitions of the operations (McGarry & Morgenstern, 2019). This made it possible to augment the defense base budget with so-called war appropriations.

Third, the economic recession that followed the 2008 financial crisis necessitated a big increase in public spending by the Obama administration in order to stabilize the economy. This made it politically expedient to keep funding the wars outside the regular federal budget and the debates over the stimulus package.

Finally, Congress’s decision to impose budget ceilings in FY 2011 made the DoD and its defense contractors ever more dependent on OCO as a means of funding operations, cementing OCO as a second defense budget.

For the purposes of this chapter, I have divided the budget evolution into three phases. The first phase, from FY 2001 through FY 2008, covers the beginning of the wars during the George W. Bush administration.¹⁶³ The second phase, from FY 2008 through FY 2013, includes the financial crisis, the transition to the Presidency of Barack Obama, the enactment of the BCA, and the budget sequester. This phase saw a transition from emergency supplementals to OCO funding that was nominally submitted with the regular budget. The third phase is the period from FY 2013 through FY 2019 under Obama and President Donald Trump.

§ 4.2 Phase I: September 11, 2001–September 30, 2007 (FY 2008)

On September 11, 2001, fifty million Americans watched live footage of airplanes being flown into the twin towers in lower Manhattan and the fires and confusion that

¹⁶³ The fiscal year begins on October 1st of the prior year. So, for example, the calendar dates of Stage I are September 11, 2001 to September 30, 2007, with FY 2008 beginning on October 1, 2007.

followed. Television and cable stations broadcast the aftermath of the attacks for 93 continuous hours, the longest coverage for any event in U.S. history (Carter & Rutenberg, 2001).¹⁶⁴ It is hard to describe the impact of these attacks on the American psyche. There had not been a foreign attack on U.S. soil since Pearl Harbor in 1941. The 9/11 attacks killed 2,973 civilians and wounded some 6,000 others (Wolfe, 2004). It was the deadliest terrorist attack in world history.

As the second plane flew into the World Trade Center, George W. Bush was reading “The Pet Goat” to a group of elementary school children in Sarasota, Florida.¹⁶⁵ The juxtaposition of this scene with the carnage unfolding in New York City epitomized a loss of innocence in America. It created an environment of crisis in which Americans feared they were under attack. Robert Nabors, who served in several senior roles in government between 1998 and 2016 (including Deputy Director of OMB and Deputy Chief of Staff to the President), observed that this atmosphere of fear and uncertainty influenced the initial recourse to emergency funding:

We knew that something big and bad had happened. We didn’t know exactly how to fit it within the budget. For a whole generation that might have forgotten Pearl Harbor, it became clear that the United States was potentially under attack. As a country, there was just a fear that existed and it hasn’t dissipated since.¹⁶⁶

Members of Congress from both parties immediately rallied around the President (MacAskill, 2008). On September 14th, the Senate passed a joint resolution by a vote of 98-0 and the House by 420-1. It provided an “Authorization of Military Force” (AUMF) for the President “to use all necessary and appropriate force against those nations, organizations, or persons he determines planned, authorized, committed, or aided” the

¹⁶⁴ The John F Kennedy assassination was the second longest coverage, broadcast for 70 hours.

¹⁶⁵ “The Pet Goat” by Siegfried Engelmann (Engelmann, 1997).

¹⁶⁶ R. Nabors, Interview No. 12, September 20, 2016.

September 11, 2001 attacks and “any entities that harbored them.”¹⁶⁷ On the same day, Congress passed an emergency supplemental of \$40 bn to respond to and counter the attacks.¹⁶⁸ Bush signed the measures into law on September 18th.

On October 7th, the President announced a “Global War on Terror” (GWOT). The initial U.S.-led invasion of Afghanistan (known as “Operation Enduring Freedom [OEF]”¹⁶⁹) was designed to destroy terrorist bases and dismantle the Al-Qaeda infrastructure. However, Bush outlined far more ambitious goals, including anti-terrorism efforts around the world, rooting out weapons of mass destruction (WMD), and diminishing the “underlying conditions” that foster terrorism (Heeley et al., 2018, p. 9).

§ 4.2.1 Initial Funding for Operation Enduring Freedom

The FY 2001 Emergency Supplemental Appropriation Act allocated funding to an obscure Pentagon account called the “Defense Emergency Response Fund” (DERF) that was originally set up during the Kosovo air war in 1999. The DERF was intended to support “contingency operations,” which are defined as activities in which members of the armed forces are (or may become) involved in military actions, operations, or hostilities against an enemy of the United States or against an opposing military force (Love, 2014).¹⁷⁰ (See sequence of events in Table 4.1.) Since “contingencies” cannot by definition be defined in advance, Congress relaxes the requirements for justifying the budget request. DERF funds were apportioned as an “execution account,” giving the

¹⁶⁷ Officially there is only one “Gulf War,” which began on August 2, 1990 and has not been officially ended (see 38 USC 101(33)). There are three AUMFs: 1991, 2001, and 2003. AUMF PL 107-40 passed as Senate Joint Resolution 23 on September 14, 2001.

¹⁶⁸ Congress passed PL-107-38, of which \$1 bn was obligated before the end of FY 2001 and the remainder in FY 2002 (Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the U.S., 2001).

¹⁶⁹ OEF continued through December 2014, when Afghanistan-related operations were renamed “Operation Freedom Sentinel.”

¹⁷⁰ P.L. 107-38 (2001).

Pentagon wide discretion over how to spend the money as the military situation unfolded. Thus, the initial tranche of \$17 bn in DERF funding in 2001 was allocated for broad categories of expenditure such as “increased situational awareness” (Belasco, 2009a, p. 44) and carried less than one page of description on how it would be disbursed.

Table 4.1 Sequence of Key Events Related to Post-9/11 War Funding

Year	Event	Implication
Phase I		
1991	Gulf War, Defense Cooperation Fund created	Precedent for funding mechanism
1999	Kosovo Air War, DERF created	Precedent for funding mechanism
2001	Sept 11 attacks	
2001	U.S. invades Afghanistan, DERF, emergency supplementals, 1st Bush tax cuts	Increased deficits, incentive to lowball estimates
2001	AUMF for GWOT	Authorization for GWOT
2003	AUMF for Iraq, 2nd Bush tax cuts, U.S. invaded Iraq	Authorization for Iraq, higher deficits
2004	Army recruiting shortfall, Bush reelected	Incentive to raise DoD budget
2006–2009	England memo, expanded definition of GWOT	GWOT used to grow DoD base
2007	Iraq troop surge	Increased funding requirements
2007–2009	Financial crisis	Distracted attention from wars, stimulus too small
Phase II		
2009	Obama elected, assumed office Jan 2009	Election coincided with crisis
2009–2010	OCO term adopted, Afghan surge	“OCO” placeholder submitted for FY 2010
2011	Budget Control Act	Set up process to address deficits
2012	Obama reelected	
2013	Budget sequester imposed cuts to DoD (OCO exempted)	DoD relied on OCO for base expenses
Phase III		
2014–2018	Operations extended throughout region, ISIL	OCO stabilized
2017	Trump elected, assumed office Jan 2017	
2018	“Base to OCO” category added	Formal category for shifting OCO to base
2019–2020	Trump proposed \$174 bn in OCO, Adds more OCO categories	End of link b/w OCO and war spending

At the time, no one in the budget office questioned this approach to war funding.¹⁷¹ The attacks took place in September, the last month of the annual federal

¹⁷¹ See R. Hale, Interview No. 24, November 7, 2016 and J. Bolten, Interview No. 6, September 19, 2016.

budget cycle, when most funds for the year had already been obligated. Moreover, there was historical precedent for using supplemental appropriations at the outset of a conflict because such appropriations enjoy an expedited approval process. Eighty-six percent of supplementals are enacted within four months of request, whereas annual budgets take eight months or more. (L. R. Jones & McCaffery, 2005). The DERF mechanism already existed and provided a convenient vehicle through which to funnel money to the Pentagon.

What was not foreseen was that virtually *all* the funding for OEF and Operation Iraqi Freedom (OIF) from FY 2002 until FY 2009 would be provided in this fashion. The flow of unrestricted emergency funding led to what former Secretary of Defense Robert Gates, who served under both George W. Bush and Obama, termed “the culture of endless money” (Gates, 2010). Congress did not begin to question war spending, or the supplemental emergency mechanism, until well into FY 2007. Starting with the FY 2008 budget, Congress required the administration to explain better how the GWOT money was being spent (GAO-08-68).

§ 4.2.2 Gulf War Precedent

The Gulf War in 1991 exerted some influence over war funding policies post-9/11. Not only was it a recent benchmark, but many of the senior officials serving in the George W. Bush administration had previously worked for President George H. W. Bush during the Gulf War. In particular Vice President Dick Cheney had served as Secretary of Defense under the elder Bush from 1989–1993.

During the first Gulf War, the need for funding had been anticipated at an early stage. The buildup of U.S. military activity took place over several months, starting in August 1990 when Iraq invaded Kuwait and annexed it as a 19th province. The UN

passed a series of resolutions calling on Iraq to withdraw, culminating in UN Security Council Resolution 678, which authorized member states to use “all means necessary” to oust Iraq from Kuwait. In response to a request from King Fahd of Saudi Arabia, and before consulting Congress, the administration deployed troops, combat ships, and aircraft to the region (Air Force Magazine, 2008). As then-Secretary of Defense Cheney commented, “It was an advantage that Congress was out of town...we could spend August doing what needed to be done rather than explaining it to Congress” (A. H. Blair, 1992, p. 27).

The administration funded the military ramp-up through the Pentagon’s base budget. This was accomplished by reprogramming and account transfers using the “Food and Forage Act” (Weiler & Callanan, 2008). The act allowed the President to reappportion money among the DoD’s accounts and to spend money without prior legislative approval—what Fisher termed “creative national security spending” (Fisher, 1975, p. 7). Although the George H.W. Bush administration reached an agreement with Congress in October 1990 to treat the incremental costs of the Gulf War as “emergency funding,” Congress did not formally authorize military operations until January 1991, after the United States had already deployed 300 aircraft, 70 ships, and over 325,000 troops (Weiler & Callanan, 2008).

In November 1990, Cheney testified to the Senate Armed Forces Committee that he expected U.S. allies to contribute the full amount of the cost, which he forecast at \$15 bn (Cheney, 1990). Congress agreed to his request to set up an unusual “Defense Cooperation Account” (DCA) that allowed the DoD to collect contributions from foreign allies (although Congress still needed to approve disbursing this money). In the event, lawmakers did not release DCA funds until mid-April 1991, by which time the United States had already assembled an international coalition, waged a massive air and ground

assault, forced Iraq out of Kuwait, and negotiated a cease-fire (Weiler & Callanan, 2008). The final cost of U.S. combat operations in the Gulf conflict was estimated to be \$61 bn, of which \$54 bn was eventually recouped through contributions to the DCA (Weiler & Callanan, 2008).¹⁷²

The significance of this history for the post-9/11 wars was threefold. First, it established a precedent for setting up unorthodox funding mechanisms. The DCA account was structured so as to exempt foreign contributions from the defense spending ceilings that were in place at the time, and which did not exist during either Korea or Vietnam.

Second, President Bill Clinton later set up the DERF, a small emergency facility modelled on the DCA, to help pay the \$5 bn cost of the Kosovo air war.¹⁷³ The DERF was flexible and exempt from Congressional budget caps. In the event, it was seldom used and only for tiny amounts of money (Candrea & Jones, 2005). But it was later resurrected on a huge scale to pay for the 2003 invasion of Afghanistan. According to Winslow Wheeler, Director of the Strauss Military Reform project, who worked as a national security expert on the Senate Budget Committee and at GAO, the DERF laid the foundation for OCO:

It's my take that maybe if this mechanism hadn't been there to be exploited, we wouldn't be doing this [OCO] today. We would have been reverting to the kind of funding that Nixon used to pay for Vietnam, or in Korea where the money was in the regular budget.¹⁷⁴

Third, the Gulf War experience lends support to Fisher's argument that the War Powers Act of 1973 had diminished Congressional control over war spending (Fisher, 2000). The George H.W. Bush administration planned and executed the entire Gulf War

¹⁷² Excluding long-term disability benefits for Gulf War veterans, which equal \$4 bn per year as of 2013 (Bilmes, 2013).

¹⁷³ W. Wheeler, Interview No. 14, September 23, 2016.

¹⁷⁴ W. Wheeler, Interview No. 14, September 23, 2016.

with minimal input from Congress. Not only did Congress neglect to authorize the operation until the eleventh hour, but it failed to appropriate funding for the military until after the hostilities had ceased. The administration and the Pentagon maneuvered around Congress to pay for the war—a playbook that could be repeated post-9/11.

§ 4.2.3 Run-up to the Invasion of Iraq

The invasion of Iraq was a war of choice in that the United States was not attacked by Iraq, nor under threat of an imminent attack. A number of writers have argued that George W. Bush and his team were determined to get rid of Saddam Hussein even before 9/11 (Fukuyama, 2006; Heilbrunn, 2008; Suskind, 2004; B. Woodward, 2004). Certainly, the 9/11 attacks gave the administration considerable leeway to make decisions about the scope of U.S. military actions and how to pay for them. Senior administration officials, including Dick Cheney; his protégé, Secretary of Defense Donald Rumsfeld; and DoD officials Doug Feith and Paul Wolfowitz, all of whom had long favored regime change in Baghdad, moved swiftly after September 11th to develop a *casus belli* (Battle, 2010).¹⁷⁵

Declassified documents show that the United States began actively preparing to invade Iraq almost immediately after the first bombardment in Afghanistan.¹⁷⁶ Notes used by Rumsfeld in November 2001 at his first face-to-face meeting with CENTCOM General Tommy Franks show that he was considering “decapitation” of the Iraqi government (see Figure 4.1).¹⁷⁷ General Franks delivered a formal plan for the invasion of Iraq to George W. Bush in February 2002, despite misgivings that it would detract

¹⁷⁵ G. Adams, Interview No. 32, February 15, 2017; W. Wheeler, Interview No. 14, September 23, 2016; W. Hartung, Interview No. 19, October 3, 2016; N. Crawford, Interview No. 5, November 8, 2017; and J.E. Stiglitz, Interview No. 28, January 6, 2017.

¹⁷⁶ National Security Archive Electronic Briefing Book No. 326 (2010).

¹⁷⁷ Unclassified Memo from November 27, 2001, National Security Archives (Rumsfeld, 2001).

from the OEF operation in Afghanistan (Battle, 2010; Fukumoto & Sharma, 2015; Pfiffner, 2008).

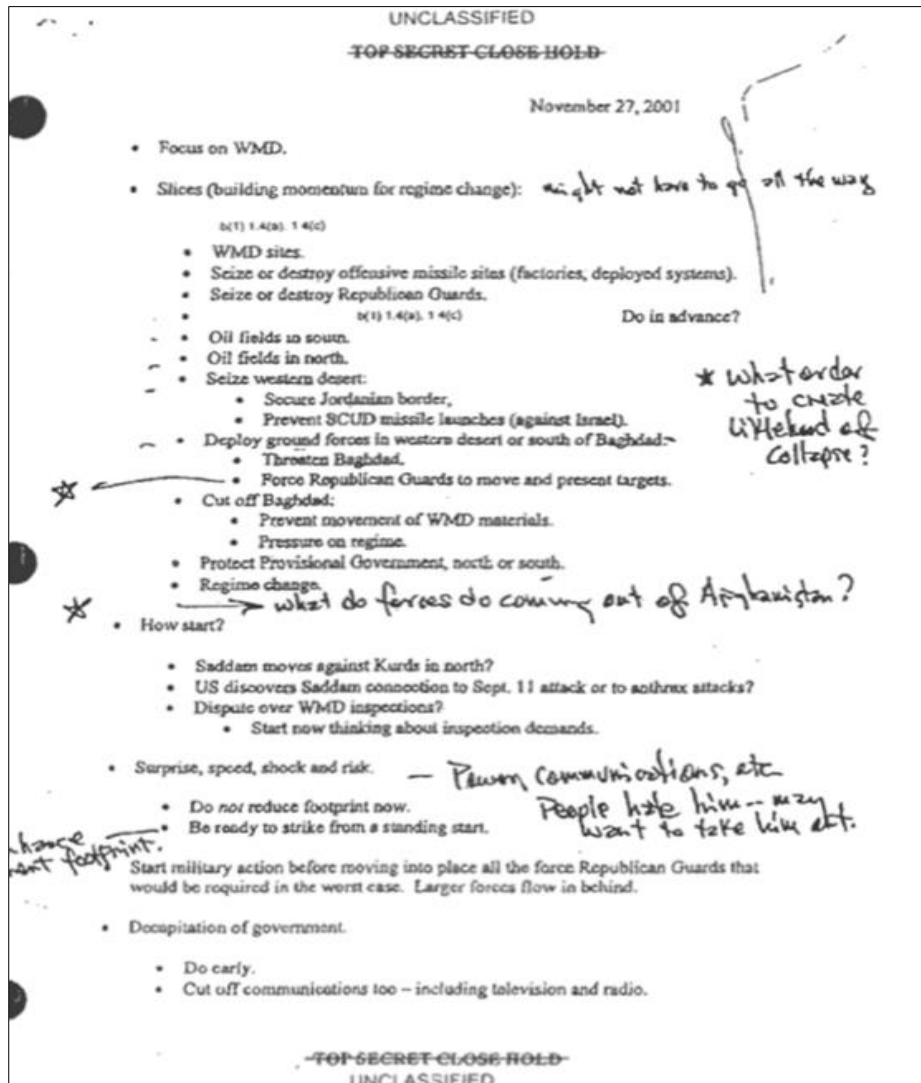


Figure 4.1 Unclassified Notes from Rumsfeld meeting with General Tommy Franks
Source: (Rumsfeld, 2001)

Over the following months, before the UN weapons inspectors had completed their work and before Congress had authorized the United States to invade Iraq, the Pentagon began laying the groundwork for military action. Preparations included moving troops and equipment into Kuwait; constructing semi-permanent bases, runways, and

combat vehicle ramps in Jordan and Oman; and planning for the required troop deployments (Gordon & Trainor, 2006; B. Woodward, 2004).

It is not clear how this effort was paid for. The Pentagon was never able to account fully for the second \$20 bn in emergency funds it received after 9/11, with the GAO reporting “limitations,” “questions,” and “problems with accuracy” in reporting how DERF money was spent (Pickup, 2003). Almost certainly some of it was used to pay for the Iraq buildup (Candrea & Jones, 2005; Pickup, 2003; Weiler & Callanan, 2008). The CRS alleged that at least \$2.5 bn “from an unidentified source, probably the defense base budget” was spent in the summer and fall of 2002 to prepare for the invasion of Iraq (Belasco, 2008, p. 31). Reporter Bob Woodward argued that DERF money intended for Afghanistan was diverted into Iraq (B. Woodward, 2004).

Beginning in early 2002, the President began to make the case for U.S. intervention in Iraq as a way to preempt any possibility that Iraq might acquire the means with which to threaten the United States. He warned of likely WMD, linked Iraq to the 9/11 attacks, and raised concerns about threats to the flow of oil (Stiglitz & Bilmes, 2008). George W. Bush maintained that Saddam Hussein posed a unique threat to the United States. In a radio address to the nation on September 28, 2002, he warned:

The danger to our country is grave and it is growing. The Iraqi regime possesses biological and chemical weapons, is rebuilding the facilities to make more, and, according to the British government, could launch a biological or chemical attack in as little as 45 minutes after the order is given (Bush, 2002a).

The following month in Cincinnati, Bush said:

While there are many dangers in the world, the threat from Iraq stands alone—because it gathers the most serious dangers of our age in one place. Iraq’s weapons of mass destruction are controlled by a murderous tyrant who has already used chemical weapons to kill thousands of people. This same tyrant...holds an unrelenting hostility toward the United States... We’ve experienced the horror of September the 11th. We have seen that those who hate America are willing to crash airplanes into buildings full of innocent people. Our enemies would be no

less willing, in fact, they would be eager, to use biological or chemical, or a nuclear weapon (Bush, 2002b).

He also had the backing of British Prime Minister Tony Blair, whose advocacy helped persuade members of Congress that the United States was not alone in the fight.¹⁷⁸ Blair was known to be friendly with former President Bill Clinton, so his support also lent an air of bipartisanship to the claim that Saddam Hussein posed a serious threat.¹⁷⁹ In July of 2003, Blair delivered an impassioned speech in support of Bush to a joint session of Congress, stating,

Can we be sure that terrorism and weapons of mass destruction will join together? Let us say one thing: If we are wrong, we will have destroyed a threat that at its least is responsible for inhuman carnage and suffering. That is something I am confident history will forgive. But if our critics are wrong, if we are right, as I believe with every fiber of instinct and conviction I have that we are, and we do not act, then we will have hesitated in the face of this menace when we should have given leadership. That is something history will not forgive... (T. Blair, 2002).

Two months after Blair's speech, Congress acceded to the President's request for a second AUMF that granted the President permission to use military force "as he determines to be necessary and appropriate" against Iraq.¹⁸⁰ The bill included most of the factors that Bush had outlined to the country, including failure to comply with UN resolutions, harboring Al-Qaeda, possession of WMD, and firing on aircraft enforcing the no-fly zones. The resolution specifically cited Iraq's alleged attempt to assassinate George H. W. Bush in 1993, which was rumored to be a motivation for his son George W. Bush (Lieberfeld, 2005). The resolution was more controversial than the Afghanistan AUMF, but it passed comfortably in the House by a vote of 296–133 and in the Senate by

¹⁷⁸ Blair's advocacy was reviewed extensively by the Chilcot Inquiry, which criticized his reliance on faulty intelligence and exaggeration of the risks posed by Saddam Hussein (Chilcot, 2016).

¹⁷⁹ J.E. Stiglitz, Interview No. 28, January 6, 2017; J. Galbraith, Interview No. 1, January 5, 2016,

¹⁸⁰ P.L. 107-243 Authorization for Use of Military Force Against Iraq Resolution of 2002, passed on October 2, 2002.

77–23. George W. Bush signed it into law on October 16, 2002. Thereafter, the administration began openly shifting money, personnel, and logistics towards the impending war in Iraq. This included placing four more brigades in Kuwait and beginning major construction projects there to support further expansion (Pfiffner, 2008).

Operation Iraqi Freedom was launched on March 19th, 2003. The extent of planning and preparation throughout 2002 makes it implausible that at least some of the war costs could not have been estimated in advance (Belasco, 2004; B. Woodward, 2004). Nonetheless the administration justified funding it as an “emergency” in FY 2003. Senior officials anticipated a rerun of the Gulf War experience and intentionally downplayed the potential costs (Bilmes & Stiglitz, 2011). Deputy Secretary Paul Wolfowitz predicted that the war might “pay for itself” like the Gulf War.¹⁸¹ Both Rumsfeld and Director of OMB Mitch Daniels estimated that the cost would be between \$50 and \$60 bn (roughly the same as the 1991 Gulf War).¹⁸²

The administration expected the operation to be short and deliberately suppressed budget projections that contradicted this view (Bilmes & Stiglitz, 2011; Hormats, 2007; Pemberton & Hartung, 2015). The President fired his chief economic advisor, Lawrence Lindsey, after Lindsey suggested to the Wall Street Journal in September 2002 that the cost could reach \$200 bn (Davis, 2002). Rumsfeld dismissed Lindsey’s estimate as “baloney,”¹⁸³ and Daniels called it “very, very high” (Rupar, 2005). Lindsey later confirmed that the administration had deliberately suppressed any discussion of war costs in order to avoid any figure that could raise objections in Congress (Lindsey, 2008).

¹⁸¹ This was based on optimistic projections that Iraqi oil could offset the costs (Walt, 2015).

¹⁸² House Budget Committee transcript, Hearing on FY 2004 Defense Budget Request, February 27, 2003 (Hearing on FY 2004 Defense Budget Request, 2003).

¹⁸³ Interview with George Stephanopoulos on ABC *This Week*, January 19, 2003 (Rumsfeld, 2003).

The administration also ignored external reports and analysis produced by think tanks and academia, including a report for the American Academy of Arts and Sciences led by William Nordhaus of Yale University. It estimated the war could cost \$2 tn if it went badly (Nordhaus, 2002). As Larry Diamond, later a senior advisor to the Coalition Provisional Authority in Iraq, wrote in his book *Squandered Victory*,

These warnings were not heeded by the administration, because those numbers did not fit in with its willfully optimistic assumptions that ‘American troops would be welcomed as liberators by an Iraqi population...that resistance would be limited, and that the Iraqi state would remain intact’ (Kakutani, 2006).

§ 4.2.4 Iraq Invasion

The United States led a coalition of 177,194 mostly American, British, and Australian troops into Iraq on March 19, 2003. Congress appropriated \$78.5 bn in “emergency” funding to cover the costs of the GWOT, including Iraq,¹⁸⁴ in what was then the largest supplemental funding bill in U.S. history (CQ Almanac, 2003). The initial combat phase was over quickly with the collapse of Saddam Hussein’s regime. On May 1, 2003, just six weeks after the invasion, Bush stood aboard the USS Abraham Lincoln under a now-infamous banner declaring “Mission Accomplished.” He delivered an ebullient and nationally televised speech, in which he declared that “Major combat operations in Iraq have ended” and pledged to help rebuild Iraq (Bush, 2003a). Six months later, Bush went back to Congress asking for an additional \$87 bn in GWOT emergency funds (breaking the record set by the previous bill) to ensure that Iraq and Afghanistan became “stable democracies” (Bush, 2003b). Bush also made extensive use of DoD transfer authority and reprogrammings (Weiler & Callanan, 2008).

¹⁸⁴ Emergency Wartime Appropriations P.L. 108-11 (Emergency Wartime Supplemental Appropriations Act, 2003).

The administration was not prepared for the length, ferocity, or expense of the conflicts it had initiated.¹⁸⁵ In 2001, the U.S. had not studied the history of foreign incursions into Afghanistan and how they tended to bog down (Wittmeyer, 2013). On November 14, 2002, Rumsfeld predicted confidently, “The Gulf War in the 1990s lasted five days on the ground. I can’t tell you if the use of force in Iraq today would last five days, or five weeks or five months. But it certainly isn’t going to last any longer than that” (Yates, 2008).

Wolfowitz and Rumsfeld publicly disparaged Army Chief of Staff Eric Shinseki, a decorated four-star General, who testified to the Senate Armed Services Committee on February 23, 2003 that it would require “several hundred thousand troops” to occupy Iraq. Wolfowitz told the House Budget Committee that Shinseki’s figure was “wildly off the mark” because Iraq had no history of ethnic strife (Schmitt, 2003). Rumsfeld echoed this sentiment at a press conference that week, saying “the idea that it would take several hundred thousand U.S. forces I think is far off the mark” (Schmitt, 2003). Shinseki resigned three months later.

Joshua Bolten was a key player throughout the George W. Bush administration, serving as Deputy Chief of Staff to the President (2001–2003), Director of the OMB (2003–2006), and finally Chief of Staff from 2006 to 2009. As he reflected,

I came in as Budget Director June of 2003. We had just started the Iraq war and we were estimating maybe forty, fifty billion dollars to pacify the country and we were going to be greeted as liberators...Everybody believed that [number]— however unrealistic in retrospect it now seems to be...¹⁸⁶

¹⁸⁵ A. Bacevich, Interview No. 13, September 23, 2016; P. Eaton, Interview No. 34, March 2, 2017; J. Mateczun, Interview No. 4, May 1, 2016; A. Ahmady, Interview No 50, November 8, 2018; and W.S. Gould, Interview No. 26, November 22, 2016.

¹⁸⁶ J. Bolten, Interview No. 6, September 19, 2016.

As the wars dragged on over the rest of the decade, the early cost estimates for the invasion looked increasingly untenable. The administration persisted in the use of emergency funding, submitted at random intervals throughout the budget cycle. The pattern of supplemental and later OCO appropriations compared to base defense bills is shown in Figure 4.2.

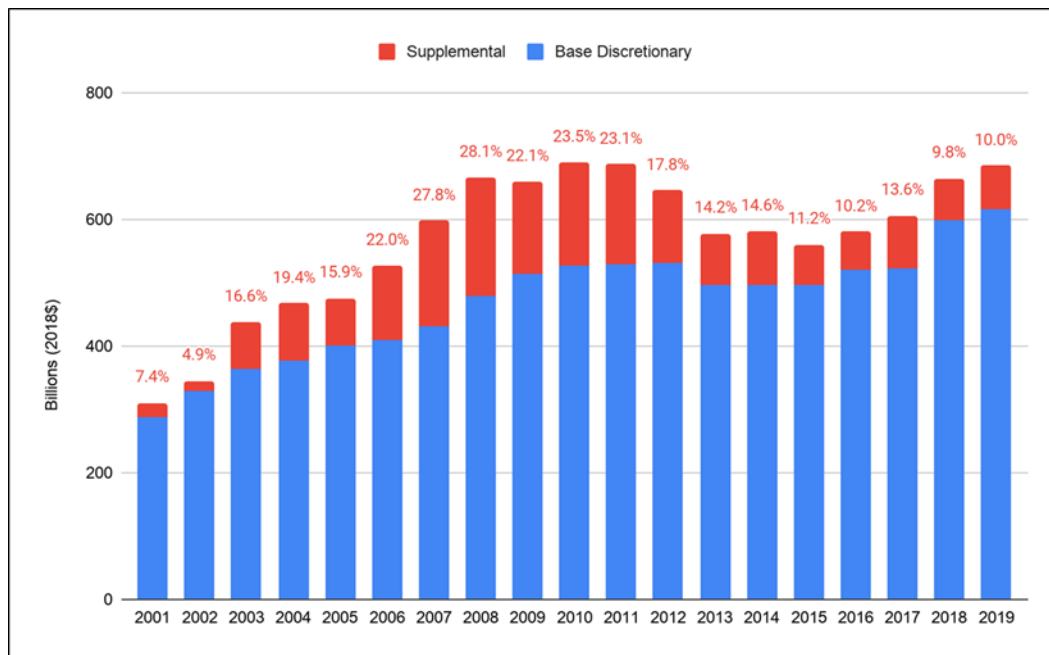


Figure 4.2 OCO/GWOT Funding as a Share of DOD Discretionary Budget Authority, FY 2001–FY 2020 (Nominal)
Source: (OSD, Table 2-1, 2019)

During Phase I, approximately 75% of the spending went to Iraq, rather than Afghanistan (see Figure 4.3; Cordesman, 2011).¹⁸⁷ Some members of Congress began to raise questions about the prewar intelligence and the relative amounts of effort devoted to OEF and OIF. But there was no serious pushback over the size of the funding, which was

¹⁸⁷ It was difficult to parse out the percentages between OIF and OEF. Some costs pertained to both operations (for example, helicopters used in both theaters and personnel deployed to both at different times). In many cases the appropriations were unclear; for example, a contract awarded to repair an engine part (Stiglitz & Bilmes, 2012).

increasingly positioned as “taking care of the men and women in uniform.”¹⁸⁸ Lawmakers proposed amendments that tweaked minor aspects of the process for disbursing the money but not the emergency supplemental mechanism itself. For example, after the DoD awarded a no-bid contract for oil work to Halliburton (where Dick Cheney had served as CEO prior to being elected Vice President), the House passed an amendment requiring the Pentagon to follow normal bidding procedures for contracts related to Iraq’s oil infrastructure (Belasco & Nowels, 2003; CQ Almanac, 2003).¹⁸⁹ The amendment was later rejected in the Senate.

The biggest funding controversy in Congress during Phase I was related to the reconstruction money for Iraq. During a series of hearings, lawmakers questioned why the United States should pay to rebuild Iraq, which had one of the world’s largest oil reserves (CQ Almanac, 2003). Congressman Mike Pence proposed that reconstruction aid to Iraq should be provided in the form of loans, rather than grants. The U.S. administrator in Iraq, L. Paul Bremer III, argued that Iraq already owed \$200 bn to other countries and could not afford more debt. In the Senate, a bipartisan group of powerful Senators lined up in support of the loan idea. The President eventually managed to secure the money as grants, but only after a bitter fight (CQ Almanac, 2003).

¹⁸⁸ L. Korb, Interview No. 9, September 19, 2016.

¹⁸⁹ House amendment adopted by a vote of 248–179 on October 17, 2003 (2019).

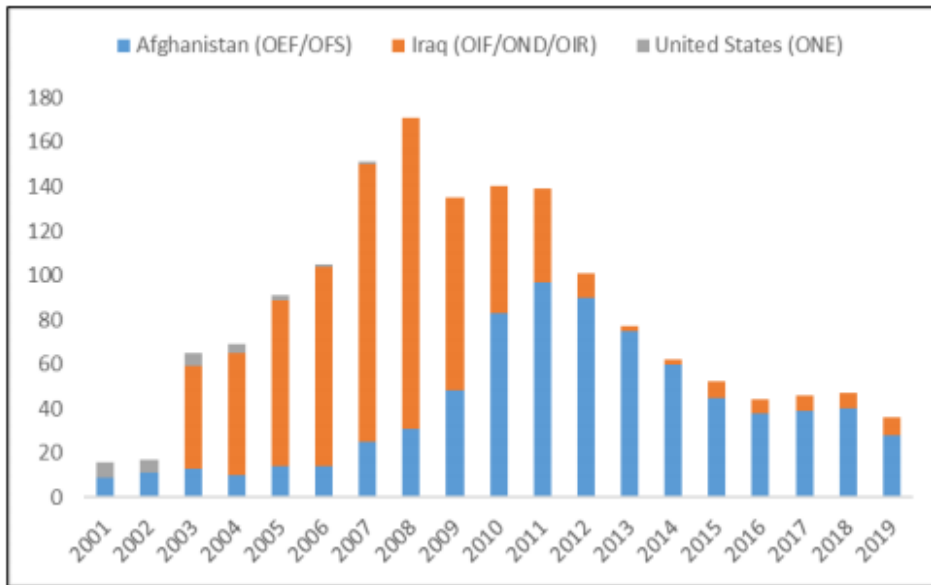


Figure 4.3 Enacted Appropriations to OEF and OIF FY 2001–2019¹⁹⁰
 Source: (McGarry & Morgenstern, 2019, p. 21)

§ 4.2.5 Continued Use of Emergency Funding

During the early years of the conflict, the Bush administration clung to the view that the turning point was just around the corner, even though the facts on the ground indicated otherwise. In November 2003, with violence in Iraq escalating, the President said that Iraq had reached “a great turning point.”¹⁹¹ In June 2004, after worsening violence, he promised that “a turning point will come two weeks from today.”¹⁹² On the day before Iraq held elections in January 2005, he announced that “Tomorrow the world will witness a turning point in the history of Iraq.”¹⁹³ But the election was boycotted by Sunnis. In May 2005, Iraq descended into near-civil war. As Lawrence Freedman has pointed out, the U.S. was facing a complex struggle against “murky, subversive forms of insurgency and terrorism” for which it was ill-prepared (Freedman, 2017, p. 193).

¹⁹⁰ Operation Noble Eagle (ONE) was a U.S.-Canadian operation related to homeland security after the 9/11 attacks. The cost of ONE was estimated at \$27 bn during Phase I and less than \$1 bn total in the years following FY 2007 (Kreisher, 2007).

¹⁹¹ George W. Bush’s Remarks at the 20th Anniversary of the National Endowment for Democracy (Bush, 2003b).

¹⁹² George W. Bush’s Remarks by the President to Military Personnel at MacDill Air Force Base (Bush, 2004).

¹⁹³ George W. Bush’s Remarks at the Philadelphia World Affairs Council (Bush, 2005).

Nevertheless, Vice President Dick Cheney said the country was in “the last throes, if you will, of the insurgency.”¹⁹⁴ Despite record violence against U.S. troops and Iraqi civilians, Cheney reported in March 2006 and again that summer that the United States was “making steady progress.”¹⁹⁵ In October 2006, the President told the nation “Absolutely, we’re winning.”¹⁹⁶

As Bolten reflected:

We didn’t spend a whole lot of time in the Bush administration when I was budget director debating the use of supplementals and emergency funding...in part because we genuinely believed that a tough war would be over soon, hopefully in President Bush’s first term.¹⁹⁷

Short-term budgeting buttressed the Administration’s optimistic stance.

Requesting war funds inside the regular base budget would have amounted to a tacit admission that there was no end in sight.¹⁹⁸ According to Dr. Lawrence Korb, a former Navy Captain and Assistant Secretary of Defense under President Ronald Reagan, “they [the Bush administration] did not want to put it in the regular budget because that would be admitting the wars were not going well.”¹⁹⁹

A second driver of war funding policy was the Bush administration’s desire to minimize the federal budget deficit. When George W. Bush assumed office in November 2000, he inherited an annual budget surplus of more than \$200 bn from his Democratic predecessor Bill Clinton, who had significantly reduced military spending.²⁰⁰ Bush campaigned on a platform of tax cuts and, facing the onset of a recession in early 2001,

¹⁹⁴ Dick Cheney Interview (“Iraq insurgency in ‘last throes,’ Cheney says,” 2005).

¹⁹⁵ Dick Cheney’s Remarks at a Luncheon for Arizona Victory 2006 (Cheney, 2006).

¹⁹⁶ President George W. Bush comments, October 25, 2006 (Yates, 2008).

¹⁹⁷ T. Evilsizer, Interview No. 7, September 19, 2016

¹⁹⁸ L. Korb, Interview No. 9, September 19, 2016; P. Eaton, Interview No. 34, March 2, 2017.

¹⁹⁹ L. Korb, Interview No. 9, September 19, 2016.

²⁰⁰ The surplus was the result of several factors, including Clinton’s tax increases and spending cuts, as well as an economic boom.

he pushed through a tax bill which significantly lowered personal income and capital gains taxes and eliminated the estate tax.²⁰¹ Bush signed the bill in June 2001. By 2002, the federal budget had swung from a surplus of 2.3% of GDP in 2000 to a deficit of 1.5%—a deterioration of nearly \$300 bn (see Figure 4.4). Democrats attacked the Bush administration for creating the “largest one-year fiscal reversal in the nation’s history” (Millbank, 2002).

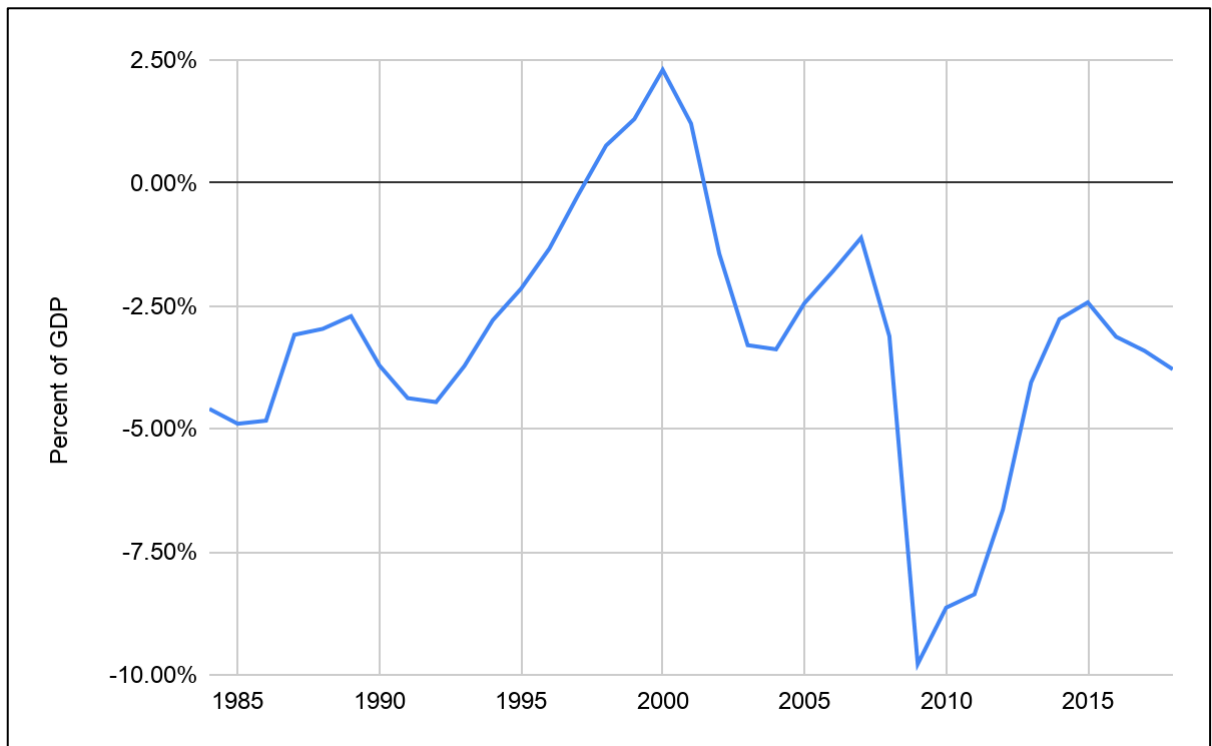


Figure 4.4 U.S. Budget Deficits and Surplus as Percentage of GDP, 1984–2018 (billions)
Source: (FRED, Federal Surplus or Deficit [-] as Percent of Gross Domestic Product, 2020)

A crucial advantage of submitting war expenses as supplemental bills (rather than as planned spending) was that the President could avoid including war costs in his future budget and deficit projections. The CBO reinforced this illusion, because its standard practice is to project the 10-year future budget baseline based on existing law and base spending. Since war spending was absent from the base budget and had to be reauthorized

²⁰¹ The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) cuts were scheduled to sunset in 2011, but most them were made permanent under Obama in 2012.

annually, the CBO effectively understated future deficits. As a number of budget scholars have pointed out, this methodology masked the long-term impact of the war costs (Penner, 2016; Steurle & Quackenbush, 2016).

As the Bush tax cuts took effect and the federal budget deficit continued to grow, the Budget Committees became highly incentivized to present budget resolutions that made it appear they were bringing the deficit under control. They resorted to various budget tricks and gimmicks.²⁰² According to Senator Trent Lott, “Members of Congress use the budget process to give the appearance that they are doing something about the deficits...In my judgement they are using it as political cover so that they can continue to be fiscally irresponsible” (Fisher, 2000, p. 130).

The Ghost Budget was thus a very useful budgeting tool for everyone. It enabled Congress to inflate past deficits (which looked bigger thanks to prior war spending) but to minimize future ones by excluding or diminishing projected war spending.²⁰³

In addition to its optimism about the prospects for the war and desire to minimize the appearance of the deficit, Korb also attributed the Bush administration’s mistakes over Iraq to the naivete and lack of experience of the President and his advisors.

According to Korb, Presidential candidate “Junior” [George W. Bush] “was a very nice guy, but he didn’t know that Germany was in NATO.” He viewed Deputy Secretary of Defense Wolfowitz as “an unfortunate choice” who “couldn’t have organized this meeting [interview].” Korb felt that these individuals had come to power because “we thought war was over, the Cold War was over. We didn't even worry about those type of things.” He contrasted the Bush team unfavorably with the leadership during Vietnam:

²⁰² L. Korb, Interview No. 9, September 19, 2016 and R. Nabors, Interview No. 12, September 20, 2016.

²⁰³ L. Korb, Interview No. 9, September 19, 2016; R. Nabors, Interview No. 12, September 20, 2016; W. Wheeler, Interview No. 14, September 23, 2016.

With Vietnam, nobody expected that war to be over quickly...Nobody was claiming if we send more Americans in, the war will end this year. McNamara, he ran the place with a tight ship. He said 'Okay guys, this is our [budget] number for next year. How much is the war going to cost? How are we going to pay for it?' There were some small supplementals, but by and large, it was 'This is how we're going to pay for it and you're going to have to make the trade-offs...'²⁰⁴

§ 4.2.6 2003 Tax Cuts

The desire to minimize the apparent size of the budget deficit grew urgent as the Bush administration persisted with its policy of cutting taxes at the same time as the cost of the wars was climbing. Presidents Truman and Johnson not only raised taxes to pay for their wars but attempted to structure them progressively. In sharp contrast, in May 2003 the Bush administration and Congress enacted a second round of tax cuts that primarily benefited the upper income brackets (Bilmes & Stiglitz, 2011).²⁰⁵ The law further reduced personal taxes (below the levels enacted in 2001) and accelerated the adoption of provisions of the 2001 tax reduction package.

The Bush tax cuts played a critical role in the evolution of the Ghost Budget. Federal tax revenues dropped from 20% of GDP in the year prior to the war to 15.6% following the 2003 cuts. The combination of reduced tax revenues and increased defense spending meant that the budget deficit ballooned over \$500 bn; see Table 4.2 (Stiglitz & Bilmes, 2008). The gap was covered by increased borrowing. Thus, the Bush administration made an implicit decision to finance the spiraling war costs through deficit spending rather than through taxes or non-war budget cuts.

²⁰⁴ L. Korb, Interview No. 9, September 19, 2016.

²⁰⁵ PL 108-27, the "Jobs and Growth Tax Relief Reconciliation Act," was signed into law on May 28, 2003.

Table 4.2 U.S. Federal Budget Deficits FY 2000–2009

Fiscal Year	Budget Surplus/Deficit (\$bn 2018)	Revenues as % GDP	Spending as % GDP
2000	\$344.2	20.0%	17.7%
2001	\$182.1	18.9%	17.7%
2002	-\$220.6	17.1%	18.6%
2003	-\$513.4	15.8%	19.1%
2004	-\$546.9	15.6%	19.1%
2005	-\$407.9	16.3%	19.3%
2006	-\$307.3	17.6%	19.5%
2007	-\$193.6	18.0%	19.3%
2008	-\$534.1	17.1%	20.2%
2009	-\$1,645.6	14.6%	24.5%

Source: (OMB Historical Table 3.1, 2019)

This approach satisfied the Republican-controlled Congress.²⁰⁶ Deficit hawks (most of them Republican) were able to “grumble” about the budget deficit without actually doing anything to reduce it.²⁰⁷ A few Republicans, in particular Senator John McCain, opposed paying for the wars in this fashion, arguing that it effectively hid the true costs. However, according to Gordon Adams, who served as Associate Director for National Security and International Affairs at OMB from 1993–97, “McCain served as chairman of the Armed Forces Committee—an authorizing committee. He was not a player in the appropriations game.”²⁰⁸

²⁰⁶ Republicans controlled the House of Representatives for all eight years of the Bush Presidency and the Senate for six of eight years.

²⁰⁷ G. Adams, Interview No. 32, February 15, 2017.

²⁰⁸ G. Adams, Interview No. 32, February 15, 2017.

During the 2004 Presidential election, the Democratic candidate was Senator John Kerry, a decorated Vietnam veteran. Kerry had voted to authorize military action against Iraq but opposed the \$87 bn supplemental war appropriation, claiming it would finance the wars with borrowed money (CNN, 2004). He urged rolling back some of Bush's tax cuts to pay for the conflict. However, he never achieved traction on the issue during the campaign, perhaps because his overall stance on the war appeared muddled.²⁰⁹ For example, Kerry declared that his goal would be to reduce the number of American troops in Iraq within six months of taking office, but also said he would put more troops into the country "if the commanders ask for it" (CNN, 2004). Polls one month before the election showed that swing voters were evenly divided as to whether Bush had mishandled foreign policy and national security, and as to whether Kerry would do any better (Pew Research Center, 2004).

The dollar amounts of the budget deficits during Phase I peaked in 2004, but the Bush administration benefited from the illusion that future deficits would be lower in future years. The OMB even defended its budgetary policies, arguing that excluding war spending from future forecasts was not actually off-budget. As Bolten argued, "It does a disservice to the debate to refer to the war funding being done 'off-budget.' It's not 'off-budget' in the sense that that most people understand it; it's just not done in the regular budgeting cycle."²¹⁰

§ 4.2.7 Growing Strains in the Military

The OEF and OIF were the first long-term ground conflicts America had fought since the AVF was set up in 1973. The wars increased the operations tempo of the

²⁰⁹ E. Lorenzen, Interview No. 30, February 1, 2017.

²¹⁰ J. Bolten, Interview No. 6, September 19, 2016.

military services, required extensive mobilization of reservists, and resulted in significant battle casualties. It soon became apparent that the armed forces—especially the Army, Army Reserve, Army National Guard, and Marines and Marine Guards, which bore the heaviest burden associated with occupying Iraq—were not prepared for this situation (Kapp, 2005). Difficulties included a shortage of manpower, equipment, investments in training, readiness, fuel efficiency, and technology. The Pentagon responded by demanding substantial budget increases across the board (Kapp, 2005).

Many of the new spending items were not directly related to the wars, nor were they exclusively destined for use in the Iraq/Afghanistan region. However, the wars made some longstanding needs more urgent. They also presented an opportunity to replenish supplies and stockpiles. According to Korb, the services developed an “insatiable” appetite for money to raise morale and to deal with perceived weak points in readiness.²¹¹ Prior to 2005, funding was primarily for the incremental costs of troops, equipment, and supplies. But in 2005 the Pentagon started asking for “reset,” which included replacing and upgrading damaged equipment (Newman & Wheelock, 2008).

From March to December of 2004, there were a series of bloody battles between insurgents and U.S. coalition forces in Fallujah.²¹² Thirty U.S. marines were killed and 300 were wounded in April, after the Iraqi National Guards deserted the scene. This led to a series of incidents, reprisals, and a full-scale U.S. military invasion involving nine U.S. Army and Marine battalions and the use of high-tech weaponry (McWilliams & Schlosser, 2014). Officially, the Pentagon remained upbeat. On a visit to Iraq in November, 2004, Army General John Abizaid, leader of the combatant command

²¹¹ L. Korb, Interview No. 9, September 19, 2016.

²¹² The second Battle of Fallujah, from November to December 2004, was the bloodiest battle of the Iraq War.

overseeing all GWOT troops, predicted that “Iraq will be one of the most prosperous, stable countries in this region once democracy takes hold” (Valceanu, 2004).

Behind the scenes, the Pentagon was “terrified” about the danger of failing to meet its manpower goals.²¹³ With Fallujah and other atrocities in the news, Army units, and to some extent the Marines, began to experience serious recruiting and retention problems. In December 2004, the Army National Guard—which was supplying 50,000 of the 148,000 U.S. forces stationed in Iraq, Kuwait, and Afghanistan—reported that it had fallen 30% below its recruiting goals (Schmitt, 2004b). Among other requests, the head of the Army National Guard said he needed to hire 1,300 additional recruiters and to raise cash sign-on bonuses from \$5,000 to \$15,000 (Korb & Duggan, 2007).

Starting in FY 2005 the Army began to offer large cash bonus and incentive programs—including sign-on bonuses of between \$40,000 to \$150,000 for recruits with high-demand skills (Laich, 2019). It lowered enlistment standards and age restrictions (for example, raising the maximum age for enlistment from 35 to 42). It also relaxed standards for weight, fitness, high school graduation, and performance on Army qualification tests. The Army gave thousands of “moral waivers” to new recruits with prior criminal convictions, including 900 felons (Korb & Duggan, 2007, p. 470). Even with these expensive measures, the Army was obliged to implement drastic actions including “Stop-Loss,” which essentially prevented service members from retiring or leaving the Army at the end of their enlistment contracts (Stiglitz & Bilmes, 2012, 2008).

²¹³ L. Korb, Interview No. 9, September 19, 2016.

§ 4.2.8 The Gordon England Memo and the “Culture of Endless Money”²¹⁴

On October 25, 2006, Deputy Secretary of Defense Gordon England issued a memo to the services that provided new “ground rules” for what could be considered a “cost of war.”²¹⁵ This was a pivotal moment in the evolution of the Ghost Budget. It marked a shift in the use of emergency appropriations to pay for non-war requirements from an informal, stopgap arrangement to official Pentagon policy.

England adopted an expansive view of the GWOT. His new definition permitted anything even tangentially related to the wars to be classified as war costs, regardless of whether or not they were incurred in Iraq or Afghanistan. He directed the services, in developing their FY 2007 supplemental requests, to include “incremental costs related to the longer war against terror [not just OEF/OIF] including replacement of war-torn equipment with newer models” and to accelerate military recruitment in order to prosecute the war. The England memo “opened the floodgates” to much bigger emergency supplemental requests that enabled the DoD to expand across the board after a decade of retrenchment under Clinton.²¹⁶ England’s memo “sanctioned and encouraged” the services to think that supplemental appropriations could be used to pay for *any* budget shortfalls they experienced (Reveron & Stiehm, 2016, p. 106).

In September 2007, the DoD issued new budgeting guidance that institutionalized the England memo. The services were encouraged to consider the “longer war on terror” rather than the DoD’s traditional definition of war costs as strictly related to immediate war needs. They were also asked to include acquisition of equipment and weapons and personnel expansion that required funding into future years (Belasco, 2008). The new

²¹⁴ Secretary Robert Gates’ phrase was used widely in the Pentagon and the media to describe this era (Gates, 2010).

²¹⁵ Deputy Secretary of Defense Gordon England, Memorandum for Secretaries of the Military Department, “Ground Rules and Process for FY ’07 Spring Supplemental,” October 25, 2006 (2006).

²¹⁶ W. Wheeler, Interview No. 14, September 23, 2016.

definition permitted a far broader range of spending requirements, particularly since the needs of the “longer war” were relatively undefined (Belasco, 2008, p. 30).

The new policy led to a surge in war funding, especially in the Pentagon’s personnel and acquisitions accounts.²¹⁷ The DoD used the money to stabilize its end-strength, which had declined by 30% in the decade prior to the wars (see Figure 4.5). The additional purchases were for long-term investments and research in weapons and equipment and thus did not meet the standard definitions of “emergency” or “supplemental” spending (Reveron & Stiehm, 2016). The services received procurement “plus-ups” of \$20.4 bn in FY 2006, \$39.7 bn in FY 2007, and \$32.9 bn in FY 2008. In 2007 and 2008, procurement averaged about 35% of total war funding (Newman & Wheelock, 2008). For example, the Navy initially requested \$450 m for six EA-18G aircraft, a new electronic warfare version of the F-18. The Air Force asked for \$389 m for two Joint Strike Fighters, an aircraft just entering production that would not be delivered for at least three years (Belasco, 2008).

²¹⁷ D. Feehan, Interview No. 42, September 7, 2017.

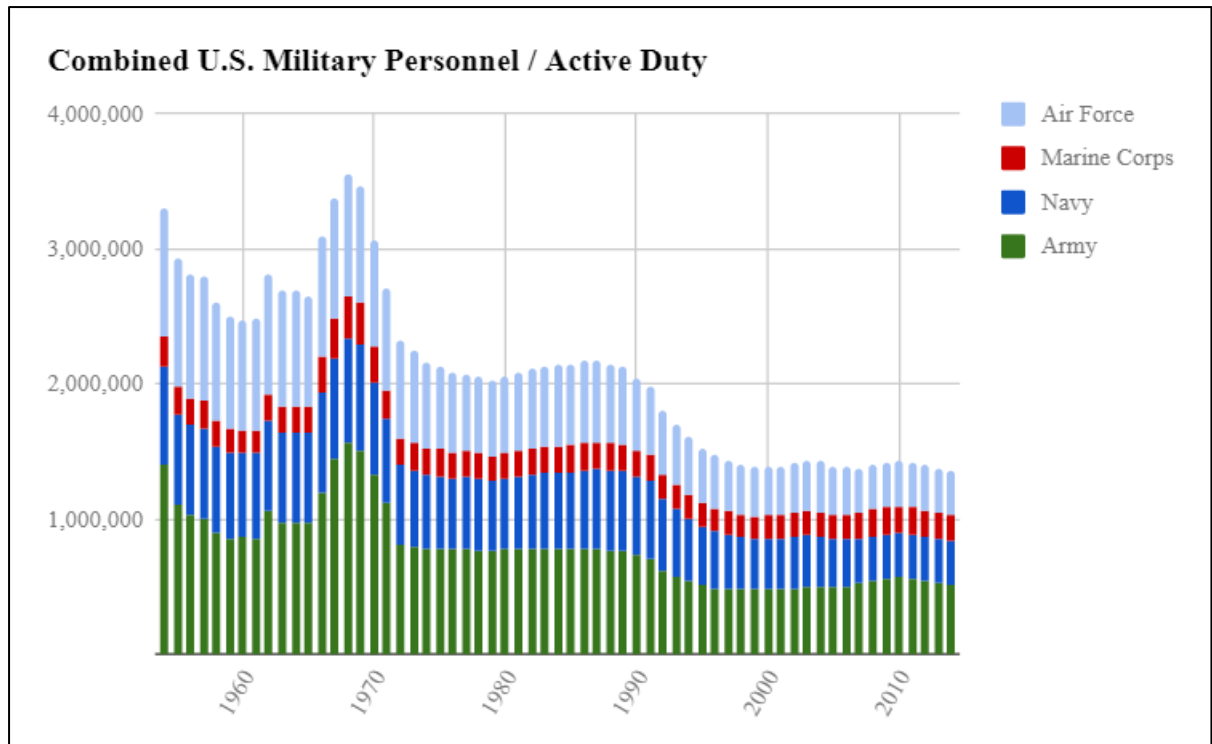


Figure 4.5 Military End-strength, FY 1950–2015
 Source: (Coleman, 2014)

The Pentagon also requested “modularity” (smaller brigade-sized units instead of larger divisions) as an emergency war requirement. The DoD had been requesting funds for this transition for at least a decade prior to the wars, despite studies suggesting that modularity would only marginally improve rotation schedules (Moran, 2007).

Congress also used the emergency supplementals to load up on earmarks, unrelated to the wars, ranging from \$2.1 bn for the construction of ten C-17 cargo planes in Missouri (a program the Pentagon opposed) to \$1.2 bn in funding for prostate cancer research. Between 2000 and 2006, the number of earmarks grew from 997 to 2847, an increase of 186%, while total spending on these earmarks rose by 54% to over \$9 bn (Wirls, 2016). Most of the individual earmarks were small, but collectively they exceeded the annual spend on any individual weapon system. As Daniel Wirls writes, “With all this funding going to support the war and the troops, there was plenty of room [to add

unrelated stuff]. The bills attracted virtually no scrutiny and few negative votes as the earmarks were loaded aboard the money train” (Wirks, 2016, p. 165).

The net result was that supplemental war funding rose to 28% of the DoD budget in FY 2007 and 2008, as shown in Figure 4.2 (Belasco, 2008; McGarry & Morgenstern, 2019). Since the majority of the new procurement items required ongoing spending for long-term maintenance and operations, this was the moment at which war funding transformed into a significant “backdoor” way to increase the military base budget (Reveron & Stiehm, 2016).

There are differing views about this policy. According to Gordon England, he was simply responding to the defects in the federal budgeting system, which was “engineered to produce a sub-optimal result.”²¹⁸ His perspective was that he was obliged to look for ways to pay for what the DoD needed, inside a system that didn’t allow him to give up things the services didn’t need:

We can't get rid of the A-10s because they're at a base. If you get rid of the A-10s, then bases shut down and government employees get laid off. A lot of politicians can't stand the bases being shut down and they can't stand their constituents being laid off. So the Air Force has a whole bunch of airplanes we don't need...²¹⁹

Others viewed the transition as a spending spree. As Gordon Adams said,

The services suddenly saw—‘Hey, we can get away with this!’ They were putting in a lot of stuff that DoD had been requesting for years before the war began, for example the WIN-T [War Fighter Information–Tactical], a long-planned upgrade to communications. The idea that it was related to the war was laughable—but there was less scrubbing. Supplementals don’t go through all the steps because the purpose is to get it out fast. Also, the request came in later in the process, so there was much less time for Congress to look at the details, especially the procurements.²²⁰

²¹⁸ G. England, Interview No. 15, September 26, 2016.

²¹⁹ G. England, Interview No. 15, September 26, 2016.

²²⁰ G. Adams, Interview No. 32, February 15, 2017.

Spinney compared the DoD budget to a fire department that spent all its money on fire trucks and then needs more money to actually put out the fire: “They thought they’d kick ass and win, but they had no real plan as the war got bogged down, so they took advantage of the weakness of Congress to buy stuff—like a narcotic.” In addition, he felt the “cost-plus” contracts provided incentives for costs to grow faster than budget, leading to more complex weapons that were more expensive to buy and to operate. As Spinney said: “If they are complex and difficult to buy, they will be complex and difficult to operate...so the inventory drove up the long-term cost structure in the base.”²²¹

According to Amy Belasco, the CRS analyst who tracked Pentagon spending from 2005 to 2014 and was the main source of “official” government cost estimates, there were advantages and disadvantages to the DoD’s broad definition of GWOT. She said that the money enabled the services to purchase “seemingly mundane” support items, including tactical vehicles, loading pallets, radios, and other items that directly benefitted the troops, and to fill longstanding “unfunded priority lists” (UPLs). However, Belasco felt the disadvantages were profound. These included a “lack of visibility on costs,” “reduced budget discipline,” “too heavy reliance on future supplementals” (enabling the DoD to escape or delay making trade-offs), “incomplete vetting,” and lower overall readiness due to a lack of prioritization (Belasco, 2007, 2008).

§ 4.2.9 The Iraq Surge

The situation in Iraq deteriorated in 2005 and 2006, with rising sectarian violence and a growing number of U.S. and allied fatalities (D. Johnson et al., 2019). In December 2006, the “Iraq Study Group” released its review of the Iraq war, which was highly critical and called for the United States to withdraw most of its troops (Baker, Hamilton,

²²¹ F. Spinney, Interview No. 33, February 16, 2017.

& Eagleburger, 2006). This panel, co-chaired by Secretary of State James Baker and Congressman Lee Hamilton, had a prestigious membership that included former Supreme Court Justice Sandra Day O'Connor and former Secretary of Defense William Perry. Despite the panel's recommendations, one month later the President announced that he was *increasing* the U.S. presence in Iraq, deploying five additional combat brigades (about 21,500 personnel)—a policy that became known as the Iraq “Surge” (D. Johnson et al., 2019).

Consequently, the emergency supplemental request in FY 2007 was higher than the previous year. But the President's budget request bore little relation to the number of troops deployed. The surge increased total troop levels by 18% compared with 2004 (260,000 vs. 219,000) but spending was nearly *double* the 2004 spending. As Belasco noted, “Spending rates are growing for operations for reasons that are not clear...Changes in troop strength do not explain such increases” (2008, p. 41). The rapid pace of spending, and the lack of detail on where the money was going, began to attract attention in Congress. Moreover, the administration's continued advocacy for emergency supplementals (to pay for supposedly “urgent” repairs) was inconsistent with the actual requests submitted for equipment that would be not be ready for years. Senators John McCain and Robert Byrd successfully co-sponsored an amendment to the defense appropriations bill requiring that future war spending (after FY 2008) be routed through the normal budget process. Bush signed the bill but issued an accompanying statement stating that he could ignore the amendment (Reveron & Stiehm, 2016; Wirls, 2016).

By the spring of FY 2007, emergency supplemental funding was running at \$11 bn per month (\$8.6 bn for Iraq and \$1.4 bn for Afghanistan). Notably, in May 2007, both Hillary Clinton and Barack Obama, who were serving in the Senate at the time, voted

against the latest supplemental appropriations bill (which passed, 80–14).²²² Their opposition was due to the open-ended nature of U.S. participation. “The country is united in our support for our troops, but we also owe them a plan to relieve them of the burden of policing someone else’s civil war,” Obama said (Schneider, 2007). During the subsequent Presidential campaign, Republicans charged that Obama had “failed to fund the troops” because of this vote (Adair & Holan, 2008).

§ 4.2.10 Implications of Phase I

According to the CRS and other budget analysts, the increase in the overall defense budget between FY 2001 and FY 2009 was 25%–35% greater than could be attributed to inflation and direct war costs (including number of troops deployed and the tempo of field operations), with each budget request unpredictable (Belasco, 2008; Kosiak, 2003). This was the opposite of “incrementalism.” According to Dempster and Wildavsky, “incremental” means not simply a percentage growth (typically 5–10%), but more importantly a “regular” pattern of growth and interaction among the participants in the budget process. As they put it, “by a non-incremental process, we mean irregularity” (Dempster & Wildavsky, 1979, p. 375).

The GWOT budget cycle was completely new. The work of Caiden, Wildavsky, Schick, and others presupposed an annual budget cycle (Schick, 1995; Wildavsky, 1992b; Wildavsky & Caiden, 2004). For post-9/11 appropriations, the President submitted one or more requests for emergency supplemental appropriations during the middle of the fiscal year, every year from FY 2001 through FY 2009.²²³ This timing allowed the Pentagon to adjust its annual budget mid-cycle, with no incentive to plan or prioritize (Martin, 2011).

²²² Roll call vote on H.R. 2206, May 25, 2007 (Obey, 2007).

²²³ With slight modifications in FY 2008 and FY 2009.

The extra mid-year budgets made it possible for the Department to request additional resources, test new equipment, award contracts, and make course corrections throughout the first eight years of the war (Daggett, 2006; Martin, 2011). Liebman found that annual budget cycles (as compared to two-year cycles) result in higher waste and spending on lower priority items, especially due to agencies awarding contracts and purchasing unnecessary resources in the final weeks of the fiscal year (Liebman & Mahoney, 2017). In this case, the mid-year budget adjustments produced a series of interim fiscal deadlines, which contributed to the environment of wasteful spending (Commission on Wartime Contracting: Interim Findings and Path Forward, 2009).

The use of supplemental funding also strengthened the role of the Pentagon. Unlike regular appropriations, there was no “top-line guidance” from the administration for supplemental requests. Base appropriations have some precedent (typically the prior year’s budget) and receive top-line guidance from the executive branch and legislative committees (through the 302(a) and (b) processes described in Chapter 5). In the case of supplementals, the DoD itself decided how much money it needed. Given the overwhelming pressure in Congress to “support the troops,” such requests were practically veto-proof (Cordesman, 2011; Martin, 2011). The net effect of this expansion was to grow the base defense budget and to add to future federal deficits. The features of Phase I are summarized in Table 4.3.

Table 4.3 Post-9/11 vs. Regular Appropriations

Regular Appropriations	Post-9/11 Appropriations
Incremental based on adjustments to base budget	Supplemental budgets, outside the base
Annual budget	Multiple and mid-cycle budgets
Amount set by Executive and Legislative guidance	No top-line guidance; the DoD decides amount
Deliberative approval process	Fast emergency approval
Evaluation of spending plans by OMB and Congress	Limited oversight of spending requested; almost no justification required

§ 4.3 Phase II FY 2008–2013

Three key factors shaped the evolution of the Ghost Budget from the latter part of FY 2008 to 2013. The first was the election of Barack Obama, who modified the war budgeting process but was unable to restore it to the regular appropriations system. The second was the global financial crisis. The crisis diverted attention from the conflict and had the effect of lowering interest rates, enabling the United States to keep paying for the war through borrowing and to refinance outstanding war debt at lower rates. The third was the budget unrest in Congress, culminating in the enactment of the BCA and the subsequent budget sequester.

§ 4.3.1 2008 Election and Transition to OCO

George W. Bush’s second term was characterized by a wide partisan difference in support for the wars. By 2008, a significant majority of Americans (54% to 38%) thought the United States had made the wrong decision in using military force in Iraq (Rosenstiel,

2008). However, a large majority of Republicans supported both missions—an average of 75% in favor of the war in Afghanistan and 73% in favor of the war in Iraq. By contrast, just 39% of Democrats backed the Afghan war and only 16% supported the war in Iraq (Jacobson, 2010a). This strong anti-war mood in the Democratic party helped Obama defeat Hillary Clinton (who as a Senator had voted for the Iraq war) in the 2008 Democratic primaries (Jacobson, 2010b).²²⁴

Obama campaigned against the war in Iraq and against the surge strategy, whereas his Republican opponent John McCain supported both. Obama pledged to bring all U.S. troops home from Iraq within 16 months, citing the strain on the armed forces and the expense of the war (Gordon, 2008). “Too many lives have been lost and too many billions have been spent for us to trust the President on another tried and failed policy,” Obama said about the Iraq surge, adding, “It is time for us to fundamentally change our policy” (H. Cooper, Carter, Ellis, Hossain, & McLean, 2012). He pointed to the cost of the wars to taxpayers, citing figures from *The Three Trillion Dollar War*, a book published early in 2008 by Joseph E. Stiglitz and Linda J. Bilmes (Adair, 2008; Stiglitz & Bilmes, 2008).

Obama had been one of the main Democratic critics of the Bush administration’s practice of putting war costs in emergency supplementals. As Bolten recalled:

I remember testifying to Congress about the Bush administration’s decisions to fund the war through supplementals rather than through the regular budget. I would get excoriated by [some] Democrats at every hearing for trying to hide the cost of the war in Iraq and Afghanistan.²²⁵

²²⁴ Obama had not yet been elected to the U.S. Senate in October 2002 when the Senate (including Clinton) voted to authorize the U.S. invasion of Iraq. However, he had spoken out against the plan, including holding an anti-war rally in Chicago that month.

²²⁵ J. Bolten, Interview No. 6, September 19, 2016.

On the campaign trail, Obama promised to end “the abuse of the supplemental budgets, where much of the money [for the wars] has been lost, by creating a system of oversight for war funds as stringent as in the regular budget” (Pleva, 2010).

The election campaign itself was overshadowed by the global financial crisis that erupted in the summer of 2008. In the televised Presidential debate on “foreign policy and national security” between McCain and Obama in September 2008, Obama only briefly mentioned the cost of the Iraq effort. Instead the candidates focused on Wall Street, oil prices, mortgages, health care, and the geopolitics of the broader war on terror (Gordon, 2008; Obama & McCain, 2008).

Obama was elected President in November 2008. The Democrats also won majorities in both the House and the Senate, making Obama the first President in 32 years whose party controlled both houses. During his first month in office, Obama attempted to push for a change in the war funding structure. At a meeting on fiscal responsibility on February 23, 2009, he said the war budget process in Washington had been “an exercise in deception; a series of accounting tricks to hide the expense of our spending.” He specifically cited “budgeting \$0 for the Iraq war—\$0 for future years, even when we knew the war would continue...” (Holan, 2009).

But the effort faltered. As Nabors recalled, the OMB transition team considered the possibility of merging the war requests into the regular defense budget. The Pentagon pushed back, arguing that war costs needed to remain separate due to the unpredictable nature of the conflict and the dysfunctional budget process in Congress. Nabors pointed out that the OMB had little influence over the DoD: “All the other government departments have to go through their budget submissions with a fine-tooth comb, but with

DoD, OMB doesn't even get the submission until November or December; it merely gets to be an observer."²²⁶

Ultimately the Obama administration settled for two limited changes. The first was cosmetic. Prior to February 2009, all U.S. activities associated with Iraq and Afghanistan were referred to as GWOT, and all funding associated with those operations was designated as an emergency requirement. To signal a change in tone, Obama replaced the term "GWOT" with "Overseas Contingency Operations" (OCO)—a name that, according to Nabors, was chosen by a small group of OMB staffers at a weekend offsite at Camp David.²²⁷

Second—and more substantively—the new administration accepted a compromise plan in which the DoD would submit a "placeholder" figure for supplemental OCO funds, along with the regular defense budget. The placeholder would be provided in advance and could be fine-tuned later on. This hybrid formulation avoided claiming that ongoing war funding was an unforeseen "emergency," while still providing the DoD with a distinct pot of money that was separate (and supplementary) to its base budget. "What they ended up with was not what they were trying to get," Nabors said. "It was too hard [to get rid of a separate war budget]. There was no way to enforce what we were trying to do."²²⁸

Veteran Congressional budget specialist Ed Lorenzen explained, "There was a desire to say, 'We're limiting spending,' and that came up against the practical limits. They [Obama's team] came up with OCO, which was a brand-new idea."²²⁹

The term "OCO" quickly gained acceptance at the DoD. As Robert Hale, Undersecretary of Defense and Comptroller from 2009–2014, observed, "When I first

²²⁶ R. Nabors, Interview No. 12, September 20, 2016.

²²⁷ R. Nabors, Interview No. 12, September 20, 2016.

²²⁸ R. Nabors, Interview No. 12, September 20, 2016.

²²⁹ E. Lorenzen, Interview No. 30, February 1, 2017.

heard the words ‘overseas contingency operations,’ they seemed cumbersome. But the OCO acronym was easy to say, and it quickly became a comfortable friend.”²³⁰

The timing of the budget cycle meant that the FY 2009 budget was assembled in 2008, while Bush was still President. So in early 2009, Obama signed another \$105.9 bn emergency supplemental bill (now designated as OCO) to fund escalating military operations in the Middle East. White House spokesman Robert Gibbs vowed that “this [was] the last emergency supplemental for Iraq and Afghanistan” (J. Austin, 2008; Holan, 2009). Obama wrote in April 2009 to House Speaker Nancy Pelosi that “this will be the last planned war supplemental” (“Senate Takes Up ‘Emergency’ War Bill,” 2010).

But it was not the last. In December 2009, the President decided to send an additional 30,000 troops to Afghanistan (called the “Afghanistan surge”). He asked Congress for an additional \$33 bn in emergency supplemental money to fund the effort, on top of the \$130 bn OCO placeholder budget in his FY 2010 budget proposal (Cornwell, 2010; Holan, 2009). The additional funding was approved six months later in July 2010.

From the FY 2010 appropriations cycle onwards, the Obama administration began to use OCO to designate war operations and submit placeholder amounts in advance. This was intended to give the administration greater leverage over the contents of the war budget.²³¹ It also benefitted the administration by pushing estimates of war costs into the future. According to Wheeler, “Obama controlled budget deficits by systematically underestimating the out-year OCO...OCO was included for the past but excluded for the future, leading to the perception of decreased spending even though everyone knew it

²³⁰ R. Hale, Interview No. 24, November 7, 2016.

²³¹ R. Nabors, Interview No. 12, September 20, 2016.

wasn't true. The system makes it so much easier to sweep it [the cost of the wars] all under the rug.²³²

The Pentagon provided the top-line OCO placeholder estimate, which was just a number with almost no details.²³³ Moreover, the OMB and Congressional staff lacked the ability to evaluate the Pentagon's hypothetical war budget needs two years into the future.²³⁴ According to Matthew Leatherman, a defense analyst at the Stinson Institute, "OCO is a plan of sorts, but it always has an asterisk—it's not controlled the in the way a regular budget is, and it systematically underestimates the out-year OCO."²³⁵

Thus, in practice the hybrid system gave the White House little additional control over the budget. Moreover, the new procedure motivated the Pentagon to spend close to its full request—even if actual costs turned out to be lower than the placeholders.

According to former Coast Guard officer and Senate staff member Lt. Commander Jason Smith, "The incentive was to spend it all—or we lose it."²³⁶ Confirming this view, the total spending for the period was \$956 billion—only \$20 billion higher than the amounts that had been requested long prior to the actual military operations. In most years the actual spending nearly tracked the "placeholder," as shown in Table 4.4.

²³² W. Wheeler, Interview No. 14, September 23, 2016.

²³³ L. Korb, Interview No. 9, September 19, 2016.

²³⁴ L. Korb, Interview No. 9, September 19, 2016; S. Silverberg, Interview No. 10, September 19, 2016; and G. Adams, Interview No. 32, February 15, 2017.

²³⁵ M. Leatherman, Interview No. 40, July 20, 2017.

²³⁶ J. Smith, Interview No. 41, July 31, 2017.

Table 4.4 OCO Placeholder Requests vs. Enacted Funding (USD billions)

Fiscal Year	Placeholder Request	Enacted Budget
FY10	\$130.0	\$162.4
FY11	\$159.3	\$158.8
FY12	\$118.0	\$115.1
FY13	\$88.5	\$87.2
FY14	\$88.5	\$85.0
FY15	\$79.4	\$64.3
FY16	\$50.9	\$58.9
FY17	\$69.7	\$82.5
FY18	\$64.6	\$65.0
FY19	\$89.0	\$77.2
Total	\$937.90	\$956.90

Source: National Defense Budget Estimates for FY 2010–2020 (Office of the Under Secretary of Defense (Comptroller), 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017a, 2018, 2019b)

Recognizing that the second defense budget (now renamed OCO) was entrenched, the OMB tried a different tack to pare spending on defense items not related to the wars. By this time, it was estimated that some \$107 bn in emergency war appropriations had been spent on such items (Heeley et al., 2018). In March 2009, the OMB compiled a new list of criteria to be used in evaluating whether funds should be in base or in OCO, superseding the Gordon England memo. The new criteria attempted to tighten the set of activities defined as war-related and limited requests for procurement to replacement of items lost or damaged during war operations (Love, 2014). However, the effort failed due to the complexities of the next phase of the conflict on the ground.

§ 4.3.2 Afghanistan Surge

In December 2009, in a speech at West Point, Obama announced a new strategy for the wars that would shift the focus back to Afghanistan. He noted that Iraq had drawn the dominant share of U.S. troops, resources, diplomacy, and national attention. The United States had 32,000 troops serving in Afghanistan compared with 160,000 in Iraq (Belasco, 2009b; Obama, 2009b). Between FY 2002 and FY 2009, U.S. military spending for Iraq was 3.5 times the spending in Afghanistan (Belasco, 2009; Bilmes & Stiglitz, 2011). Obama pledged to bring the Iraq war to a “responsible end” and to remove all U.S. troops by the 31st of December, 2011 (Obama, 2009b). Amidst controversy over the decision, U.S. forces withdrew from Iraq on this date.

Due to the reemergence of the Taliban, Obama committed to send 30,000 additional troops to Afghanistan in what became known as the “Afghanistan surge.” The reinforcements requested by his new commander, General Stanley McCrystal, brought total U.S. “boots on the ground” in Afghanistan to 70,000 and total NATO forces to over 100,000 (Ackerman, 2011; Obama, 2009b). The reallocation of U.S. troops between 2009 and 2012 is shown in Table 4.5.

Table 4.5 Average Monthly U.S. Boots on the Ground in Afghanistan and Iraq, FY 2002–FY 2012

Fiscal Year	Afghanistan	Iraq	Total
2002	5,200	0	5,200
2003	10,400	67,700	78,100
2004	15,200	130,600	145,800
2005	19,100	143,800	162,900
2006	20,400	141,100	161,500
2007	23,700	148,300	172,000
2008	30,100	157,800	187,900
2009	50,700	135,600	186,300
2010	63,500	88,300	151,800
2011	63,500	42,800	106,300
2012	63,500	4,100	67,600

Source: (Belasco, 2009b, 2011)

The pivot to Afghanistan had two implications. First, it meant the United States continued to require billions of dollars in war costs for the foreseeable future. Obama requested \$141.4 bn in spending for FY 2009, with a placeholder request for \$130 bn for FY 2010, even though the projected number of troops in Iraq was declining (Belasco, 2009b). This was in part due to the support costs in Afghanistan, which were estimated to be 25% higher per troop than Iraq due to the remote and mountainous terrain and high fuel consumption (Belasco, 2009b; Bilmes & Stiglitz, 2011). But much of the increased cost could not be accounted for (Belasco, 2009b).

Second, the pivot made it hard for the OMB to enforce its new criteria for what should constitute war funding, given that the armed forces were now required to

undertake a whole new set of activities (Heeley et al., 2018). These new tasks included “counterinsurgency” against extremist organizations such as the Taliban; withdrawing troops and equipment from Iraq; moving equipment and support personnel to remote parts of Afghanistan, Pakistan, and elsewhere; and repairing and reconfiguring equipment for use in Afghanistan.²³⁷

§ 4.3.3 2008 Financial Crisis

The 2008 crisis had severe and long-lasting consequences for the economy that played a decisive role in how the wars were financed. By the time Obama took office in January 2009, the economy was in free fall. The S&P 500 had fallen nearly 50%; major financial institutions (including AIG, Bear Stearns, and Lehman Brothers) had collapsed; Fannie Mae and Freddie Mac were in conservatorship; and GDP had contracted by 8.9% (U.S. Department of the Treasury, 2012). According to the Bureau of Labor Statistics, unemployment climbed from 5% in 2007 to 9.9% in 2009 (Amadeo, 2019). From 2007 to 2009, the U.S. lost 8.8 m jobs and \$19.2 tn in household wealth (U.S. Department of the Treasury, 2012).

The crisis absorbed a vast amount of the new administration’s time and attention. Although the financial meltdown and the resulting \$700 bn bailout of faltering financial firms (the so-called Troubled Asset Relief Program [TARP]) had occurred under Bush, the Democrats were now in charge of Congress and the Presidency. There was a great deal of controversy over the TARP and the size and structure of any stimulus package, including how much of the stimulus ought to be provided in tax relief vs. direct aid to individuals and local governments. Writing in the *New York Times*, Nobel laureate Joseph

²³⁷ L. Korb, Interview No. 9, September 19, 2016; P. Eaton, Interview No. 34, March 2, 2017; and R. Hale, Interview No. 24, November 7, 2016.

E. Stiglitz accused former Treasury Secretary Henry (“Hank”) Paulson of “giving away close to half of the \$700 billion on very generous terms and without adequate restrictions on the use of the money” and called for a minimum of \$1 tn dollar stimulus package (Stiglitz, 2008).

In order to win Republican approval, Obama and his team had to compromise on the size and structure of the fiscal package.²³⁸ The American Recovery and Reinvestment Act (ARRA) provided about \$800 bn in new stimulus, including \$575 bn for programs related to employment and \$212 bn in individual and business tax cuts for those earning up to \$200,000 per year.

As Americans became preoccupied with the economy, the relative importance of the post-9/11 wars in public opinion declined. In February 2007, 38% of Americans said the “situation in Iraq” was the top U.S. problem, according to a Gallup tracking poll.²³⁹ By November 2008, the same tracking poll showed that 58% of Americans felt “the economy” was the top problem, with Iraq falling far down the list (Gallup, McCarthy, & Jones, 2019). As the economy continued to slump, the trend continued. A CBS News poll taken after the midterm elections in November 2010 showed that 56% of voters wanted Congress to focus on the economy, compared with 2% who wanted it to focus on the wars in Iraq and Afghanistan (see Figure 4.6).

²³⁸ J. Furman, Interview No. 47, November 6, 2018.

²³⁹ In another Gallup poll, taken in April 2007, 66% of Americans cited Iraq as one of the top two issues facing the President and Congress.

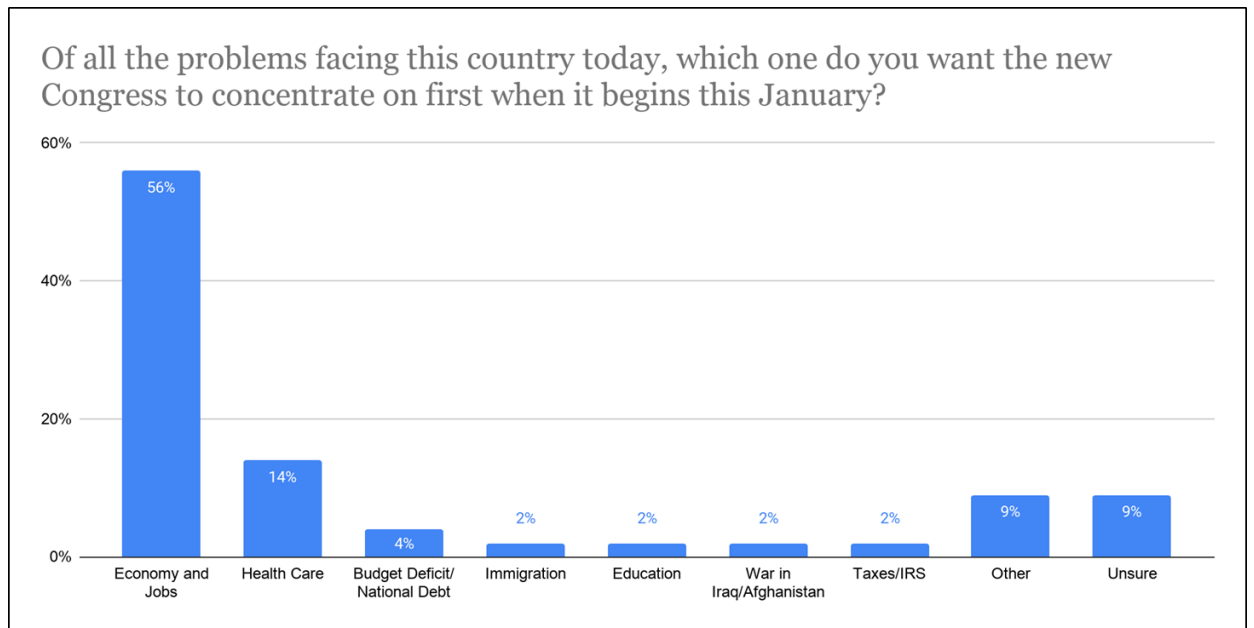


Figure 4.6 Top Priorities for the New Congress, 2010 (CBS News poll, n =1137)
 Source: CBS News Poll (Rayfield, 2010)

As tax revenues fell and spending rose (including due to TARP, ARRA, and countercyclical unemployment benefits) the budget deficit itself became an important political issue. In FY 2009 the deficit tripled compared to the prior year and continued to exceed \$1 tn every year through FY 2012, adding to the national debt. Republicans balked at raising the debt ceiling in 2011 and again in 2013.

Many respected national experts, including the bipartisan Concord Coalition, the Bipartisan Policy Center, and the Peter G. Peterson Foundation, warned that the deficit would get much worse when interest rates, which had been low for a decade, returned to more normal levels. In 2011, David Walker, former U.S. Comptroller General and Director of the GAO from 1998–2008, embarked on a nationwide “fiscal wake-up tour” sponsored by Peterson, warning that the United States was on a “burning platform” of fiscal deficits, entitlements, and defense spending (McCuistion, 2012), and saying:

We are less than three years away from where Greece had its debt crisis as to where they were from debt to GDP...we have serious interest rate risk, we have serious currency risk, we have serious inflation risk over time. If it happens, it will be sudden, and it will be very painful (Cox, 2011).

Opinion polls began showing the “federal deficit” as the second or third topic of concern. For example, in an October 2010 Bloomberg poll, 27% of respondents cited the federal deficit and spending as the most important issue facing the nation (see Figure 4.7).²⁴⁰ The war faded from public consciousness.

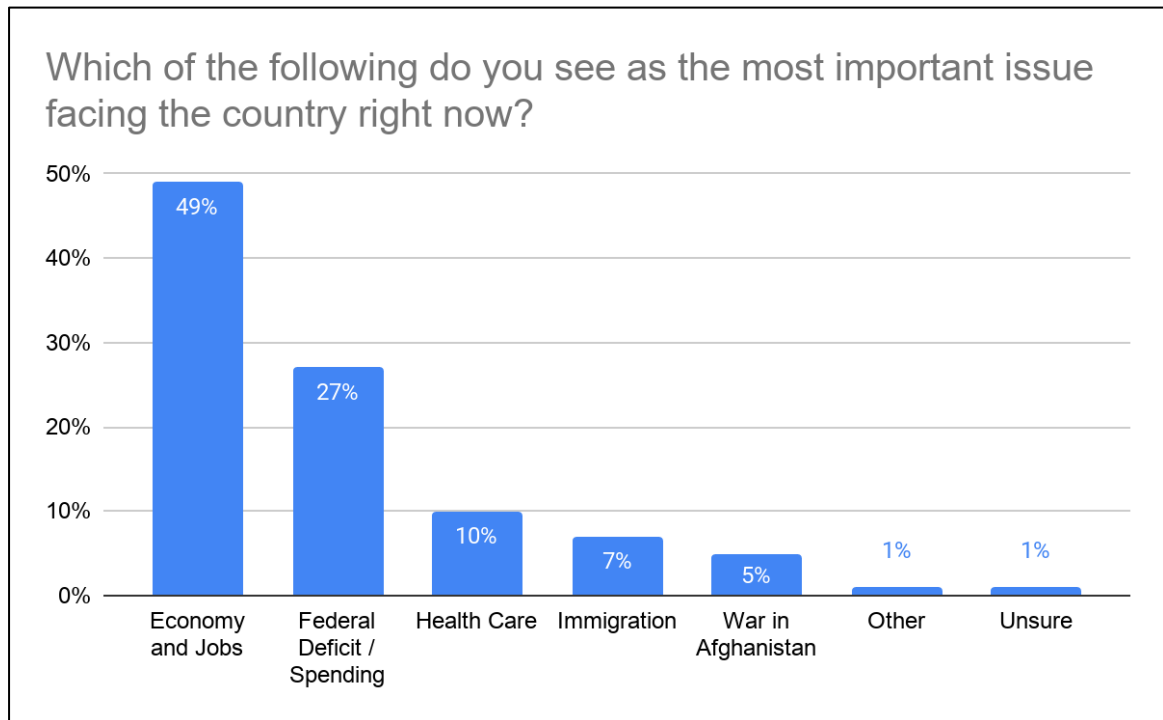


Figure 4.7 Top Issue Facing the Country, October 2010
 Source: Bloomberg National Poll conducted by Selzer & Company. Oct. 7-10, 2010. N=721 (Selzer & Company, 2010)

§ 4.3.4 The Budget Control Act (BCA) and Sequestration

In response to deteriorating federal finances, in 2011 Congress enacted the Budget Control Act (BCA). The BCA established a bipartisan, bicameral Congressional Joint Select Committee on Deficit Reduction (“Super Committee”). Its task was to propose measures to reduce deficits by \$1.2 tn over ten years, through a combination of revenue increases and spending cuts. To ensure the committee reached agreement, the BCA created an unpalatable fallback mechanism called “sequestration,” which provided that in the absence of agreement the BCA would impose automatic across-the-board spending

²⁴⁰ Polls taken by NBC News/*The Wall Street Journal*, Fox News, and Gallup showed similar results.

cuts, beginning on January 1, 2013. The threat of equal cuts to programs that were popular with both Democrats (such as Medicare) and Republicans (such as defense) was viewed as a fail-safe method to avoid a stalemate.

Nonetheless, after nearly four months of work, the co-chairs of the Super Committee announced that it had failed to reach agreement. Republicans accused Democrats of refusing to cut domestic spending, and Democrats blamed Republicans for being unwilling to raise taxes on the wealthy (Barrett, Bolduan, & Walsh, 2011). The Obama administration was exasperated; White House spokesman Jay Carney said, “Congress assigned 12 of its own members a task—a task that wasn't really that difficult to achieve if there was a willingness to compromise” (Barrett et al., 2011). As a result, the BCA imposed spending cuts (“sequestration”) totaling \$85 bn in FY 2013; see Table 4.6 (Kogan, 2013). Further reductions to defense and nondefense funding were mandated in each year from 2014 to 2021.

Table 4.6 Summary of Budget Cuts Required by Sequester in FY 2013

	Billions (2018 \$)	
National defense programs:	\$46.1	
	Discretionary appropriations	\$46.0
	Mandatory programs	\$0.1
Non-defense programs	\$46.1	
	Discretionary appropriations	\$27.8
	Medicare	\$12.2
	Other mandatory	\$5.9
Total	\$92.2	

Source: CBPP (Kogan, 2013)

Importantly, the Super Committee and the sequester were *not* motivated by Congressional efforts to make budget trade-offs in response to the cost of the wars.

Rather, they were a response to budget deficits resulting from the financial crisis.

According to Alice Rivlin, who served as Vice Chair of the Federal Reserve, Director of the OMB, and founding Director of the CBO, the sequester was not connected to war spending at all but rather to worries about interest rates.²⁴¹ She observed, “In 2011 we thought the debt was rising rapidly and that was scary, and there was the risk of interest rates going up.” Nor is there any evidence that the high cost of the wars influenced the legislative breakdown that led to the sequester.²⁴²

My analysis found virtually no discussion in Congress or in the media that connected the budget deficits and the mounting national debt to the wars. For example, in Walker’s “fiscal wake-up tour,” he cited “jobs, the economy, and fiscal responsibility” as the three most important issues for the 2012 general election, followed by “addressing our structural deficit” (by which he meant the unfunded obligations for entitlements such as Social Security and Medicare; Patton, 2012). Walker believed that the impact of the crisis on unemployment, jobs, housing, personal wealth, and the debt eclipsed everything else, including any discussion of war costs.²⁴³ Republicans also blamed health care costs, which were rising rapidly and increasing the cost of Medicare (Bai, 2012).

§ 4.3.5 Exempting OCO from the Sequester

The sequester did however have important ramifications for the Ghost Budget. Once the sequester was implemented, the Pentagon and its allies in Congress began to push back hard. There was mounting pressure to reduce its impact on the Pentagon. Defense Secretary Leon Panetta argued that the cuts would undermine the military,

²⁴¹ A. Rivlin, Interview No. 22, October 24, 2016

²⁴² A. Rivlin, Interview No. 22, October 24, 2016.

²⁴³ J.E. Stiglitz, Interview No. 28, January 6, 2017; J. Galbraith, Interview No. 1, January 5, 2016; J. Furman, Interview No. 47, November 6, 2018; and D. Walker, Interview No. 17, September 30, 2019.

calling it a “Doomsday Mechanism.”²⁴⁴ Senate Leader Mitch McConnell put the ball in the President’s court, stating “Now it falls on the President to ensure that the defense cuts he insisted upon do not undermine national security” (Barrett et al., 2011).

Suddenly, OCO became a critical budget asset for the DoD. Initially, only a few benefit programs, including Social Security, military pay, veterans’ pensions, federal retirement, and a handful of critical activities (including air traffic controllers) were exempted from the sequester. Now the Pentagon and its allies in Congress sought to add OCO to the list of exemptions.

In June 2012, a well-known group of budget and defense experts led by former Senator Pete Domenici, former National Security Advisor General James Jones, and former U.S. Secretary of Agriculture Dan Glickman released a report on the “folly” of the BCA defense cuts, entitled “Indefensible: The Sequester’s Mechanics and Adverse Effects on National and Economic Security” (Domenici, Glickman, & Jones, 2012). The report argued that “indiscriminate and irrational application of sequester cuts in 2013” would undermine U.S. military capabilities and readiness, cause one million job losses across the country in defense and non-defense jobs, and remove the Pentagon’s ability to shift resources into capabilities it deemed critical (Domenici et al., 2012). The Pentagon also argued that it had already slashed \$465 bn from its budget, although those claims were in fact mostly just “paper savings” resulting from adjustments to future baseline projections (Lofgren, 2011).

The solution proposed by defense hawks in Congress was to use the emergency war budget as a way to shore up the rest of the defense budget.²⁴⁵ Under the terms of a previous law (the Balanced Budget and Emergency Deficit Control Act of 1985

²⁴⁴ W. Wheeler, Interview No. 14, September 23, 2016.

²⁴⁵ G. Adams, Interview No. 32, February 15, 2017.

[BBEDCA]), Congress agreed to exempt the OCO/GWOT spending from the BCA sequester. This would provide the funding that the Pentagon needed in the wake of the sequester (McGarry & Epstein, 2019).

There was little opposition in Congress to making OCO exempt, despite complaints over the general lack of fiscal accountability at the Pentagon (the DoD was the only federal agency not to have complied with the CFO Act of 1990 and achieve a clean financial audit; McConnell & Wang, 2014). With continued pressure on the defense budget, OCO was incorporated into the BBEDCA exemptions.

The sequester, and the resulting exemption of OCO, was thus a critical juncture in the evolution of the Ghost Budget. Prior to the sequester, the DoD had used the OCO/GWOT funding mechanism primarily as a way to pay for its wish list. After the sequester, OCO evolved into a fiscal loophole through which the DoD was able to circumvent the restrictions on its base budget. Congress subsequently modified the BCA budget limits every year, which reduced some of the budget pressure on the DoD. But the base budget figure remained uncertain, and still below the pre-sequester trajectory. Accordingly, the Pentagon characterized as much non-war spending as possible as OCO in order to exempt it from the BCA caps (Heeley et al., 2018).

§ 4.4 Phase III FY 2013–FY 2019: Living with the Sequester

Obama was reelected in 2012, after navigating the United States through the worst years of the financial collapse and devoting the majority of his remaining political capital to securing health care reforms (Obama, 2016). Although the epicenter of the fighting moved to Afghanistan, U.S. forces were stationed throughout the region, with thousands of troops and contractors shifted to Kuwait and other locations. In a speech at National Defense University in May 2013, Obama said that the United States should define its

mission as “a series of persistent, targeted efforts to dismantle specific networks of violent extremists that threaten America” (Obama, 2013).

As the BCA budget cuts went into effect, the Pentagon and its allies continued to rail against any budget cuts. Defense hawks Michele Flournoy and Eric Edelman alleged that the military was “on the chopping block” and in danger of becoming a “hollow force” (Flournoy & Edelman, 2014). In response, Congress modified the defense sequester every year, allowing a total of \$435 bn in additional base spending (McGarry, 2019). In FY 2015, Congress tried to shift more money from the base into OCO *instead* of raising the sequester caps. But Secretary of Defense Carter pushed back against this idea, calling it “a road to nowhere.” He argued that the DoD required both relief from the sequester as well as OCO (Pellerin, 2015).

Congress and the DoD could not agree on what items to cut. Congress refused to slash Cold War–era weapons and unwanted personnel expenses that the DoD was prepared to jettison, due to the impact on jobs in Congressional districts and pressure from defense lobbyists.²⁴⁶ According to Deputy Secretary of Defense Robert Work, the DoD proposed \$70 bn in cuts to the FY 2015 budget under the assumption that Congress would reject them (Serbu, 2015; Hagel, 2014). Skeptical observers believed that the Pentagon was following the “Washington monument” approach of proposing sacred cows for budget cuts because it knew Congress would block them.²⁴⁷

The crucial difference in this era was that during Phase I and Phase II, costs migrated from the wartime budget into the base budget, increasing the base. During Phase III, costs migrated in the other direction, from the base into the wartime OCO budget. The net effect was that the base grew, albeit more slowly, and OCO provided the money that

²⁴⁶ G. Adams, Interview No. 32, February 15, 2017.

²⁴⁷ W. Wheeler, Interview No. 14, September 23, 2016; F. Spinney, Interview No. 33, February 16, 2017.

allowed the Pentagon budget to keep rising despite the sequester. There was even less incentive to change the system.²⁴⁸

As CRS defense analyst Brendan McGarry pointed out, OCO was a “safety valve” from the Pentagon’s perspective. By contrast, detractors viewed OCO as a “loophole” or “slush fund” for activities unrelated to contingency operations (McGarry & Morgenstern, 2019, p. 1). From FY 2013 onwards, the system stabilized, with the OCO portion of the defense budget ranging from \$65 to \$85 bn per year. This amount was roughly 10% or more above the defense base each year, which was sufficient to blunt the impact of the sequester (see Figure 4.2). Some critics, including House Budget Committee chairman Paul Ryan, argued that OCO undermined the intent of the sequester (Ryan, Van Hollen, & Garrett, 2014).

Meanwhile, the situation in Afghanistan was becoming a “stalemate” in which Afghan forces were attempting to hold onto positions that American and NATO forces had taken (Biddle, 2012). As Stephen Biddle of the Council on Foreign Relations observed, “this means the U.S. Congress is going to be asked to write multi-billion dollar a year checks to keep this war going for a long, long time” (Biddle, 2012).

The use of OCO to sustain activities that were only indirectly related or unrelated to the wars was evident in the budget requests. For example, in FY 2015, force levels in Afghanistan were slated to decline by 69% as the mission shifted to focus on aiding the Afghan National Security Forces (ANSF) and counterterrorism (“Fact Sheet,” 2014). But the administration’s FY 2015 budget request for Afghanistan operations was \$53.4 bn—which represented only a 38% drop from the previous year (“Fact Sheet,” 2014). The gross cost per troop (calculated as total spending divided by the number of troops)

²⁴⁸ L. Korb, Interview No. 9, September 19, 2016.

equated to \$4.6 m per troop year in FY 2015, compared with \$2.3 m the previous year. Although a crude measure, it was evidence that the OCO budget was carrying a lot of costs that were not directly related to “supporting the troops” (T. Harrison, 2014). These likely included spending for modularity, non-war fuel, and classified activities (McGarry & Morgenstern, 2019).

In addition, the U.S. sent forces sent back into Iraq in 2014 as part of “Operation Inherent Resolve,” a coalition effort to dislodge the Islamic State of Iraq and the Levant (ISIL) that was spreading through Kurdish-held areas of the country and into Syria (Cockburn, 2015). The U.S. reportedly spent \$3.5 bn in 2014–2015 on air strikes in the region (U.S. Department of Defense, 2015).

By the time of the 2016 election, it was well known that OCO funding was being used for a wide range of purposes and that it had minimal oversight. The SIGAR released a series of scathing reports on the problems with the Afghanistan reconstruction effort that was being funded through OCO (Sopko, 2016). The GAO found that OCO was being used to pay for activities related to Russia and Europe and estimated that 30% of the OCO budget did not meet the original criteria for OCO. Furthermore, the GAO reported that the Pentagon had acknowledged that many OCO costs were likely to continue even after war-related operations ceased (U.S. Government Accountability Office, 2017). The CBO suggested that excluding the cost of OCO activities from the base budget was creating an “inaccurate picture” of what future defense spending might be in the absence of military conflicts, and that it had become increasingly difficult to distinguish between operations and between the incremental costs of military conflicts and the DoD’s regular, ongoing costs (F. M. Woodward, 2018). Even the 2018 National Defense Strategy Commission argued that by using OCO for ongoing operations with fairly predictable requirements,

the Pentagon was distorting the internal choice between peripheral and core needs (McGarry & Morgenstern, 2019).

Nevertheless, there was no serious discussion of changing the system. As John McCain put it:

I view increases in OCO sort of [as] a contradiction of what OCO was supposed to be all about many years ago, when we started it as a result of Afghanistan and Iraq. But I will support most anything that increases spending for defense (Matishak, 2015).

§ 4.4.1 Election of Donald Trump and Escalation of OCO

The first budget that President Donald Trump shaped fully was for FY 2019.²⁴⁹ By this time, Congress had appropriated over \$2 tn for emergency/GWOT/OCO exempt funding since September 11, 2001 (McGarry & Morgenstern, 2019; F. M. Woodward, 2018).²⁵⁰

Trump appointed Representative Mick Mulvaney as Director of the OMB. Mulvaney had been one of the leading opponents of OCO in Congress. Six months prior to Trump's election, Mulvaney had introduced an amendment to the defense bill rebuking "the slush fund that is the War Budget." His press release stated: "It's past time to do away with the slush fund entirely...I'm proud to work with my colleagues to at least bring some accountability to how the Pentagon spends taxpayer dollars" (J. Gould, 2017).²⁵¹ Mulvaney was on record calling the OCO budget "dishonest" and "desperate" (Mulvaney, 2015, p. H2600; Kennedy, 2017).²⁵²

²⁴⁹ It was not expected that Trump would win the Presidency, so he did not have a transition team in place to prepare the immediate FY 2018 budget.

²⁵⁰ In \$2018 inflation-adjusted dollars. DoD received at least \$2.04 tn in appropriations, with the remainder allocated to the Coast Guard and State Department.

²⁵¹ Press Release, May 19, 2019.

²⁵² The amendment would have clarified when military spending should be designated as contingency operations and increased oversight of war spending.

With Mulvaney at the budget helm, some believed the Trump administration would try to scale back the use of OCO (J. Gould, 2017). Indeed, for the FY 2019 budget, the administration proposed transferring \$20 bn of non-war costs out of OCO and back into the base, in accordance with the findings of the National Defense Strategy Commission (McGarry & Epstein, 2019). However, the mainstream defense community opposed this plan. The Center for Strategic and International Studies (CSIS) called it a “bad idea” that would threaten any chance of Congress raising the BCA caps for FY 2020 and FY 2021, which Trump had also requested (Daniels, 2018). Accordingly, Congress dutifully raised the budget caps, and the OCO budget for the DoD remained steady around \$70 bn.

The Trump administration reversed course for FY 2020. Trump proposed skirting the BCA caps by raising the OCO budget to \$165 bn as part of a \$750 bn defense request. The request consisted of \$97 bn in OCO funding as well as an assortment of base activities such as the border wall with Mexico. The CBO reported that 68% of the OCO request was so unrelated to the wartime mission that it would “probably continue in the absence of overseas conflicts” (McGarry & Morgenstern, 2019, p. 29; F. M. Woodward, 2018). Respected defense analysts argued that \$154 bn (88%) out of the total OCO request belonged rightfully in the base budget (T. Harrison & Daniels, 2019).

It was apparent that the proposal to elevate the OCO budget by more than 100% was a bargaining chip designed to force Congress to approve a much bigger defense base budget (Sisk, 2019). The House of Representatives, now under Democratic control, questioned senior defense officials about the amount of OCO money requested. Congressman Pete Visclosky, Chair of the Defense Appropriations Subcommittee, complained that the administration’s OCO request was “staggeringly out of proportion with prior efforts to avoid budget caps” (Visclosky, 2019). In response, Acting Secretary

of Defense Patrick Shanahan delivered a wide-ranging 14-page budget statement to the committee, in which did not even mention “OCO”; rather, he cited the global military’s challenges in Russia, North Korea, China, and elsewhere (Shanahan, 2019). In the event, Congress overwhelmingly approved a \$738 bn defense bill that gave the President most of what he asked for by lifting the caps. The OCO budget paid for a greater share on non-war activities, but it stayed at the “comfortable” level of \$72 bn.²⁵³

§ 4.4.2 Analysis of Phase III and Conclusion

The path that led from an initial burst of emergency funding after the unexpected 9/11 attacks to an entrenched, predictable second defense budget evolved in response to external circumstances, unlike previous wars in which Presidents and legislators proactively decided how to fund the conflict.

During Phases I and II, the method of paying for the wars enabled the DoD to grow its base budget at a non-incremental rate and under highly favorable conditions. According to Martin, Stiglitz and Bilmes, Crawford, Belasco, and other analysts, the abundant funding during this period increased the costs of the war (Belasco, 2011; Bilmes & Stiglitz, 2011; Crawford, 2019b; T. Harrison, 2013; Martin, 2011).

In Phase III, the OCO budget made it possible for the Pentagon to survive the sequester with relatively little damage and to continue to grow. It also showed that once the politically convenient OCO “escape valve” was set up, it proved impossible to dismantle, even in the face of criticism from inside and outside the Pentagon.

In Allison’s framework for decision-making, the “rational” model best describes war funding decisions for Korea and the “political model” best explains Vietnam. The funding post-9/11 war funding comes closest to his “organizational” model. It “satisfied”

²⁵³ G. Fine, Interview No. 48, November 8, 2018.

multiple constituencies in Congress, the DoD, and the defense community, but did not achieve an optimal solution in which Congress exercised budget oversight, the executive prioritized among expenditures, and the resulting budget was efficient (Allison, 1971). However, the post-9/11 funding does not entirely fit this model. The organizational model maintains that existing rules, routines, and standard operating procedures help shape the outcomes (Allison, 1971; Cimbala, 1972). In this case, post-9/11 funding was an anomaly that took root outside of the Pentagon's long-established system for planning and budgeting and outside of regular Congressional rules. Consequently, the pattern of budgeting, funding, and financing for the wars created a new paradigm for both the legislature and the military.

CHAPTER 5 CONGRESSIONAL BUDGET DYSFUNCTION

§ 5.1 Chapter Summary

A necessary condition for the emergence of the Ghost Budget was the weakening of Congress's control over war spending. This shift resulted in large part from statutory changes in budgeting and war powers that were enacted after the Vietnam War. These two measures combined led to what Fisher terms a "stunning decline in legislative war and spending powers" (Fisher, 2000, p. iii). The result was a power vacuum, in which the Ghost Budget emerged post-9/11 as a convenient tool that satisfied the interests of the executive branch, the DoD, and the powerful defense lobby.

The landmark 1974 CBICA was the first major reform of the U.S. federal budget process since 1921. Its primary objective was to shift more responsibility for the budget to Congress (Schick, 1980). The newly created Congressional committees that inherited budgeting responsibility were unable to control either spending or revenues, and the reforms made it more difficult for Congress to control national finances. I have reviewed the historical evolution of the budgeting system and measured its functionality against a set of normative standards for budget effectiveness. I show how the reformed budgeting process had a particularly damaging impact on the ability of Congress and the President to fund the post-9/11 conflict effectively. The increasingly dysfunctional²⁵⁴ budgeting process made it advantageous for Congress to fund the wars using off-budget appropriations over a long period, rather than raising taxes or cutting non-war spending as had been the norm in previous U.S. wars.

²⁵⁴ Nearly every expert interviewed for this thesis used the word "dysfunctional" to characterize the current Congressional budgeting process. The word has entered the vernacular and is frequently employed in newspapers and budget sites. See A. Rivlin, Interview No. 22, October 24, 2016; R. Nabors, Interview No. 12, September 20, 2016; J. Bolten, Interview No. 6, September 19, 2016; W. Daley, Interview No. 18, October 3, 2016; A. Carter, Interview No. 45, November 27, 2017; P. Tizzani, Interview No. 11, September 19, 2017; and L. Korb, Interview No. 9, September 19, 2016.

§ 5.2 Historical Background: The Role of Congress in Budgeting and War Policy

The Founders gave Congress a critical role in the budget process and in decisions about war, restricting the power of the President in both areas. Many of the tensions and shortcomings in the modern budget process can be traced to this design.

The Constitution grants to Congress the exclusive power to impose and collect taxes and to appropriate money. It states that “No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law,” a statute referred to as the “power of the purse.”²⁵⁵ Congress is further given the power to levy and collect taxes and to borrow money on the credit of the United States as well as to coin money and regulate its value.²⁵⁶ As James Madison wrote in Federalist 48, “the legislative department alone has access to the pockets of the people” (Hamilton, Madison, & Jay, 2009, p. 253).

With respect to military actions, the Founders placed Congress in charge of declaring wars and providing resources to wage them. As Fisher puts it,

Questions about the framers’ intent invariably cause scholars to scatter and divide. Not so with the war power. There is remarkable agreement among experts that the framers broke with available monarchical precedent and vested in Congress the sole power to initiate hostilities against other nations (Fisher, 2000, p. 13).

The Founders made it clear that they wanted to separate the “purse” and the sword. The Constitution gives the President the role of Commander-in-Chief of the armed forces (Article II, Section 2), while giving Congress sole authority to declare war and to

²⁵⁵ Article I, Section 2 of the U.S. Constitution. Note the phrase “power of the purse” does not itself appear in the Constitution.

²⁵⁶ Article I, Section 9 of the U.S. Constitution.

raise and fund armies (Article I, Section 8). The Founders sought to weaken the President relative to English kings who controlled both the decision to launch wars and the power to extract funding for them from the populace (Price, 2018). As Alexander Hamilton explains in Federalist 69,

The President is to be commander-in-chief of the army and navy of the United States. In this respect his authority would be nominally the same with that of the king of Great Britain, but in substance much inferior to it. It would amount to nothing more than the supreme command and direction of the military and naval forces, as first General and admiral of the Confederacy, while that of the British king extends to the declaring of war and to the raising and regulating of fleets and armies—all which, by the Constitution under consideration, would appertain to the legislature (Hamilton, Madison, & Jay, 2009, p. 349; italics in the original).

Over time, both war powers and budgetary authority shifted to the President. Congressional efforts to recapture control have largely backfired and led to further weakness and dysfunction in both areas.

§ 5.2.1 The 1973 War Powers Act

In parallel with the dysfunction in Congressional budgeting for wars, Congress's influence over military interventions also eroded. Fisher argues that Congress fully “abdicated” its war powers towards the end of World War II, following the rise in Presidential power during that period and the establishment of the United Nations (Fisher, 2000, p. 1).²⁵⁷

An important precedent was set in 1950 when President Harry S. Truman invaded Korea. Truman authorized the invasion on the basis of an imminent UN resolution without first seeking Congressional approval, although Truman was subsequently

²⁵⁷ Fisher emphasizes the term “abdication,” which he defines as giving up of power in the sphere of declaring and funding wars.

solicitous of Congressional support for war taxes and budget cuts. President George H.W. Bush used a similar process to launch the 1991 Gulf War based on UN decisions.²⁵⁸

During President Richard Nixon's struggles with Congress over war powers during Vietnam, Congress exerted control through its budgetary authority to cut off funding rather than through its statutory war powers (E. Miller, 2016).²⁵⁹ Congress then enacted two major pieces of legislation intended to bolster its own powers: the CBICA and the War Powers Act of 1973. This act was intended to restrict the President's authority to commit American troops abroad without Congressional permission by allowing the President to use armed forces for no longer than 90 days without obtaining legislative authority (Barron, 2016; Price, 2018). Nixon vetoed the resolution, but Congress overrode his veto and enacted the resolution into law.

In practice, rather than limiting Presidential power, the War Powers Act gave Presidents a legal window in which to launch military actions (Fisher, 2000). Once an operation started, Presidents funded the efforts through various mechanisms, such as short-term extensions and reprogramming of DoD funds. Thereafter they could leverage regular appropriations to continue operations, and if necessary, justify ongoing spending to "support the troops" (Adams & Williams, 2010; Fisher, 2000, p. 78).

President Bill Clinton used this approach in the Balkans from 1995 through 1999. He secured funding for operations on a piecemeal basis, launching short-term military actions and then extending deployment of troops by reprogramming money from other line items.²⁶⁰

²⁵⁸ UN Security Council resolution 678, enacted on November 29, 1990, gave Iraq until January 15, 1991 to withdraw from Kuwait and authorized states to use "all necessary means" to force it out after the deadline.

²⁵⁹ In 1970, Congress prohibited using appropriations to bring ground troops into Cambodia. In 1973, it banned the United States from obligating any funds for combat in Vietnam, Laos, or Cambodia.

²⁶⁰ G. Adams, Interview No. 32, February 15, 2017 and L. Korb, Interview No. 9, September 19, 2016.

There have been at least a dozen medium-sized military actions launched without explicit Congressional approval since 1973, including operations in Lebanon (1982), Grenada (1983), Libya (1986), Iran-Contra (1986), Panama (1989), the Gulf War (1991), Sierra Leone (1992), Bosnia (1994–95), Haiti (1994–95), Kosovo (1999), Syria (2014), and Yemen (2015; Kreps, 2011). During the Bosnian war, Clinton argued that Congressional funding constituted an implicit approval, even though the War Powers Act specifies that funding does not constitute such approval. Thus, in Fisher’s view, the net effect of the 1973 War Powers resolution has been to “sanction a scope of independent Presidential power that would have astonished the framers” (Fisher, 2000, p. 56).

In the post-9/11 period, lawmakers were exceptionally feeble regarding war policy. With the 2001 AUMF, Congress granted the President wide latitude at the outset. Under this authority, U.S. forces were deployed not only to Afghanistan but to Pakistan, Syria, Libya, Somalia, Yemen, and dozens of other countries which allegedly harbored terrorist threats, without any specific Congressional consent (Weed, 2015). Both the 2001 AUMF and the subsequent Joint Resolution to Authorize Military Force Against Iraq in 2002 were still in force in 2019.

§ 5.2.2 History of the U.S. Budget Process

The weakening of legislative influence over war policy elevated the importance of budgetary power as the prime lever for Congress to influence U.S. military activities. Funding a war serves as a proxy for Congressional consent to the war effort even if Congress has not officially authorized the war, whereas withholding funds is an effective way to force a change in war policy (Ely, 1993). In his examination of this issue in the *Vanderbilt Law Review*, Zachary Price found that when Congress restricts the use of funds for military activities through the appropriations process, Presidents have

“substantially complied” with such limits, because “the appropriations limits are themselves laws the president must execute” (Price, 2018, p. 431). However, this lever was also weakened by parallel reform of the Congressional budgetary process in the CBICA.

Budgetary power in the United States has shifted over time back and forth between the legislative and executive branches. Schick refers to three periods in the development of U.S. budgeting: “Legislative Dominance” (1789–1921); “Presidential Dominance” (1921–74); and the current period since 1974, which he refers to as “Congress vs. the President” (2000, p. vii).

The process never worked smoothly. One of the major flaws dates back to 1865, when Congress divided responsibility for revenue and spending decisions into different committees, placing the House Ways and Means Committee in charge of taxation and the Appropriations Committee in charge of spending (Havemann, 1979). The Senate followed suit in 1867 by splitting appropriations and revenues (Stewart, 1989). This meant that Congress lacked the ability to manage revenues and expenditures together. In the context of warfare, the decision to spend money for military operations was distinct from raising money to pay for them.

As the government grew larger and more complex, Congress enacted more rules, procedures, and legislation. In 1921, Congress passed the Budget and Accounting Act (BAA) to improve coordination between lawmakers and the executive branch. The act established the basic architecture of national budgeting and placed it in the executive branch. It gave the President the dominant role in shaping and formulating the national budget and provided lawmakers with the power to modify it (Meyers & Joyce, 2005).

This structure endured for more than half a century. The President sent Congress an annual budget which was then the subject of negotiation between the executive and the

powerful committee chairmen. As William Galston notes, the system epitomized “the proverbial smoke-filled room,” involving arm-twisting and backroom dealing among the powerful committee chairmen, committee members, and the President (Galston, 2012, p. 7). The system of appropriations committees and bills was vague, with no set timetable. Many details of “how the sausage gets made” were opaque.²⁶¹

The system came under increasing pressure in the 1960s, as the United States enacted major domestic spending programs such as Medicare. However, at the time Congress began to consider budget reform seriously in 1972, the focus of the reforms was discretionary spending, which accounted for the majority of federal spending and was decided through the annual appropriations process (Capretta, 2018).

During the late 1960s and early 1970s, Congress waged what Schick described as the “seven-year budget war” between the executive and legislative branches (1980). The catalyst for the 1974 budget overhaul was Nixon’s decision to “impound” (refuse to disburse) billions of dollars in funds that Congress had appropriated for domestic programs (Fisher, 2000, p. 115). Nixon argued that he was authorized to prevent Congress from overspending under the Antideficiency Act²⁶² and that irresponsible Congressional spending would increase the deficit and inflation (Ippolito, 1981). Others have suggested that Nixon’s use of impoundments was primarily driven by his general assertion of almost “imperial” powers (Schlesinger Jr., 1973). As Schick observes, Nixon’s stance vis-à-vis Congress was, in effect, “I don’t care what you appropriate; I will decide what will be spent” (Schick, 1980, p. 46).

²⁶¹ This phrase was popularized in the musical *Hamilton* (Lin-Manuel Miranda, 2015) in the song “The Room Where It Happens” about the negotiations between Alexander Hamilton, James Madison, and Thomas Jefferson in 1790.

²⁶² The Antideficiency Act, enacted in 1884 and amended in 1950 and 1982, prevents government agencies from incurring obligations or making expenditures beyond the amounts that are appropriated (or available in trust funds).

Even before the impoundment crisis, there was a general recognition that the BAA had run its course. The budget process was opaque and fragmented (Joyce, 2011; Meyers & Joyce, 2005). In 1972, Congress appointed a Joint Study Committee on Budget Control. It argued that the lack of a formalized budget process had contributed to rising budget deficits (U.S. Congress Joint Study Committee on Budget Control, 1973). The Joint Committee called for a new structure in which each house of Congress would produce an annual budget resolution, set targets, and enforce them (Lee, Johnson, & Joyce, 2008).

The CBICA largely followed the Joint Committee's recommendations. It changed the parameters of the federal budgeting system in terms of rules, procedures, and timelines. Congress expected that the act would restore balance between the President and Congress over the budget (Galston, 2012). A weakened Nixon signed it into law in July 1974, a month before he resigned the Presidency under threat of impeachment.

The CBICA was part of a series of post-Watergate reforms that sought to make government decision-making more transparent and open to the public. Congress subsequently enacted further reforms intended to limit the growth in federal spending or improve financial management (see Table 5.1). However, most aspects of the CBICA process remained intact.

Table 5.1 Major Budgeting Legislation 1789–2011

Date	Law	Purpose
1789	Constitution	Gave Congress power to tax and borrow money; requires appropriations by Congress before money may be spent from Treasury.
1921	Budget and Accounting Act	Gave President power to prepare a national budget, and Congress power to modify it. Provided for Executive Budget, established Bureau of the Budget and GAO.
1973	War Powers Resolution	Aimed to prevent unilateral Presidential declaration of wars and to strengthen Congressional role.
1974	Congressional Budget and Impoundment Control Act	Established current Congressional budget process, House and Senate Budget Committees, and CBO and CRS.
1985, 1987	Gramm-Rudman-Hollings	Set deficit targets and sequestration procedures
1990	Budget Enforcement Act	Set discretionary spending caps, and “pay-as-you-go” rules for revenues and spending
2011	Budget Control Act	Set discretionary spending caps through 2021 (modified in 2012, 2013, 2015, 2018)

§ 5.3 The Congressional Budget and Impoundment Control Act of 1974

The CBICA is often called the “fiscal constitution” (Dam, 1977). The law shifted responsibility for budget formulation from the President to a set of newly established Budget Committees in each branch of Congress. The President’s budget became essentially a statement of his/her administration’s priorities and goals, giving the President no further formal responsibilities until the end of the process, when he/she signs or vetoes the final legislation. Of course, unofficial political negotiations between the executive and lawmakers continue throughout the year, so the real change was that the President has less responsibility for shaping the budget and determining the amount of

total spending. My analysis of the word count of Presidential BTMs (see Table 2.3) confirms that after the CBICA was enacted the White House devoted relatively less time to communicating its proposed budget to Congress.

The new House and Senate Budget Committees were tasked with producing annual “budget resolutions” that set overall fiscal policies and specified the aggregate expected budget revenues, budget authority (the authority to commit the government to spend money), outlays (the actual spending of funds, divided by 219 specific functions), overall fiscal targets (budget deficit or surplus) and government debt.

The CBICA imposed a complex set of rules and procedures and an annual calendar for completing the sequence of steps leading to a budget. Each house had to ratify its respective Budget Committee’s resolution in the form of a “concurrent resolution,” which did not require the President’s signature. Differences between the House and Senate were supposed to be reconciled in a conference. After both houses approved a joint “concurrent” budget resolution, the Budget Committees allocated the amount of discretionary spending authority to their respective appropriations committees (“302(a)” allocations). These spending allocations were then divided up among the 12 subcommittees in each branch dealing with different functional areas (“302(b)” allocations).²⁶³

From the beginning, many experts considered this process too ambitious and unwieldy (Schmidt & Dews, 2014). The timetable required that the House and Senate Budget Committees draft resolutions, that each house pass the resolutions, that the two branches negotiate and enact a concurrent resolution, that 12 committees in each house draft appropriations bills in line with the resolutions, and that each branch pass those bills.

²⁶³ There have been 12 subcommittees since FY 2008. There were 13 subcommittees and bills from 1997–2005, and only 11 in FY 2006–2007 (McClanahan, Saturno, Lynch, Heniff, & Murray, 2019).

This entire process was required to take place every year within eight months. Table 5.2 shows the main dates in the calendar (Saturno, 2011).

Table 5.2 Statutory Deadlines in the Congressional Budget Act

Deadline	Process Requirement
First Monday in February	President transmits budget proposal
15 February	CBO submits report to Budget Committees
6 weeks after President submits budget	Committees submit views to Budget Committees
1 April	Senate Budget Committee reports concurrent budget resolution
15 April	Congress completes action on budget resolution
15 May	Annual appropriations considered in House
10 June	House appropriations reports last appropriations bill
15 June	Congress completes action on reconciliation legislation
30 June	House completes appropriation bills
1 October	Fiscal year begins

Source: (Heniff, Lynch, & Tollestrup, 2012)

The two branches must negotiate and pass 12 appropriations acts in both the full House and Senate, with differences ironed out in the final, crucial “reconciliation” process. In practice, some of the individual bills were combined into a single “omnibus” appropriations bill. Congress was then required to produce legislation for the President’s signature by October 1st, the start of the new fiscal year. Figure 5.1 provides an overview of the complexity of the full CBICA process.

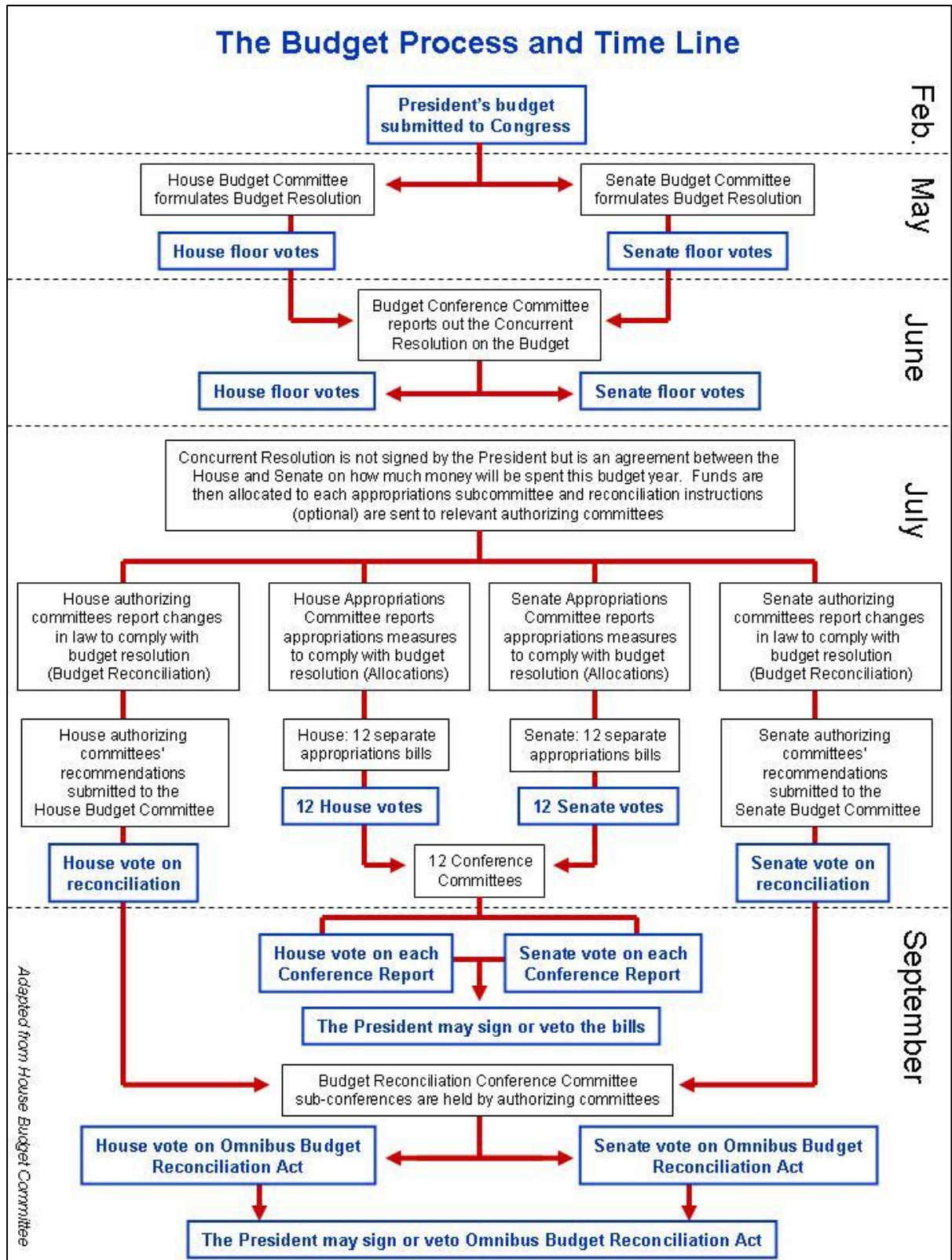


Figure 5.1 Overview of the Congressional Budget and Impoundment Control Act
 Source: (American Geosciences Institute, 1996)

The CBICA also created the CBO to give legislators the capacity to produce their own cost estimates and budget projections²⁶⁴ and the CRS to provide in-depth analysis. Since the new process required the Budget Committees to produce a fiscal plan, the CBO provided analytical support, using its own assumptions (e.g., regarding economic growth, interest rates, and inflation) together with estimates of the fiscal impact of each legislative proposal made throughout the budget process (known as “scoring”).

The architects of the reforms pinned their hopes on “reconciliation”—a process which allows both chambers to pass the final budget resolution by a simple majority, thus avoiding the potential of a Senate filibuster in the absence of 60 votes.²⁶⁵ Reconciliation may produce a single bill to change spending law, tax law, or the debt limit, which encouraged Congressional use of “tax expenditures.” However, the behemoth reconciliation bills often spanned hundreds of pages of text covering multiple topics that are bundled together at the last minute. According to Bill Dauster, the deputy staff director of the Senate Finance Committee, the process is “not positive for electoral accountability,” given that it is difficult for anyone (voters, outside groups, legislators, and the media) to understand and digest the legislation (Dauster, 2008, p. 29).

Finally, the CBICA helped open the budget process to outside scrutiny. As the Act was going into effect, Congress also enacted “sunshine” laws that expanded requirements for committees to publish the dates and locations of hearings, allowed the public to attend nearly all committee hearings, and provided the right to request access to most government data under the “Freedom of Information Act” (FOIA).²⁶⁶ CBICA rules

²⁶⁴ Previously, Congress had relied on the macroeconomic assumptions produced by the White House budget (OMB).

²⁶⁵ T. Kahn, Interview No. 40, October 21, 2016.

²⁶⁶ Congress passed the “Government in the Sunshine Act” in 1976, which required that “every portion of every meeting of an agency shall be open to public observation” and that advance notice is given to the public before agency meetings take place (5 U.S.C. 552b(b)).

underpinned this process by establishing a clear timetable with deadlines and procedures that could be tracked and monitored. Those interested in the outcome of the spending cycle had vastly greater opportunities to attempt to influence lawmakers during the appropriations process, which encouraged more lobbying by special interests (Rivlin, 2014; Thorpe, 2014).

Most budget experts agree that the CBICA produced largely negative outcomes, both in terms of process and substance (Joyce, 2011; Meyers & Joyce, 2005; Rivlin, 2018; Schick, 1980; Walker, 2019). This chapter cannot address all the shortcomings of the law, but it will show that the law's critical weaknesses created the conditions under which the Ghost Budget could later emerge.

§ 5.3.1 The Impact of the CBICA on the Budgeting Process

There is no single definition for a functional national budget process. There are, however, several generally agreed-upon criteria for effective budgeting, based on interviews, writings of budget experts, reports of institutions such as the GAO and the OECD, and best practices in countries known for good budgeting such as Sweden and New Zealand (Fisher, 2000; Galston, 2012; Meyers & Joyce, 2005; Potter & Diamond, 1999; Schick, 1990, 1998; Wildavsky, 1975, 1978).²⁶⁷

Schick divides his normative criteria for managing public expenditures into procedural and substantive requirements. Procedural effectiveness relies on predictability, avoiding crises, compliance with rules and procedures, and transparency during the process. He views substantive effectiveness as the ability to stabilize fiscal outcomes (which requires balancing revenues and expenditures) and the capacity to reconcile

²⁶⁷ Although Sweden and New Zealand are much smaller countries and thus not fully comparable, they are often used as examples of highly functioning budget systems.

competing interests and to account for spending ex post. Additional norms for budgeting are that the budget process should include all spending and all revenues; and be orderly, easy to understand, and completed on time. In the U.S., both Congressional leadership and the President should participate in the process. Budgets should be rules-based and balanced according to reasonable economic assumptions.²⁶⁸

The OECD offers similar guidelines. It states that the budget should be “comprehensive,” encompass “all government revenue and expenditure”; that it should be submitted [to Parliaments] far enough in advance to review it properly; and that it should include a medium-term perspective (Organisation for Economic Cooperation and Development, 2002). The IMF requires a “credible” medium-term framework, unified annual budgets, and tight controls over supplementary budgets and multi-year spending commitments (Potter & Diamond, 1999).

According to most budget experts, the CBICA worsened the performance of the U.S. budget system across all these criteria, except for transparency (which increased as a result of the CBICA, but led to other problems, as discussed below).²⁶⁹ The new system was less predictable, less compliant with rules and procedures, less able to stabilize fiscal outcomes, less capable of reconciling competing demands and prone to fiscal crises. Consequently, Congress was unable to supply funding for war operations on a reliable basis.

There is near unanimity in the budget community that the overall impact of the CBICA reforms was negative. According to Stuart Butler, a longtime director at the conservative Heritage Foundation who is now leading the Brookings Institution’s

²⁶⁸ Based on criteria provided during an interview with Alice Rivlin (Interview No. 22, October 24, 2016).

²⁶⁹ A. Rivlin, Interview No. 22, October 24, 2016; J. Bolten, Interview No. 6, September 19, 2016; R. Hale, Interview No. 24, November 7, 2016; D. Walker, Interview No. 17, September 30, 2016; E. Lorenzen, Interview No. 30, February 1, 2017; and R. Nabors, Interview No. 12, September 20, 2016.

“Reimagining the Federal Budget Process” initiative, “The federal budget process is a costly embarrassment. Missed deadlines and government shutdowns are now the norm” (Butler & Higashi, 2018). Alice Rivlin testified to the Senate that it is “frightening and embarrassing that the world’s most experienced democracy is currently unable to carry out even the basic responsibility of funding the services that Americans are expecting from their government...” (Rivlin, 2018). David Walker stated that “it has been widely acknowledged that the federal government has lost control of our national finances... The truth is that the current budget system is badly broken and needs major reforms” (Walker, 2019). The CBO is well-respected and largely nonpartisan, but that aside, it is difficult to locate any expert with a good word to say about the CBICA.²⁷⁰ As the Cato Institute put it, “By any objective standard, the budget process has not worked better under the 1974 act—it has worked much worse” (Moore, 1995).

Budgetary outcomes since 1974 reflect these defects. Prior to 1976, the federal government had never ceased operations for lack of funding. Between 1976 and 2019, it shut down partially or completely on 21 occasions due to Congress’s inability to pass appropriations bills (McClanahan et al., 2019). Figure 5.2 shows the federal government shutdowns that lasted for 24 hours or longer.²⁷¹

²⁷⁰ A. Rivlin, Interview No. 22, October 24, 2016; E. Esty, Interview No. 43, October 30, 2017; T. Allen, Interview No. 23, November 7, 2016; T. Kahn, Interview No. 40, October 21, 2016; and T. Evilsizer, Interview No. 7, September 19, 2016.

²⁷¹ There was one additional shutdown of less than 24 hours.

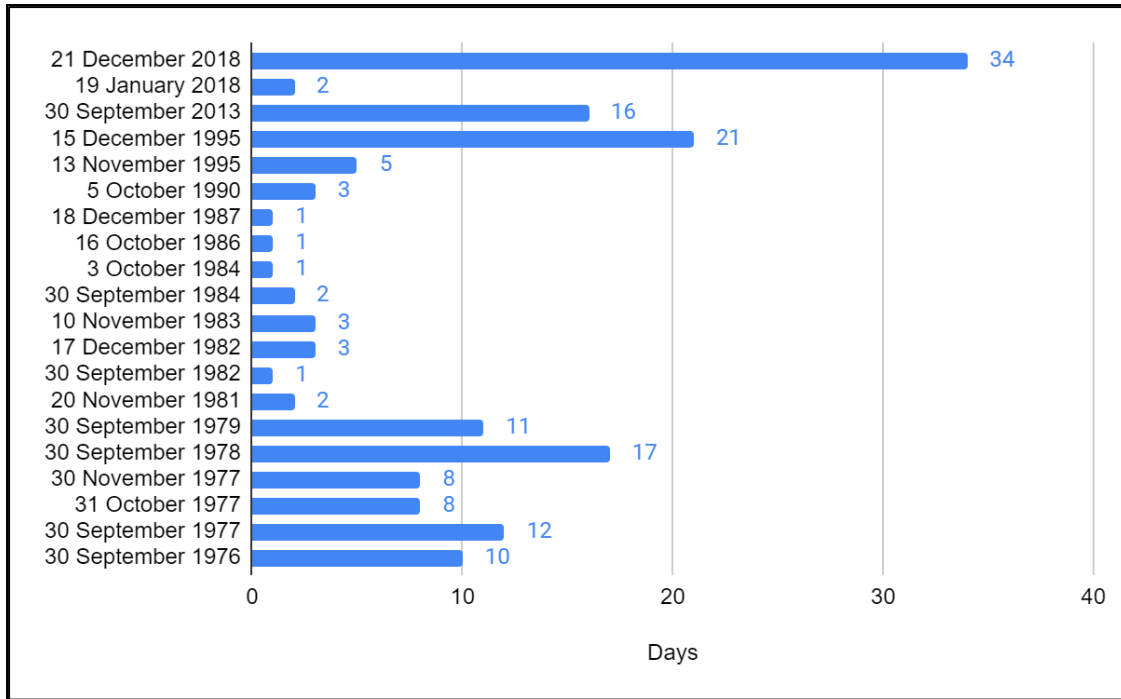


Figure 5.2 Government Shutdowns, 1976–2019
 Source: (Saturno, 2019)

In terms of fiscal outcomes, apart from the second term of the Clinton administration (FY 1998–2001), the federal budget has been in deficit every year since the CBICA was enacted. The deficit rose from an average of 0.7% of GDP during the period from 1950 to 1974 to 3.1% from FY 1975 to 2018, as shown in Figure 5.3. The CBICA architects wrongly presumed that the Budget Committees would help restrain Congress from running up deficits. In fact, the system almost guaranteed that Congress would overspend the Budget Committees targets because the budget resolutions are nonbinding (Galston, 2012; Wildavsky, 1988). Moreover, lawmakers are continually engaged in last-minute deal-making to prevent government operations from running out of funds (Penner, 2016; A. J. Taylor, 2019). This effort produces a series of rushed negotiations which ultimately “compels lawmakers to agree to increase federal spending by significant amounts—thwarting the efforts of fiscal conservatives to rein in government spending and reduce the debt” (A. J. Taylor, 2019).

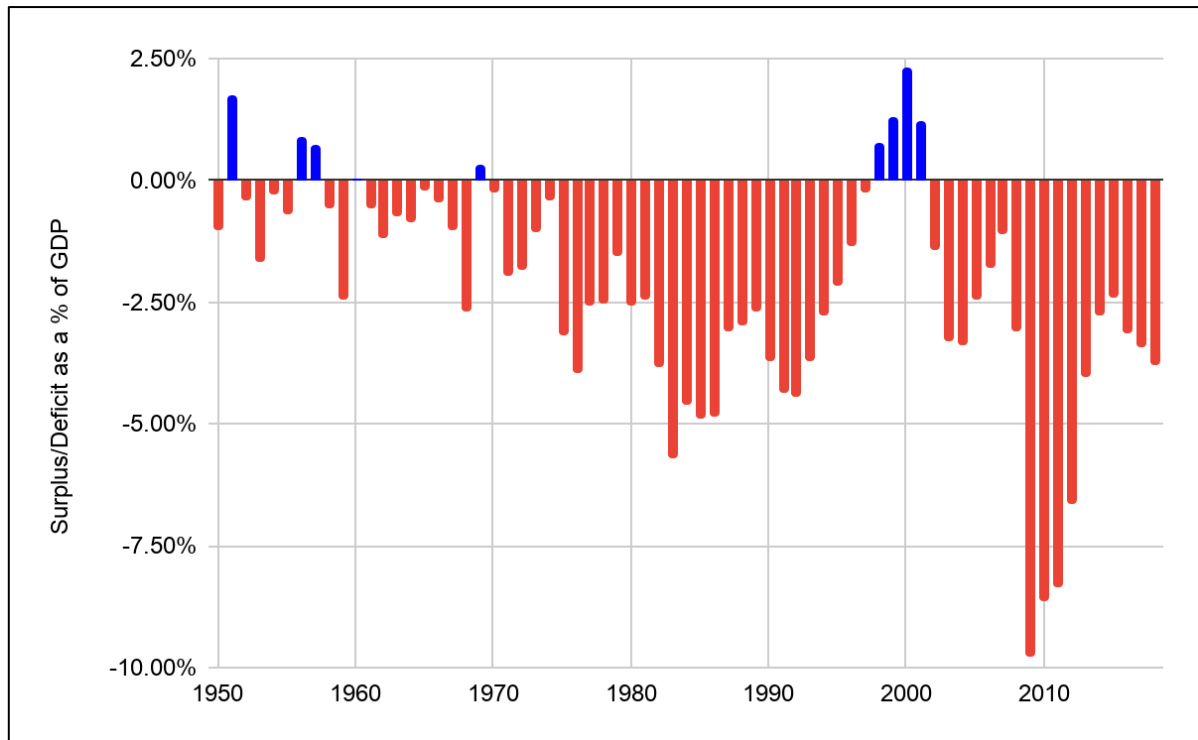


Figure 5.3 Budget Deficit as a Percent of GDP, 1950–2018
 Source: (FRED, Federal Surplus or Deficit [-] as Percent of Gross Domestic Product, 2020)

A very damning consequence of the CBICA was that short-term “CRs” (continuing resolutions) became the default for budgeting.²⁷² From FY 1977 (when the CBICA took full effect) and FY 2019, Congress rarely succeeded in passing all the appropriations bills by the October 1st deadline. In all but four years (1977, 1989, 1995, and 1997) Congress enacted short-term funding bills instead, enacting a total of 186 CRs as shown in Figure 5.4 (McClanahan et al., 2019). These stopgap measures permitted the government to fund agencies at the previous year’s budget level (adjusted for inflation or other minor adjustments) for a specified period of time, ranging from days to months (A. J. Taylor, 2019). Technically, the CRs could not even pay for the wars since they were a continuation of the appropriations formula from the prior year, in which war funding was not included.

²⁷² A. Rivlin, Interview No. 22, October 24, 2016.

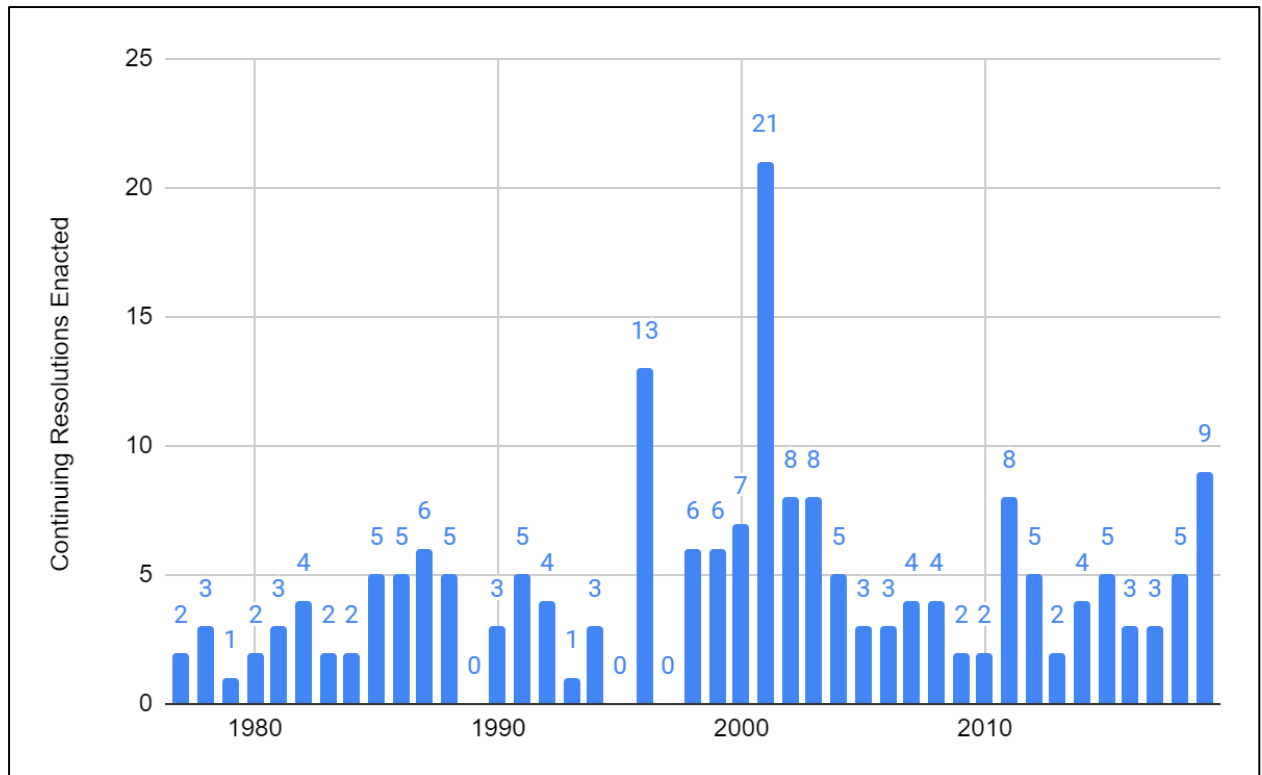


Figure 5.4 Number of Continuing Resolutions Enacted by Year 1977–2019
 Source: (McClanahan et al., 2019)

§ 5.4 The CBICA’s Facilitation of the Ghost Budget

The flaws in the CBICA reforms made it possible for the Ghost Budget to emerge. These included: (i) the complexity and uncertainty of the budget process; (ii) the weakness of the Budget Committees; (iii) the exclusion of the President from Congressional budget deliberations, leaving a leadership void (Penner, 2016; Rivlin, 2014; Schick, 1980); (iv) the ability of special interest groups to play a far greater role in shaping the budget (Thorpe, 2014); and (v) the lessening of oversight mechanisms.

§ 5.4.1 Complexity and Uncertainty of the Budget Process

The timing of CRs was unpredictable and subject to last-minute negotiations and changes. It was easy to derail the process at any point in the cycle. For example, Senate “courtesy” is a longstanding unofficial tradition whereby if a single Senator objects to something in his or her home state (for example, the appointment of a judge), the rest of

the Senate will go along with the objection. In this case, if a single Senator opposed a specific provision of the budget that pertained to his or her state, he or she would be likely to gain support from other Senators and the provision would be blocked or delayed. As Nabors observed, “These days the power to stop something is more prevalent than the power to move something forward. In the Senate, one person can bring a budget process to its knees through courtesies.”²⁷³

The result was numerous shutdowns, threatened lapses, and continuous delays. Government officials, including Members of Congress and senior officials interviewed for the thesis expressed enormous frustration with this outcome.²⁷⁴ The Pentagon was unwilling to rely on this haphazard and uncertain funding stream.²⁷⁵ Defense Secretary Ashton Carter described the process of requesting funds from Congress as “excruciatingly slow and in recent years, frustratingly gridlocked.” He described OCO as a “mechanism of convenience” given the realities of the appropriations process.²⁷⁶

Had the wartime budget gone through the regular appropriations process, there was no mechanism through which the Budget Committees could expand the allocations for defense spending without taking money away from other subcommittees. Thus, seeking war funding through the regular committee system would have forced the committees to make trade-offs within their allocations. Jason Smith described how the Coast Guard regarded its regular base budget allocation compared with the money it received from OCO:

We have our normal budget ... and that has to be traded-off; we have to set our priorities with the committee and kind of negotiate We don't know exactly what

²⁷³ R. Nabors, Interview No. 12, September 20, 2016.

²⁷⁴ S. Moulton, Interview No. 36, May 9, 2017 and E. Esty, Interview No. 43, October 30, 2017.

²⁷⁵ G. England, Interview No. 15, September 26, 2016; J. Bolten, Interview No. 6, September 19, 2016; A. Carter, Interview No. 45, November 27, 2017; and R. Hale, Interview No. 24, November 7, 2016.

²⁷⁶ A. Carter, Interview No. 45, November 27, 2017.

we'll get. But anything we got from OCO was not part of that negotiation—it was just gravy.²⁷⁷

The DoD's contract workforce was especially at risk from government funding lapses. While furloughed government employees do not receive paychecks during shutdowns, it is understood that Congress will reimburse them following the end of the lapse in appropriations (Krause, 2018). However, this understanding does not extend to contractors. During funding lapses, contractor work is halted completely and there is no guarantee of payment. Contractors are not allowed to access government space, use federal IT systems, or even to work remotely. For smaller contractors, this loss of billing revenue threatens their ability to make payroll and may jeopardize their relations with suppliers and vendors (Bilmes & Gould, 2019). Even for large contractors, lapses in appropriations may force the government buyer to terminate and renegotiate contracts. Contractors risk lengthy delays in receiving back payments, and there are no guarantees that they will receive them. In the war environment, prime defense contractors employed thousands of subcontractors (mostly local to the theatre). Some contractors demanded higher prices simply to cover the perceived financing risk.²⁷⁸

§ 5.4.2 Weakness of the Budget Committees

Unlike the executive branch, where the agencies are subordinate to the President and the OMB, there is no central control in Congress (Fisher, 2000). The effort to impose control through the Budget Committees failed because it did not give them any real authority over spending decisions. As Joyce explains, “Congress intentionally created budget committees that would have difficulty exercising control over the existing money committees” (Joyce, 2011, p. 5).

²⁷⁷ J. Smith, Interview No. 41, July 31, 2017.

²⁷⁸ W.S. Gould, Interview No. 26, November 22, 2016; and W. Hartung, Interview No. 19, October 3, 2016.

The Budget Committees created by the CBICA were layered *on top* of the existing centers of fiscal power—the Appropriations, House Ways and Means, and Senate Finance Committees. Those committees and their powerful chairmen had carefully safeguarded their jurisdictions and authority. Hence the Budget Committees were essentially toothless and not able to infiltrate the distinct tax, appropriations, and authorizations processes (Penner, 2016; Rivlin, 2014; Schick, 1980)(Joyce, 2011; Schick, 1980). As former House and Senate Budget Committee staffer and *Forbes* budget columnist Stan Collender put it, the committees lacked “testicular fortitude.”²⁷⁹

The Budget Committees also lacked control over mandatory spending, which continued to be controlled by the authorizing committees. The budget process thus became increasingly narrow, focusing enormous effort on the portion of the federal budget that is appropriated annually while the authorizers made changes to programs such as veterans and military retirement benefits that frequently had long-term financial consequences (Bilmes, 2013; Joyce, 2011).²⁸⁰

Moreover, the Budget Committees had low status. Unlike other committees, lawmakers were only permitted to serve on the Budget Committees for four years (later modified to six) within any 10-year period. Since legislators gain power and career status in Congress by achieving seniority on committees, the Budget Committees became one of the *least* sought-after committee assignments,²⁸¹ rotating among the most junior members of Congress (Schick, 1980). The committees lacked their own turf because their subject matter touched on nearly everything. As Schick writes, “the budget committees cannot

²⁷⁹ S. Collender, Interview No. 44, November 8, 2017.

²⁸⁰ For example, authorizing committees such as the Veterans Affairs and Armed Services Committees created new benefit programs, but these decisions were entirely separate from the task of enacting annual budgets.

²⁸¹ P. Schiliro, Interview No. 21, October 21, 2016; T. Kahn, Interview No. 40, October 21, 2016; and S. Collender, Interview No. 44, November 8, 2017.

reward their members in the currency in which careers are built in Congress: the opportunity to develop one's specialty...their members are often perceived as dilettantes and meddlers" (Schick, 1980, p. 110).²⁸² According to Joshua Bolten, "*Nobody* wants seniority on the Budget Committee."²⁸³

Since the Budget Committees were intended to force spending into compliance with the targets set out in the budget resolutions, a key question is why the committees failed to rein in the Ghost Budget, which violated all their rules. In fact, the committees disapproved of how the wars were being paid for, including the emergency and OCO funding and the scale of borrowing. But they were not in a position to overrule it, according to Thomas Kahn, who served as staff director the House Budget Committee from 1996 to 2016.²⁸⁴ They held at least five hearings, during which members of both parties criticized the use of emergency supplementals and OCO for wartime funding.

In January 2007, the House Budget Committee convened a hearing on "Budgeting for War Costs," in which members questioned senior DoD officials, including Deputy Secretary Gordon England.²⁸⁵ Democratic Committee chairman John M. Spratt Jr. observed:

Using supplemental appropriations has been a problem for several reasons. One, it has required the military to divert funds from regular accounts to pay for war costs until a supplemental is enacted....And, two, it has allowed the Administration and the Congress to circumvent tough choices in the budget by keeping emergency spending effectively 'off-budget.' The result is higher deficits.

²⁸² Budget Committee chairs and vice-chairs may serve for eight years. Serving on the Committee is not always a career graveyard, as several members have gone on to serve as Directors of the OMB, and committee chair Paul Ryan later became the Republican nominee for Vice President in 2012 and the House Speaker from 2015–2019.

²⁸³ J. Bolten, Interview No. 6, September 19, 2016.

²⁸⁴ T. Kahn, Interview No. 40, October 21, 2016.

²⁸⁵ This was the only hearing on record specifically devoted to this topic.

Spratt urged the Department “to better account for the cost of the wars in Iraq and Afghanistan by including those costs in the regular budget” (England & Spratt, 2007). Pentagon officials responded, with some irritation, that they could not provide details for the war budget with the rest of the budget. England noted that it was “highly unusual” for the Budget Committee to hold such a hearing and devoted most of his testimony to nuclear attack submarines and the decline in defense spending as a percentage of GDP. He justified the emergency war budget as having “a higher degree of fidelity” because it was done on a shorter timeframe (England & Spratt, 2007).

Ranking Republican Congressman Paul Ryan queried why the Pentagon could not produce a budget estimate:

A lot of these war costs, you know about already. You know what you are going to spend on the war next year in so many of these categories. You do not know what helicopters are going to go down, but you know how many helicopters you are going to need to begin with. You know a lot of these things ahead of time. So what is going to distinguish between unanticipated true emergency spending needs and anticipated war costs? Where do you draw that line?

England responded that, “I thought I was pretty clear. Whatever is a war cost is in the supplemental....” England further testified that “all of our costs are transparent... whatever detail anyone requires, the books are open and available.” Committee members disputed this statement, noting that the DoD budget was “not auditable” and “not transparent” (England & Spratt, 2007).

In 2014, by which time the use of OCO was entrenched, the House Budget Committee again questioned DoD officials regarding the President’s FY 2015 OCO request of \$59 bn. Chairman Ryan asked,

Are these [OCO] funds for the necessary and temporary costs arising from the war? Or are they simply a way to evade the statutory caps on discretionary spending?...If the Department of Defense does not have enough resources to meet our defense needs, then we need to increase the base defense....We can't shift

things around and designate them as OCO emergencies when they're really the base sneaking into OCO (Ryan et al., 2014).

Chris Van Hollen, the ranking Democrat, complained of "base budgets creeping into the OCO account" and queried why the OCO budget for in-theatre support forces was going up despite the pending drawdown of 25,000 U.S. troops (Ryan et al., 2014).

In response to aggressive questioning from members of both parties, DoD Deputy Secretary Robert Work defended the need to fund a wide range of activities through OCO, including not only counterterrorism support and money for Syria, Iraq, Jordan, Lebanon, and Turkey, but also expanded naval deployments in the Black and Baltic Seas and U.S. military deployments to Europe. He testified that "just because it's not in Afghanistan doesn't mean it doesn't support Afghanistan. And just because it's not in Afghanistan doesn't mean it's not a part of a contingency operation" (Work, 2014). Work later acknowledged that "We see OCO as being an enduring requirement *after* Afghanistan, and I know that this is a point of contention," prompting a furious response from Congressman Scott Garrett (R-NJ):

We understood originally the OCO was originally established for unforeseen and temporary costs of war...It has been 13 years and your candor in saying OCO is...an enduring requirement, I believe, will be, for me, the takeaway of today's hearing....I do not believe anyone who originally supported OCO believed that we'd be here 13 years later and hearing it (Work, 2014).

In short, despite the fact that the Budget Committees were aware of and highly critical of the wartime budgeting anomaly, they were unable to gain traction on the issue.²⁸⁶ According to Ed Lorenzen, one of the most widely respected budget analysts in Washington at the time of his death in 2018, "the Budget Committees were supposed to

²⁸⁶ W. Wheeler, Interview No. 14, September 23, 2016; A. Rivlin, Interview No. 22, October 24, 2016; and E. Lorenzen, Interview No. 30, February 1, 2017.

be the gatekeepers in the system. But the system just didn't have procedures to enforce compliance.”²⁸⁷

§ 5.4.3 Leadership Vacuum

By shifting principal budget responsibilities from the President to the Budget Committees, the CBICA effectively created a leadership vacuum, especially with regard to war spending. The Appropriations Committees handled discretionary spending; the Authorizing Committees had jurisdiction over mandatory spending; and the Budget Committees produced a resolution that was nonbinding. None of these three committees controlled the OCO budget. Fisher refers to this “conceptual confusion” that plagued the post-CBICA budget effort, noting that:

...the framers of the Budget Act of 1974 never fully considered the institutional dynamics of budget reform. They never asked: if Congress strengthened its role in budget-making, would that weaken the leadership required of the president? Prior to 1974, the country had one budget: the president's...when there was only one budget— it was an easy matter to judge whether a bill was above or below the budget (Fisher, 2000, p. 176).

The net effect, he argues, was that neither the Congress *nor* the President was fully accountable for the budget. As Kosar notes:

The CBICA threw out the old president-led and appropriator-controlled system, replacing it with a less hierarchical, more inclusive process. But the supposition that 535 legislators could decide annually the nation's spending priorities and commit themselves to it...is the most basic conceit...it invited more conflict among legislators, and created more access points for proliferating special interest groups (Kosar, 2015, para. 21).

After 1974, Congress enacted several measures to improve financial management and accountability for the budget. However, none of them resolved the underlying lack of

²⁸⁷ Lorenzen, 47, died in January 2018 in a house fire while trying to save his 4-year-old-son, who was also killed. His funeral was held at the Library of Congress and attended by dozens of senior members of Congress from both parties. E. Lorenzen, Interview No. 30, February 1, 2017.

ownership of the federal budget that was a legacy of the CBICA.²⁸⁸ In the absence of authority from the President or a single entity in Congress, the Pentagon was able to have the last word. The DoD accounts for more than half of the discretionary budget of the federal government and employs one third of the government civilian workforce. It was well positioned to play a larger role in shaping the budget to meet its needs (Adams & Williams, 2010, p. 226). According to Lorenzen, Congress never cut the Pentagon's OCO request, apart from minor adjustments such as moving small amounts of it into the base budget:

Congress made the policy decision that it doesn't want OCO to be subject to budget limits. And the Pentagon military brass, backed by the Joint Chiefs of Staff, was in the lead to specify the level of OCO funding. If they [the Pentagon hierarchy] ask for \$60 bn, no one [in Congress or at the OMB] is going to say "No, you can only have \$50 bn." If DoD puts a stake in the ground, there's no pressure to scrutinize it or to second-guess.²⁸⁹

§ 5.4.4 Increased Role of Special Interests

A further consequence of the CBICA was that it unintentionally ushered in a new era of budgetary influence for special interest groups (Garrett & Vermeule, 2008; Rivlin, 2018; Wildavsky, 1992a). The complexity of the new budget system meant that lawmakers grew to rely on lobbyists for technical information. The competition for discretionary dollars and the greater power of Congress over budget allocations, combined with the sunshine laws, led to a proliferation of special interest groups and a rapid increase in the amount spent on lobbying (Bok, 2002; Galston, 2012; Rivlin, 1992; Wildavsky, 1988).

There is a broad literature devoted to this phenomenon. Wildavsky, in the later

²⁸⁸ P. Schiliro, Interview No. 21, October 21, 2016 and E. Lorenzen, Interview No. 30, February 1, 2017.

²⁸⁹ W. Wheeler, Interview No. 14, September 23, 2016.

versions of *The Politics of the Budgetary Process*, revised some of his original theories to incorporate special interest dynamics, which he said contributed to “budgetary dissensus” (Wildavsky, 1992a, p. 596). In a landmark evaluation of the budget reforms, the Joint Economic Committee of Congress concluded in 1988 that the “excessive size and complexity” of the process had led to a “bias toward additional special-interest spending” (Joint Economic Committee, 1988). Some have argued that so much budget transparency had harmful effects, in that it disproportionately benefited organized special interests (Garrett & Vermeule, 2008).

Defense contractors, as one of the most powerful special interests, were beneficiaries of this development (Hartung, 2018). Paul Light estimated that the Department’s contract workforce grew by 40% between 1989 and 2005, and that it employed over 5 million contract personnel in 2005 (Light, 2006). In FY 2018, two thirds of the total \$544 bn federal government spending on contracts was paid to DoD contractors.²⁹⁰ DoD contracts alone represented 8% of all federal government outlays and were concentrated among a small group of companies (Schwartz, Sargent, & Mann, 2018). Dan Goure, vice president of the national security think tank the Lexington Institute observed that “The U.S. has created a fifth branch of the military—it’s called the private sector” (Fitfield, 2013).

Defense contractors were already powerful players when President Dwight D. Eisenhower warned in 1959 of the power of the “military-industrial-complex.” Notably, in his initial draft remarks, Eisenhower had written about the “military-industrial-*Congressional*-complex,” removing the reference to Congress only in the final version of his speech (Fisher, 2000). The CBICA made the “military-industrial-Congressional-

²⁹⁰ The percentage is even higher when including military-related contracts at the departments of energy, veterans affairs, and intelligence agencies.

complex” a reality. After 1974, defense firms made tactical decisions to locate manufacturing and support facilities in Congressional districts throughout the country (Adams, 1981; Thorpe, 2014).

As Wildavsky notes, large governmental agencies cultivate an “active clientele” (Wildavsky, 1964, p. 64) among Congressional members and staff. The DoD has a longstanding practice of placing military facilities (such as Naval shipyards, Army bases, and Air Force installations) in virtually every state and Congressional district. The respective legislators maintain a strong relationship with the individual service that is located in his or her district, and each service has its champions (Adams, 1981). Defense spending became vital to the health of many Congressional districts, where defense installations or companies were often the largest employers. In consequence, defense contractors came to wield significant influence, becoming one of the most powerful lobbies in Congress (Adams, 1981; Thorpe, 2014). The DoD Under Secretary for Procurement is considered one of the most critical roles at the Pentagon. The President traditionally appoints a Deputy Secretary of the Pentagon drawn from the major defense firms.²⁹¹ For example, President Barack Obama, despite criticizing the lack of transparency in defense contracts, appointed William Lynn, a lobbyist for the defense firm Raytheon, as Deputy Secretary of Defense.²⁹²

§ 5.4.5 OCO and the Defense Lobby

The OCO budget became an irresistible target for the defense lobby.²⁹³ The defense sector comprises some 1600 defense firms which are represented by the National

²⁹¹ L. Korb, Interview No. 9, September 19, 2016 and G. Adams, Interview No. 32, February 15, 2017.

²⁹² See the *Dow Jones Institutional News*, “Obama Says Taking On US Defense Lobby Will Be ‘Tough’” (2009).

²⁹³ W. Wheeler, Interview No. 14, September 23, 2016 and J. Smith, Interview No. 41, July 31, 2017.

Defense Industrial Association.²⁹⁴ It also includes oil companies (the DoD is the world's largest single purchaser of petroleum products; Crawford, 2019a) and health insurance companies contracted to the Pentagon's TRICARE health program (Bilmes, 2013). The greater access to influencing the budget process, the unprecedented scale of spending, and the type of contracts that were available with minimal oversight made OCO a highly profitable business opportunity (Hutton, 2009). Hundreds of thousands of individual wartime contracts were awarded to defense firms using emergency/OCO funds, worth more than \$20 bn per year between 2004 and 2013 (Schwartz et al., 2018). War contracts were often awarded on a "cost-plus basis," where a contractor is paid for all of its allowed expenses, plus an agreed-upon profit margin. This structure shifts the economic risk of cost overruns to the buyer. Analysis by the GAO, Inspector Generals, and others have shown that such contracts were highly lucrative for the contract provider (Hutton, 2009).

As a result, defense companies had a strong incentive to ensure that the OCO funding stream was not interrupted. As Stiglitz observed,

Under the current system, defense contractors bring a greater ability, and a willingness to weigh in on Congress in invidious ways...they have a greater incentive to circumvent the system, because that is an advantage to them. They also have an incentive to break budgets...they like the hidden system because it breaks the budget.²⁹⁵

Consequently, defense contractors significantly increased their direct lobbying and campaign contributions in the post-9/11 years. The amount spent on annual lobbying in Washington more than doubled between the Presidential election in 2000 and 2008 and remained at these high levels for the next decade (as shown in Figure 5.5). Although the defense sector is not the largest lobby, it is considered one of the most effective in its

²⁹⁴ These companies include Boeing, Lockheed Martin, General Dynamics, Northrop Grumman, Raytheon Technologies, and other defense firms.

²⁹⁵ J.E. Stiglitz, Interview No. 28, January 6, 2017.

ability to influence Congressional spending (Hartung, 2018). In Collender’s opinion, “If you look at the [defense contractor] campaign finance reports, it’s basically legalized bribery.”²⁹⁶

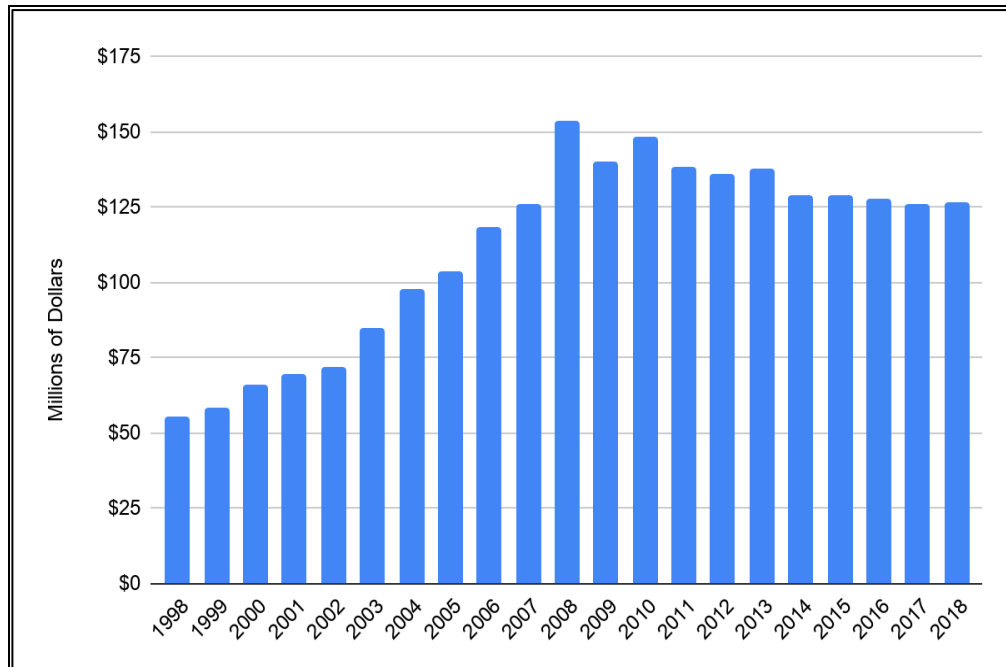


Figure 5.5 Annual Spending on Lobbying by Defense Industry 1998–2018
Source: (Center for Responsive Politics, 2019)

In addition, defense interest groups contributed record amounts to the political campaigns of individual Congressional candidates, especially to those serving on the appropriations, fiscal, and armed services committees. According to the Center for Responsive Politics, which tracks contributions by special interest groups, the overall defense sector contributed roughly \$250 m to political candidates between 2000 and 2018, compared with less than \$50 m in the decade from 1990 to 2000. Following the invasion of Afghanistan, annual campaign contributions by defense contractors doubled from \$15 m in 2000 to \$30 m in 2018 (as shown in Figure 5.6).

²⁹⁶ S. Collender, Interview No. 44, November 8, 2017.

These contributions were widely distributed across both parties and nearly all Congressional races. For example, during the 2018 election cycle the defense lobby donated to 418 of 435 House races (222 for Democrats and 196 for Republicans), and to 92 of 100 Senate races, including 45 Democrats and 47 Republicans (Center for Responsive Politics, 2019).

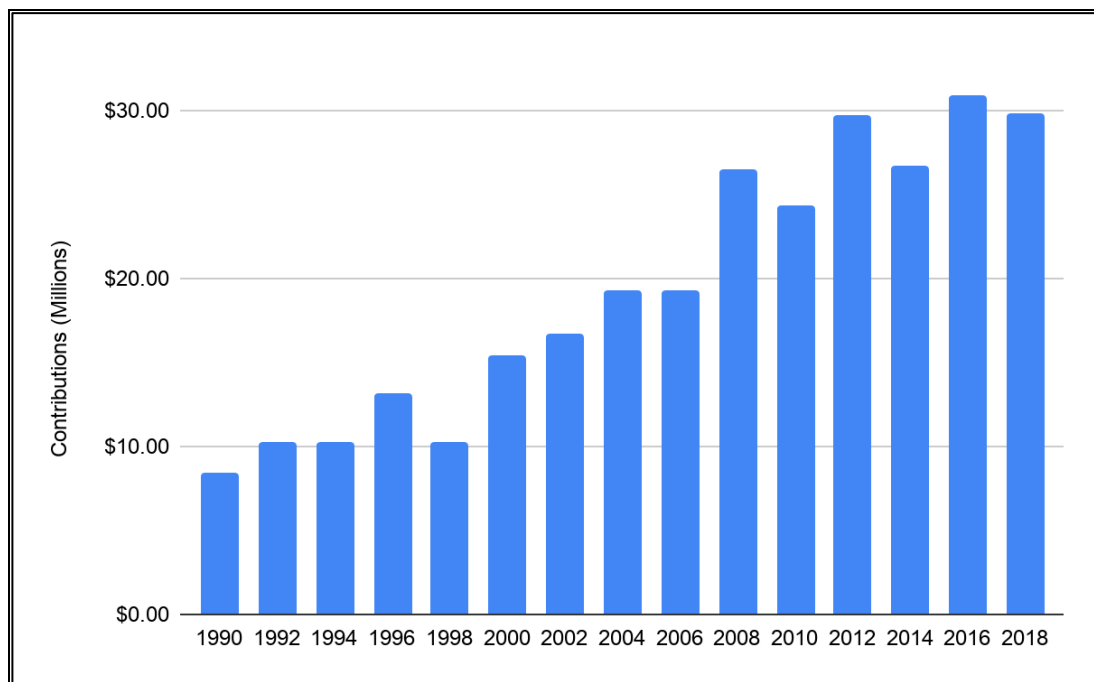


Figure 5.6 Campaign Contributions by Defense Contractors, 1990–2018
Source: (Center for Responsive Politics, 2019)

§ 5.4.6 Limited Congressional Oversight

The 1974 budget reforms led to less oversight over the post-9/11 budget. Congress enacted the reforms and set up the CBO in part due to its concerns about insufficient oversight during Vietnam (Aberbach, 1990). Yet most experts agree that in practice the CBICA weakened Congressional oversight of the defense budget, especially with respect to wartime spending.²⁹⁷ Bolten observed that although the CBO was well respected, it

²⁹⁷ G. Fine, Interview No. 48, November 8, 2018; W. Wheeler, Interview No. 14, September 23, 2016; and G. Adams, Interview No. 32, February 15, 2017.

was “relatively impotent and stays out of the [defense] areas you are talking about.”²⁹⁸ Collender said that Congressional oversight regarding defense was absent unless there was a major scandal: “Why do they [Congress] see five extra sandwiches for the school lunch program but not five extra missiles? Serious oversight on war spending is unpatriotic.”²⁹⁹

Throughout the post-9/11 period, Congress was distracted by fiscal crises, fiscal cliffs, debt-ceiling brinkmanship, and other budget chaos. Notionally, the CBICA reinforced the fiscal oversight structure (by creating the CBO and CRS and expanding the GAO), but in practice, few individuals had sufficient access and knowledge to conduct serious oversight.³⁰⁰ As Adams and Williams point out, the CBO, CRS, and GAO, as well as Congress itself, possess only a tiny number of staffers devoted to national security: “The CBO in particular lacks the analysts it would need to examine broad trade-offs for areas that lie at the intersection of national defense, homeland security, internal affairs” (Adams & Williams, 2010, p. 219). These staff members were overstretched due to the relentless CBICA timetable and, later on, to the financial crisis and the budget sequester.³⁰¹

The OCO budget received little formal oversight in part because it was *sui generis*. Every other type of federal government spending was required to be approved and vetted by Congressional committees. In addition, most large mandatory spending programs, including Medicare and Social Security, are structured as federal trust funds in which the trustees must report to Congress on the assets and liabilities of the program. For example, the Social Security Old-Age and Survivors Insurance (OASI) fund and the

²⁹⁸ J. Bolten, Interview No. 6, September 19, 2016.

²⁹⁹ S. Collender, Interview No. 44, November 8, 2017.

³⁰⁰ W. Wheeler, Interview No. 14, September 23, 2016; B. Mansfield, Interview No. 49, November 8, 2018.

³⁰¹ W. Wheeler, Interview No. 14, September 23, 2016; P. Tizzani, Interview No. 11, September 19, 2017; and S. Silverberg, Interview No. 10, September 19, 2016.

Social Security Disability Insurance (SSDI) fund, are both governed by trustees who issue annual actuarial reports. There are more than 100 such federal trust funds, including the Unemployment Trust Fund, the federal government employee retirement trust fund, the Highway Trust Fund, and the military retirement fund. Although the trust fund money is not firewalled from the remainder of the federal budget, the “trust fund” designation requires the government to keep track of the long-term actuarial situation (CRS (Name redacted), 2014).

The fiscal committees also have jurisdiction over tax expenditures (tax exemptions, exclusions, deductions, credits, deferrals of tax liability, and preferential tax rates), which together constitute some \$1 bn in federal “spending” though lower revenues. Tax policy is evaluated continually by federal government economists (in the Commerce Department, the CBO, and Congress). Thus, although a large percentage of federal spending does not go through the appropriations process, the OCO was an outlier. This concept is shown in in Figure 5.7.

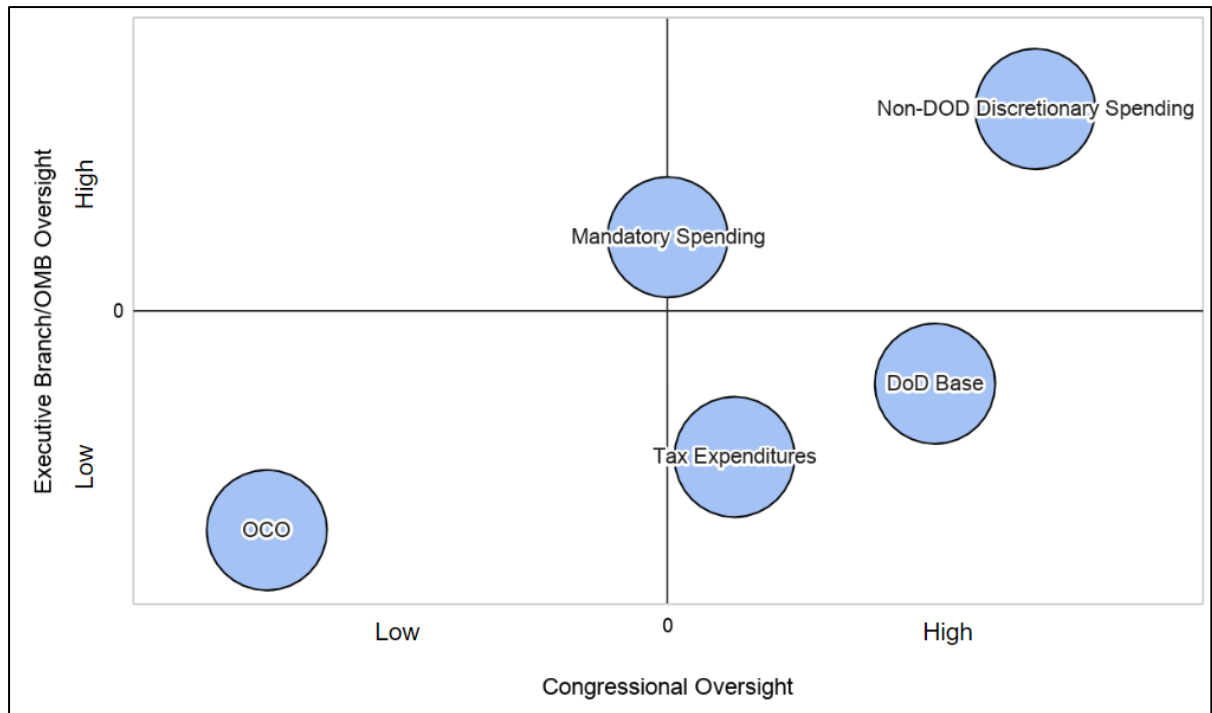


Figure 5.7 Oversight of OCO Compared with Other Federal Spending

Although the CRS tracked war costs in a series of reports from 2004 through 2015 (Belasco, 2004, 2005, 2006, 2008, 2009b, 2010, 2011, 2014, 2015), these reports were hindered by lacking access to standard inputs, such as budget justification materials and cost and operational details, much of which did not exist for OCO.³⁰²

Finally, the presence of so many private contractors complicated the oversight effort. Contractors were not required to provide full details of costs and profit margins, and government databases were unreliable (GAO, 2015; Adams & Williams, 2010; Hutton, 2009; Roberts, 2008). Table 5.3 summarizes the impact of Congressional budget reform on war budgeting.

³⁰² See, for example: GAO-11-886, “DOD, State, and USAID Cannot Fully Account for Contracts, Assistance Instruments, and Associated Personnel” (U.S. Government Accountability Office, 2011); GAO-11-355, “US Efforts to Vet Non-US Vendors Need Improvement” (U.S. Government Accountability Office, 2011); and GAO-11-1, “DOD, State and USAID Face Continued Challenges in Tackling Contracts, Assistance Instruments, and Associated Personnel” (U.S. Government Accountability Office, 2010).

Table 5.3 CBICA Impact on Post-9/11 War Budgeting

	Normative Criteria for Budgeting	Pre 1974	Post 1974	Impact on Post-9/11 War funding
Procedural Criteria	Predictability (e.g., budgets enacted on time)	Moderate	Poor	Budget for war funding was irregular and unreliable, Pentagon wanted a predictable stream of funding
	Rules-based and compliance with procedures	N/A	Poor	Rules circumvented to appropriate war funding
	Avoid fiscal crises (e.g. CRs, shutdowns, cliffs)	Strong	Poor	Frequent fiscal crises incentivized military and defense contractors to support OCO
	Transparency of process	Weak	Moderate	Increased the power of special interests, including defense lobby
Substantive Criteria	Stabilize overall fiscal outcomes (e.g. deficits within targets)	Moderate	Poor	Lack of control over revenues and spending led Congress/President to exempt war spending to hide deficit
	Reconcile competing interests	Moderate	Poor	Inability to fund war through taxes or reductions in non-war spending; discussion moved to weak Budget Committees
	Balance short and long-term budgetary needs	Moderate	Poor	Long-term spending impact of war budget not accounted for
	Accountability for spending	Moderate	Poor	Most war spending less scrutinized than defense base budget/regular spending

§ 5.5 Impact of Congressional Dysfunction on War Budgeting

Given the enormous budgetary pressures, why did Congress not create OCO-like vehicles to pay for other urgent expenditures? I believe that this puzzle is partly explained by the unique relationship between the DoD, Congress, and the defense lobby. Congress was able to present illusory long-term savings by keeping Iraq and Afghanistan funding outside the regular spending trajectory. Such an outcome might have led to similar

budgetary workarounds for other priorities. Although there were efforts to do so, they failed to gain traction.

Congress occasionally used emergency bills to pay for items that did not meet the GAO's definition of "emergency." However, these were confined to small amounts and typically for genuinely one-time events (U.S. Government Accountability Office, 2008). Congress rejected most efforts to fund programs outside the regular system. For example, between 2001 and 2008 the post-9/11 wars accounted for over 60% of emergency supplemental funds appropriated by Congress. Thirty-five percent of the funds were designated for traditional emergencies (including hurricanes and earthquake relief), and less than 5% was allocated to other one-off requests, including the Census (Peters & Plagakis, 2019; U.S. Government Accountability Office, 2008).

The Census is an instructive case study. In FY 2008, the Commerce Department sought an emergency supplemental appropriation to help pay for the 2010 Census, which was estimated to require funding of \$10 bn (Concord Coalition, 2010). The decennial Census is a top government priority. It is mandated by the Constitution and must be conducted on a specific timetable. Most lawmakers are keenly interested in the Census, because it determines how their electoral districts are apportioned, and Census data is used to allocate federal dollars. The biggest costs (hiring 860,000 temporary enumerators, opening field offices throughout the country, and awarding data-entry and data analysis contracts) are incurred about 12 to 18 months prior to the Census date. For the 2010 Census, these expenses coincided with a sharp decline in tax revenues following the 2008

financial crisis. Earlier attempts to perform the Census more economically by using statistical sampling had been rejected by the Supreme Court in 1999.³⁰³

Despite this pressing need, Congress approved only \$200 m in emergency funds, out of a final Census cost of \$12.3 bn (Concord Coalition, 2010). The group of interests that coalesced in support of using emergency funding to ensure a successful Census (including citizen advocacy groups, the Council on Marketing and Opinion Research, local and county governments, and some members of Congress) was simply not powerful enough to overcome the objections of those who favored fiscal discipline, including the Budget Committees.³⁰⁴

By contrast, the wartime funding coalition harnessed the combined muscle and influence of the Pentagon and the defense lobby (representing contractors with a huge financial stake in the conflict). As William Daley, who served as Secretary of Commerce during the Clinton years, observed in comparing the Census to the OCO budget, “the Census is the largest peacetime mobilization of resources in the country. The operative word is peacetime. And it doesn’t have roots into the local economy the way the military does.”³⁰⁵

This alliance of interests resulted in a kind of widespread “logrolling” (Sapolsky, Gholz, & Talmadge, 2014). Logrolling typically refers to vote trading, in which one legislator votes for another one’s project if the other legislator reciprocates by voting for the first one’s project. Such trades typically benefit a legislator’s own interests, such as serving his or her constituents. It has negative connotations in the literature because it

³⁰³ The Court ruled on January 25, 1999 in *Department of Commerce v. U.S. House of Representatives* that the Census Bureau’s proposed plan to use statistical sampling in the decennial census for purposes of determining Congressional apportionment violated the Census Act (the Census Bureau’s authorizing statute).

³⁰⁴ W. Daley, Interview No. 18, October 3, 2016.

³⁰⁵ W. Daley, Interview No. 18, October 3, 2016.

typically helps a small number of people at the expense of the public as a whole, and tends to produce overspending (Warren & Mansbridge, 2015).

In the case of OCO, legislators derived specific benefits from the Ghost Budget *at different times*. Over 18 years, the majority of members of Congress had to raise money for their election campaigns, help steer defense contracts to companies in their districts, or approve Pentagon decisions that increased military benefits paid to some of their constituents. Given the chaotic budget circumstances throughout the post-9/11 period and the huge sums of money being funneled into the war economy, logrolling deals among lawmakers, defense contractors, and the military became commonplace.³⁰⁶

§ 5.6 Conclusion

Budgetary dysfunction was a necessary condition for the emergence of the Ghost Budget. With Congress taking a back seat regarding war strategy, the most important lever in the legislative arsenal was control of the purse. The budgetary reforms introduced in the 1970s transferred more power to Congress but in practice made it less effective. The complexity of the budget procedures led to a volatile process that was increasingly beholden to special interests. The system persisted despite widespread agreement that it had broken down. As Fisher explained, “Even when a process is crippled and dysfunctional, it’s not easy or comfortable to kick away crutches” (Fisher, 2000, p. 175).

Had the budget process functioned effectively, producing timely budgets and enabling the relevant committees to have jurisdiction across both revenues and expenditures, it is likely that the concerns raised in the Budget Committee hearings would have been considered more widely, and war spending would have faced greater scrutiny.

³⁰⁶ P. Schiliro, Interview No. 21, October 21, 2016; E. Lorenzen, Interview No. 30, February 1, 2017; L. Korb, Interview No. 9, September 19, 2016; and R. Nabors, Interview No. 12, September 20, 2016.

CHAPTER 6 ECONOMIC CONDITIONS THAT ENABLED THE GHOST BUDGET

§ 6.1 Chapter Summary

A central enabler of the Ghost Budget was the uniquely benign financing conditions in international capital markets. The Iraq and Afghanistan wars coincided with a period of high global demand for U.S. government securities and exceptionally low interest rates. This chapter describes how a combination of low inflation, high levels of international capital flows, and a “flight to safety” after 2008 engendered by the global financial crisis made it possible for the U.S. Treasury to borrow cheaply and almost without limit to pay for the wars. Financial resources were effectively plentiful.

This was a situation that economists and budget scholars had not foreseen. “Public budgeting” is defined as “the decision making process that allocates scarce resources of public agencies to fund public services at the local, state and national levels” (D. Mitchell & Thurmaier, 2010). V.O. Key famously challenged economists to resolve the “basic budgeting problem”: namely that, when “faced with limited resources, on what basis shall it be decided to allocate x dollars to activity A instead of activity B?” (Key, 1940, p. 1138). Post 9/11, the paramount constraint of public budgeting—the scarcity of resources—was effectively absent.

A striking consequence of this low interest rate economy was the shrinking cost of public debt service. Total U.S. federal government debt held by the public (the portion of the debt that accrues interest, which comprises about three quarters of the total debt)³⁰⁷ more than tripled in real terms between September 2001 and September 2018, as shown

³⁰⁷ The total federal debt comprises debt held by the public, which was 73% in December 2018, and intragovernmental debt which is the portion of the federal debt owed to other U.S. federal agencies. For example, the Social Security Trust Fund buys Treasuries with its cash holdings. This chapter focuses on the “debt held by the public,” which is the portion of the debt that accrues interest.

in Figure 6.1 (FRED, Federal Debt Held by the Public, 2020a). War-related borrowing accounted for 20–22% of the increase (Cordesman, 2017; Edwards, 2011; Peltier, 2020b). Despite this growth, the annual cost of debt service as a percentage of the federal budget actually *declined* over the period.

This extraordinary budgetary windfall enabled Congress and the President to have both guns and butter without making any painful trade-offs between the two. War costs were shifted to future taxpayers with little impact on current government programs. With no tangible evidence of mounting war costs in the annual budget, from a cost point of view the war itself appeared practically invisible.³⁰⁸ These economic conditions allowed the United States to avoid the traditional war funding model of raising taxes and cutting spending that had been applied in previous wars. In addition, after 2008 policymakers looked for ways to increase the economic stimulus to counter the global financial crisis but found themselves constrained by Congress on the fiscal side.

³⁰⁸ J.E. Stiglitz, Interview No. 28, January 6, 2017; W. Wheeler, Interview No. 14, September 23, 2016; R.C. Zielinski, Interview No. 25, November 10, 2016; L. Korb, Interview No. 9, September 19, 2016; F. Spinney, Interview No. 33, February 16, 2017; and A. Bacevich, Interview No. 13, September 23, 2016.

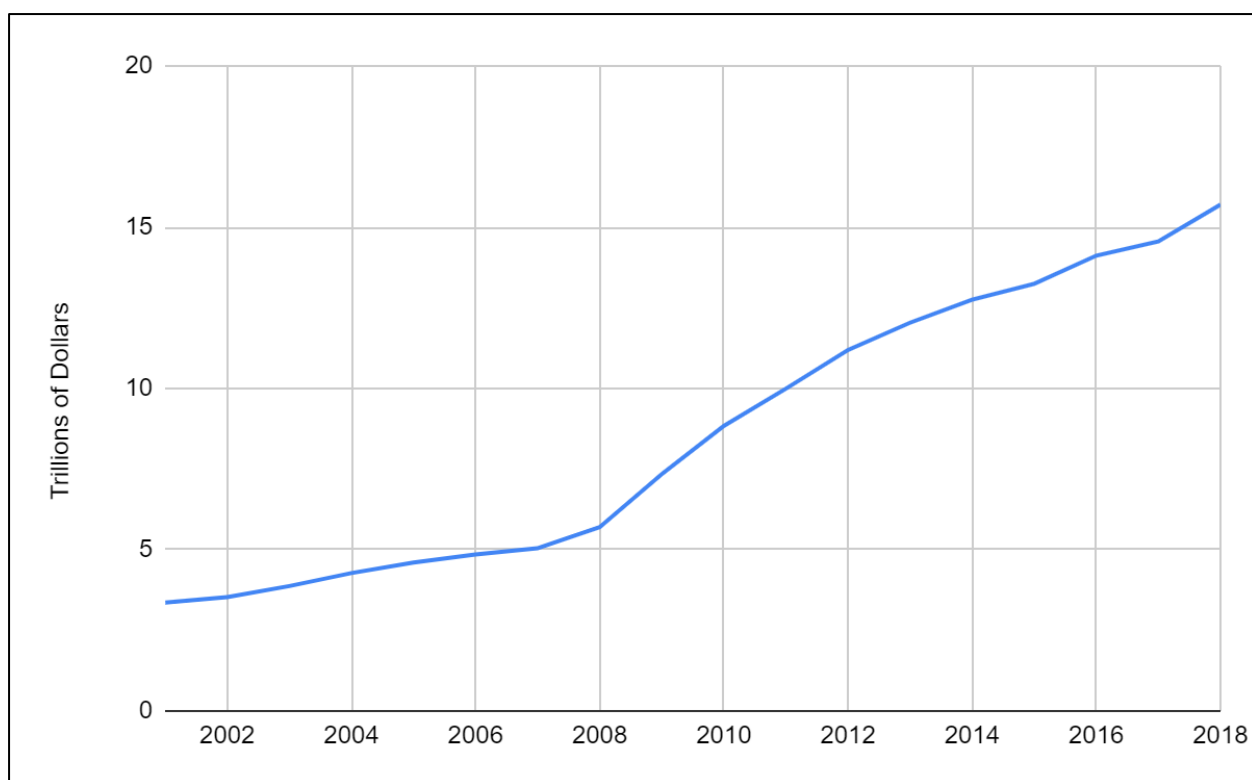


Figure 6.1 Federal Debt Held by the Public 2001–2018 (\$2018)
 Source: (FRED, Federal Debt Held by the Public, 2020a)

§ 6.2 Growth in Global Markets

The economic context for the post-9/11 wars was radically different from that of previous U.S. wars. For most of the twentieth century, the world financial system operated on a system of fixed exchange rates. Initially the system relied on the Gold Standard, whereby currencies were convertible into gold at fixed rates. Following the Second World War, an indirect system of gold convertibility was established under the Bretton Woods Agreement of 1944. Under this agreement, which lasted until 1974, major currencies were convertible into U.S. dollars, and only the dollar was itself pegged to gold. For many countries, therefore, the dollar became the de facto reserve currency (Bordo, 1958).

A corollary of this system was that in previous wars markets for government debt were small and almost entirely domestic. It was thus difficult to finance large wartime

expenses by borrowing without significantly driving up the cost in the form of higher interest rates. In the early 1950s, when the Korean War took place, only 1% of U.S. Treasury securities were held by non-Americans.³⁰⁹ By the start of the Vietnam conflict, this international market had grown slightly, but still amounted to less than 3% of outstanding U.S. Treasuries (see Figure 6.2).

The Iraq-Afghanistan conflicts took place under markedly different global financial conditions. In the early 1970s, the era of fixed exchange rates came to an end. Increasing U.S. inflation and a widening trade imbalance and government deficit obliged President Richard Nixon to suspend and then abandon altogether the convertibility of the dollar (Ghizoni, 2013). In 1973, the international currency system officially switched to a system of floating exchange rates. Currency controls were lifted, ushering in a period of rapid growth in international capital flows (Krishnamurthy & Vissing-Jorgensen, 2011).

This shift opened up a vast new international market for U.S. debt. Economist James Galbraith, a Professor at the University of Texas who previously served as senior staff to the Joint Economic Committee in Congress, described this transition:

When flexible exchange rates were introduced in the early 1970s, the U.S. dollar went into a decline compared to the Deutsche mark and the yen and was under constant inflationary pressure as a result of that. This reconfiguration destroyed the competitive currencies and effectively created the dollar as the sole major reserve currency in the world... The result was essentially an unlimited capacity to finance U.S. activity by the rest of the world's willingness to accumulate dollar-denominated assets as financial reserves.³¹⁰

³⁰⁹ See “Total Foreign Holdings of Treasury Securities, 1939–1999” (U.S. Department of the Treasury, 2020b).

³¹⁰ J. Galbraith, Interview No. 2, January 5, 2016.

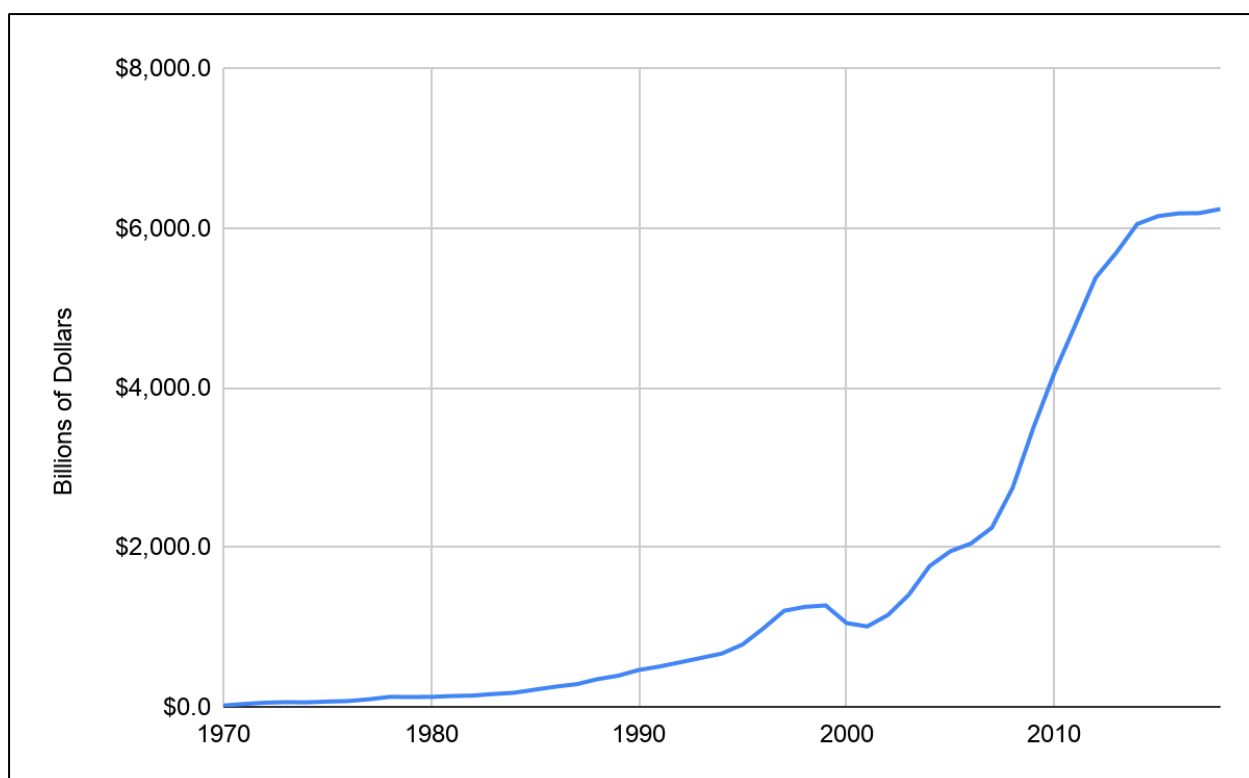


Figure 6.2 Growth of Foreign Holdings of U.S. Treasuries 1970–2018
 Source: (FRED, Federal Debt Held by Foreign and International Investors, 2020)

Foreign investment in U.S. Treasuries rose dramatically (Bordo, 2017). In 2001, foreign investors held nearly \$1 tn of U.S. Treasuries, or 17% of the total (FRED, Federal Debt Held by Foreign and International Investors, 2020). This trend gained momentum over the following decade, and by 2005, foreigners were purchasing 55% of newly issued U.S. Treasuries (Hormats, 2007). By 2011, international investors (primarily foreign central banks) owned over \$5.5 tn of Treasuries, equivalent to one third of the total market (U.S. Department of the Treasury, 2020a).³¹¹ By the end of 2018, foreign investors owned \$6.2 tn in U.S. securities, representing 40% of the total U.S. public debt (see Figure 6.3).

³¹¹ Foreign central banks accumulated large holdings of U.S. Treasury bonds as a counterpart to persistent U.S. current account deficits.

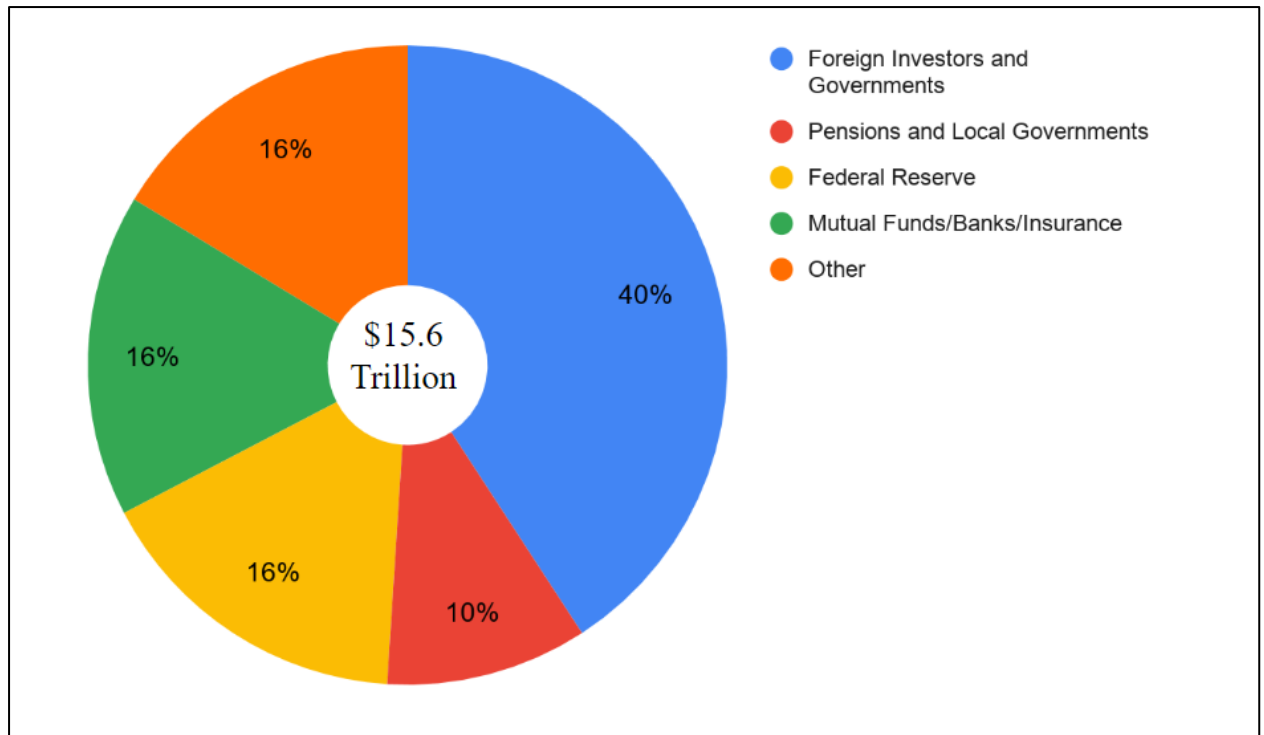


Figure 6.3 Ownership of the U.S. Debt Held by the Public 2018
 Source: (Amadeo, 2020; Labonte & Nagel, 2019)

As the global markets matured, they grew larger and more sophisticated. Foreign transactions in U.S. stocks and bonds rose from U.S.\$4.2 tn in 1990 to \$30.7 tn in 2003 (Michie, 2006). The markets developed a diversified set of instruments for managing and hedging interest-rate risks. These products included swaps, options, and futures contracts, all priced off the U.S. Treasury cash market and forming a core part of the \$100 tn annual global bond market (SIFMA, 2018).

U.S. Treasuries benefited the most from this expansion. Increasingly, institutional investors were attracted by markets that were liquid and offered secure yields. U.S. Treasuries are backed by the “full faith and credit” of the U.S. government, and thus are widely regarded as safe assets, with almost zero risk of default.³¹² In addition, with a daily trading volume of over U.S.\$500 bn, the size and diversity of the market provided

³¹² J. Galbraith, Interview No. 2, January 5, 2016.

sufficient liquidity for investors to buy and sell whenever they wanted.³¹³ The U.S. Treasury securities traded in the cash market alone³¹⁴ grew from \$111 bn a day in 1990 to \$734 bn by 2003 (Michie, 2006). In addition, the market for derivatives, futures, and options expanded rapidly.

Finally, the 2008 financial crisis precipitated a flight to quality among both U.S. and international investors. The volume of outstanding U.S. Treasuries grew from \$4.9 tn in August 2008 to \$7.4 tn in February 2010 (Noeth & Sengupta, 2010). Some \$1.5 tn of this increase was directly attributable to war spending (Edwards, 2011).

In summary, market conditions for government borrowing during the 2000s were wholly different from the situation during Korea, Vietnam, and earlier wars. During World War II, Galbraith points out that “we were not selling bonds anywhere outside the United States, we were selling them to U.S. households.”³¹⁵ In the 1950s, the world was still recovering from World War II, and there was neither supply nor demand for U.S. debt (Michie, 2006). During Vietnam, the country faced production bottlenecks and tight labor markets, and international capital markets were still immature (Michie, 2006). None of these factors existed to constrain borrowing during the post-9/11 years.

§ 6.3 Low Interest Rates

A second feature of the post-9/11 war period was the rapid decline in interest rates. The liberalization of international capital markets played an important role, opening up the bond market to a new group of buyers. The other main driver was falling

³¹³ See SIFMA (2019); J. Galbraith, Interview No. 2, January 5, 2016.

³¹⁴ The cash market excludes futures, options, derivatives, and other complex instruments, so total trading was even higher.

³¹⁵ J. Galbraith, Interview No. 2, January 5, 2016.

inflation.³¹⁶ The stagflation crisis of the 1970s reached a peak in 1980, with inflation at nearly 15%. Federal Reserve Chairman Paul Volcker turned the tide with his aggressive monetary policy, raising short-term interest rates as high as 20% and gradually bringing inflation under control (Morgan, 2012; Poole, 2005). Inflation and interest rates then started on a long period of decline. By 2001, the federal funds rate (the rate at which banks lend reserve balances to each other) had fallen to under 4%. During the Iraq and Afghanistan wars it averaged 1.4%, falling to a historic low of 0.51% after the financial crisis of 2008 (see Figure 6.4).³¹⁷

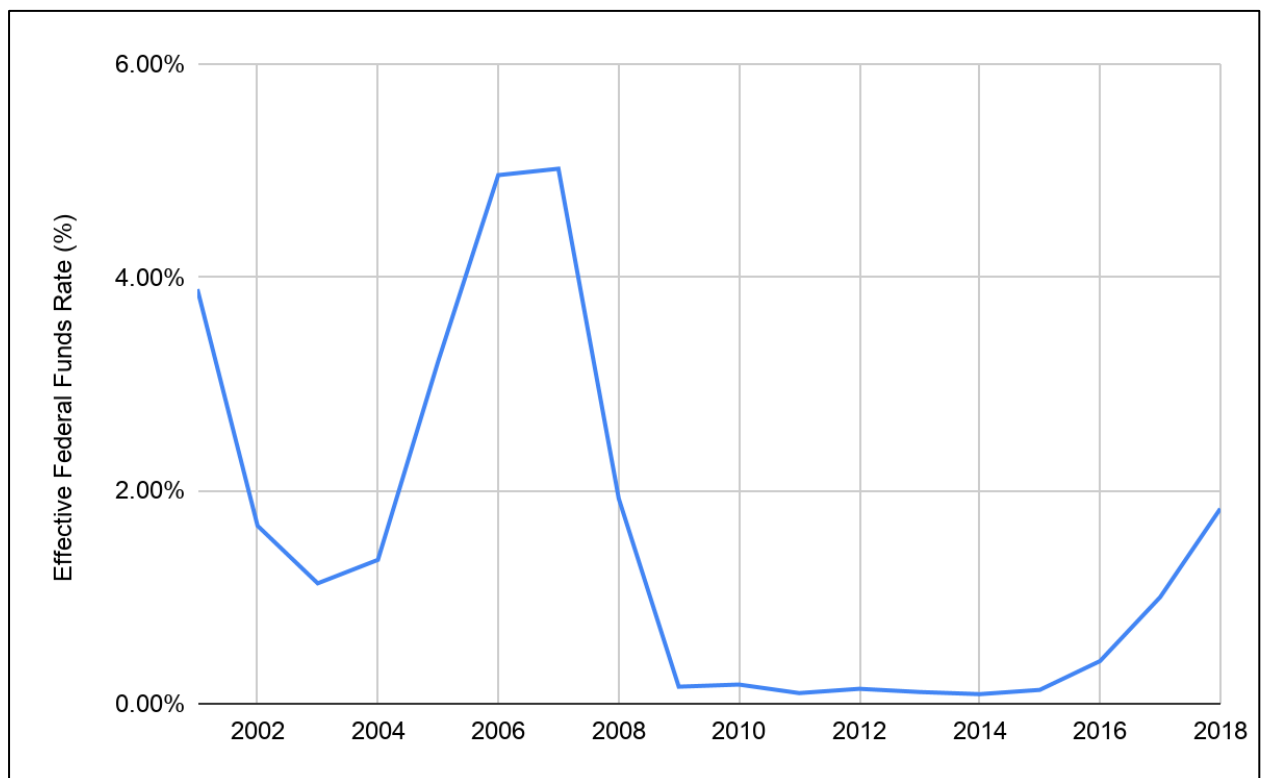


Figure 6.4 U.S. Federal Funds Rate, 2002–2018
Source: (FRED, Effective Federal Funds Rate, 2020)

Most importantly for the cost of borrowing, long-term interest rates followed a similar downward path as investor expectations of future inflation steadily declined. The

³¹⁶ J.E. Stiglitz, Interview No. 28, January 6, 2017; R. Edwards, Interview No. 46, December 5, 2017; and J. Furman, Interview No. 47, November 6, 2018.

³¹⁷ The federal funds rate is not available for Korea.

most widely used long-term benchmark, 10-year U.S. Treasury yields, peaked at nearly 16% in September 1981 and declined steadily for the next 3 decades, falling to under 2% by late 2011. The rate remained at historically low levels (briefly dipping below 1.5% in July 2016) for the next 8 years (FRED, 10-Year Treasury Constant Maturity Rate, 2020; see Figure 6.5).

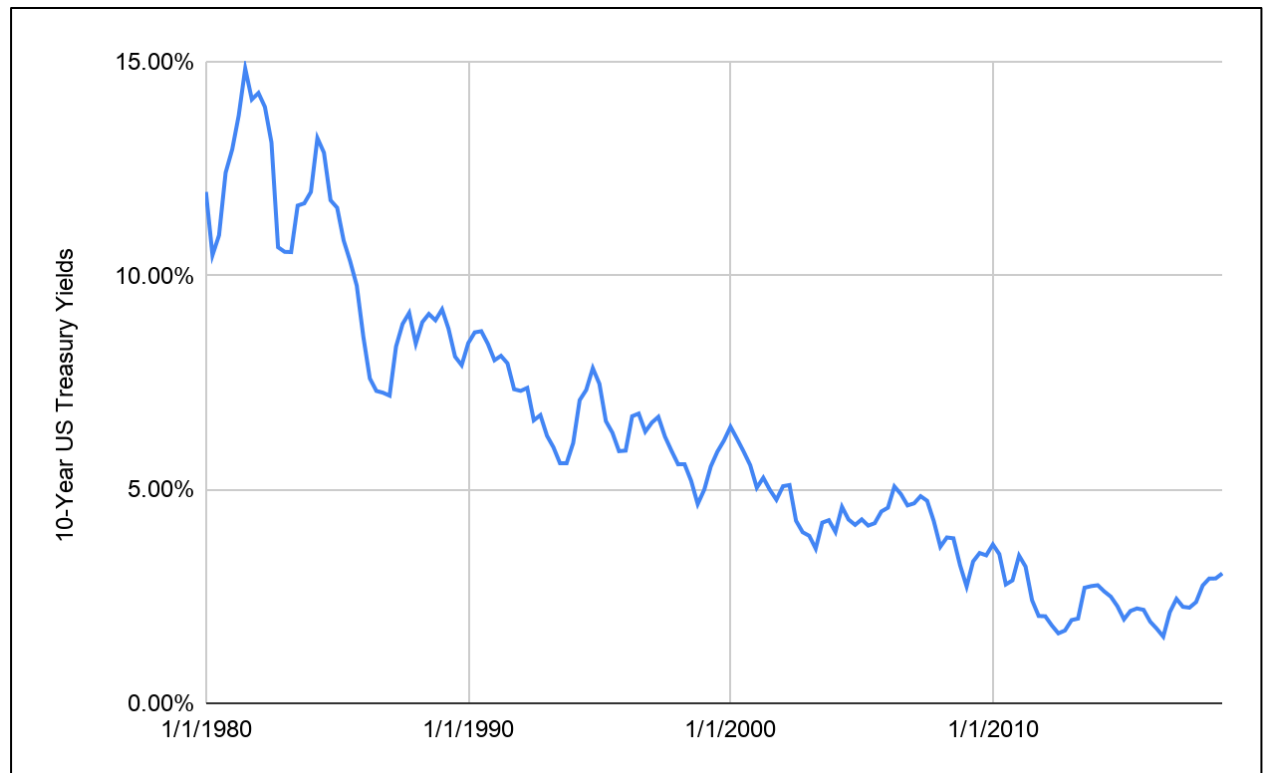


Figure 6.5 10-Year U.S. Treasury Yields, 1980–2018
Source: (FRED, 10-Year Treasury Constant Maturity Rate, 2020)

There is considerable debate among economists about the reasons for this long downward cycle of inflation and interest rates. Some attribute it to structural shifts in the U.S. and global economy. According to Galbraith, inflationary pressures in the United States were “obliterated” in the early 1980s. He attributed this to:

...crushing of the strong labor industries of the upper Midwest by the rising dollar and foreign competition...[combined with] globally, a collapse of commodity prices and the rise of cheap consumer goods from China. These things...meant

that the U.S. faced for a 30-year period essentially no inflation threat and a very large, essentially unlimited, demand for U.S. financial assets.³¹⁸

Another explanation, advanced by Larry Summers in November 2013, is the concept of “secular stagnation” (Summers, 2015). This idea was first proposed by Depression-era economist Alvin Hansen in 1938. Hansen’s central thesis was that capitalist economies would suffer a sustained glut of saving and limited opportunities to invest, causing real interest rates to be extremely low or even negative (Hansen, 1938). As World War II unfolded, Hansen’s predictions did not come to pass; however, Summers embraced the idea to help explain the persistent low interest rates and sluggish economic growth in the U.S., European, and Japanese economies (Summers, 2015). Summers’ hypothesis was that a combination of fiscal and monetary policies, aging populations, global capital mobility, and other factors (including the structural shifts outlined by Galbraith above) produced a global savings glut and a lack of investment opportunities. One of the primary consequences was that real interest rates were very low and would remain low for the foreseeable future (Rachel & Summers, 2019; Summers, 2015).

An additional factor driving down interest rates post-2008 was the Federal Reserve’s policy of Quantitative Easing (QE). This was an unconventional form of monetary policy designed to stimulate the economy after the 2008 financial crisis, when inflation and short-term interest rates were already low and conventional expansionary monetary policy had become ineffective. Starting in November 2008, the Federal Reserve began buying \$600 bn of mortgage-backed securities; by June 2013 it had accumulated nearly U.S.\$2 tn in various types of securities (FRED, Assets: Securities Held Outright:

³¹⁸ J. Galbraith, Interview No. 2, January 5, 2016. He blames the collapse of the Soviet Union for worldwide gluts in steel, nickel, and other commodities, and attributes the worldwide glut in labor-intensive manufactured goods to the rise of China.

U.S. Treasury Securities, 2020; see Figure 6.6).³¹⁹ The net impact in the United States and other countries that used similar policies was to raise prices of those assets and lower their yield, while injecting cash into the economy to stimulate activity (Dell’Ariccia, Rabanal, & Sandri, 2018). These actions have been shown to have directly contributed to lowering long-term interest rates (Krishnamurthy & Vissing-Jorgensen, 2011). However, consistent with Summers’ explanation, even when the Federal Reserve began to shrink its portfolio in 2017 (“quantitative tightening”), there was little impact on long-term Treasury rates, which remained persistently low (Beiz & Wessel, 2018).

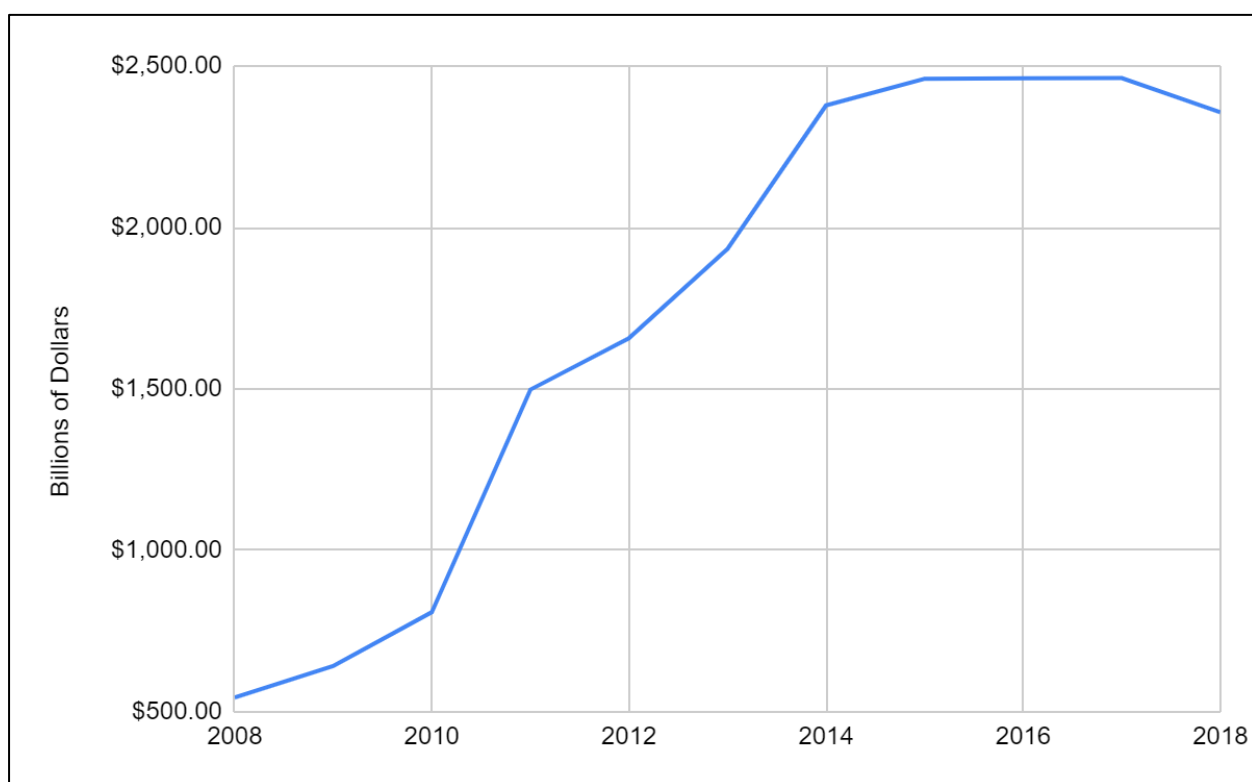


Figure 6.6 Federal Reserve Holdings of U.S. Treasuries 2008–2018
 Source: (FRED, Assets: Securities Held Outright: U.S. Treasury Securities, 2020)

Finally, some economists believe that the persistent low interest rates and slow economic growth rates are partly a consequence of the damage caused by the 2008

³¹⁹ Quantitative Easing and related techniques also have been used by other central banks, including the Bank of Japan, the European Central Bank, and the Bank of England (Dell’Ariccia, Rabanal, & Sandri, 2018).

financial crisis. For example, Carmen Reinhart and Ken Rogoff show in their epic study of 800 years of financial crises, *This Time is Different*, that most countries have experienced prolonged economic damage after a major financial crisis (C. M. Reinhart & Rogoff, 2009).

§ 6.4 Implications for War Financing

Regardless of the precise reasons for the circumstances, the developments outlined above had two profound implications for war financing post-9/11. First, global capital markets were able and willing to absorb a substantially increased supply of U.S. Treasury Bonds. Second, the markets accepted this supply at ever lower cost to the Treasury as interest rates continued to fall.

The effective interest rate on the public debt declined sharply from the start of the post-9/11 wars and continued to drop following the 2008 financial crisis (see Figure 6.7). The rate for the entire war period was below 3%, comparable to Korea (2.5%) and well below the rate during the Vietnam period (4.3%).³²⁰ Taking inflation into account, real interest rates (rates minus inflation) during the post-9/11 period started at 1.75% in 2002 but plummeted to 0.65% after 2008, a 60-year low (Yi & Zhang, 2016). As the world grew increasingly integrated financially over the past three decades, numerous countries saw similar declines.

³²⁰ See OMB Historical Table 3.1 (2019), OMB Historical Table 7.1 (2019), and OMB Historical Table 10.1 (2020).

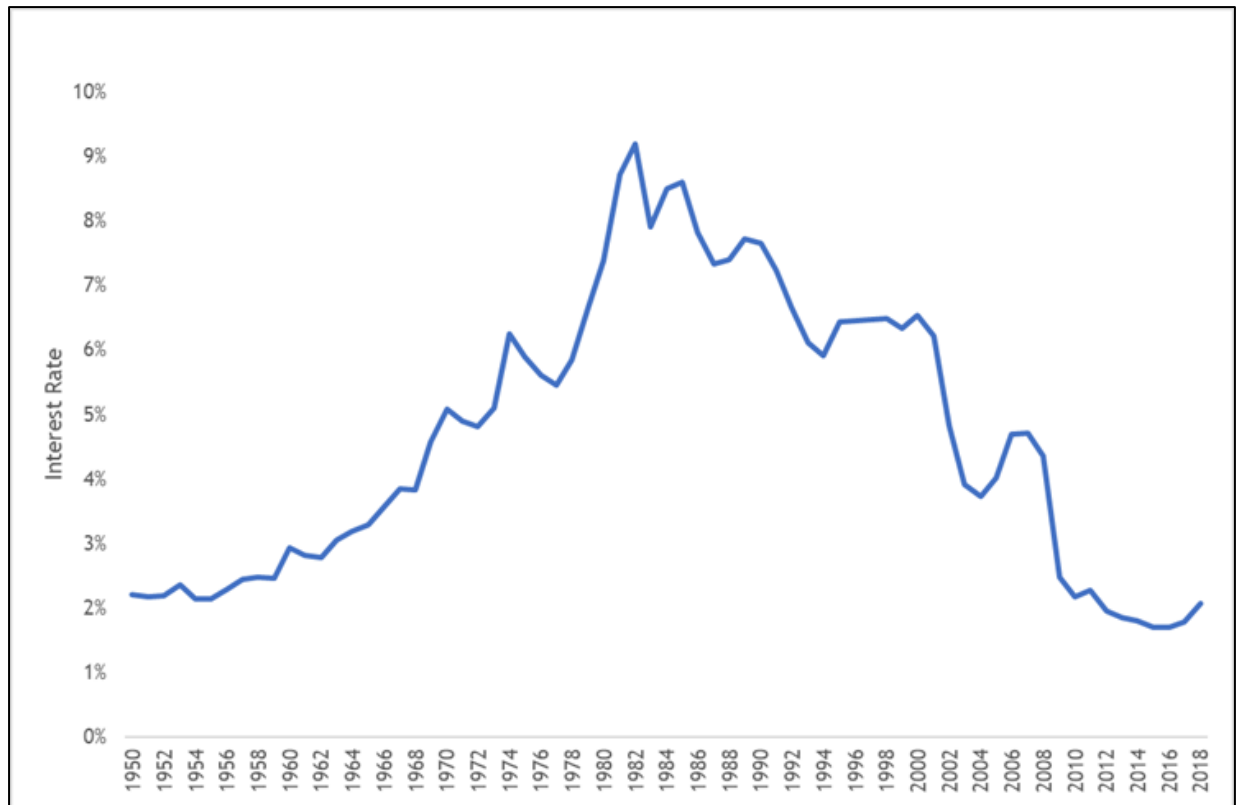


Figure 6.7 Interest Rates on U.S. Federal Debt
 Source: (OMB Historical Table 3.1, 2019; OMB Historical Table 7.1, 2019)

The *direct* link between interest rates and the federal budget is the percentage of the budget that must be allocated to debt service. A key question is whether the war financing strategy of the Ghost Budget would have been possible under different economic conditions.

To test the impact of higher interest rates on the budget, I examined the counterfactual of what would have happened to the cost of debt service had interest rates behaved differently. I found that the decline in interest rates allowed the federal government to pay substantially less in debt service as a percentage of the annual budget during the years of the conflict compared to (a) the interest rates that prevailed at the beginning of the war and (b) interest rates at historical levels.

§ 6.4.1 Compared to Beginning of the War

The interest paid on the public debt largely tracked the growth of public debt until FY 2002. It then diverged sharply as interest rates stabilized and then fell after 2007, as shown in Figure 6.8. Had interest rates remained constant, by FY 2017 the United States would have been paying on the order of \$700 bn per year in debt service, rather than \$268 bn.

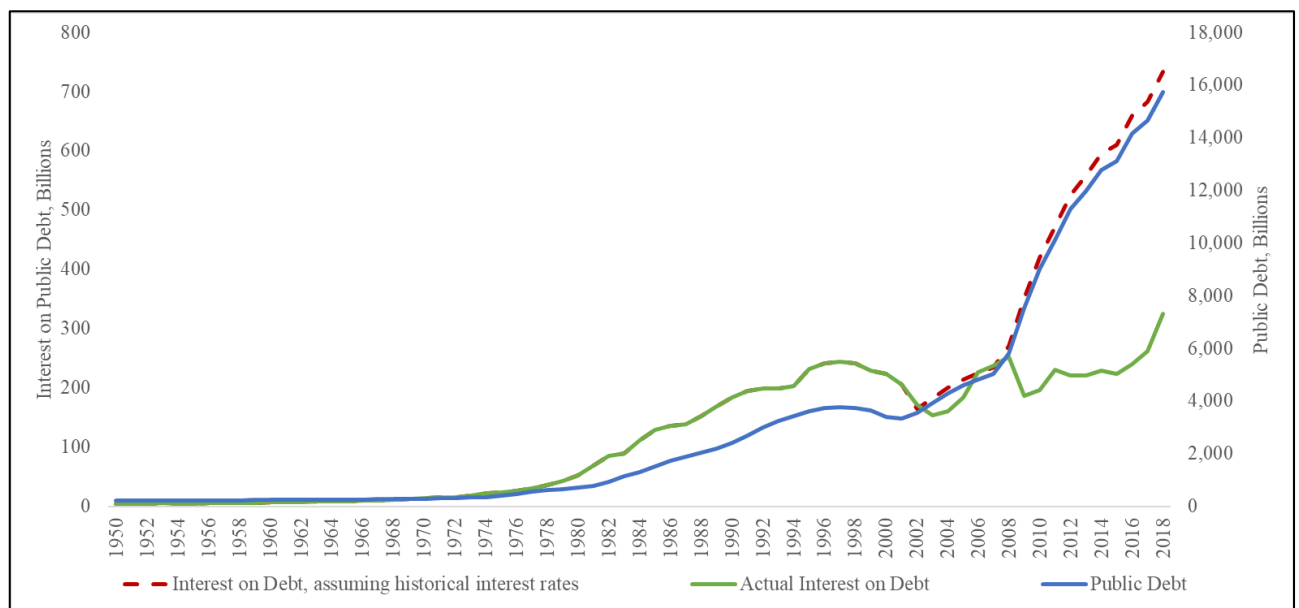


Figure 6.8 Total Public Debt and Outlays Spent on Interest, 1950–2018
 Source: (OMB Historical Table 3.1, 2019; OMB Historical Table 7.1, 2019)

In the event, by FY 2017 total public debt had more than tripled, but debt service payments as a percentage of annual budget outlays had *decreased* to 6.6%, compared to FY 8.5% of federal budget outlays in FY 2002. In terms of cash outlays, this meant that the United States paid only slightly more in interest payments in FY 2017 than it had in FY 2002 (\$268 bn vs. \$232 bn in 2018 dollars), even though federal outlays had risen from \$2.7 tn to \$4.0 tn during this period (see Table 6.1).

Table 6.1 Interest on Debt as a Percentage of Outlays and Debt FY 2002–2017 (\$2018 m)

	FY 2001	FY 2017
Federal Budget Outlays (m)	2,734,241	4,067,929
Net Interest Paid (m)	232,442	268,242
Percent outlays paid in interest	8.5%	6.6%
Total Public Debt (m)	4,813,968	14,983,308
Interest as Percent of Public Debt	4.8%	1.8%

Source: (OMB Historical Table 3.1, 2019; OMB Historical Table 7.1, 2019; OMB Historical Table 10.1, 2020)

§ 6.4.2 Compared to Historical Patterns of Interest Rates

I evaluated the impact of declining interest rates on the percentage of the annual budget outlays that the United States devoted to debt service, comparing the actual post-9/11 debt service to what would have been payable had interest rates remained at three possible levels: historical average interest rates; the Vietnam-era interest rate; and interest rates at the beginning of the war (FY 2002–2006). The analysis demonstrates that any of these scenarios would have had a radical impact on the amount of debt service the U.S. paid. Assuming that federal budget spending and debt rose to the level it actually did in 2017, the United States would have been forced to devote 16.5% of federal outlays to debt service if rates had remained at historical levels and 15.5% at Vietnam levels.

Perhaps most surprising, this analysis finds that given the exploding levels of U.S. borrowing the United States would have been forced to spend about 15% of total budget outlays on debt service by 2017 even if interest rates had remained at pre-2007 levels. In reality, debt service only required an average of 7% of the budget (6% after 2008), as shown in Figure 6.9.

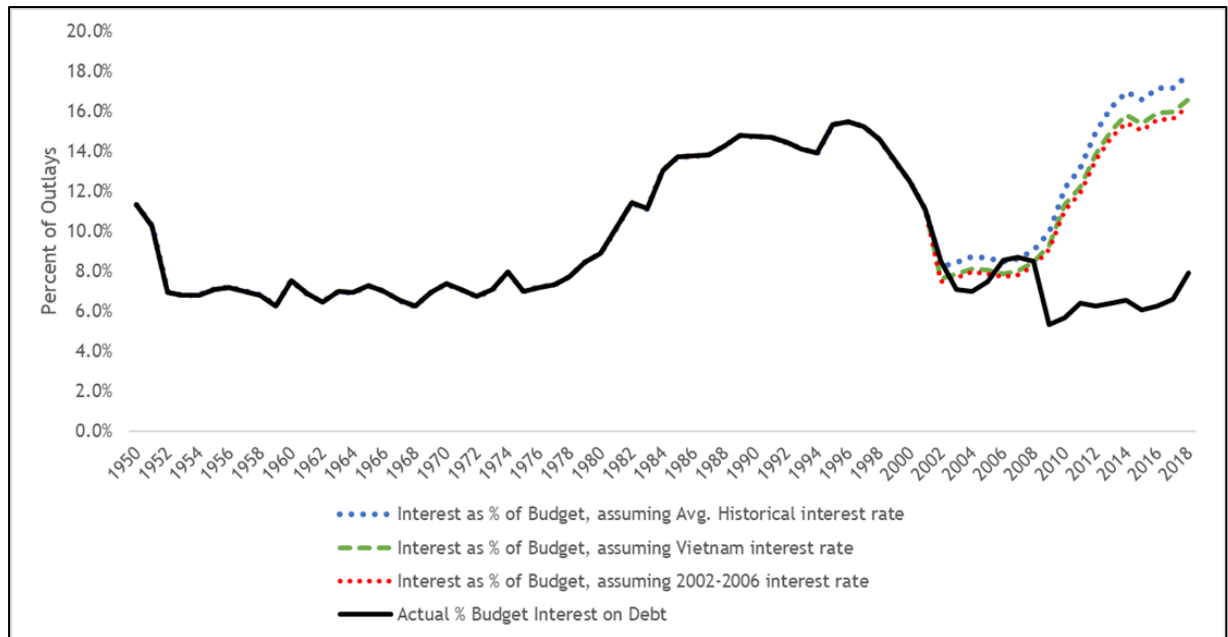


Figure 6.9 Estimated Interest Payments on Public Debt as Percentage of Budget Outlays Under Three Scenarios³²¹

Source: (OMB Historical Table 1.3, 2020; OMB Historical Table 7.1, 2019; OMB Historical Table 10.1, 2020)

If the U.S. government had been compelled to devote 15% or more of the budget to debt service, it would have crowded out other government programs in ways that would have been politically untenable. The higher interest payments would have competed directly with the discretionary portion of the budget. In these circumstances, the President and Congress would have almost certainly been forced to confront the cost of the war and the amount of money being borrowed to fund it. It is almost impossible to imagine a situation in which the United States could have hidden trillions of dollars borrowed for Iraq and Afghanistan if the interest payments had reached these high levels.³²²

In short, Presidents George W. Bush and Barack Obama had the option to “borrow it all,” which simply did not exist under Presidents Franklin D. Roosevelt, Harry

³²¹ Assumes effective interest rate on public debt is 4.69% (historical average from FY 1950–2017), 4.33% (FY 1965–1973, Vietnam War), and 4.23% (FY 2002–2006, post-9/11 wars, pre-recession), and that total federal spending and public debt in each year stay the same.

³²² W. Daley, Interview No. 18, October 3, 2016; T. Allen, Interview No. 23, November 7, 2016; and S. Moulton, Interview No. 36, May 9, 2017.

S. Truman, Lyndon B. Johnson, and Nixon. According to Stiglitz, “Had we been in the 1965, 1967 situation, if you had the counterfactual, where spending more led to more inflation, where interest rates tracked inflation, I don't think they would have been able to get away with it.”³²³

§ 6.4.3 Oil Prices

A further complication was the increase in oil prices that accompanied the first phase of the wars. When the U.S. invaded Iraq in 2003, oil prices had been relatively stable for two decades in the range of \$25–\$35 per barrel. From 2003 to 2008, prices soared, peaking at \$135 per barrel in July 2008, as shown in Figure 6.10. It is unclear to what the extent the U.S. invasion helped to precipitate this increase, although many experts believe there was some causal relationship (El-Gamal, 2010). Certainly oil futures (which provide a market perspective on the future of supply and demand) gave no hint of rising prices prior to the war, despite increasing demand from China and other emerging markets. The expectation was that there would be a concomitant increase in supply to compensate. The war cut the supply of oil from Iraq and introduced new uncertainties concerning the reliability of supply. Many analysts attribute some portion of the price increase to the war; for example, Stiglitz and Bilmes attributed 5–10% of the price rise to the uncertainty about the future supply of oil in the period immediately prior to and after the U.S. invasion (Stiglitz & Bilmes, 2012).³²⁴

³²³ J.E. Stiglitz, Interview No. 28, January 6, 2017.

³²⁴ There were several factors that likely contributed to the rise in oil prices in the early 2000s, including greater demand from emerging markets such as Brazil and China, as well as stagnating production and supply bottlenecks (Kilian & Hicks, 2013).

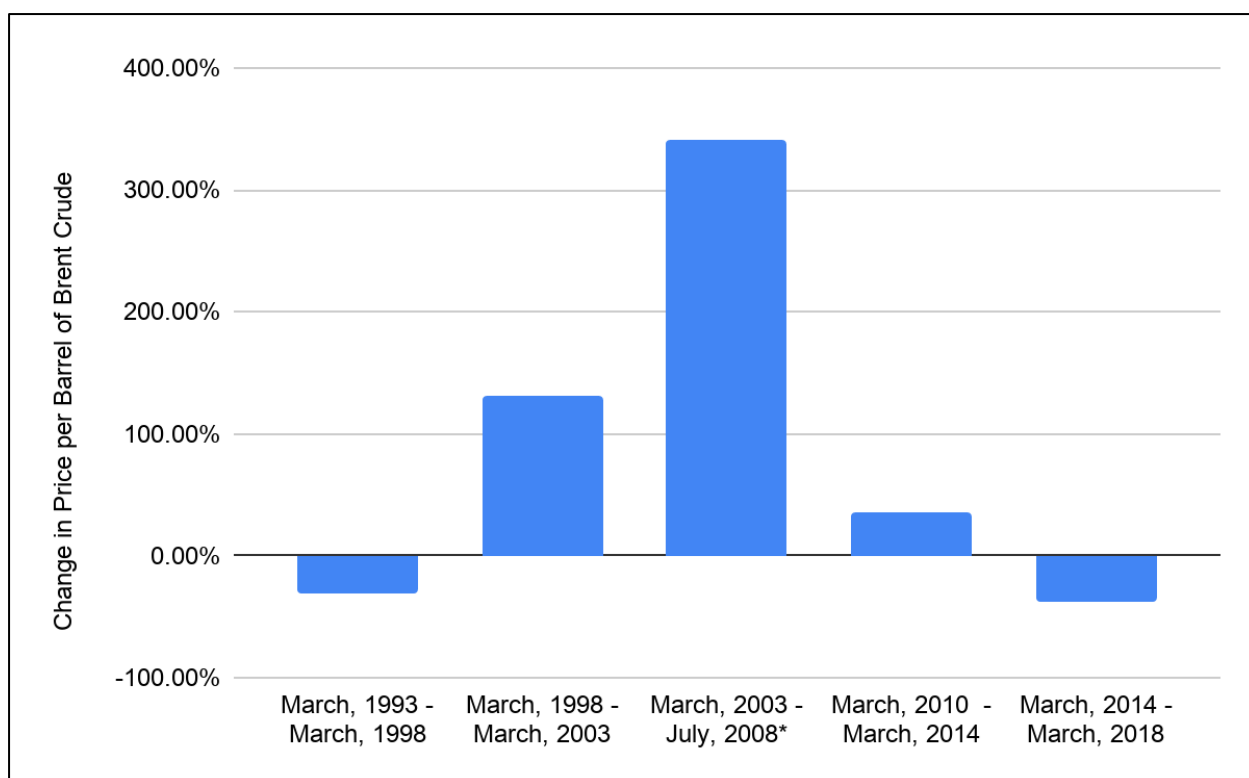


Figure 6.10 Change in Price per Barrel of Brent Crude over 5 Year Periods, 1993–2018
Source: (FRED, Global Price of Brent Crude, 2020)

There is also disagreement as to whether the oil price increase contributed to the financial crisis itself.³²⁵ Some have argued that the rapid increase in energy prices reduced aggregate demand and had a major impact on energy-dependent sectors of the U.S. economy, which led the Federal Reserve to loosen monetary policy in the years leading up to the financial crisis and contributed to the bubble in the housing sector (O’Brien, 2014). At a minimum, high oil prices distracted attention from emerging weaknesses in the financial system and the cost of the war.³²⁶

Politically, there was a public outcry in the U.S. over gasoline prices. By June 2008, the high cost of fuel was the second highest ranking issue on Gallup’s monthly

³²⁵There is disagreement as to whether the oil price contributed to the financial crisis. Hamilton (2009) showed that oil price hikes preceded 9 out of 10 U.S. recessions since World War II. However, Kilian (2009) found that by 2003 the underlying relationship between oil prices and the economy had shifted to the point that there was no longer a correlation (Stevenson, 2018)

³²⁶ J. Galbraith, Interview No. 2, January 5, 2016; J.E. Stiglitz, Interview No. 28, January 6, 2017; and S. Coorey, Interview No. 38, July 5, 2017.

“most important problem” list (second only to the economy, which was number one; Saad, 2008). Congress held widely publicized hearings in which legislators accused oil company executives of price gouging. At a Senate Judiciary Committee hearing on May 20, 2008, for example, Senator Richard Durbin scolded the top executives of Exxon Mobil, ConocoPhillips, Shell Oil, Chevron, and BP, saying, “Do you have any sense of what you're doing to us—we're on the precipice here, about to fall into recession...does it trouble any one of you—the costs you're imposing on families, on small businesses, on truckers?” (Hargreaves, 2008).

§ 6.5 The 2008 Financial Crisis and Backdoor Stimulus

The financial crisis of 2007–2008 was the worst economic downturn to afflict the United States since the Great Depression. It is a central factor in explaining the role of the economy in forming the Ghost Budget. Starting with a crisis in the subprime mortgage market in 2007, the crisis exploded in September 2008 with the collapse of Lehman Brothers and spread throughout the world financial system. Many economists believed that the economic stimulus package enacted during the peak of the 2008 financial crisis was insufficient to stabilize the U.S. economy. In this view, the wartime OCO budget supplied an additional round of economic stimulus through the “backdoor,”³²⁷ thus reducing any incentive for Obama’s economic team to limit war spending.³²⁸

As the economy reeled in the aftermath of the 2008 meltdown, the George W. Bush administration responded with both a fiscal stimulus and monetary expansion. The “Troubled Asset Relief Program” (TARP) authorized the Treasury to purchase from the banks up to U.S.\$700 bn of “troubled assets” (including real estate and mortgage-backed

³²⁷ J. Galbraith, Interview No. 2, January 5, 2016.

³²⁸ J. Furman, Interview No. 47, November 6, 2018.

bonds) to maintain financial economic stability.³²⁹ The global financial crisis and the urgency of getting Congress to enact a stimulus plan eclipsed everything else.³³⁰ The Federal Reserve cut interest rates to near zero in December 2008, so there were few conventional monetary policy options (Furman, 2018). In February 2009, Obama sought, and Congress enacted, an economic stimulus of \$787 bn (the American Recovery and Reinvestment Act of 2009, known as ARRA)³³¹ to boost employment.

However, most economists agreed that the stimulus needed to be much larger.³³²

As Summers, who was the President’s chief economic advisor, later said,

The President’s economic team advised [Obama] that there was essentially no danger of excessive fiscal stimulus in 2009. I joked...that worrying about overdoing fiscal policy was like my losing too much weight and becoming anorexic—a conceivable possibility, but very far from the dominant risk (Klein, 2011).

Leading economists outside of the Obama administration, including Stiglitz and Paul Krugman, criticized the size and composition of the Obama stimulus, calling for a package on the order of at least \$1 tn with more immediate spending (Krugman, 2010; Stiglitz, 2008). Congressional Republicans, however, favored tax cuts and/or a far smaller stimulus. As noted in previous chapters, Republican leaders were predisposed ideologically to lower taxes; most had signed a no-tax pledge. According to Stiglitz, “Republican ideology was restraining the budget [stimulus] from what it would be in any rational economic model.”³³³

In order to push any stimulus package through Congress, Obama settled for a much lower amount than his economic advisors recommended. Even so, the ARRA

³²⁹ TARP was created by the Emergency Economic Stabilization Act of October 2008.

³³⁰ R. Nabors, Interview No. 12, September 20, 2016 and Ban Ki-Moon, Interview No. 35, May 1, 2017.

³³¹ The Recovery Act was later increased to \$831 bn between 2009 and 2019.

³³² J. Galbraith, Interview No. 2, January 5, 2016; J.E. Stiglitz, Interview No. 28, January 6, 2017; S. Coorey, Interview No. 38, July 5, 2017; and J. Furman, Interview No. 47, November 6, 2018.

³³³ J.E. Stiglitz, Interview No. 28, January 6, 2017.

barely passed Congress, with only three Republican Senators and no Republican
Congressmen voting for it.³³⁴ The ARRA was perceived as a political compromise. As
Summers put it,

The President's political advisers—rightly in my view—constrained the initial
stimulus proposals to avoid sticker shock and rejection or great delay on
Congress's part. We believed in the winter of 2009 that if, as seemed likely, more
stimulus would ultimately be required, it could be passed through the
Congress... That view proved incorrect (Klein, 2011).

Congress rejected Obama's subsequent requests for more stimulus in the fall of
2009, and it soon became apparent from the continued weakness of the economy that the
initial amount had not been sufficiently large or properly structured to address the
magnitude of the economic downturn.³³⁵

In this environment, the money being spent on the war provided a form of
stimulus for the economy, and there was no worry that such spending would spark
inflation. Weak economic activity restrained inflation (the Consumer Price Index
recorded a 0.4% decline in 2009),³³⁶ and contributed to a further decline in interest rates,
keeping the cost of borrowing very low.

The concept that military spending can be beneficial to the economy is consistent
with Keynesian theory (Keynes, 1957), which holds that although government spending
is most effective as a stimulus when appropriated for direct investment such as
infrastructure, war spending may be helpful during recessions. Some kinds of military
spending are more stimulative than others (Borch & Wallace, 2010; Stiglitz & Bilmes,
2012). For example, Custers found large multiplier effects from military spending on
domestic arm manufacturers (Custers, 2010). On the other hand, the economic impact of

³³⁴ R. Nabors, Interview No. 12, September 20, 2016.

³³⁵ J. Galbraith, Interview No. 2, January 5, 2016 and J.E. Stiglitz, Interview No. 28, January 6, 2017.

³³⁶ See the CPI Calculator Tool (Federal Reserve Bank of Minneapolis, 2018).

military bases is unclear; Mark Hooker and Michael Knetter found that military base closures have little effect on local employment beyond the bases themselves (Hooker & Knetter, 1997). Within the military category, the wars in Iraq and Afghanistan had a fairly low multiplier in the United States, due to the way much of the resources and personnel were procured (Stiglitz & Bilmes, 2012).³³⁷

But in the crisis environment, according to Stiglitz, the war spending “was at least something.”³³⁸ Many economists (including all of those interviewed for this thesis) believe that war spending in the post-2008 period may have helped to fill a gap left by an insufficiently large government stimulus.³³⁹

To measure this effect, economist Ryan Edwards undertook a detailed analysis of the impact of post-9/11 war spending on the U.S. economy (Edwards, 2011). His results showed a small but positive impact on GDP, averaging 0.35% per year, based on actual data from 2001 through 2011 and CBO projections through 2020.³⁴⁰ Edwards calculated the impact from the multiplier effect of additional defense spending, which is offset by the “crowding out” effect of military spending on other investment and the impact of a reduced U.S. labor force due to increased disabilities among post-9/11 veterans. His analysis used a defense spending multiplier equal to 0.8, meaning that GDP rises by 80% of the amount of extra defense spending. This multiplier assumed the military spending represents domestic purchases, which was not the case for much of post-9/11 war spending (Stiglitz & Bilmes, 2008). Stiglitz and Bilmes found that a significant portion of U.S. war spending was devoted to purchasing non-American goods and services, such as

³³⁷ For example, sandbags for Iraq were filled in Kuwait, packed by Filipino contractors with Kuwaiti sand, and shipped to northern Iraq on U.S. truck convoys.

³³⁸ J.E. Stiglitz, Interview No. 28, January 6, 2017.

³³⁹ J. Galbraith, Interview No. 2, January 5, 2016; J.E. Stiglitz, Interview No. 28, January 6, 2017; S. Coorey, Interview No. 38, July 5, 2017; R. Edwards, Interview No. 46, December 5, 2017; and J. Furman, Interview No. 47, November 6, 2018.

³⁴⁰ Edwards used CBO economic forecasts and projections of war spending.

fuel from Kuwait and contract employees from dozens of other countries, so the 0.8 multiplier is almost certainly too high (Stiglitz & Bilmes, 2008).

On the other hand, economic activity was at low levels for much of the period from 2001 to 2011 and plummeted after the 2008 crisis. This implies that the crowding out effect may have been lower than Edwards estimates. On balance, therefore, Edwards' estimates may be a reasonable rough proxy for the net impact on GDP (see Table 6.2).

Table 6.2 Impact of Post-9/11 Wars on GDP

	Net Stimulus of Defense Spending	Crowding out of Capital	Labor Supply due to VA Disability	Total Net Impact of Wars
2001	0.11%	0.00%	0.00%	0.11%
2002	0.15%	0.00%	0.00%	0.15%
2003	0.59%	-0.05%	-0.01%	0.54%
2004	0.64%	-0.09%	-0.01%	0.54%
2005	0.69%	-0.14%	-0.01%	0.54%
2006	0.73%	-0.18%	-0.01%	0.54%
2007	0.98%	-0.22%	-0.02%	0.74%
2008	1.03%	-0.26%	-0.02%	0.75%
2009	0.87%	-0.30%	-0.02%	0.55%
2010	0.91%	-0.34%	-0.03%	0.54%
2011	0.89%	-0.37%	-0.03%	0.49%
2012	0.87%	-0.41%	-0.03%	0.43%
2013	0.82%	-0.44%	-0.04%	0.34%
2014	0.77%	-0.47%	-0.04%	0.26%
2015	0.74%	-0.50%	-0.04%	0.20%
2016	0.71%	-0.53%	-0.04%	0.14%
2017	0.69%	-0.55%	-0.05%	0.09%
2018	0.67%	-0.58%	-0.05%	0.04%
2019	0.66%	-0.60%	-0.05%	0.01%
2020	0.65%	-0.63%	-0.06%	-0.04%
Total	14.17%	-6.66%	-0.56%	6.96%

Source: (Edwards, 2011)

§ 6.5.1 Statistical Analysis of the Backdoor Stimulus Hypothesis

Another way to test whether war spending provided some measure of “backdoor stimulus” is to look at whether government spending was at the level that could be expected given the prevailing interest rates. To do this, I examined the historical relationship between federal government spending outlays and interest rates from FY 1950 to 2017 using simple regression analyses.

My findings support the argument that government spending after 2008 was lower than would have been predicted, given the historical relationship between interest rates and government spending. Taking real interest rates between FY 1950 and FY 2001, I found that a one-point decrease in the real interest rate (interest rate minus inflation) was associated with a 1.47% increase in year-over-year federal spending.

Using this model, I predicted expected growth in spending from FY 2001 through 2018 to see if spending was at the level that would be expected based on prevailing interest rates.³⁴¹ Based on this historical relationship, the model predicts that federal spending would have been higher than it was in 15 out of the 18 years of the wars. This includes every year of the post-9/11 wars except for FY 2008 and 2009, when spending was higher than usual due to federal stimulus spending following the FY 2008 financial crisis, and FY 2002, when war spending was still low. In total, federal spending during the period was \$2.56 tn lower than the model predicted (\$55.8 tn compared with predicted \$58.4 tn). Crucially, 92% of this difference (\$2.38 tn) occurred during the decade following the crisis, from FY 2008–2018, when the U.S. needed additional fiscal stimulus (see Table 6.3). Since war spending is included in these years, the model is highly conservative—in fact, the shortfall in federal spending is actually even higher.

Table 6.3 Predicted vs. Actual Outlays (US \$Bn) FY 2001–2018, Using Results of Regression Model

Fiscal Year	Actual	Predicted	Difference
2001	1,863	1,876	13
2002	2,011	1,970	(41)
2003	2,160	2,161	1
2004	2,293	2,345	52

³⁴¹ The United States invaded Afghanistan during FY 2001, so that year is included in both the regression model and estimates.

2005	2,472	2,502	30
2006	2,655	2,678	23
2007	2,729	2,857	128
2008	2,983	2,924	(59)
2009	3,518	3,238	(280)
2010	3,457	3,819	362
2011	3,603	3,807	204
2012	3,527	3,979	452
2013	3,455	3,897	442
2014	3,506	3,825	319
2015	3,692	3,850	158
2016	3,853	4,038	185
2017	3,982	4,259	277
2018	4,109	4,406	297
2001–2018 Total	55,868	58,431	2,563
2008–2018 Total	39,685	42,042	2,357

Actual total war spending during this period was at least \$2.4 tn, according to the CBO, which measures direct spending in its narrowest sense.³⁴² Thus, without the war spending, the economic performance would have been even weaker. The gap between actual and predicted spending and actual outlays is shown in Figure 6.11.³⁴³

³⁴² Includes annual appropriations for direct military, State Department, and veterans' spending, but excludes long-term accrued veterans' benefits; equipment and weapons replacement and depreciation; financing; and other long-term costs.

³⁴³ The stimulative effect was still less than it would have been if this money had been spent within the United States on investments with a higher multiplier (B. Austin, Glaeser, & Summers, 2018).

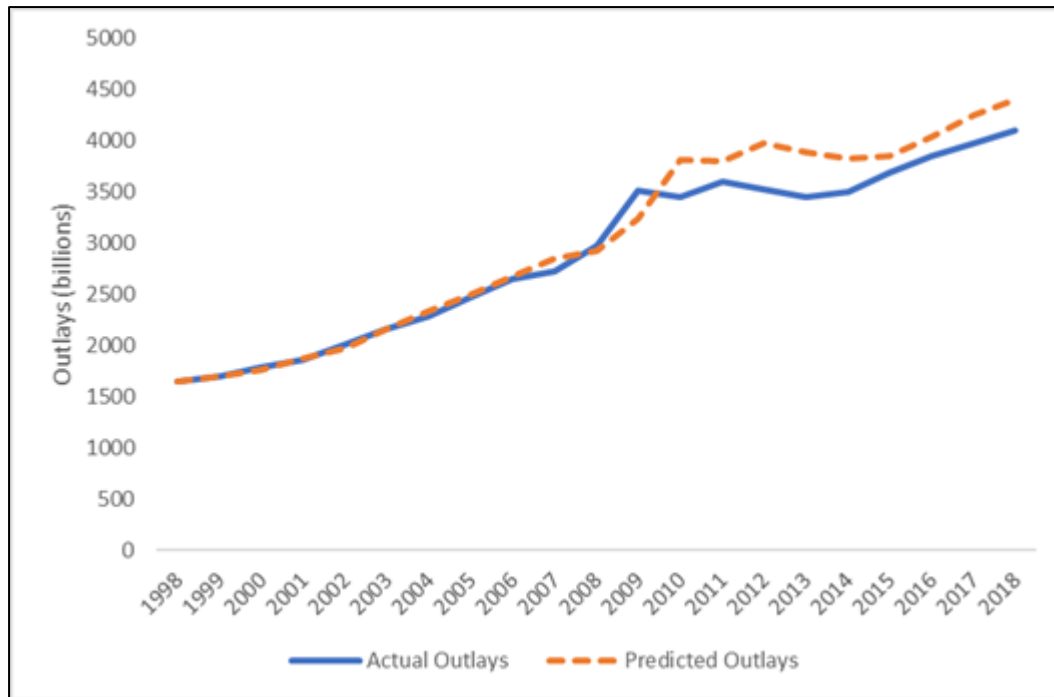


Figure 6.11 Predicted vs. Actual Federal Outlays from 2000 to 2018, Using Results of Regression

Thus, it was not only politically expedient to fund the war outside the regular budget and using debt, but it was also useful from a macroeconomic perspective. As Stiglitz observed, “one way of saying it is, it was good for the economy to spend more; it was good for the military, conducting a war; it was good for the President, who didn't want to admit how much we were spending on the war.”³⁴⁴

The economic context helps to explain why government economists ignored the rising war costs and the methods through which they were funded.

During Korea, Vietnam, and previous wars, Presidential economic advisors spent a great deal of time considering the potential impact of war spending on the economy, particularly on inflation, tax policy, and budget deficits.³⁴⁵ Zielinski (2016) has stressed the importance of inflation as a determinant of how government economists advised previous administrations to finance those wars.

³⁴⁴J.E. Stiglitz, Interview No. 28, January 6, 2017.

³⁴⁵W. Polk, Interview No. 27, December 7, 2016 and F. Bator, Interview No. 39, July 12, 2017.

This was not the case during the Iraq and Afghanistan period. The data mining of reports and minutes of CEA meetings (see Table 2.7) confirms this observation. Jason Furman, who served as Chairman of the CEA during the Obama administration, said that the CEA was preoccupied with the financial crisis.³⁴⁶ When asked if he was surprised that the cost of the wars had only been mentioned in one annual report between 2001 and 2016, Furman replied that he was surprised it had been discussed at all. “I was never at a meeting where the level of defense spending was open for discussion,” he said. “Much less the topic of the OCO budget.”³⁴⁷

§ 6.6 Attitudes Towards Taxes and the Level of Debt

In addition to the unusual economic situation of the post-9/11 period, there is evidence that public attitudes toward indebtedness in general had changed compared to previous wars. This shift in public opinion likely made it more acceptable to borrow all the money for the wars.

In their seminal longitudinal analysis of American public debt during the past century, Moritz Kuhn and co-authors found that gross household debt rose from 15% percent of GDP in 1949 to 100% in the summer of 2008 (Kuhn, Schularick, & Steins, 2018). They found that American household debt-to-income ratios rose across all income groups after the 1970s. In the earlier years, credit expansion was due to a rising number of households taking on debt. However from the 1970s on, the growth occurred mainly on the *intensive* margin; that is, households were taking on more debt relative to their incomes, indicating that they were more comfortable with a higher level of borrowing. (Kuhn, Schularick, & Steins, 2018).

³⁴⁶ J. Furman, Interview No. 47, November 6, 2018.

³⁴⁷ J. Furman, Interview No. 47, November 6, 2018.

The shift in attitudes toward debt was also evident among U.S. political leaders. Whereas Truman had a personal aversion to debt, George W. Bush had a personal aversion to taxes, a sentiment widely shared in the Republican party. Numerous figures interviewed for this thesis felt that the loathing of higher taxes was not confined to Republicans but was broadly bipartisan.³⁴⁸ They felt that cultural acceptance of household debt fostered an environment where public opposition to the idea of borrowing to pay for the wars was very low.³⁴⁹

This anti-tax attitude is reflected in the decline of the tax burden in as a percentage of American GDP compared with other OECD countries. In 2000, U.S. taxes were 5.5 points below the OECD average and fell into the middle of the OECD range (Centre for Tax Policy and Administration, 2019). By contrast, after two decades of tax-cutting, beginning with the Bush tax cuts of 2001, total U.S. taxes (including taxes at federal, state and local levels) dropped from 28% of GDP in 2000 to 24% of GDP by 2018, placing them ten points *below* the OECD average of 34% and lower than 31 countries (only Chile, Ireland, and Mexico were lower; Centre for Tax Policy and Administration, 2019).

The post-9/11 wars thus took place in a profoundly different economic context than previous U.S. military conflicts. The differences in economic conditions and in attitudes are summarized in Table 6.5.

Table 6.4 Comparison of Economic Conditions/Attitudes in Korea, Vietnam, and Post-9/11 Eras

	Korea	Vietnam	Post-9/11
Interest Rates	Low	High	Low/Extremely low
Market size (volume of securities traded)	Small	Medium	Very large

³⁴⁸ W. Daley, Interview No. 18, October 3, 2016 and S. Collender, Interview No. 44, November 8, 2017.

³⁴⁹ D. Walker, Interview No. 17, September 30, 2016; and G. England, Interview No. 15, September 26, 2016.

Demand for U.S. government securities	Low	Low	High/ Very high
President's attitude toward taxes	Supportive	Reluctant	Opposed
Congress's attitude toward taxes	Supportive	Gradually supportive	Opposed
Public attitude toward taxes	Initially supportive, gradually less so	Increasingly opposed	Opposed
Public attitude toward borrowing	Reluctant	N/A	Acceptance

§ 6.7 Implications of Financing the Wars Through Debt

The use of debt to finance the post-9/11 wars had implications both for the final cost of the wars and for how the public experienced this cost.

Even though interest rates remained at low levels, borrowing all the money for the wars still incurred substantial amounts of interest. In 2011, Edwards estimated that the U.S. had incurred \$316 bn in interest on the first decade of war borrowing (Edwards, 2011). This figure represents not only the interest payments already made but also the amount of interest accrued based on the war spending. As of that date, he calculated that the total interest payable would reach \$1 tn. In a recent analysis, economist Heidi Peltier estimated that the U.S. has already accrued \$925 bn in cumulative interest payments (Peltier, 2020b). She estimated that if war spending ceased immediately, interest payments on the \$2 tn of existing war debt would rise to over \$2 tn by 2030 and to \$6.5 tn by 2050.

Peltier's projections are based on the initial borrowing rates and assume that they remain unchanged. So, they are likely high (for example, some of the funds borrowed in the 10-year Treasury market in 2001 at close to 5% may have been refinanced in 2011 at 2.78%). However, it is also possible if the debt keeps on being refinanced every 10 years the final cost will vary depending on whether future interest rates go up or down.

Regardless of the precise amount in interest payable, this additional layer of cost is significant and is precisely what Truman worked to avoid during the Korean war. As Kreps (2018a) and Tilly (2009) have argued, the public doesn't perceive debt in the same way it views paying taxes. Financing the wars with debt makes the cost less tangible and removed the topic from the forefront of the public consciousness.

To illustrate this point, in 2014, Kreps surveyed 350 Americans and asked them to estimate the cost of the Afghanistan war, which at that point was close to \$700 m. Responses ranged from \$1m to \$10 tn. The typical response was "I have no idea — \$100 million?" Leaving aside the difficulty that many people have just imagining the scale of millions, billions, and trillions, her work suggests that most voters have no idea what the war is costing and cannot relate to such enormous sums (Kreps, 2018b).

As public debt has to be paid eventually from taxes, borrowing simply shifts the *timing* of those tax payments. In economic terms, therefore, the argument can be restated in terms of individuals having a very high discount rate. Individuals value income today much more highly than income tomorrow. "Tomorrow" is uncertain and may be a generation away. Hence, there is a preference for shifting taxes to the future. This is especially so when the cost of shifting (measured by the interest rate on public debt) appears very low.

§ 6.8 Conclusion

Thanks to the unique economic conditions that enabled the United States to finance the wars through public debt, a broad, quiet political consensus existed in both Congress and the executive branch that insulated the American people from the financial costs of American wars. Without the extraordinary capacity to borrow at low rates, the United States would not have been able to avoid budgetary trade-offs and higher taxes.

The unique combination of low interest rates, low inflation, and very large appetite for U.S. Treasury securities among global investors enabled the wars to be financed entirely through debt—a choice that was not available to the United States in previous conflicts.

Other factors played a strong supporting role. Public attitudes were more accepting of higher indebtedness compared with previous generations during Vietnam and Korea. The U.S. economy needed additional stimulus to recover from the 2008 financial crisis. Even though it was not the most efficient way to achieve this objective (infrastructure spending would arguably have been more effective), debt-financed wartime spending was a viable second-best solution, made possible by “off budget” mechanisms that circumvented Congressional budgetary processes.

CHAPTER 7 MILITARY SUPPORT FOR THE GHOST BUDGET

§ 7.1 Chapter Summary

The Pentagon played a critical role in fostering and perpetuating the Ghost Budget. No other government program was able to secure and sustain this form of funding, despite the vacuum in Congressional budgeting and the availability of low-cost funding. The Ghost Budget emerged in part due to both the determination and the ability of the Defense Department to secure a separate source of post-9/11 war funding outside its base budget.

During the first phase of budgeting for the conflict, the interests of the Bush administration and the DoD were aligned.³⁵⁰ The Pentagon wanted to increase its budget by any means possible. Emergency supplemental appropriations presented a very appealing way to reverse the downward trend in military spending. Unlike the regular budget, the wartime supplemental money was easier to secure and had fewer restrictions on how it could be spent. These features made it possible for the DoD to use supplemental and OCO funds to obtain non-war items on its long-time “wish list” and to cope with rising fixed costs. For its part, the Bush administration wanted to minimize the appearance of deficit and maintain the illusion that the wars were going well. Although the interests of the Pentagon diverged somewhat from the Obama administration, the Pentagon succeeded in maintaining the OCO budget exempt from the sequester. By the time Donald Trump was elected, the OCO budget had evolved into a second defense budget that was largely untethered from the wars.

³⁵⁰ The FY 2010 budget was mostly formulated during the Bush administration so Obama’s first full budget was FY 2011, which began in October 2010.

This chapter will discuss why it was advantageous for the DoD to use emergency/OCO funding. It will also answer a more puzzling question: why did the Pentagon want the majority of war funds to be *outside* of its base budget when the literature (Hartley & Sandler, 1995; Niskanen, 1971; Wildavsky, 1964) and historical precedent suggest that it would have been in the DoD's interest to place the money *inside* its base? This chapter will show how the wartime funding structure enabled the military to solve a number of its own internal difficulties, while simultaneously growing its base.

§ 7.2 The Budget Maximizing Bureaucracy

The U.S. Department of Defense is the largest global employer in the world, with 3.2 million employees, including active duty service members, civilians, Guards, and Reservists (and not including contractors).³⁵¹ The DoD is 50% larger than the People's Liberation Army, which employs 2.3 million and is the world's second largest employer (Stimage, 2018).

There were several reasons why it became advantageous for this vast bureaucracy to use emergency/OCO spending as a source of funding. At the beginning, the Pentagon, like the George W. Bush administration, had expected the wars to be short. As Bolten observed, "If I had forced the Pentagon to give me a number in the fall of 2003 of what they thought it was going to cost in Fiscal [Year] 2005 they would have said, 'We'll be done.'"³⁵² There was little discussion inside the Pentagon as to how the post-9/11 war funding might affect its overall budget.³⁵³ As Adams observed, however, once the scale

³⁵¹ The Department also employs at least 485,000 additional full-time equivalent contractors, but the exact number of contract personnel is unknown because the majority of contracts are written to perform a service without specifying exact numbers of people (Peters, 2020).

³⁵² J. Bolten, Interview No. 6, September 19, 2016.

³⁵³ J. Bolten, Interview No. 6, September 19, 2016; and R. Hale, Interview No. 24, November 7, 2016.

and structure of the war funding pot became apparent, it became the Pentagon's "pot of gold."³⁵⁴

Several theories help explain why the DoD used every tool at its disposal to secure this treasure. According to public choice theory (PCT), which draws on traditional economics to understand resource allocation in non-market situations, individuals and organizations behave in a rational, self-maximizing fashion (D. C. Mueller, 1989). William A. Niskanen, who spent his formative years working as one of McNamara's defense department "whiz kids"³⁵⁵ at RAND, argued that bureaucrats in "budget-maximizing bureaucracies" will always seek to increase their share of resources as a way of increasing their power, prestige, and influence (Niskanen, 1971). Moreover, Niskanen found that governments rely on information from agencies about the costs of goods and services. In this case, the Pentagon had a monopoly over up-to-the-minute data related to war operations.

Dunleavy's theory of "bureau shaping" places more emphasis on the motives of individual civil servants to pursue ends that will benefit their own programs (Dunleavy, 1991). There is evidence of such behavior after 9/11; for example, Secretary of Defense Gates attributed some of the base budget growth to "brass creep," in which personnel of higher and higher rank were assigned to do things that could reasonably be handled by personnel of a lower rank. Gates claimed that such creep was "fueled by the desire to increase bureaucratic clout or prestige of a particular function, service or region" during the war, which is consistent with Dunleavy's findings (Gates, 2010).

³⁵⁴ G. Adams, Interview No. 32, February 15, 2017.

³⁵⁵ Defense Secretary Robert McNamara surrounded himself with a group of young experts from the RAND Corporation during the 1960s that were dubbed the "Whiz Kids."

Public budget theorists (Rubin, 1988; Wildavsky, 1992b) also provide reasons why the Pentagon would have a strong incentive to enhance its budget. Public budgeteers place more emphasis on political, sociological, and management principles to explain decision-making (and less on economics). Their argument is that the Department forms part of a network of special interests, constituents, economic actors, lawmakers, and others who try to game the budget system for maximum resources (Forrester, 2001; Heclo, 1977). It is well established that the military maintains strong relationships with major defense contractors and with lawmakers representing communities where weapons and equipment are manufactured (Thorpe, 2014).

In 2001, the Department was actively seeking to increase its budget after a decade of post-cold war budget cuts, especially during the Clinton years (Mathews, 2019).³⁵⁶ In his first SOTU address, Clinton declared: “As we restructure our military forces to meet the new threats of the post-Cold War world, it is true that we can responsibly reduce our defense budget” (Clinton, 1993). He proposed reducing the total number of troops by 6%, retiring 28 Navy warships, trimming Army active divisions from 14 to 1, and reducing Air Force fighter wings from 28 to 24 (Healy, 1993).

Despite opposition from the military and its supporters,³⁵⁷ Clinton succeeded in lowering military spending almost to post-Vietnam levels. These policies accelerated the reduction in defense spending that followed the Reagan defense buildup of FY 1979–1985. That era ended with the Gramm-Rudman-Hollings Balanced Budget Act of 1985 (a precursor of the Budget Control Act of 2011) that imposed caps on overall discretionary

³⁵⁶ L. Korb, Interview No. 9, September 19, 2016; F. Spinney, Interview No. 33, February 2, 2017; and W. Wheeler, Interview No. 14, September 23, 2016.

³⁵⁷ Stakeholders who support military spending, including quasi-governmental research institutions and think tanks such as the RAND Corporation, large private sector defense contractors, and lawmakers representing districts that contain large military installations. See *The Iron Triangle* (Adams, 1981) and *The Company of Strangers* (Heclo, 1977, p. 277).

spending in an effort to reduce the federal deficit. Aside from a short blip during the Gulf War, the military budget declined throughout the 1990s, as shown in Figure 7.1.



Figure 7.1 U.S. Military Outlays 1950–2018 (\$2018)

Source: (OMB Historical Table 1.3, 2020; OMB Historical Table 10.1, 2020)

Public opinion largely supported this trend. Russett (1990) found that over 50% of the public wanted to spend less on the military following Vietnam. But opinion shifted so that by the beginning of the Reagan era, nearly 60% of the public supported boosting the military budget. By the late 1980s, public support had fallen back to the post-Vietnam level (Russett, 1990). According to Gallup polls, more than 50% of voters said the United States was spending “too much” or “about right” on the military during every year of the Clinton Presidency (1993–2001; Gallup, 2018). There was also a post-Cold War mood following the collapse of the Soviet Union, which was captured by Francis Fukuyama’s 1989 essay, “The End of History?” in which he argued that Western liberal democracies had triumphed (Fukuyama, 1989).

Consequently, by 1998 the percentage of GDP spent on the military declined to 2.1%, the lowest level since World War II. This statistic was a source of alarm to Pentagon leaders, such as Chairman of the Joint Chiefs of Staff Admiral Mike Mullen (The Heritage Foundation, 2008)³⁵⁸ and pro-defense think tanks that had long urged a spending “floor” pegged at 4% of GDP (Eaglen, 2007). Even though the 4% level was arbitrary, it had a strong following within the military establishment. As J. Stiglitz explained:

Nobody knows what the military, what defense should cost...the answer is maybe whatever it costs, and so the way the military explains it to itself is as a share of GDP. If we spend 10% of GDP...they would have said 10% is the right number ...right now we're in a discussion about are our allies spending enough because they're spending less than 2% of GDP. I've asked why 2%? Where did you get that number? They don't know, but if they were in a world where 5% or 6% were the norm, and we knocked it down to 3%, naturally they would say “We can't do it.”³⁵⁹

Prior to the 9/11 attacks, this policy of retrenchment continued under George W. Bush.

Gordon England recalled:

I know the White House, at least early on, tried very hard to maintain expenditure limits. I remember literally going over to Rumsfeld, to the President, trying to get another \$5 billion. That was a huge debate for a long period of time to get \$5 billion. Now \$5 billion seems like chump change.³⁶⁰

After 9/11, everything changed. Congress increased the base defense budget for the first time in nearly a decade. When the military was called into action in 2001, the leadership at the Pentagon felt that it was ill-prepared to go to war. This view was epitomized by Rumsfeld's assertion that “You go to war with the Army you have—not the Army you might want or wish to have at a later time” (Schmitt, 2004a).

³⁵⁸ Speech at The Heritage Foundation on April 15, 2008, Washington DC (The Heritage Foundation, 2008).

³⁵⁹ J.E. Stiglitz, Interview No. 28, January 16, 2017.

³⁶⁰ G. England, Interview No. 15, September 26, 2016.

The military was forced to grapple with the unforeseen nature of warfare in Afghanistan and Iraq (Freedman, 2017). In both theatres, the United States quickly toppled the initial foes (the Taliban and Saddam Hussein) only to then face a “protean” enemy (Stern, 2003) that mutated and evolved as it went along. The military adopted a strategy of “counterinsurgency” (COIN) that involved diplomatic, economic, and local partnerships (Kilcullen, 2006).³⁶¹ However, it was not clear whether this shift in warfare would be permanent. According to Adams, “A lot of people even in the Army/Marines weren’t sold on the whole COIN idea—they wanted to keep the whole thing “temporary” and not to institutionalize this allocation of funds.”³⁶²

The Pentagon maintained that the unpredictable war and the rapidly evolving changes in fighting strategy meant it could not provide estimates in advance³⁶³ but needed flexibility to decide what was required on an ongoing basis. According to Bolten:

When Congress asked me how much money was needed for the war, I said that the Pentagon is unable to tell me what this war will cost. I think we need to leave the flexibility for the President and the military decision makers to adequately fund the war.³⁶⁴

Asymmetric information was an important element in the Pentagon’s ability to control the budget process. The Department’s detailed knowledge over its own vast and complex operations was not available to the other participants in the budget process. As Niskanen and Dunleavy point out, this greater access to information and ability to restrict details about costs provide a built-in advantage in the budget game (Dunleavy, 1991; Niskanen, 1971).

³⁶¹ COIN typically involves political, social, and economic programs in an effort to address root causes of a conflict.

³⁶² G. Adams, Interview No. 32, February 15, 2017.

³⁶³ A. Carter, Interview No. 45, November 27, 2017.

³⁶⁴ J. Bolten, Interview No. 6, September 19, 2016.

The Pentagon had access to all the inputs that were needed to produce cost estimates, which were widely diffused. As well as U.S. service members, the war effort relied on private sector contractors, National Guards, Reservists, local Iraqi and Afghan personnel, British and NATO troops, nonprofit organizations, and State Department and intelligence officials. The DoD determined the call-up process for Guards and Reservists, made the operational decisions; coordinated with the State Department, NATO, and NGOs; managed the bidding process for contractors; awarded the contracts; and maintained a complex set of agreements with other countries. It maintained close ties with the intelligence agencies and kept at least 10% of the wartime funding in classified accounts. The Pentagon's far reach allowed it to aggregate all this material into its budget request. The DoD was the only player that understood the details of these costs, and it was not even required to share this information with the OMB or Congress.³⁶⁵

This information monopoly gave the Pentagon the power to propose the amount of funds it desired as a "take-it-or leave it" proposition. As Forrester writes, "If the bureaucracy is the monopoly supplier and restricts information about its true costs" then it is "institutionally allowed to make take-it-or-leave-it budget proposals" (Forrester, 2001, p. 103). In such situations, bureaucracies can have the power to obtain "excessively large" budgets (D. C. Mueller, 1989, p. 255).

In these circumstances, it became virtually impossible for Congress or the President to reject the Pentagon's budget number. The hundreds of billions in emergency funding for the wars in Afghanistan and Iraq augmented the total DoD budget (base plus supplemental war money) to nearly \$700 bn by FY 2009 (see Figure 7.2). This raised the

³⁶⁵ J. Bolten, Interview No. 6, September 19, 2016; W. Wheeler, Interview No. 14, September 23, 2016; and P. Eaton, Interview No. 34, March 2, 2017.

defense function of the budget to 4.2% of GDP in 2008.³⁶⁶ It remained well above 4% through 2013 and never fell back to the pre-2001 levels (OSD, Table 6-10, 2018, p. 1). According to Adams, this increase “allowed the military to reclaim the same degree of control over the budget that it enjoyed during the Cold War –in terms of the degree of autonomy it enjoyed in getting and spending money.”³⁶⁷

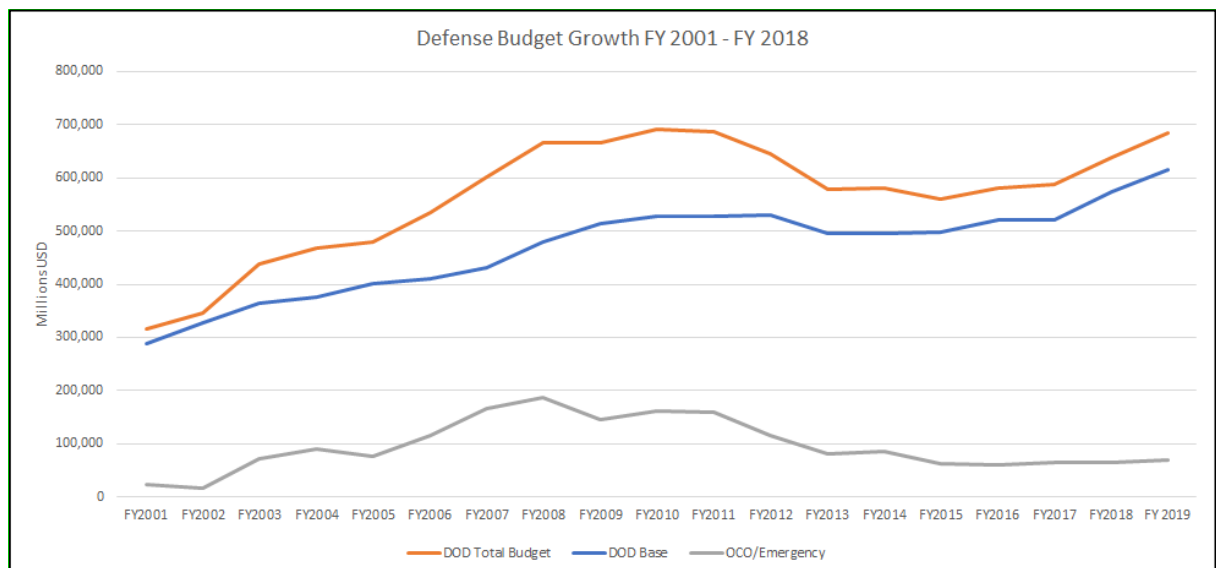


Figure 7.2 Defense Base Budget and OCO Spending, FY 2001–FY 2008
Source: (OSD, Table 2-1, 2019)

However, the Pentagon still maintained that it needed a bigger budget, comparing itself unfavorably to previous wars. As England testified to the House Budget Committee in January 2007:

In World War II, defense was about 35% of the budget. In Korea, it was about 12% of the budget. In Vietnam, approximately 9% of the budget. Desert Storm, about four and a half percent of the budget. During the Reagan buildup, it was about 6% of GDP. And today, it is about 3.9%, including the supplemental war cost. So as a percent of GDP, we are actually considerably lower than we have

³⁶⁶ The DoD budget accounted for 4.2% in 2009, 4.6% in 2010, 4.7% in 2011, 4.6% in 2012, and 4.2% in 2013. Thereafter it fell, ranging from 3.2% to 3.8%.

³⁶⁷ G. Adams, Interview No. 32, February 15, 2017.

been in any other conflict of modern times in the country (England & Spratt, 2007).

In 2010, former Secretary of Defense Robert M. Gates told reporters that “sustaining current force structure and making needed investments in modernization will require real growth of 2 to 3 percent, which is 1 to 2 percent above current top-line budget projections” (Gates, 2010).

The growth in defense spending reached a high-water mark in 2010. The upward trajectory might have continued had it not been for the BCA of 2011, which smothered the new defense buildup (Blakely, 2017). The Pentagon bureaucracy still managed to use its considerable power to force Congress to exempt OCO from the spending caps. According to Adams, by this point the DoD had become “addicted to the war funding ...OCO was like crack cocaine.”³⁶⁸

§ 7.3 Why Was it Advantageous for the Pentagon to Maintain War Funding Outside the Base Budget?

By FY 2005, the military had been engaged in major combat for three full budget cycles and Congress had enacted more than a dozen emergency supplemental spending bills outside the regular budget cycle (Belasco, 2010). There was a growing awareness that the wars were turning into ongoing operations that should be planned for and funded in the annual defense base budget (Chamberlin, 2003). Criticism of the emergency funding mechanism was growing, even among traditional defense supporters such as the Heritage Foundation (Spring & Riedl, 2008).

³⁶⁸ G. Adams, Interview No. 32, February 15, 2017.

However, the DoD resisted shifting the war into the base budget or asking for war funding in the regular budget cycle. One factor was the genuine uncertainty over war strategy. But there was much more at play.

Alasdair Roberts, who has written extensively about war and national security during the Bush administration, observed that the separate wartime budget started off because it was “convenient” for the military but “mutated into path dependence.” According to him, “It was convenient because it diminished the need for public conversation and because the military was reclaiming the control it had lost in recent decades. It helped give the military more autonomy over the execution of the war.”³⁶⁹

From the perspective of the Pentagon bureaucracy the increased autonomy brought by the OCO budget was refreshing and long overdue. For years, the Pentagon had felt that Congress micromanaged its budget. Congressman George H. Mahon, who chaired the House Appropriations Subcommittee on Defense from 1949 to 1978, “scrubbed the budget vigorously...not only seeking to uncover inefficiencies in management of defense resources but also questioning basic rationale” (Blechman & Ellis, 1990, p. 23).

After the 1974 budget reforms took effect, Congress took on an even more assertive role in shaping defense base budgets (Blechman & Ellis, 1990). The DoD chafed at the parochial interests of individual lawmakers. According to Gordon England,

At the end of the day this whole budgeting process exists for the Congress so that they can control specific expenditures. Not just the total amount but specific expenditures...Congress has control over each individual project, how much is being spent, how many ships are being built, how much is in the maintenance accounts.³⁷⁰

³⁶⁹ A. Roberts, Interview No. 16, September 28, 2016.

³⁷⁰ G. England, Interview No. 15, September 26, 2016.

England believed that Congressional “micro-managing” of the DoD budget had worsened as the military budget came under pressure.

Rumsfeld told me if you go back to when he was Secretary of Defense the first time in the ‘70s when the budget came back from the Hill it would have a page or two of comments. When I was on the Hill it would be like 13 or 14 pages....Over a period of 5 or 10 years you had 10,000 pages of comments from the Hill.³⁷¹

In addition, there were four main *structural characteristics* of the wartime appropriations that made them highly attractive to the Department: (i) speed and avoidance of the regular budget cycle; (ii) lack of oversight; (iii) flexibility; and (iv) the potential to add to the base budget through selective budget arbitrage.

§ 7.3.1 Speed and Avoidance of the Regular Budget Cycle

Budget formulation within the DoD is ordinarily handled through the complex Planning, Programming, Budgeting, and Execution (PPBE) system that was created during the early stages of the Cold War. Each service prepares its own budget request from the bottom up, which proceeds through several stages of evaluation, justification, and long-range planning on a rolling 2–6 year cycle. Numerous stakeholders participate in this process, including the services, defense agencies, and combatant commands, as well as the Office of the Secretary of Defense (OSD; Adams & Williams, 2010). As the name implies, PPBE requires four distinct phases: Planning (examining alternative strategies, analyzing conditions, trends, technology, threats, and assessing long-term implications of choices); Programming (defining and analyzing alternative force structures, weapons systems, support systems, and resource implications for each option); Budgeting (formulation, justification, and controls of the first one or two years of the budget for each program); and Execution (the current application of the previous phases;

³⁷¹ G. England, Interview No. 15, September 26, 2016.

L. R. Jones & McCaffery, 2005).³⁷² This system has been criticized in recent years for being slow, stove-piped, and beholden to various internal factions. But it ensures that all budget requests are vetted thoroughly and remains firmly entrenched within the Pentagon bureaucracy (Cordesman, 2009; Shevin-Coetzee, 2016).

Throughout the post-9/11 wars, funding was handled *outside* PPBE. The emergency/OCO requests bypassed the Planning and Programming phases entirely and were assembled in Budgeting, where justification inputs were held to a much lower standard of documentation than regular ones.³⁷³ This meant the funding avoided several layers of inspection. It did not undergo the “fiscal guidance” reviews or pre-auditing procedures (such as controllers’ checks on requisitions and purchase orders) or the regular apportionment process of expenditure controls.³⁷⁴ Moreover, Congress did not enact statutory requirements (such as defining specific periods of availability of funds for certain projects or requirements to break down the spending execution reports into sub-accounts) which are standard for most rapid ramp-ups of spending such as the Decennial Census.³⁷⁵

According to Lorenzen, the Pentagon maintained two parallel processes, one for the base budget and a second “fast-track” process for OCO:

DoD had to face the reality of flat-funding for the base, and then OCO was a way to backfill the holes. This led to an abuse of the base budgeting designation because the budget people at DoD sat around and figured out how much of whatever they wanted, like a particular helicopter, could potentially be used in

³⁷² See Department of Defense Directive Number 7045.14 (Revised August 29, 2017; U.S. Department of Defense, 2017).

³⁷³ L. Korb, Interview No. 9, September 19, 2016; R. Hale, Interview No. 24, November 7, 2016; P. Schiliro, Interview No. 21, October 21, 2016; E. Lorenzen, Interview No. 30, February 1, 2017; and G. Fine, Interview No. 48, November 8, 2018.

³⁷⁴ D. Walker, Interview No. 17, September 30, 2016 and G. Adams, Interview No. 32, February 15, 2017.

³⁷⁵ D. Walker, Interview No. 17, September 30, 2016.

theatre operations [and thus placed in the OCO category]. There wasn't any long-term planning or analysis.³⁷⁶

Even those in the Pentagon who felt that war funding ought to be put through the regular PPBE channel admitted the system was “convenient.”³⁷⁷ Glenn Fine, who served as the Acting Chief Inspector General for the Pentagon beginning in 2015, explained it this way:

I think it would be advantageous to have it [war funding] as part of the base budget, and to have it in our planning process. That is clearly in the abstract a better model, a more defensible system, and a more effective system. But the Pentagon and the military will take it any way they can get it, and if the only way is through this gimmick of OCO and Congress won't give that \$70 billion in the base, then we'll take it, and we need it, and we'll deal with the ramifications down the road.³⁷⁸

There was limited precedent for handling U.S. military interventions outside the regular DoD planning cycle but never on this scale or over this length of time. The main exceptions had been \$3–5 bn for “no-fly” zones over Iraq and some of the emergency funding used to pay for the Kosovo War (Daggett, 2006). The Iraq/Afghanistan supplementals, which reached \$150 bn per year, were of a wholly different magnitude.

Iraq and Afghanistan *never* became a formal budgetary planning exercise at the DoD or at the OMB, either separately or within the regular planning cycle. Adams described it as the “inverse” of PPBE. “For OCO it was, ‘Oh shoot, we got an emergency’; we better devise up the budget for that.’ Ostensibly as a one-time exercise, except it was every year...”³⁷⁹

Table 7.1 compares the regular budget cycle to the war funding cycle from the perspective of the Pentagon.

³⁷⁶ E. Lorenzen, Interview No. 30, February 1, 2017.

³⁷⁷ G. Fine, Interview No. 48, November 8, 2018.

³⁷⁸ G. Fine, Interview No. 48, November 8, 2018.

³⁷⁹ G. Adams, Interview No. 32, February 15, 2017.

Table 7.1 Comparison of Normal Budget Cycle and Post-9/11 War Budget Cycle

Stage of Budget Cycle	Regular Base Appropriations	OCO War Funds	Result
<i>Formulation</i>	Long Internal PPBE involving many phases and players	Quick process involving small number of players	OCO faster and easier
<i>Justification</i>	Pentagon, OMB, Congress	Perfunctory	OCO faster and easier
<i>Execution</i>	Apportionments and controls on spending	Minimal requirements	OCO easier
<i>Audit</i>	Partial audit	Few audits, only some expenditures audited	OCO easier

§ 7.3.2 Lack of Budget Justification and Oversight

Under normal circumstances, budget justification was required at three levels (first within the DoD, then at the OMB, and finally in Congress). For OCO, however, the justification stage of the cycle was virtually absent. According to Adams,

The distinguishing feature of the Afghanistan and Iraq money was the absence of scrutiny...It was ‘Hurry up, shove it through, no questions, no numbers.’ It was very clear from the get-go that this was not subjected to the kind of budgetary scrub that you would normally have the comptroller at OSD do. This had never happened before.³⁸⁰

The DoD was able to use extreme shortcuts in its budgeting to avoid providing detailed justification. For example, war budget requests were based on a simple “rule of thumb” of dollars per troop deployed.³⁸¹ Per-troop costs in Afghanistan rose from \$490,000 in FY 2005 (when the United States deployed 20,000 troops) to \$870,000 in 2011, when U.S. troop presence peaked at 100,000. By FY 2014, U.S. troop levels had dropped to 10,000, but the cost rose to over \$3.9 m per troop (Belasco, 2014; T. Harrison,

³⁸⁰ G. Adams, Interview No. 32, February 15, 2017.

³⁸¹ T. Harrison, Interview No. 31, February 7, 2017.

2013). By 2016, a report from the Stimson Center pegged the figure at \$5.9 m per troop, with only \$1 m of the increase explicable by known factors (Heeley & Wheeler, 2016). Belasco speculated that a *portion* of these variances could be explained by accelerated tempo of operations, growth in base support facilities, expanded war-related benefits, and increased contracting support, but that “these factors alone would not appear to explain the higher costs” (Belasco, 2014, p. 48).

The Department’s regular budget submissions to Congress, which justify why and how money will be spent, had few details regarding the war. As shown in Table 7.2, the percentage of the budget submission explaining OCO represented a tiny fraction of the amount of budget dollars being requested. For example, in FY 2010, the Pentagon spent 23.5% of the total DoD budget on OCO/wartime expenditures, but the annual budget estimate, which was over 200 pages long and submitted in June 2009 (just 4 months prior to the beginning of the fiscal year on October 1, 2009), contained *zero* justification details.

Table 7.2 Pages of the DoD Budget Submission Devoted to OCO (Sample of Years)

Budget Year	Total # Pages of DoD Budget Submission	# Pages devoted to OCO War Budget	% of pages on OCO War Budget	Estimated % of DoD Budget for OCO ³⁸²
FY 2005	227	3	1.3%	15.8%
FY 2010	209	0	0	23.5%
FY 2015	275	14	5.0 %	11.2%
FY 2019	109	8	7.3%	10.0%

Source: (Office of the Under Secretary of Defense (Comptroller), 2005, 2009, 2014, 2018)

³⁸² See McGarry and Epstein (2019).

Ordinarily, such figures would have been queried in depth both within the Pentagon and at OMB.³⁸³ In this case, since Congress was likely to approve whatever amount was requested without hearings, the reviews were perfunctory.³⁸⁴

Accounting for the OCO budget was generally poor. The Pentagon's Defense Finance and Account Service was required to compile data and show variances on the wartime budget related to obligations incurred, contracts awarded, and other transactions. This information was provided monthly to the GAO, which in turn provided quarterly updates to Congress (Fukumoto & Sharma, 2015). In a series of reports, the GAO repeatedly found problems with transparency, inaccuracies, and inadequate management oversight and controls, concluding that much of the information was "unreliable" (U.S. Government Accountability Office, 2007, 2009). Winslow Wheeler said that almost no one had the technical skill to analyze the war budget:

It takes a lot of skill and training to access the right accounts and understand the inputs. It requires access to [DoD] accounts, which GAO doesn't have. The think tank people can't get access and if they do get access, they don't know what it is...and the money gets mushed into base accounts so they can't track it.³⁸⁵

Military legal scholars criticized the poor accounting in the wartime budgets, suggesting that, as a result of the "fiscal mission creep" in OCO, "DoD should no longer be granted unfettered discretion in operational spending without more congressional oversight" (Love, 2014).

This lack of oversight compounded the already-limited accountability for the Pentagon base budget. The Defense Department failed its statutory financial audit every year since the audit process was first mandated in 1990. David Walker observed that

³⁸³ T. Harrison, Interview No. 31, February 7, 2017.

³⁸⁴ T. Gates, Interview No. 8, September 19, 2016; S. Silverberg, Interview No. 10, September 19, 2016; P. Tizzani, Interview No. 11, September 19, 2017; and W. Wheeler, Interview No. 14, September 23, 2016.

³⁸⁵ W. Wheeler, Interview No. 14, September 23, 2016.

while the Pentagon base budget “lacks transparency,” the wartime budget was “that on steroids.”³⁸⁶

Leatherman observed that there were some benefits of the system, but they were outweighed by its opacity:

The good thing about OCO is that it has the regular categories like military personnel and R&D, so you can see inside it and ask if anything in it was in the spirit of an emergency. What you couldn’t do was the inverse to ask how much was being double-counted. There was no ability to cross-walk. A lot of stuff was being duplicated.³⁸⁷

The scale and complexity of wartime spending was especially challenging, according to Glenn Fine. He described the difficulty of getting information about what’s going on in Afghanistan:

...the biggest difficulty is in getting out there and getting outside the wire...here [in the U.S.] we go out and verify and talk to people and see it with our own eyes. It’s very hard in those countries, and it’s become much harder with a reduced U.S. presence, so you really are stuck sometimes talking to people on base, maybe having the Afghans come in there...it’s much higher-level perspective than a typical auditor would do.³⁸⁸

Fine confirmed that the wartime spending was subject to far fewer controls than the regular budget: “They have fewer controls, they view themselves fighting a war; sometimes they think these controls are, you know, petty irritants.”³⁸⁹

The Inspector General’s office (IG) may issue in-depth reports on individual components of the budget. However, my research could only locate two such reports over the past 15 years, on the Navy and the Air Force. The Navy report identified \$866 m in inaccurate transactions in the first quarter of FY 2016 alone, leading the IG to report that the Navy “could not ensure accountability for the spending of OCO funds” (U.S.

³⁸⁶ D. Walker, Interview No. 17, September 30, 2016.

³⁸⁷ M. Leatherman, Interview No. 40, July 20, 2017.

³⁸⁸ G. Fine, Interview No. 48, November 8, 2018.

³⁸⁹ G. Fine, Interview No. 48, November 8, 2018.

Department of Defense Office of Inspector General, 2017). Questioned on this, IG senior advisor Brett Mansfield responded that there might have been only two reports, but there were possibly more that were classified. He also noted that the Army, Navy and Air Force have their own audit agencies and that “possibly” they had done others. He agreed, however, that the two existing reports issued by his office raised serious problems.³⁹⁰

In a wide-ranging discussion about the oversight of war spending, Fine said that his office has tried to shine a spotlight on some of the problems and that its findings on waste, fraud, and misused funds attracted attention within the DoD. For example, the Secretary of Defense tracks progress on a series of 25 recommendations that the IG office issued. The larger issue, Fine said, was insufficient questioning (in the military, in Congress, and in the public) of the *effectiveness* of all the money being spent:

Occasionally when a service member gets killed, it’s in the newspaper, but otherwise nobody really focuses on.... like, what are we getting from it? What outcomes are we getting from training the Afghan air force and then how are they going to sustain themselves? How long are we going to provide maintenance for their aircraft? How are we going to figure it out?³⁹¹

It is unclear whether the DoD political leadership paid much attention to its internal watchdogs.³⁹² Former Secretary Gates complained that the Pentagon was “awash” in reports and studies, noting that the DoD had produced 700 reports in 2009—compared with only 37 reports for Congress in 1970 (Gates, 2010). The SIGAR, John Sopko, issued hundreds of audits and reports related to U.S. spending in Afghanistan between 2009 and 2019; however, these were restricted to reconstruction money, which comprised less than 10% of U.S. spending (Sopko, 2016; Oversight of U.S. Spending in Afghanistan, 2018; Oversight of U.S. Spending in Afghanistan, 2018). Sopko’s office

³⁹⁰ B. Mansfield, Interview No. 49, November 8, 2018.

³⁹¹ B. Mansfield, Interview No. 49, November 8, 2018.

³⁹² W. Hartung, Interview No. 19, October 3, 2016; S. Collender, Interview No. 44, November 8, 2017.

documented numerous instances of specific fraud and waste, ranging from electrical malfunctions to poorly designed camouflage suits.³⁹³ These reports attracted little notice until December 2019, when the *Washington Post* leaked previously unpublished details.³⁹⁴

§ 7.3.3 Greater Flexibility Over Spending Money

The wartime appropriations provided an important organizational benefit to the DoD: greater flexibility over how the money could be spent. (LeLoup, 1978a).

The Pentagon's budget is divided amongst a number of different accounts. The four largest accounts, which together make up 98% of the budget, are *military personnel*, which pays for uniformed service members and their expenses; *procurement*, which pays for acquisition of weapons systems; *Research, Development, Test, and Evaluation* (RDT&E), which funds design, development, and research; and *Operations & Maintenance* (O&M), which includes the DoD's civilian payroll, as well as purchases of goods and services, including contractor-provided services, and day-to-day military expenses such as supplies, fuel, repair parts, health programs, training, or other needs (Blume, 2019; Conetta, 2010).

The O&M account, which comprises about one third of the base budget, is by far the most flexible. The Pentagon has wide discretion over how it may use funds in this account, provided the money is executed within one fiscal year. By contrast, the personnel account is restricted by a formula based on existing manpower, and the R&D

³⁹³ For example, he reported that the Afghan security forces have just 38 armored ambulances for 352,000 authorized personnel and has long been requesting that the U.S. provide additional armored ambulances. But in 2017 alone, the U.S. Army destroyed 287 surplus armed ambulances rather than provide them to the Afghan military (SIGAR, 2019a).

³⁹⁴ In December 2019, the *Washington Post* published "The Afghanistan Papers," private interviews the SIGAR had conducted with senior military officials that showed enormous doubts about the U.S. mission in Afghanistan.

and procurement accounts fund a number of multi-year projects (such as weapons programs) that are on a delivery schedule and have limited year-to-year flexibility (Adams, 1981; Adams & Williams, 2010).

A distinct advantage of OCO was that the majority of it was allocated to the O&M account. This gave the Pentagon wide discretion over how it could be spent. Hale cites this flexibility as the biggest advantage of the OCO funding. He said,

These things merge in execution, so when you finally get the [OCO] money it all goes into one pot. This is a great advantage for the department because much of this is what's called operational and maintenance money and it is the most flexible funding and you have it all available.³⁹⁵

To understand how much flexibility the Pentagon gained through the OCO account, I compared the percentage of the appropriations devoted to the O&M account in the base budget to the percentage in the OCO budget. My analysis found that from FY 2001 to 2018, an average of nearly 70% of the emergency/OCO war funding was provided in the O&M account, compared with an average of only 36.3% allocated to O&M in the base budget (see Figure 7.3).

³⁹⁵ R. Hale, Interview No. 24, November 7, 2017.

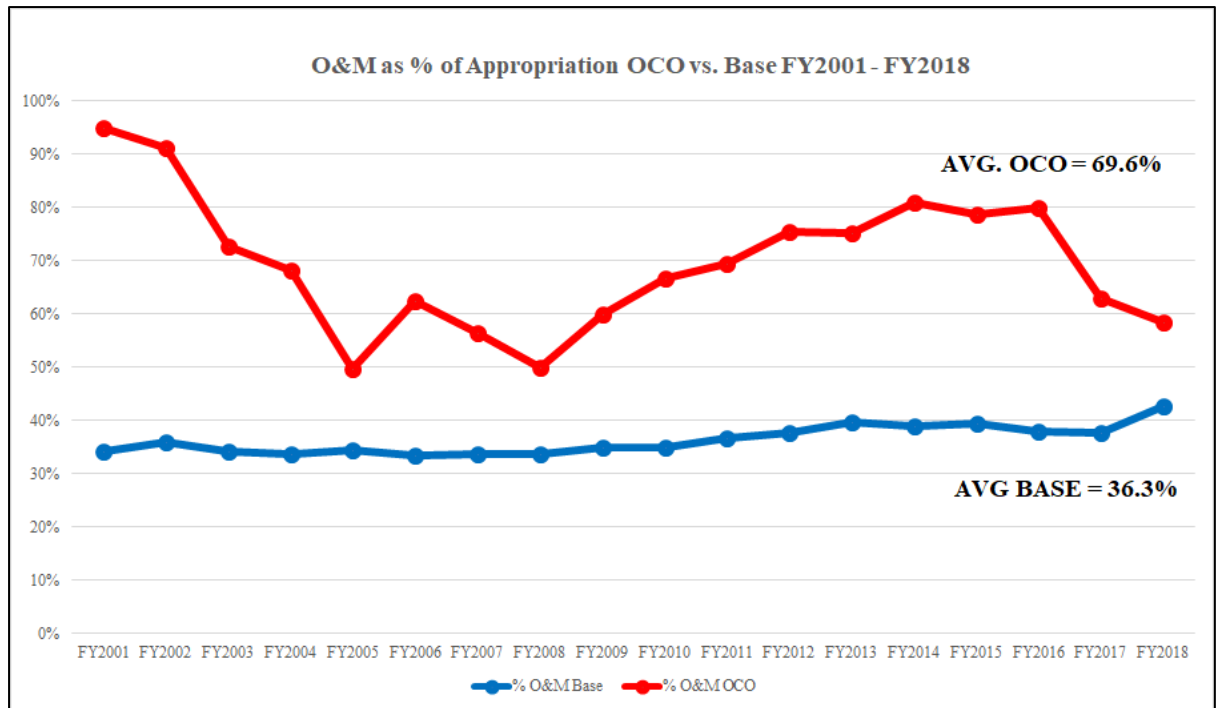


Figure 7.3 Percentage of Base vs. OCO Funds that Go to O&M
Source: (OSD, Table 2-1, 2019)

Receiving the OCO money in the O&M account gave the Department the ability to hire more contractors and civilians and add resources wherever they were needed. This was especially important in situations where political decisions constrained the total number of “boots-on-the-ground.” (for example, when Presidents announced reductions in the number of troops deployed to the war theatre to show that progress was being made).³⁹⁶ Since there was no clear demarcation of which services were inherently governmental, the Pentagon was able to hire contractors to replace troops that were being withdrawn.

Hale conceded that the “use it or lose it” nature of this money led to inefficiency, saying “you’ve got to obligate it by the last day of the fiscal year, so we found ourselves scurrying and maybe not making the best decisions, but it gives you a fair amount of

³⁹⁶ There were several occasions on which Presidents Bush, Obama, and Trump announced troop withdrawals (and increases) that were at least partly the result of political considerations. For example, in September 2008, two months before the 2008 Presidential election, Bush announced that he was pulling 8000 troops out of Iraq. This was designed to help Republican candidate John McCain against Democratic candidate Barack Obama, as Obama had pledged to remove U.S. troops from Iraq.

flexibility.”³⁹⁷ In practice, the Pentagon could evade the one-year limitation on OCO funds by spending the money on contract awards. By executing the funds this way, the DoD could ensure all the OCO money was spent by the last month of the fiscal year. The amount of federal contract awards in the final month of the fiscal year jumped to three times the average spent in the preceding 11 months.³⁹⁸ This constituted a boon to defense contractors, who were able to secure last-minute contracts for construction, training of local security personnel, transportation, equipment maintenance and repair, and other medium-term activities (Schwartz & Ginsberg, 2013).

A further benefit of enjoying a large flexible pot of money was that the DoD was able to secure funding for programs and activities that had previously been rejected or deferred. Aaron Martin (2011) analyzed the budgetary outcomes resulting from the way the war was financed from 2001 to 2010. He found that the DoD had used OCO to obtain hundreds of billions of dollars for items that Congress had rejected in previous DoD budget requests. These included adjustments to military pay and benefits, supplies, weapons, equipment upgrades, training, construction, and modularity (Martin, 2011). Given the lack of oversight and the speed with which these budgets were put together, this practice led to what Bacevich termed “grotesque fiscal irresponsibility” throughout the Pentagon budget.³⁹⁹

Most of these items were subsequently migrated into the base, thus providing a backdoor method of augmenting the Pentagon’s base budget (Martin, 2011). A good example was the issue of “concurrent receipt.” Prior to 2003, retired disabled veterans had to choose between receiving retirement benefits through the Department of Veterans

³⁹⁷ R. Hale, Interview No. 24, November 7, 2016.

³⁹⁸ See “Datalab Contract Spending Analysis” (2018).

³⁹⁹ A. Bacevich, Interview No. 13, September 23, 2016.

Affairs *or* the DoD compensation program. Military retiree and veterans' organizations, had been trying for decades to persuade Congress to allow "concurrent receipt" of both sets of benefits (Stiglitz & Bilmes, 2008). In FY 2005, Congress enacted this reform as part of the wartime funding package. This change added some \$11 bn per year to the future base costs of the DoD (Kamarck, 2017).

Similarly, the DoD wanted to increase military base pay and benefits, but it was restricted by the formulas in the personnel account.⁴⁰⁰ The OCO funding made it possible to adopt higher pay scale indexing using the O&M account. Previously, pay increases had been linked to the employment cost index (ECI). The new method linked pay scales to the ECI plus an additional 0.5%. This pay enhancement tool added another layer of cost to the DoD base (Bilmes, 2013). These and other changes resulted in an increase in the Pentagon's long-term personnel costs that were funded out of the O&M account, instead of the personnel account. As shown in Figure 7.4, O&M spending per service member grew from \$100,000 per service member in 2002 to around \$200,000 in 2017 as a result of OCO appropriations (Adedeji, Trunkey, Frisk, & Mosher, 2017; Blakely, 2017).

⁴⁰⁰ D. Feehan, Interview No. 42, September 7, 2017.

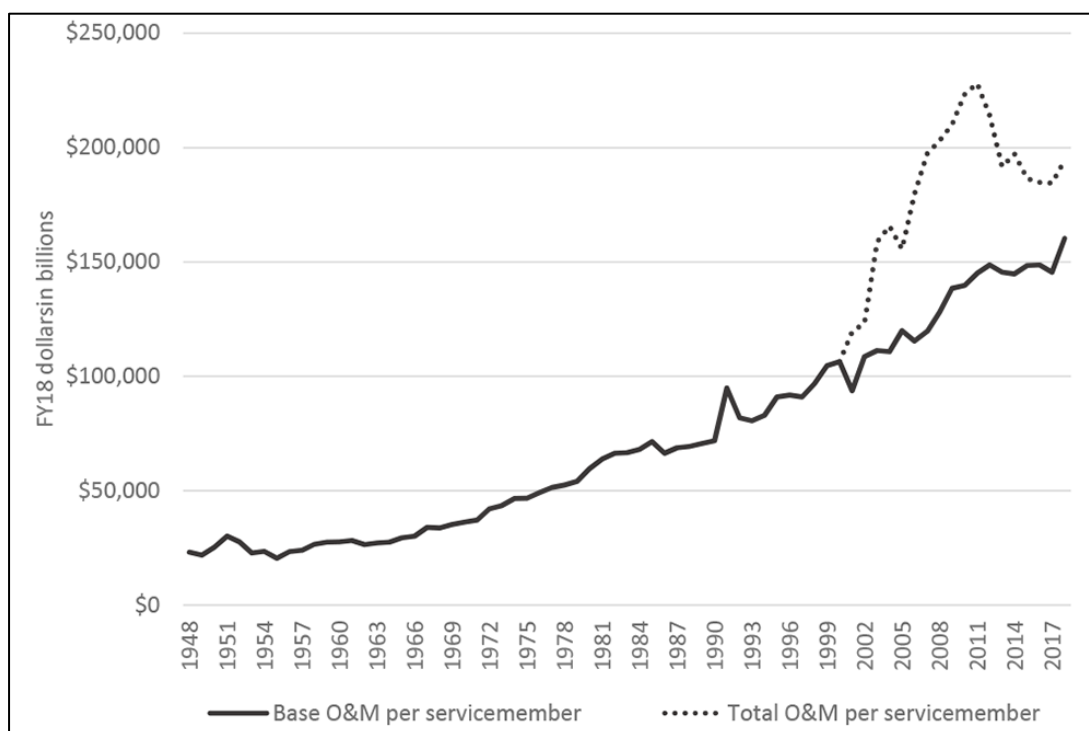


Figure 7.4 OCO Impact on Growth of O&M Spending per Servicemember
 Source: (Adedeji et al., 2017; Blakely, 2017)

The DoD used the emergency and OCO funds for thousands of individual line-item expenses in the defense budget that fell within O&M. Some of these were only tangentially related to the war, though not categorized as such. For example these included the \$3 bn merger of the Walter Reed Army Medical Center and the National Naval Medical Center into a single integrated hospital (the Walter Reed National Military Medical Center in Bethesda), which opened in 2014 (Mabe & Bilmes, 2015). Much of the OCO appropriations were spent to support ongoing non-war activities.

Another benefit of OCO going into the O&M account was that the Pentagon was able to expand hiring civilians and increase their pay and benefits using funds outside its regular personnel account.⁴⁰¹ From FY 2001 to 2017, the number of civilian employees at the Department climbed by over 11%, from 687,305 to 765,696. This growth was in part

⁴⁰¹ D. Feehan, Interview No. 42, September 7, 2017.

to offset a decline of roughly 5% in military end-strength, from 2.25 to 2.12 m.

Meanwhile, average pay and benefits nearly doubled for military personnel and grew by 65% for civilians (Office of the Under Secretary of Defense (Comptroller), 2018, Tables 6-12, 6-14, 7-5).

During Phase I, the Pentagon used the O&M account to pay for items that had been rejected prior to the war in its regular budget requests (either by the internal PPBE process or by Congress). More than 40% percent of reset spending for the Army was in fact spent on upgrading systems, buying new equipment, and long-term planning (Donnelly, 2007). Like concurrent receipt, once these items were funded, they formed part of the future base budget. A partial list of items that were previously rejected and then funded through OCO in the O&M account is shown in Table 7.3.

Table 7.3 Phase I Wartime Funding Items Previously Rejected in Base Budget Requests (Partial List)

Item	Expenditure Level During Phase I	Requested and Rejected Prior to Wars?	Years Funded (FY)
Payload upgrades to Army's unmanned aerial systems	\$48m	Yes	2004
Modularity for the Army	>\$20 -\$54 bn ⁴⁰²	Yes	2005–2018
Concurrent receipt	\$40 bn	Yes	2004–2011
Long-requested upgrades for equipment	Multiple billions	Yes	2004–2011
Supplemental funding for tactical radios and communications equipment	\$22 bn	Yes	2005–2011
TRICARE increases above base levels for reservists	>\$2 bn	Yes	2006
Up-armored HMMVs	\$177 m	Yes	2004
Increases to basic housing allowance	\$1.1 bn	Yes	2007
Recruitment incentives	>\$1.0 bn	Yes	2004–2011

Source: (Martin, 2011; Office of the Under Secretary of Defense (Comptroller), 2017b)⁴⁰³

§ 7.3.4 Funding Contractors with OCO

The DoD employed private contractors in the post-9/11 conflict on a scale that was completely different from previous U.S. wars. Private contract personnel, including subcontractors from around the world, comprised 50% or more of the U.S. presence in Iraq and Afghanistan.⁴⁰⁴ The military adopted the strategy of using contractors in part due to the AVF, the rising life cycle costs of hiring full-time military personnel, and the length of time needed to hire and train recruits (Defense Science Board, 2014). The use of

⁴⁰² See GAO-14-294 (U.S. Government Accountability Office, 2014).

⁴⁰³ Includes analysis of all such DoD Budget Requests from FY 200–FY 2018.

⁴⁰⁴ The ratio of contractors to military personnel was 1:1 in Iraq and 2.5:1 in Afghanistan, compared with 1:55 in the Gulf War, 1:5 in Vietnam, 1:4 in Korea, 1:7 in World War I, 1:24 in World War II, and 1:15 in the Civil War (McFate, 2016; Peters & Plagakis, 2019).

OCO, with its budgetary flexibility, avoidance of government shutdowns, and minimal requirements for oversight facilitated this arrangement.

In Afghanistan, the number of contractors deployed exceeded the number of U.S. military personnel in nine out of ten years, as shown in Figure 7.5.

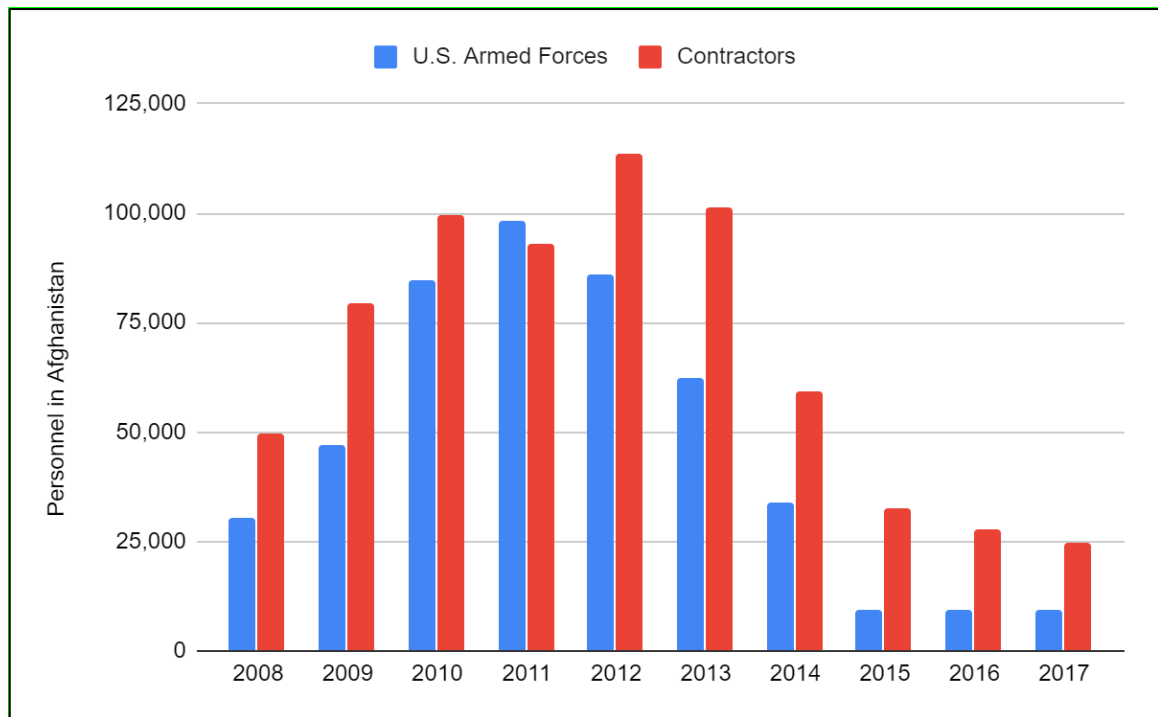


Figure 7.5 U.S. Armed Forces and Contractors Deployed to Afghanistan Operations
Source: (Peters & Plagakis, 2019)

As of January 2019, the Department of Defense reported that it employed 29,389 contractors in Afghanistan, of whom 44% were U.S. citizens (Office of Deputy Assistant Secretary of Defense for Logistics, 2019), compared with approximately 14,000 U.S. troops (Peters & Plagakis, 2019).⁴⁰⁵

Contractors suffered losses similar to active-duty troops in Iraq and Afghanistan.

A study by RAND found that 65% of western (mostly U.S. and British) contract personnel had been deployed 3 or more times, although for shorter periods (up to 6

⁴⁰⁵ In late 2017, the DoD stopped reporting the number of U.S. military personnel deployed in support of operations in Afghanistan, Iraq, and Syria as part of its quarterly manpower reports and in other official releases. These data remain withheld (Peters & Plagakis, 2019).

months) than current troops (Dunigan, Farmer, Burns, Hawks, & Setodji, 2013). These contractors supplied not only goods and services (including weapons, munitions, trucks, aircraft, fuel, planes, helicopters, ships, catering, construction, utilities, IT, and logistics) but also hundreds of thousands of personnel, who served as private armed security guards, protected traveling convoys, provided security escorts, and trained local police and militias (Scahill, 2007). The United States did not track casualty figures for private sector personnel until 2008, and there was limited media coverage of the “corporate dead.” However, records suggest that nearly 8,000 have died in the post-9/11 operations, slightly exceeding the number of military deaths (Crawford, 2018; Swed, Kwon, Feldscher, & Crosbie, 2020). Although contractors do not receive the kind of benefits for which active military is eligible, the federal government reimburses contractors for life and disability insurance for contract personnel, and then underwrites payments on claims. (Stiglitz & Bilmes, 2008).

According to William Polk, the presence of contractors was a key difference between Vietnam and the post-9/11 wars. Recalling a visit to Afghanistan in 2010, where he was staying as a guest of U.S.-Ambassador General Karl Eikenberry, Polk said:

Contractors were vetting all the people who came through the door...there were no Americans visible anywhere...Samoans were doing important things, carrying guns and doing the dirty work. Today we are using people who are “paid hands”—in previous wars, we had a nonvoluntary force that were people who cared about the country.⁴⁰⁶

This dependence was part of a wider trend toward the increased use of private contractors throughout government (Light, 2017). The sheer scale and range of services as well as the task of managing them meant that the contractors became vital to the DoD.

A number of scholars have explored how the participation of the private sector

⁴⁰⁶ W. Polk, Interview No. 27, December 7, 2016.

changes the nature of the armed forces in terms of incentive structures, managerial complexity, chain-of-command structures, and organizational techniques (Minow, 2004; Singer, 2011). In its final report to Congress, the Commission on Wartime Contracting in Iraq and Afghanistan expressed its view that operations in Iraq and Afghanistan had led to an “unhealthy over-reliance” on contractors (Commission on Wartime Contracting, 2011, p. 18–21). General Paul Eaton, who was in charge of training Iraqi troops from 2003–2005, has criticized some of the private security forces for “putting their own financial gain before the soldiers and marines who were doing the hard work in Iraq.”⁴⁰⁷

Vice Admiral Mateczun hypothesized that the widespread use of contractors in Iraq and Afghanistan contributed to the high incidence of post-traumatic stress in the post-9/11 conflict:

During Vietnam, if a unit took a hard hit, the commander could put them in the kitchen peeling potatoes for a few weeks to sort of decompress...nowadays you don't have that option because contractors do all the kitchen work and all that...the stress on the troops is 24/7.⁴⁰⁸

Notwithstanding such criticisms, the presence of contractors in U.S. military operations grew rapidly throughout the post-9/11 wars (Schwartz et al., 2018). Moreover, the United States deployed contractors to “replace” U.S. troops after withdrawals. So for example, after U.S. forces pulled out from Iraq in 2011, the United States installed several thousand contractors there, in addition to Kuwait and other nearby locations (CENTCOM, October 2019). There were still more than 18,295 contractors located in the CENTCOM region as of 2019 (excluding Afghanistan), including more than 7000 stationed in Kuwait and Syria.

⁴⁰⁷ P. Eaton, Interview No. 34, March 2, 2017.

⁴⁰⁸ J. Mateczun, Interview No. 4, May 1, 2016.

§ 7.3.5 The Golden Ratio

The OCO appropriations enabled the DoD to solve another internal problem: to preserve its longstanding “Golden Ratio” of funding for the individual services. This term refers to the practice of maintaining a roughly equal share of funding for the Army, Navy (including Marines), and Air Force, despite variations in their actual needs. In every year since 1948 each service received approximately 27–30% of the annual defense budget, with the balance allocated to the central “defense-wide” budget (Sharp, 2011).

During the early years of the post-9/11 wars, as the burden of fighting (and the bulk of wartime funding) shifted to the Army and Marines, the Pentagon struggled to maintain this ratio. Approximately 54% of OCO money went to the Army. Disrupting the ratio led to institutional resistance among the services. For example, the Air Force felt marginalized, as its role shifted from the pre-war period (1992–2002), when it had been flying some 34,000 sorties annually to enforce the no-fly zones over Iraq, to the less visible and less costly role of handling drone strikes (Stiglitz & Bilmes, 2008).⁴⁰⁹ Nonetheless, the Pentagon was able to maintain the Golden Ratio by redistributing the emergency funding to pay for items that benefited the other services (Sharp, 2011). Remarkably, the services had nearly the identical percent of the total DoD budget in FY 2018 as they had prior to the war (OSD, Table 6-10, 2018).

After the sequester took effect in FY 2014, the Pentagon faced an even bigger challenge in maintaining the ratio. As it ramped down from Iraq and opted to “pivot” toward the Asia-Pacific region, additional investment was required in naval and air forces (S. E. Johnson et al., 2012; Sharp, 2012). To execute this approach under the tight fiscal constraints, the DoD proposed reducing the size of the active-duty Army from 562,000 to

⁴⁰⁹ T. Harrison, Interview No. 31, February 7, 2017 and M. Leatherman, Interview No. 40, July 20, 2017.

490,000 and the size of the active-duty Marine Corps from 202,000 to 182,000 (S. E. Johnson et al., 2012).⁴¹⁰ This plan would have broken the ratio had it not been for OCO.⁴¹¹ My analysis found that DoD was able to redistribute OCO funding to the services in order to maintain the Golden Ratio. The services were able to use the money in different ways; for example, in the Air Force the largest share went to “support and individual training,” whereas in the Marine Corps funding was increased for “infrastructure” (Adedeji et al., 2017). The result was that the Golden Ratio endured, as shown in Figure 7.6.

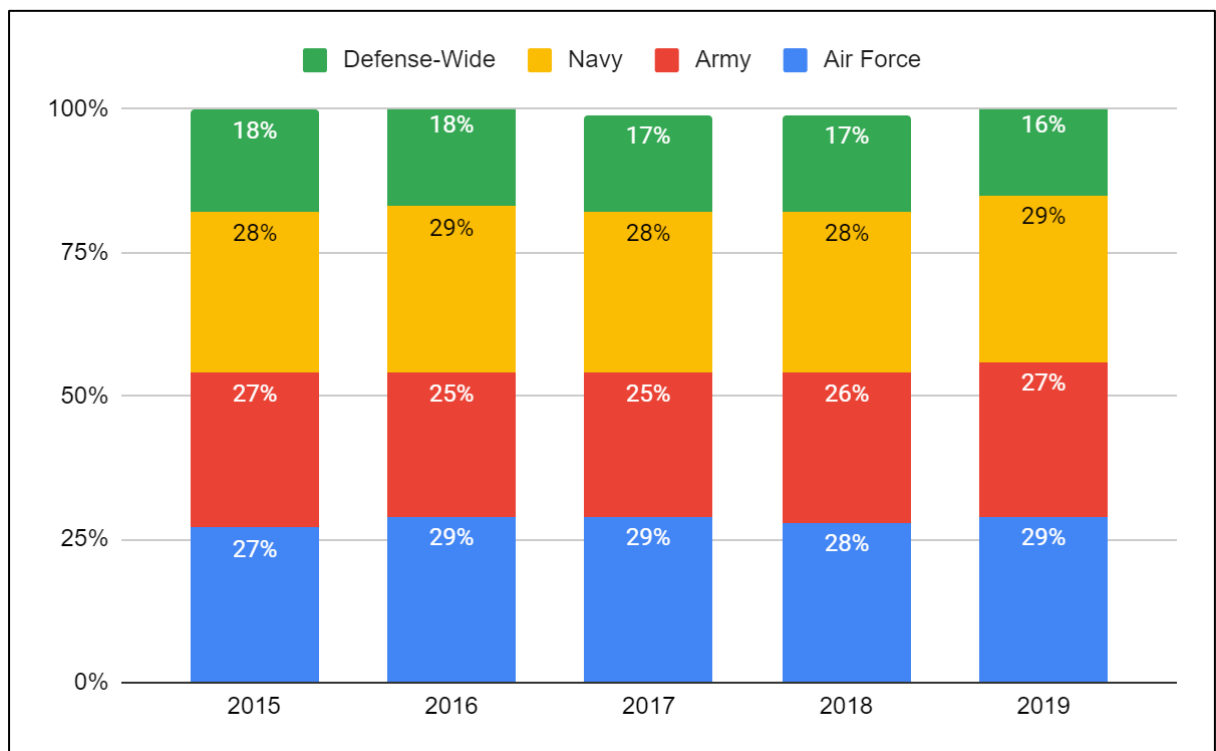


Figure 7.6 The Pentagon’s Golden Ratio FY 2015–2019
Source: (Blume, 2019, p. 3)

The Golden Ratio by itself was a powerful reason to keep OCO funds outside the base. Leatherman points out that if OCO had been brought back into the base budget, the

⁴¹⁰ Army end-strength fluctuated due to Congressional and executive actions; it was 476,000 in FY 2017 and back up to 487,000 in FY 2019 (DoD, Office of the Assistant Secretary of Defense for Manpower & Reserve Affairs).

⁴¹¹ M. Leatherman, Interview No. 40, July 20, 2017.

Army would have probably lost out to the Navy and Air Force, and several programs located in different parts of the country might have been cancelled. “The Army would bear the brunt,” he said.⁴¹² By maintaining the separate wartime budget, the Army was able to receive the bulk of the extra funding and the Department could even out the distribution. Gordon Adams confirmed this thinking. “There is no reason to assume it would still be allocated the way it is,” he said, “which could pose a threat to funding for some military facilities and some of the services.”⁴¹³

§ 7.3.6 Wartime Budget Impact on Base Budget

By the mid-2000s, it was clear that there were effectively two military budgets—the President’s budget (which was subject to the usual oversight) and the DoD’s wartime budget, which was not. Martin (2011) argues that the DoD became a player in the budget process in its own right, since it submitted its own war request during every annual budget cycle with minimal interference from the OMB. Congress used the wartime emergency bills as a way to *add* items that individual lawmakers wanted, but it seldom eliminated anything that the Pentagon asked for.

The Pentagon began to “arbitrage” (Fukumoto & Sharma, 2015) each line item to determine whether it had a better chance of obtaining the money as war funding or in the base. As Korb observed, “the system could be leveraged to effectively raise the base budget by raising the OCO budget.”⁴¹⁴ According to Leatherman, one of the main strategies was to replace older equipment with newer, fancier models, using OCO funds. For example, if a V-22 or warhog jet went down in Afghanistan, the military replaced it

⁴¹² M. Leatherman, Interview No. 40, July 20, 2017.

⁴¹³ G. Adams, Interview No. 32, February 15, 2017.

⁴¹⁴ L. Korb, Interview No. 9, September 19, 2016.

with a F-22, which Leatherman compared to “replacing a [Toyota] Camry with a Bentley.”⁴¹⁵

In other cases, the Pentagon added an array of personnel benefits that had the effect of growing the fixed costs in the base. The Ghost Budget became critical to military’s long-term personnel and health care costs. The cost of military pay and allowances, along with those for military health care, make up about one third of the Department’s base budget. A good example was TRICARE, the Pentagon’s military health insurance program. TRICARE expenditures grew from \$18 bn in FY 2001 to \$65 bn in FY 2015, accounting for nearly 8% of the total U.S. defense budget, prompting Secretary Gates to announce that the department was being “eaten alive by health care” (Gates, 2010). The Pentagon widened eligibility for TRICARE to activated Reservists and Guards and set up the “TRICARE for Life” program to augment Medicare for military retirees over age 65 and their families (Bilmes, 2013). Between 2004 and 2011, TRICARE added 400,000 new beneficiaries due to factors that were both war-related (e.g., increasing medical claims from service members and their families)⁴¹⁶ and non-war-related (rising health insurance prices on the open market made TRICARE relatively cheap for those who were eligible; U.S. Department of Defense, 2012).⁴¹⁷

The private health insurance companies that provide TRICARE also profited from the limited oversight into OCO. The DoD was primarily concerned with the availability and quality of medical care and reimbursed whatever the insurance companies requested

⁴¹⁵ M. Leatherman, Interview No. 40, July 20, 2017. The unit cost of a V-22 is estimated at \$71 m, compared to \$150 m for an F-22.

⁴¹⁶ The volume of medical visits, procedures, and claims all increased during the period; for example, annual claims processed grew from 112 million in 2004 to 195 million claims in 2011.

⁴¹⁷ The participation rate among eligible active duty military and family members rose from 29% to 52%, while the percentage that carried private health insurance fell from 45% to 21%. As of October 1, 2012, TRICARE Prime enrollment fees for uniformed service retirees and families were set at \$269.28 (individual) and \$538.56 (families).

(Bilmes, 2013).⁴¹⁸ These companies became some of the biggest beneficiaries of the war. For example, Humana’s TRICARE premium fee revenues grew from \$2.8 bn to \$4.2 bn between 2001 and 2010, as the company shifted a larger percent of its operations into the government sector (Bilmes, 2013).

Another example is the consumption of fuel. The DoD is the largest single user of petroleum fuels in the United States and is widely reported to be the largest user in the world (Andrews, 2009). A detailed study of the DoD’s energy consumption between 2000 and 2011 found that fuel expenditures were billions of dollars higher than budget estimates every single year, due 80% to rising fuel costs and 20% to higher fuel consumption. The authors attribute the 20% fuel consumption variance to the use of emergency/OCO rather than base appropriations, saying that there was “no incentive” to forecast resource needs or to account for them. They conclude by noting that such carelessness “impairs the ability of the federal government and the public to evaluate the costs of military operations” (Lloyd, Schmitt, Rotteveel, Schwartz, & Stanley, 2015, p. 123).

These policies produced extraordinary growth in the DoD budget between FY 2002 and FY 2011. In FY 2001, the CBO baseline predicted that the cumulative growth for the DoD base budget for the period FY 2002 to FY 2011 would be \$3.6 tn.⁴¹⁹ The *actual* growth in the defense budget during this period was \$5.3 tn—including \$829 bn growth to the base budget *in addition* to the war budget.

⁴¹⁸ D. Feehan, Interview No. 42, September 7, 2017.

⁴¹⁹ House Budget Committee estimates.

§ 7.4 Phase II: The Budget Control Act of 2011

The breakdown of the Congressional budget process that produced the BCA of 2011 substantially changed the way that the U.S. military funded itself so that it became dependent on the OCO budget. As described in Chapters 4 and 5, the BCA imposed across-the-board discretionary spending cuts and required that all new spending be offset by corresponding reductions elsewhere in the budget. The military viewed this development as catastrophic.⁴²⁰ The Pentagon was suddenly in danger of losing its newfound budgetary success and discretion over its appropriations. Moreover, the Department was far less capable of absorbing cuts to its base due to the high level of its fixed costs described above.

The importance of the OCO budget to the Department is shown in Figure 7.7. Had the military base budget continued to rise at the rate prior to the imposition of BCA cuts, it would have grown from about \$525 bn in FY 2011 to over \$700 bn by FY 2017. Instead, the base budget remained relatively flat for the next five years in line with the restrictions of the sequester. The OCO budget made up much of the difference by raising overall defense spending (Function 050 in the budget) to around \$600 bn by FY 2017, as shown in Figure 7.7.

⁴²⁰ W. Wheeler, Interview No. 14, September 23, 2016.

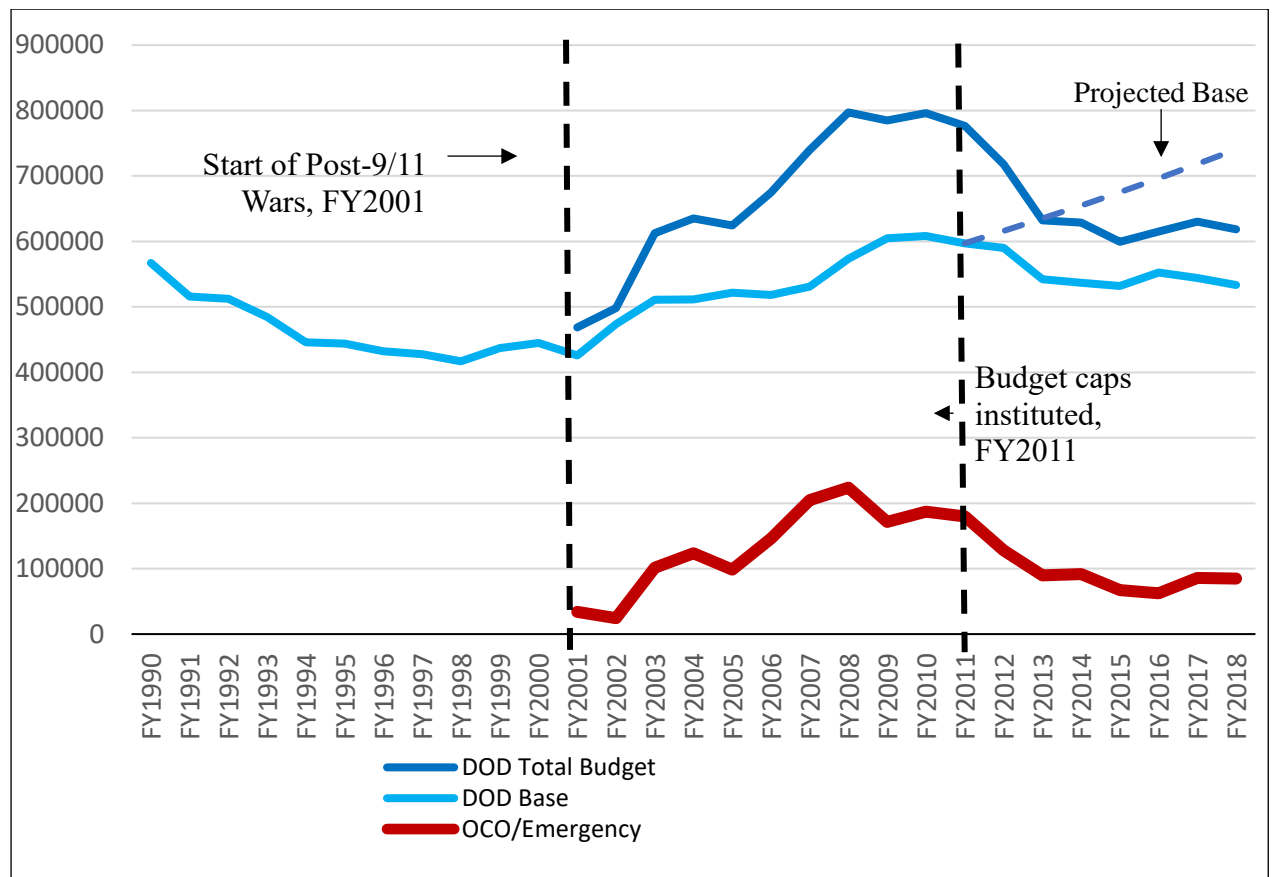


Figure 7.7 DoD Budget Growth and Projected Growth FY 1990–2018

Source: (Office of the Under Secretary of Defense (Comptroller), 2019a; U.S. Congressional Budget Office, 2010)

By some estimates, nearly half of the OCO budget after 2014 was used for programs and activities that were previously funded in the base (Cordesman, 2017). According to Roberts, this funding structure allowed the Pentagon to “fight the wars that it wants to fight with the stuff that it wants.”⁴²¹

§ 7.4.1 The Department of Veterans Affairs Budget

Keeping OCO outside the base DOD budget also benefited the larger military establishment. OCO freed up discretionary dollars for the skyrocketing needs of the Department of Veterans Affairs (VA), whose budget is separate from the DoD.

⁴²¹ A. Roberts, Interview No. 16, September 28, 2016.

After 2001, the VA budget was the fastest-growing part of the federal government. Its budget tripled from \$67 bn in FY 2002 to over \$200 bn in FY 2019 (in 2018 dollars) as it doubled its nationwide workforce to 350,000 after the U.S. invasion of Afghanistan (Bilmes, 2016; U.S. Department of Veterans Affairs, 2020). Some 60% of the VA budget is considered mandatory (determined by formulas set by Congress); the remainder is discretionary spending that competes directly with the rest of the other federal discretionary programs.

The VA's growth has been largely driven by demand from post-9/11 veterans.⁴²² As former Deputy Secretary of Veterans Affairs W. Scott Gould points out, the total number of U.S. war veterans (from all wars) declined since 2001, from 26 million to around 18 million by 2018, as older World War II and Korean-era veterans have died (U.S. Department of Veterans Affairs, 2020). However, the number of veterans claiming benefits and using the VA health care system increased from 4.2 million to 9 million in the same time period, because post-9/11 veterans utilized VA services to a much greater extent than previous generations (U.S. Department of Veterans Affairs, 2020). As of 2019, some two thirds of the 2.7 million men and women who served in Iraq and Afghanistan were enrolled in the VA medical care system and over 50% were awarded lifetime disability benefits. Higher survival rate from injuries, better medical treatment, more generous disability compensation, and an unprecedented level of physical and mental health conditions among returning troops led to this unprecedented growth (Bagalman, 2014; Bilmes, 2007, 2013, 2016).

The relationship between the VA and Pentagon bureaucracies is complex.⁴²³ At a high level, both departments are part of the larger military spending pie. Many leading

⁴²² W.S. Gould, Interview No. 26, November 22, 2016.

⁴²³ W.S. Gould, Interview No. 26, November 22, 2016.

defense think tanks, including the Center for a New American Security (CNAS), the Center for Defense Information (CDI), and the Stimson Center, aggregate the DoD and VA budgets in their analyses of total military spending and devote considerable resources to studying issues related to veterans. For example, Winslow Wheeler has long argued that the true U.S. military budget includes spending for military retirement, veterans, and the nuclear triad (Wheeler, 2014a).⁴²⁴ The veteran population (including veterans, their dependents and families) is a powerful political constituency with bipartisan support across the 50 states. Had OCO not been exempted from the sequester, the cost of supporting these veterans of the conflicts would likely have conflicted with the demand for war funding. OCO insulated Congress from having to make such difficult trade-offs.

§ 7.5 Institutionalizing the Second Military Budget

The success of the Ghost Budget strategy was sealed in FY 2019, when the military established a new *third* budget category. In addition to the base budget and the “regular” OCO budget, this new category was referred to as “OCO-to-Base.” According to the DoD Comptroller’s Report, the FY2020 “OCO to base” request includes ground, air, and ship operations; base support; maintenance; weapons system sustainment; munitions; and other readiness activities, as well as ordinary DoD expenditures such as “fuel (non-war),” “construction (non-war),” and “classified” expenses (McGarry & Epstein, 2019; Office of the Under Secretary of Defense (Comptroller), 2019a).

The Trump administration proposed to increase the FY 2020 OCO budget by 152% (from \$70 bn in FY 2019 to \$174 bn). Eighty percent of this amount was requested for the flexible O&M account (U.S. Department of Defense, 2019). The budget materials show that to reach this number the DoD moved specific budget lines from the base budget

⁴²⁴ These expenditures are in the budgets of the Departments of Treasury, VA and Energy, respectively.

into OCO. The actual war fighting component of this figure was only \$25 bn. The balance of the request included \$41.3 bn for “OCO for Enduring Requirements” and \$97.9 bn for “OCO for Base Requirements” (see Figure 7.8). The request was explicitly designed to get around Congressional limits on the base defense budget. According to the accompanying press release, “Funding for base budget requirements are financed in the OCO budget due to limits on budget defense caps in current law” (U.S. Department of Defense, 2019).

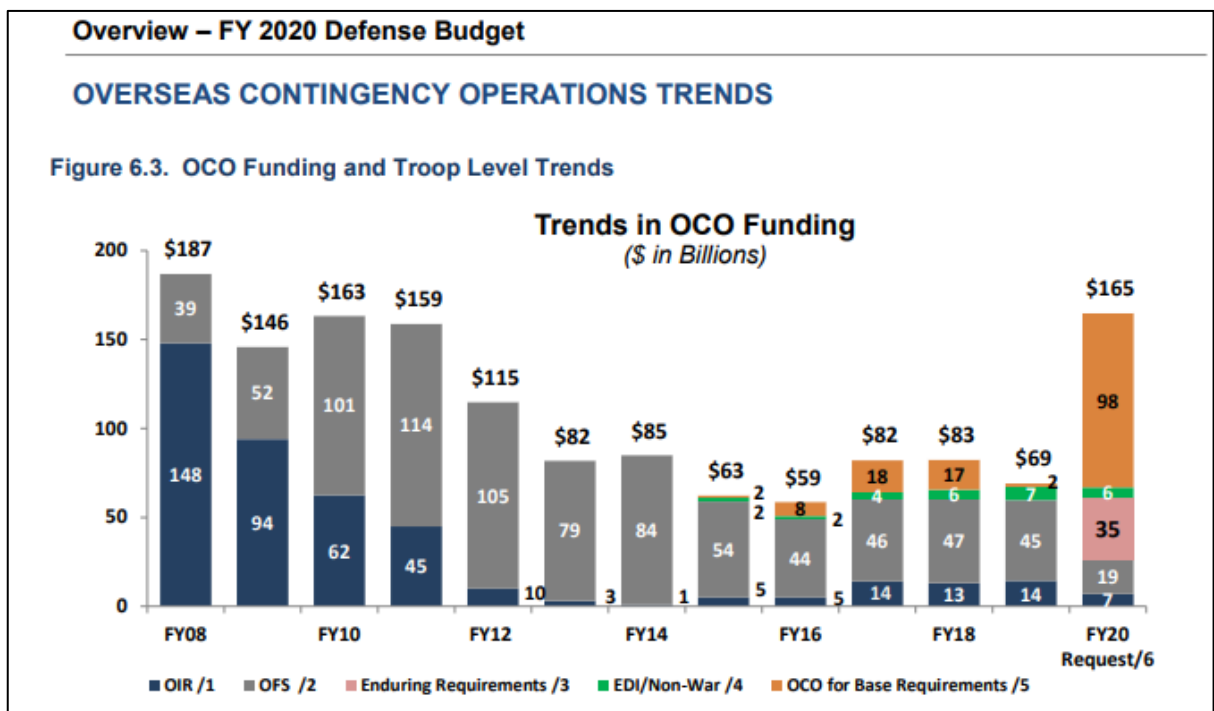


Figure 7.8 Expanded OCO Categories in the FY 2020 Budget Request
Source: (U.S. Department of Defense, 2019)

As one pundit put it, “it’s as if a dietician set a cap on how many calories a patient can consume—only to hear the patient say that he ate an extra tub of ice cream after dinner, but that’s all right because he’s not counting it as ‘calories’” (Kaplan, 2019). As the Center for a New American Security has commented, “the administration is using the OCO accounts to try to avoid negotiating with Democrats in Congress about the balance between defense and nondefense discretionary spending” (Blume, 2019).

§ 7.6 Conclusions

This chapter demonstrates that it was possible for a powerful bureaucracy to grow its overall budget footprint using a mechanism that grew spending outside its regular base budget. The military took advantage of Congressional dysfunction and economic conditions to reverse its declining share of the federal budget and successfully achieve long-term gains. In doing so, the DoD used the conflict to restore its overall level of resources closer to its historical percentage while avoiding any real discussion over non-war budget cuts. The Department benefited from its monopoly over logistical and financial information to secure a second budget in which it had effective control over spending decisions.

The OCO mechanism also helped the Pentagon to increase its base budget. Not only was the Department able to pay for items that had been rejected or underfunded in its regular budget requests during Phase I, it was also able to arbitrage its budget request during Phase II to ensure funding for its favored programs. This system helped the Department to stabilize its recruiting and retention (by increasing salaries and benefits) and to hire more contractors and civilian employees. Once these items were approved in the OCO budget, they migrated to become part of the Department's ongoing base. As Jessica Mathews has written about the military budget, "Capitol Hill no longer probes where real cuts might be made...but only how big the increase should be" (Mathews, 2019). The funding also afforded the Pentagon a way to maintain budget parity among the services.

There are many troubling implications of this system. The Ghost Budget diminished accountability for wartime spending, distorted the internal planning system, and made it possible for the DoD to defer hard choices. It obscured how much money was

being spent on the war, contributing to the lack of public awareness of the scale of U.S. military activity. The Department leveraged OCO to add more than \$1 tn to its base budget increase after 2001. However, it is not clear that the Pentagon used this windfall wisely. The Ghost Budget significantly increased DoD overheads and indirect costs, but the armed services ended up with fewer ships, Air Force squadrons, and only slightly more Army brigades than before the war (Wheeler, 2014b). The Department continued to fund more than 6000 tanks and several \$13 bn apiece aircraft carriers rather than investing in cyber and space technologies of the future. With no forcing mechanism to hold its spending accountable, the military may have squandered its opportunity to invest in future national security and preparedness.⁴²⁵ The Ghost Budget became firmly entrenched in the way the Department is funded, even as the United States narrowed its footprint in Iraq and Afghanistan.

⁴²⁵ G. Adams, Interview No. 32, February 15, 2017; L. Korb, Interview No. 9, September 19, 2016; W. Hartung, Interview No. 19, October 3, 2016; and W. Wheeler, Interview No. 14, September 23, 2016.

CHAPTER 8 IMPLICATIONS AND CONCLUSIONS

In the final passage of *The Satanic Verses*, Salman Rushdie captured the essence of ghostly unknowability, “Now I know what a ghost is. Unfinished business, that’s what” (Rushdie, 1988, p. 540). This thesis documented the emergence of a “Ghost Budget”—a distinctive pattern of budgeting, funding, and financing that was used to pay for America’s longest and most expensive wars. The wars were funded using methods that were unclear. The costs were difficult to trace. The resulting financial burden was deferred to future generations as “unfinished business.”

There is no precedent for this phenomenon in the history of U.S. budgeting or war financing, and it is not well explained by the existing literature. What started as a temporary, albeit politically expedient, mechanism to fund unexpected wars gradually became institutionalized through a type of budgetary alchemy into a second defense budget. For nearly two decades, the post-9/11 wartime budgets accounted for an additional 10–20% of defense funding over and above the base budget annually, but with neither the political oversight nor the accountability that governs other federal spending. The Ghost Budget satisfied political and economic interests as well as the interests of the military. Ultimately, the structure became so entrenched that none of the experts interviewed anticipated any end in sight.

In the preceding chapters, I used a process-tracing approach to show how the Ghost Budget arose from the confluence of three factors. First was the breakdown of the Congressional budget process, the primary lever through which the legislative branch can

influence war policy. Second was the military's growing dependency on the Ghost Budget as a predictable source of extra funding, with few restrictions on how it could be used. Third was the atypical environment that prevailed in global financial markets post-9/11 that enabled the U.S. Treasury to borrow on an effectively unlimited scale. The absence of any one of these three conditions would almost certainly have stymied the emergence of the Ghost Budget very early on.

The absence of new taxes or spending cuts tied to the war, the use of debt finance, and the low levels of Congressional debate fostered an environment in which the costs of the war could largely be hidden from public view. Moreover, the wars were fought by an all-volunteer force and supported by paid contractors. American voters are most interested in foreign policy when it has the potential to affect their pocketbooks directly, as Russett (1990), Parks (1957), and Kreps (2018) show. Consequently, despite their enormous financial cost, the wars were not the dominant issue in Congressional or Presidential election campaigns after 9/11.

I identified consequences of the Ghost Budget in three main areas: Budgeting and Budget Theory; Military Spending; and National Security.

§ 8.1 Budgeting and Budget Theory

§ 8.1.1 Good Budgeting

In his seminal essay "A Budget for All Seasons," Wildavsky identified three main criteria for effective public sector budgets: accountability (by associating government publicly with certain expenditures, opponents can critique the spending); control (ensuring

that authorized and appropriated funds are being spent for the designated activities); and efficiency (executing the activities at the lowest possible cost and maximizing the value of expenditures). Wildavsky also cited budgets as an instrument of economic management and planning to make and support decisions (Wildavsky, 1978).

The Ghost Budget did not meet any of Wildavsky's criteria. Accountability for spending was low, even by wartime standards. It is at best doubtful that a significant portion of the sums appropriated were spent for their intended purposes. Legislative control was weakened by the speed with which budgets were assembled and approved as "emergency" supplemental appropriations, the frequently shifting definitions of "war spending," and the growing use of OCO money for non-war purposes. Every major government oversight agent faulted the transparency and accountability of war accounting. Spending was inefficient in many cases due to the way war funding was apportioned into the Pentagon's O&M account, which meant that money had to be executed within one year or awarded to private contractors who lacked incentives to spend cost-effectively.

In terms of overall management of public expenditures, Schick held that the goals of a public expenditure system should be aggregate fiscal discipline, allocational efficiency, and operational efficiency (Schick, 1998). Clearly, the Ghost Budget failed all these normative standards and undermined at least the first two.

The Ghost Budget was the reverse of an effective planning tool. The use of emergency and exempt funds enabled lawmakers to hide the true levels of budget deficits and to avoid planning and prioritizing expenditures both within and outside the military. Moreover, the Ghost Budget led to trillions of dollars of additional long-term commitments as OCO spending became embedded into the Pentagon base budget. There is no evidence

that Congress or the CEA ever proactively decided to fund the war in this fashion or evaluated the approach against other possible choices.⁴²⁶ To the extent that the Ghost Budget served economic goals (providing a backdoor stimulus post 2008), it was an accidental byproduct and served to further obscure attention from war spending.

§ 8.1.2 Transparency and Accountability

The literature has produced a number of official reports documenting intelligence failures and subsequent U.S. errors in Iraq and Afghanistan. These included the failure to apprehend Osama bin Laden at Tora Bora, the faulty intelligence that led to the initial invasion of Iraq, and numerous other instances. The reports range from the early findings of the 9/11 Commission and the Iraq Study Group to the UK Chilcot Enquiry (Baker et al., 2006; Chilcot, 2016; B. Jones, 2010; National Commission on Terrorist Attacks upon the United States, 2004). However, there has been far less attention paid to *fiscal* accountability for the vast public expenditure for the wars, even though fiscal governance is essential in healthy democracies (Heald, 2012).

One of the strongest findings in this thesis is the minimal accountability for war spending. Almost every person interviewed who was knowledgeable about the contents of the supplemental emergency and OCO budgets—including budget officials, Congressional staff, OMB staff, Pentagon flag officers, inspector generals, oversight agents, defense experts, and senior White House political appointees—agreed that war funding was subject to substantially less oversight than the regular defense budget. Where there was oversight, it

⁴²⁶ J. Furman, Interview No. 47, November 6, 2018; J.E. Stiglitz, Interview No. 28, January 6, 2017; and J. Galbraith, Interview No. 2, January 5, 2016.

was primarily focused on the details of individual line items, often seemingly selected at random (for example, whether a specific expenditure ran over budget).⁴²⁷ The oversight seldom extended to the core issues of whether the spending was necessary to achieve the government's military and political objectives or whether it was successful in achieving its intended purpose.⁴²⁸

The literature on fiscal transparency views as essential both the ability to hold governments accountable for the spending of taxpayer money and the presence of a mechanism to ensure that the funds are spent as intended (Berman, 2014; Hood & Heald, 2006). During the post-9/11 wars, it was nearly impossible to trace where billions of dollars were being spent,⁴²⁹ presenting significant opportunities for waste and abuse. The Pentagon's Chief Inspector General, the GAO, and others reported that OCO funds could not even be submitted for audits, as they contained significant material weaknesses and discrepancies.⁴³⁰

The lack of accountability for war spending was corroborated in December 2019 when the *Washington Post* published "The Afghanistan Papers"—2,000 pages of confidential interviews (obtained via FOIA) that the SIGAR had conducted with senior diplomats and military and government aid officials who played a direct role in the \$133 bn reconstruction effort in Afghanistan (Whitlock, 2019). The transcripts revealed that senior officials had questioned the purpose and efficacy of the U.S. efforts in Afghanistan right from the beginning of the war (Sopko, 2016, 2018a; 2018b; Whitlock, 2019). Officials interviewed said that the United States had poured money into the region regardless of the capacity to

⁴²⁷ G. Fine, Interview No. 48, November 8, 2018.

⁴²⁸ A. Bacevich, Interview No. 13, September 23, 2016 and G. Fine, Interview No. 48, November 8, 2018.

⁴²⁹ L. Korb, Interview No. 9, September 19, 2016; W. Wheeler, Interview No. 14, September 23, 2016; G. Adams, Interview No. 32, February 15, 2017; and F. Spinney, Interview No. 33, February 2, 2017.

⁴³⁰ D. Walker, Interview No. 17, September 30, 2016 and G. Fine, Interview No. 48, November 8, 2018.

absorb it, comparing the spigot of funds to an overflowing funnel (Whitlock, 2019). They described “ghost projects” that were never built and non-existent “ghost” soldiers and police (R. Cooper, 2019). U.S. officials claimed they were under enormous pressure to spend money, regardless of the viability of the projects.⁴³¹ The Afghanistan Papers also reported widespread abuse in contracting, in part because OCO funding allowed the military to bypass normal contracting rules (Whitlock, 2019).

The reconstruction efforts in Iraq and Afghanistan cost a total of \$200 bn, which by comparison was 50% more (in \$2018) than America’s Marshall Plan aid after World War II (Steil & Della Rocca, 2018). Nevertheless, the reconstruction money comprised only 5–10% of the total U.S. post-9/11 OCO spending. According to those interviewed for this thesis, the *entire* multi-trillion dollar Ghost Budget process suffered from the same kind of weak financial accountability that was revealed in the Afghanistan Papers.⁴³²

As I have documented, the emergency/OCO budgets were formulated outside the long-term DoD strategic planning cycle and lacked sufficient detail to allow for proper scrutiny. Nearly 70% of OCO appropriations were apportioned to the O&M account, the least accountable part of the Pentagon’s budget. The O&M account funded tens of thousands of individual private contracts, which had a lower threshold than appropriated funds for financial disclosure. Heavy dependence on contractors formed what Heald (2012) refers to as

⁴³¹ For example, spending included an unnecessary hydroelectric dam costing US \$775 m located deep in Taliban-controlled territory that will likely require foreign subsidies indefinitely (Whitlock, 2019).

⁴³²L. Korb, Interview No. 9, September 19, 2016; S. Silverberg, Interview No. 10, September 19, 2016; R. Nabors, Interview No. 12, September 20, 2016; A. Bacevich, Interview No. 13, September 23, 2016; W. Wheeler, Interview No. 14, September 23, 2016; D. Walker, Interview No. 17, September 30, 2016; G. Adams, Interview No. 32, February 15, 2017; F. Spinney, Interview No. 33, February 2, 2017; and M. Leatherman, Interview No. 40, July 20, 2017.

an “intrinsic” barrier to transparency by increasing the complexity of the process and the number of participants in the conflicts.

The Ghost Budget shifted decision-making over spending away from the principals (elected officials) to line managers in the Pentagon (agents) who were incentivized to maximize spending on the programs they managed. They in turn effectively delegated much of their spending responsibility to contractors (as agents) who had similar motives. In instances where principals attempted to obtain information about how money was actually being spent, the Pentagon obfuscated. For example, according to Senator James Webb, a member of the Commission on Wartime Contracting, he was not able to secure details over \$32 bn of Iraq reconstruction contracts, despite repeated efforts over several months:

I asked if they would provide us with 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. For months we asked them. And they were unable to come up with a list of the contracts that had been let (Webb, 2012).

§ 8.1.3 Budget Theory

Budget theory has never fully resolved the question originally posed by V.O Key: on what basis is it decided how to spend government money? According to Wildavsky, Lindblom, Caiden, and Schick, most spending is decided through the political process and grows incrementally (Caiden, 1989; Schick, 2007; Wildavsky, 1992b; Wildavsky & Caiden, 2004). Public choice theorists—including Niskanen (1971), Buchanan and Tullock (1962), and others—have cited additional factors that influence spending decisions, including legislators, bureaucrats, and program managers motivated by self-interest to increase

spending in their own domains. Shaw (2002) refers to an element of strategic decision-making to invest in certain areas.

In all these cases, however, budgeting is executed through a series of rules-based procedures that govern how money is requested, justified, evaluated, appropriated, disbursed, and monitored. Although wartime finance might diverge from the standard patterns, such divergences are expected to result in heightened attention to the conflict itself, to demands for better information about war costs and payment mechanisms, to expediting (but not evading) the budget process, and to discussions of alternative fiscal strategies, such as additional taxes or reduced non-war spending.

The theories do not explain the emergence of the Ghost Budget. Lawmakers willingly circumvented the established budget process, violating all their self-imposed budget rules in order to provide the Pentagon with the money that it itself deemed necessary to support military operations. This was the case even though the nature of such operations was often poorly defined, and much of the requested funding was only loosely connected to war operations at all. The most salient feature of decisions regarding “how much to spend and on what basis” was not incremental growth or programmatic selection. Instead, the budget process was driven by expediency. Motivations included minimizing the appearance of the budget deficit; hiding the lack of progress in the wars; circumventing arbitrary budget caps; ensuring the military had funds on a timely basis (rather than rely on the haphazard Congressional budget process); and satisfying special interest constituencies such as the defense lobby and the desire to maintain parity among the three military armed services.

The Ghost Budget provided a convenient funding mechanism for everyone: it gave the Defense Department a budget that was subject to little external scrutiny and it enabled

elected officials to avoid any politically inconvenient trade-offs from the increased spending. There is no other instance in modern U.S. budgetary practice where a government agency managed to achieve such a feat on anything like this scale. Other agencies that attempted to secure similar arrangements, such as the Census Bureau, failed to do so beyond small, one-off amounts.

The Ghost Budget demonstrates that there is a third way to grow the budget in addition to the two—incremental growth and programmatic additions—identified in the literature. This third way is to first fund long-term programs—such as structural increases to military health care benefits—through a parallel budget and *then* migrate the additional spending into the base budget for future years. This mechanism has added over a trillion dollars to the base DoD budget since 2001 and reversed a historic decline in U.S. military spending as a percentage of GDP.

§ 8.1.4 Role of Congress

The budget has been defined as the “commons” of public goods, where fiscal resources and claims on them are proposed, vetted, adjudicated, and allocated across society (Brubaker, 1997, p. 353). Congress, as the elected representative (agent) of the public (the principal), is specifically granted the “power of the purse.” During the Korean and Vietnam wars, Congress fulfilled this constitutional role effectively. It considered the costs of the wars, debated how to pay for them, and decided what combination of fiscal measures to adopt, including taxes, spending cuts, and additional borrowing. During Vietnam, Congress used its control over spending to influence the course and duration of the war itself.

The Ghost Budget significantly eroded Congress's "power of the purse." The budget reforms of 1974 were intended to strengthen Congress's budgetary authority. In practice, the reforms had the perverse result of effectively crippling the budget process. This in turn created the opportunity for a parallel mechanism to be introduced and promoted by the military post 9/11. Congress proved a willing partner, abdicating its responsibility to deliberate on war spending or on how the costs should be distributed across taxpayers (both present and future). The data mining in this thesis shows that Congress was largely content to let the military take the lead in determining not only the conduct of the war but the amounts required to fund it. The main discussions about war funding were relegated to the weak budget committees rather than the powerful appropriations and fiscal committees. As Fisher has observed, this surrender of power left Congress substantially weaker in terms of exercising budgetary oversight than at any time since the Vietnam War (Fisher, 2013).

A troubling implication relates to the position of the military vis-à-vis its contract workforce and the rising influence of defense contractors, a key special interest group in Congress. As documented in the thesis, the post-9/11 all-volunteer military became dependent on private contractors for operational support. The capture theory (Stigler, 1971) holds that bureaucrats, who rely on Congress to provide funds, may become "captured" by special interests who influence Congress to provide more funds. In this case, a deep interdependence grew between the military and the defense contractors. They in turn funneled campaign contributions to Congressmen and Senators voting on the OCO budget (W. C. Mitchell & Munger, 1991). In this respect, the Ghost Budget may have contributed to the public's low level of trust in Congress and its ability to govern effectively in the public interest (Lowi, 1977).

§ 8.2 The Ghost Budget and Military Spending

The government has never produced a full reckoning of the cost of the post-9/11 conflict, although scholars estimate it lies between \$4–6 tn (Bilmes, 2007; Crawford, 2019b; Stiglitz & Bilmes, 2006, 2008, 2010, 2012). An important consequence of the Ghost Budget was that the costs were materially higher than they otherwise would have been. The combination of deferred costs, weak oversight, broadening definition of war costs, and the ready availability of funding relaxed the pressure to contain military spending. Buoyed by strong bipartisan support for the military, the OCO budget extended far beyond the immediate operational needs of the wars in Afghanistan and Iraq. Once they were enacted, there was little political appetite to rescind long-term commitments such as higher military and veterans' benefits increases. Such spending choices cumulatively added trillions of dollars of future costs to the base defense budget without any discussion about how to pay for them. As Rivlin observed,

Budgeting for wars is not a solvable issue, but this war has been more expensive than it needed to be, and we didn't know how much we were spending because it was all being financed by sleight of hand.⁴³³

According to several of those interviewed, the cost buildup will eventually constrain future spending options, at a time when the Pentagon is facing new challenges such as artificial intelligence, hypersonics, and cyber warfare (Flournoy & Sulmeyer, 2019).⁴³⁴ Moreover, the DoD became accustomed to operating without effective budget constraints.

⁴³³ A. Rivlin, Interview No. 22, October 24, 2016.

⁴³⁴ L. Korb, Interview No. 9, September 19, 2016; W. Wheeler, Interview No. 14, September 23, 2016; R. Hale, Interview No. 24, November 7, 2016; F. Spinney, Interview No. 33, February 2, 2017; and P. Eaton, Interview No. 34, March 2, 2017.

Some experts interviewed raised concerns that, after so many years of “free money,” the military has lost the institutional ability to make spending trade-offs.⁴³⁵

Although the use of defense contractors did not by itself lead to extra costs, the DoD lacked any clear framework for determining which jobs and functions could be turned over to private companies efficiently.⁴³⁶ There was minimal spending oversight over what amounted to 50% of the manpower during the wars, a workforce that had different financial incentives and a separate chain of command. Many firms benefited financially from the continued prosecution of the wars, regardless of the political or military rationale (Florini, 2007; Kinsey & Patterson, 2012). Several analysts have concluded that despite offsetting savings, the *net* result of large-scale private sector involvement in Iraq and Afghanistan was to increase materially the cost of war operations (Commission on Wartime Contracting, 2011; Peltier, 2020a; Sopko, 2016; F. M. Woodward, 2018).

§ 8.3 The Ghost Budget and National Security

The Ghost Budget contributed to the increasing militarization of U.S. foreign policy. The huge surge in military spending (total annual defense outlays increased by 50% in the period between 2001 and FY 2018) and the ready availability of funds for new defense programs encouraged the United States to see the world through a “Pentagon lens” where military intervention became the preferred foreign policy option (Conetta, 2008; Roberts,

⁴³⁵ J. Mateczun, Interview No. 4, May 1, 2016; L. Korb, Interview No. 9, September 19, 2016; W. Wheeler, Interview No. 14, September 23, 2016; G. Adams, Interview No. 32, February 15, 2017; and F. Spinney, Interview No. 33, February 2, 2017.

⁴³⁶ W. Wheeler, Interview No. 14, September 23, 2016; W. Polk, Interview No. 27, December 7, 2016; and P. Eaton, Interview No. 34, March 2, 2017.

2008).⁴³⁷ More than 92% of emergency supplemental OCO funding post 2001 was awarded to the DoD, even for activities such as post-war reconstruction that are not traditionally under the purview of the Pentagon.⁴³⁸ By 2018, some 22% of U.S. development funding was controlled by the Defense Department, up from 3.8% in 2000 (McGarry & Morgenstern, 2019). The “soft power” of State Department diplomacy and of multilateral organizations such as the UN were increasingly relegated to a back seat.⁴³⁹

The Ghost Budget meant there was never a serious debate over whether the rapid increase in military spending and the accompanying shift of power to the Pentagon was the best way to promote U.S. national security. The results of the lengthy wars in Iraq and Afghanistan, the failed U.S. intervention in Libya, and the muddled U.S. activity in Syria might suggest otherwise. In practice, the Ghost Budget may have bought “less security at greater cost” (Conetta, 2008).

Moreover, by passing the cost of current military spending to future generations through the buildup of U.S. indebtedness, the Ghost Budget opened up the risk of future financial fragility for the United States. This could manifest itself as a serious security weakness if the U.S. faces a future emergency at a time when foreign borrowing has become difficult and/or very costly. Medical and disability benefits for post-9/11 veterans and military families will account for a growing percentage of the federal budget. Even if the United States were to withdraw all troops and contractors from Afghanistan, Iraq, Kuwait, and the surrounding areas immediately, the “unfinished business” of these long-term costs will continue to rise.

⁴³⁷ A. Roberts, Interview No. 16, September 28, 2016.

⁴³⁸ Between 7 and 8% of the appropriation has gone to the State Department.

⁴³⁹ N. Burns, Interview No. 37, May 24, 2017 and Ban Ki-Moon, Interview No. 35, May 1, 2017.

Within the military, the Ghost Budget circumvented the PPBE framework that had been used to control resources within the Pentagon since the 1960s. The consequence was that it became unclear how the DoD was setting priorities. For example, U.S. allies could question whether the nation was seriously committed to supporting programs such as the European Deterrence Initiative (EDI)⁴⁴⁰ over the long term, given that it was funded outside the base using short-term OCO appropriations. The National Defense Strategy Commission concluded that relying on OCO to grow the defense budget was unsuitable because it did not “provide adequate and stable resources” for the long-term geopolitical needs set out in the National Defense Strategy (Edelman & Roughead, 2018, p. 49).

§ 8.3.1 The Ghost Budget and Prolonging Military Conflicts

In Kant’s essay *Perpetual Peace* (1795), his fourth principle for states to exist in peace is that they should not incur debt to wage wars. Kant argued that this principle provides a key constraint on wars, namely running out of resources. In this respect, the Ghost Budget was a critical enabler in sustaining military activity over a prolonged period of time.⁴⁴¹ The ability to keep borrowing and spending with minimal oversight produced a kind of Orwellian outcome from FY 2001 through FY 2019 in which the U.S. was always fighting a war somewhere in the Iraq/Afghanistan region, with vested interests—the Pentagon and its defense contractors—heavily incentivized to keep the conflicts going.

Had the war funding reverted to the normal budget process, with all the accompanying trade-offs, approval and oversight requirements, this might well have forced

⁴⁴⁰ Previously known as the “European Reassurance Initiative.”

⁴⁴¹ N. Crawford, Interview No. 5, November 8, 2017; J. Bolten, Interview No. 6, September 19, 2016; R. Nabors, Interview No. 12, September 20, 2016; and A. Roberts, Interview No. 16, September 28, 2016.

the United States to confront the question of whether the gains from the wars were worth the huge continuing cost. In fact, the question of whether more war funding was actually *necessary* shifted imperceptibly over time to the question of “how big” the OCO budget should be. As Theodore Lowi pointed out, if one requested 500 warheads the debate would be over how many—not on the underlying premise (Lowi, 1977). Throughout the post-9/11 conflict, public debate focused on marginal questions, such as whether 10,000 or 12,000 U.S. troops should be deployed. The lack of budgetary constraints and financial oversight made it easier to defer doubts about the underlying rationale for the wars.

As Berinsky (2009) has shown, public opinion moves more in response to elite conversation about events, rather than to the events themselves. If his view is correct, the absence of debate in Washington helped keep the topic of war costs out of the news. The evolution of U.S. public opinion is consistent with this theory. The public supported the 2001 invasion of Afghanistan, and a majority favored the 2003 effort to topple Saddam Hussein. Over the next several years, public attention and enthusiasm for the conflicts tapered off. Longitudinal public opinion surveys and the share of the “news hole” devoted to the wars showed low and declining public interest and knowledge about the wars (Project for Excellence in Journalism, 2008). By 2018, when asked whether the United States was still at war in Afghanistan, 42% of Americans responded no or said they were not sure (Rasmussen Reports, 2018).

§ 8.3.2 Minimizing Resistance to War

A question I have grappled with while writing this thesis is the extent to which the Ghost Budget was a deliberate effort to hide the costs of the war. And if so, what were the

motivations? I believe the answer is that it was a combination of both purposeful and accidental efforts.

In the initial stages, the Bush administration deliberately downplayed the costs of the war in order to minimize the budget deficit. Congress was complicit in this ruse. The DoD had its own reasons for keeping war funding separate from its base budget and outside the regular processes. Congress supported this plan—both as a deliberate way to minimize the need for offsetting budget cuts and as a byproduct of its continued failure to enact budgets within the prescribed timetable. The Obama administration seems to have practiced benign neglect. Despite understanding full well the implications of the OCO budget, it was unwilling to take on the vested interests in the military and Congress that by then had grown accustomed to it. Not only was there no economic urgency to do so, but additional war spending may actually have benefited the economy following the 2008 financial crisis. In sum, the political and economic forces transformed what was a small-scale tactic to minimize the visibility of costs into a long-term strategy for diverting a higher share of GDP to the military budget, thereby benefitting multiple stakeholders.

No constitutional laws were broken, yet the agents (both elected representatives and Pentagon officials) were able to circumvent the institutional budget system in ways that led to clear moral hazard. Spending via the Ghost Budget benefited elected officials by enabling them to seek reelection without disclosing the full war cost or requiring current taxpayers to pay for it. It also benefited Pentagon officials by enabling them to increase their resources and political influence without being subject to normal Congressional scrutiny. In both cases, the institutional budget structures set up to protect the principals—voters and taxpayers—failed.

Alasdair Roberts argued that a key objective of contemporary United States governments is to minimize popular resistance to war (Roberts, 2008).⁴⁴² This goal is facilitated by several factors, including the use of technologically sophisticated weaponry such as unmanned drones, the limited scope of U.S. interventions, the AVF, and the proliferation of private contractors. According to Roberts, my thesis identified another factor: that the Ghost Budget made it possible to hide the financial cost of the wars, making them seem remote and painless.⁴⁴³

§ 8.4 Epilogue: The War Budget Beyond the War

President Donald Trump presided over the final transition of OCO from a wartime budget to a permanent second defense budget.

When Trump assumed office in FY 2017, he declared his intent to grow the military budget. However, like his predecessors, he encountered the BCA budget caps on the defense base budget. So even as he also pledged to reduce the U.S. presence in Afghanistan, and nation-building in general, Trump discovered that the most politically attractive way to boost defense spending was OCO—which allowed him to bypass Congressional limits and to increase defense spending without acceding to Democratic requests for higher domestic spending. Furthermore, Trump recognized that OCO could pay for nearly anything—war-related or not—including the Southern border wall.⁴⁴⁴

⁴⁴² A. Roberts, Interview No. 16, September 28, 2016.

⁴⁴³ A. Roberts, Interview No. 16, September 28, 2016.

⁴⁴⁴ P. Tizzani, Interview No. 11, September 19, 2017.

The FY 2020 budget further severed the link between OCO and war funding. Trump asked Congress to more than double the OCO budget to \$165 bn, which included funding for “Enduring Requirements,” “OCO for Base,” and other purposes. “Enduring requirements” was a vague new term defined as “enduring in-theater and CONUS [Continental United States] costs that will remain after combat operations end” (Office of the Under Secretary of Defense (Comptroller), 2019a). Although Congress rejected the huge increase to OCO and approved only the usual level of \$72 bn, within this amount it explicitly appropriated \$41.4 bn for “enduring requirements,” as well as “\$6.4 bn for “OCO for Base.” The new “enduring” category provided statutory authority for OCO funds to be used in the Ukraine, Europe, overseas bases, naval operations, and weapons system sustainment—in other words, almost anywhere— as well as long-term costs resulting from whatever policies the U.S. pursued in Iraq and Afghanistan (U.S. Department of Defense, 2019).

The opacity of the OCO budget fit in with the administration’s efforts to dismantle many of the “open government” policies that had been introduced in previous administrations (National Security Archive, 2020). The administration removed key DoD reports from public websites on topics including personnel deployments, non-hostile war casualties, disability claims, and procurement reports. For example, the DoD Defense Manpower Data Center (DMDC) stopped providing military deployment figures for Afghanistan, Syria and Iraq. The website states that it “no longer includes troops deployed in support of contingency operations” (Defense Manpower Data Center, 2019).⁴⁴⁵

⁴⁴⁵ The DMDC still provides information stating where military and civilian service members are stationed around the world *except* for troops in Iraq, Afghanistan, and Syria.

More broadly, the flexibility in the OCO budget made it possible for Trump to pursue both higher military spending and efforts to reduce America's presence in Afghanistan and Iraq. In both countries, the number of U.S. troops deployed as of March 2020 was higher than when Trump was elected, despite his stated intention to withdraw (Office of the Under Secretary of Defense (Comptroller), 2020; Peters & Plagakis, 2019). In Afghanistan, the U.S. had roughly 12,000 boots-on-the-ground, compared with 9,000 when he took office.⁴⁴⁶ In Iraq, U.S. forces grew from about 4,000 to 7,000 due to U.S. participation in "Operation Inherent Resolve" against ISIS.

On February 29th, 2020 in Doha, the United States signed a peace accord with the Taliban, with the President reporting, "We are working to finally end America's longest war and bring our troops back home" (Trump, 2019). This agreement was driven by the President's desire to end U.S. involvement in Afghanistan, as well as to use the OCO budget for other military spending. As Trump explained in a speech to U.S. troops during his brief visit to Bagram Air Base⁴⁴⁷ on November 2019:

The Taliban wants to make a deal. It's got to be a real deal, but we'll see...I want peace more than anybody...But we've spent \$2.5 trillion. And while I don't love that, you know what that does to my budget, because I'm a budget person—we don't have a strong military budget...I have to worry about budgets...along with record investment in our military, we've also got your largest pay raise in over 10 years...We're investing so much money in our military, and we're not going to stop until its totally rebuilt and complete (Trump, 2019).

For many reasons beyond the scope of this thesis, it is doubtful whether the Doha agreement will end U.S. involvement in the conflict. According to Ajmal Ahmad, chief

⁴⁴⁶ In FY 2017, Trump increased U.S. troops to 14,000. In December 2018, he abruptly ordered the military to begin reducing troop levels back to 8,600 (H. Cooper, 2018; Peters & Plagakis, 2019).

⁴⁴⁷ Bagram Air Base (Bagram Airfield-BAF) is the largest U.S. base in Afghanistan. Trump visited troops there on November 28, 2019.

economic advisor to Afghan President Ashraf Ghani, there are multiple actors “much worse than Taliban” and beyond the Taliban’s control, so U.S. forces will need to stay in the country “to keep a lid on them.”⁴⁴⁸

In Iraq, the U.S. assassinated the commander of Iran’s Al-Quds Force, Maj. Gen. Qassim Suleimani, in January 2020. Iran retaliated by launching ballistic missiles at air bases in Iraq where U.S. and coalition forces were housed, causing dozens of traumatic brain injuries among U.S. troops. Despite widespread opposition to the continued U.S. presence among Iraqis, the FY 2021 DoD budget requests funds for an increase in U.S. force levels in Iraq for next year (Office of the Under Secretary of Defense (Comptroller), 2020). Regardless of the outcome, war or peace, the DoD budget for FY 2021 (released in February 2020) provides money through OCO. Thanks to the characteristics of OCO outlined in this thesis, the budget will provide maximum discretion for the next administration to continue in whatever direction it chooses, with minimal oversight.

§ 8.4.1 2020: Bringing OCO to an End

How could the OCO story end? It is conceivable that the system could be brought to heel by a spike in interest rates or a dramatic realignment of the Congressional budget process, although neither of these endings seems likely in the near future. Most plausible is that the Pentagon chooses to integrate OCO into its base budget. If the BCA budget caps are rescinded on schedule in 2021, it is possible that an alliance of defense hawks and budget purists decide to absorb the “OCO-to-base” and “Enduring” categories into a new permanently higher base that continues to grow incrementally in the future. It is very

⁴⁴⁸ A. Ahmady, Interview No 50, November 8, 2018.

unlikely, however, that the DoD will agree to relinquish OCO entirely; not one official interviewed could imagine that outcome.

APPENDIX I LIST OF INTERVIEWS

#	Name	Position	Category	Date	Location
1	Daniel Ellsberg	Advisor to McNamara during Vietnam War. Pentagon Papers	Defense, Whistleblower	1/1/2016	San Francisco
2	James Galbraith	Professor, Lyndon B. Johnson School, University of Texas	Economist	1/5/2016	Chicago
3	Vincent Smith	Chief Administrative Officer, United Nations Mission, Afghanistan	UN Official	2/25/2016	Cambridge, MA
4	John Mateczun	Vice Admiral U.S. Navy, Commander Walter Reed Hospital, Army Sgt. during Vietnam	Military	5/1/2016	Washington, DC (interviewed re: Walter Reed)
5	Neta Crawford	Professor, Boston University	Political Scientist	9/7/2016; 11/8/17	Boston, MA (informal conversation)
6	Joshua Bolten	Director OMB, 2006–2009; Chief of Staff to George W Bush, 2003–2006; Deputy COS, 2001–2003; Chief domestic policy aide to George H.W. Bush, 1992–1993	Political/Budget	9/19/2016	Washington DC
7	Tyler Evilsizer	Senate Budget Committee staff, defense issues	Congressional staff member	9/19/2016	Washington DC
8	Thomas Gates	Budget analyst, Office of Management and Budget	Budget expert	9/19/2016	Washington, DC
9	Lawrence Korb	Defense expert; Assistant Secretary of Defense 1981–1985 Center for American Progress	Defense budget expert	9/19/2016	Washington, DC
10	Samantha Silverberg	Budget analyst OMB	Budget expert	9/19/2016	Washington, DC
11	Philip Tizzani	Budget analyst, OMB	Budget expert	9/19/2016	Washington, DC
12	Robert Nabors	Deputy Director OMB, 2008–2010; White House Congressional Liaison, 2011–2013; WH Deputy Chief of Staff, 2013–2015 Bill and Melinda Gates Foundation	Political/OMB/legislative expert	9/20/2016	Washington, DC

13	Andrew Bacevich	Historian, academic, author, Boston University	Historian	9/23/2016	Boston, MA
14	Winslow Wheeler	Defense expert; Director of the Straus Military Reform Project Former GAO Defense Analyst	Oversight	9/23/2016	Phone
15	Gordon England	Deputy Secretary of Defense, 2005–2009; Secretary of U.S. Navy, 2001–2006	Military	9/26/2016	Washington, DC
16	Alasdair Roberts	Professor, University of Missouri	Political Scientist	9/28/2016	Phone
17	David Walker	U.S. Comptroller General; Director GAO, 1998–2008	Oversight	9/30/2016	Phone
18	William Daley	Chief of Staff to Barack Obama 2010–2012; U.S. Secretary of Commerce, 1997–2001	Political advisor, Clinton/Obama	10/3/2016	Phone
19	William Hartung	Center for International Studies, Director Security Program	Defense expert	10/3/2016	Phone
20	Thomas Kahn	Staff Director, House Budget Committee 1997–2016 (Majority and Minority)	Congressional budget expert	10/21/2016	Phone
21	Phil Schiliro	Former Obama staff, congressional budget liaison	Congressional, budget expert	10/21/2016	Phone
22	Alice Rivlin	Director of OMB (1993–96), Vice Chair of the Federal Reserve (1996–1999), and Director of Congressional Budget Office (1975–1983)	Budget expert	10/24/2016	Washington, DC
23	Thad Allen	Commandant, U.S. Coast Guard, 2006–2010	Military	11/7/2016	Washington, DC (interviewed Re: budget research)
24	Robert Hale	Under Secretary of Defense and Comptroller, Department of Defense, 2009–2014; Assistant Secretary U.S. Air Force, 1994–2001	Military/budget	11/7/2016	Washington, DC
25	Rosella Capella Zielinski	Assistant Professor, Boston University	Political Scientist	11/10/2016	Cambridge, MA

26	W. Scott Gould	Deputy Secretary of Veterans Affairs, 2009–2013; Captain, U.S. Navy, Harvard Kennedy School Senior Fellow, MRCBG	Military/budget/ expert	11/22/2016 and 11/2018	Cambridge MA and Washington, DC
27	William Polk	Historian/former aide to President Kennedy	Historian, Kennedy aide	12/7/2016	Phone
28	Joseph E. Stiglitz	Economist, former CEA Chairman, Professor at Columbia University	Economist	1/6/2017	Chicago
29	Carl Conetta	Director, Project on Defense Alternatives	Military expert	1/10/2017	Washington, DC
30	Ed Lorenzen	Committee for a Responsible Federal Budget. Staff of Rep Stenholm (1990–2004), Senior Adviser for House Majority Leader Steny Hoyer (2007–2010).	Congressional budget expert	2/1/2017	Phone
31	Todd Harrison	Center for Strategic and International Studies	Defense budget expert	2/7/2017	Phone
32	Gordon Adams	Academic/ Former Director for National Security and International Affairs at OMB	Defense budget analyst	2/15/2017	Phone
33	Franklin C. Spinney	Pentagon official, author of “Spinney Report” on costly complex weapon systems	Budget/military expert	2/16/2017	Phone
34	Paul Eaton	Major General, U.S. Army. Commander in Iraq; Deputy COS, U.S. Army	Military	3/2/2017	Phone
35	Ban Ki-Moon	UN Secretary General, 2007–2016	United Nations	5/1/2017	Cambridge, MA
36	Seth Moulton	Member of Congress 2005 – current Iraq veteran, US Marine Corps	Member of Congress	5/9/2017	Salem, MA
37	Nicholas Burns	Under Secretary of State for Political Affairs from 2005–2008 Professor, Harvard Kennedy School	Diplomat	5/24/2017	Cambridge, MA (Informal Conversation)

38	Sharmini Coorey	Director of the Institute for Capacity Development and Director of the IMF	Economist	7/5/2017 and 8/2019	Arlington, VA and Washington, DC
39	Francis Bator	Deputy National Security advisor to Lyndon Johnson, 1965–75	Economist/Johnson aide	7/12/2017	Phone
40	Matthew Leatherman	Defense budget analyst, Stimson Center	Defense budget expert	7/20/2017	Cambridge, MA
41	Jason Smith	U.S. Coast Guard, and U.S. Senate Committee on State, Justice, Commerce staff member	Military/Congress	7/31/2017	Phone
42	Dan Feehan	Undersecretary of Defense for Personnel and Readiness 2015-2017	DoD Official	9/7/2017	Cambridge, MA
43	Elizabeth Esty	Member of Congress, 2012–2018	Member of Congress	10/30/2017	Cambridge, MA
44	Stan Collender	Budget expert	Political/budget	11/8/2017	Washington, DC
45	Ashton Carter	Secretary of Defense, 2015–2017 and Professor, Harvard University	Military	11/27/2017	Cambridge, MA
46	Ryan Edwards	Assistant Professor of economics	UC Berkeley	12/5/2017	Phone/email
47	Jason Furman	Professor, Harvard University, former Chairman of Council of Economic Advisors	Economist, Obama official	11/6/2018	Cambridge, MA
48	Glenn Fine	Lead Inspector General, U.S. Department of Defense	DoD Official	11/08/2018	Washington DC
49	Brett Mansfield	Senior Advisor to the Inspector General, DoD	DoD career official	11/08/2018 with follow up	Washington DC
50	Ajmal Ahmady	Senior Economic Advisor to President Ashraf Ghani of Afghanistan	Afghanistan official	11/8/2018	Washington DC

APPENDIX II-A METHODOLOGY FOR DATA MINING

SENATE FINANCE COMMITTEE AND HOUSE WAYS AND MEANS COMMITTEE HEARINGS ANALYSIS

	Number of Hearings	Korea	Vietnam	Post-9/11	Criteria
Senate Finance Committee	Total Hearings	55	134	681	Methodology A
	Relevant Hearings	9	10	20	Methodology A
	Mentions	5	7	1	Methodology B
	Percent Mentions	56%	70%	5%	
House Ways and Means Committee	Total Hearings	49	200	612	Methodology A
	Relevant Hearings	7	19	47	Methodology A
	Mentions	5	14	7	Methodology B
	Percent Mentions	71%	74%	15%	

Methodology A – Fiscal Committees

The hearings of the Senate Finance Committee and House Ways and Means Committee were compared to examine how much each Congress discussed or debated war costs and wartime finance strategy.

These two committees were chosen for specific reasons. First, the Senate Finance Committee was founded in 1815 and the House Ways and Means Committee was founded in 1795, so both committees were active throughout the three war periods. Second, the Senate Finance Committee and House Ways and Means Committee are both tasked with matters related to taxation and revenue, which are topics closely related to wartime finance strategy.

Using the ProQuest Congressional database, the “Hearings 1824–Present” sub-database was searched for the hearings of the Senate Finance Committee and House Ways and Means Committee for the periods of 1950–1953, 1965–1973, and 2001–2017. The search field was then modified to be “Congressional Source,” and then the phrases “Committee on Finance. Senate” and “Committee on Ways and Means. House” were used to search for the three time periods.

After the initial search, the search was modified further by selecting the “Document Type” as “Hearings Published” and the “Committee Source” as the specific committee (either “Committee on Finance. Senate” or “Committee on Ways and Means. House”).

Following this process, ProQuest Congressional yielded 55 hearings for the Senate Finance Committee and 49 hearings for the House Ways and Means Committee during the Korean War. Out of these results, hearings unrelated to taxation, revenue collection, or debt management were removed. Hearings that were clearly not related to wartime finance, including hearings on trade, narcotics, coconut oil, unemployment, and nominations, were removed.

This process was then duplicated for the Vietnam War. This process yielded 134 hearings for the Senate Finance Committee and 200 hearings for the House Ways and Means Committee. Out of these results, any hearing unrelated to taxation, revenue collection, or debt management was removed. Hearings that were clearly not related to wartime finance, including hearings on foreign trade, coffee, state and city aid, pension plans, and customs security, were removed.

Finally, I duplicated this process one more time for the post-9/11 wars for the House Ways and Means Committee. This process yielded 612 hearings. Out of these results, I removed hearings unrelated to taxation, revenue collection, or debt management. Hearings that were clearly not related to wartime finance, including hearings on Medicare, social security fraud, disability, energy, and child adoption, were removed.

The post-9/11 wars for the Senate Finance Committee required a different approach. A list of the Senate Finance Committee’s hearings was found on its website, finance.senate.gov/hearings. The full list for the post-9/11 period contained 681 hearings. This list was then specifically searched for the terms “war,” “military,” and “defense.”

Methodology B – Fiscal Committees

Through this culling exercise, 9 Senate Finance Committee hearings and 7 House Ways and Means Committee hearings were selected to data mine for the Korean War period. 10 Senate Finance Committee hearings and 19 House Ways and Means Committee hearings were selected to data mine for the Vietnam War period. 21 Senate Finance Committee hearings and 47 House Ways and Means Committee hearings were selected to data mine during the post-9/11 period.

After identifying the Senate Finance and House Ways and Means Committee hearings that could encapsulate wartime finance, their transcripts were downloaded as PDFs. Since the files were without character recognition, the records sometimes included splotchy ink and errors in spacing (especially during the Korean War period). Each of these files was opened in Adobe Acrobat and the program's character recognition function was used to render them searchable.

The transcripts were run through data mining software, which analyzed the lengthy text to identify the intersection of discussion on costs and war. The specific search terms used were:

```
war_words = ["war", "wars", "defence", "defense", "afghanistan", "iraq", "combat",  
"troops", "soldier", "soldiers", "military", "army", "navy", "naval", "air force", "marines",  
"korea", "vietnam", "terror", "non-defence", "non-defense"]
```

```
cost_words = ["cost", "costs", "expenditure", "expenditures", "spend", "spending",  
"budget", "deficit", "fund", "funds", "surtax", "surcharge", "trade-off", "trade-offs", "pay-  
as-we-go", "pay-as-you-go", "debt", "priority", "priorities", "tax", "cut", "pay as you go",  
"pay as we go", "trade offs", "trade off"]
```

Given the wide variance in transcript length, the number of sentences in each relevant hearing was compared. The data mining software, written using Python computer language, read the files and split them into sentences using the Natural Language Toolkit sentence tokenizer. The program split the sentences into lists based on their inclusions of the two sets of search terms. It then counted the number of sentences in each list and the number of intersected sentences that contained search terms from "war_words" and "cost_words."

Finally, the intersected sentences were manually reviewed to ensure that the sentence was in fact discussing financing (or the lack of financing) behind the war. This manual review ensured that the data mining was as specific as possible to the research goals. If a hearing contained more than two sentences devoted to the topic of war finance, it was considered a relevant hearing. If a hearing had two or fewer sentences devoted to the topic, it was considered an irrelevant hearing.

Overall, for the Korean War period, seven Senate Finance Committee hearings and seven House Ways and Means Committee hearings spoke extensively about war finance strategy tied to hearings on taxation and revenue generation.

For the Vietnam War period, eight Senate Finance Committee hearings and 19 House Ways and Means Committee hearings spoke extensively about war finance strategy tied to hearings on tax reform, surtaxes, and the public debt limit.

Finally, for the post-9/11 period, one Senate Finance Committee hearing and seven House Ways and Means Committee hearings spoke extensively about war finance strategy.

**SENATE AND HOUSE APPROPRIATIONS SUBCOMMITTEES ON DEFENSE
ANALYSIS**

	Number of Hearings	Korea	Vietnam	Post 9/11	Criteria
Senate Appropriations Subcommittee on Defense	Total Hearings	17	53	29	Methodology A
	Mentions	6	42	5	Methodology B
	Percent mentions	35%	79%	17%	
House Appropriations Subcommittee on Defense	Total Hearings	10	65	39	Methodology A
	Mentions	8	35	3	Methodology B
	Percent mentions	80%	54%	8%	

Methodology A:

The Senate Appropriations Subcommittee on Defense and the House Appropriations Subcommittee on Defense hearings were examined to compare how much each Congress discussed or debated war costs and wartime finance strategy.

These two committees were chosen for specific reasons. First, these subcommittees are the specific appropriating bodies of Congress that have jurisdiction over defense and are therefore responsible for writing the regular appropriation bills, continuing resolutions, and supplemental appropriation bills for the Department of Defense and subsequent war efforts. Second, these subcommittees have existed throughout the three war periods, which allows for smooth comparison.

Using the ProQuest Congressional database, the “Hearings 1824–Present” sub-database was searched for the hearings of the Senate Appropriations Subcommittee on Defense and the House Appropriations Subcommittee on Defense for the three war periods. Using the “Advanced Search” feature, the search field was modified to be “Congressional Source.” The names of each committee were then searched as the “Committee on

Appropriations. Senate.” and “Committee on Appropriations. House.” for the three time periods.

To specifically look at the Subcommittee on Defense, selecting the “Document Type” as “Hearings Published” and the “Committee Source” as the “Subcommittee on Defense” modified the search further. The transcripts of all the hearings were collected across these three periods.

Due to the labeling limitations of the older documents in ProQuest Congressional, the Korean War period and Vietnam War period required a second search to examine all of the broader Senate Appropriations Committee hearings and all of the House Appropriations Committee hearings to find additional hearings of the Subcommittees on Defense. This ensured that the entirety of the subcommittees’ hearings were located for each of the three wars.

For the Korean War, there were a total of 17 Senate Appropriations Subcommittee on Defense hearings and a total of 10 House Appropriations Subcommittee on Defense hearings.

For the Vietnam War, there were 54 total Senate Appropriations Subcommittee on Defense hearings and 65 total House Appropriations Subcommittee on Defense hearings.

For the post-9/11 period, there were a total of 28 Senate Appropriations Subcommittee on Defense hearings and a total of 40 House Appropriations Subcommittee on Defense hearings.

Methodology B:

The data mining procedure described in the Senate Finance Committee and House Ways and Means Committee Hearings Analysis for Methodology B was used.

Overall, for the Korean War period, six Senate Appropriations Subcommittee on Defense hearings and eight House Appropriations Subcommittee on Defense hearings discussed wartime finance strategy.

For the Vietnam War period, 42 Senate Appropriations Subcommittee on Defense hearings and 35 House Appropriations Subcommittee on Defense hearings discussed wartime finance strategy.

Finally, for the post-9/11 period, five Senate Appropriations Subcommittee on Defense hearings and three House Appropriations Subcommittee on Defense hearings discussed wartime finance strategy.

**ANALYSIS OF THE ECONOMIC REPORT OF THE PRESIDENT & ANNUAL
ECONOMIC REVIEW BY THE COUNCIL OF ECONOMIC ADVISERS**

		Korea	Vietnam	Post 9/11	Criteria
Council of Economic Advisers' Annual Report	Total Reports	3	9	15	Methodology A
	Mentions	3	4	1	Methodology B
	Percent mentions	100%	44%	7%	

Methodology A:

The Economic Report of the President and Annual Economic Review by the Council of Economic Advisers were examined as a proxy for measuring the extent to which the President and his economic advisors discussed war costs and wartime finance strategy. Because every CEA must deliver a joint annual report, it offered a good baseline document for comparing the Presidencies' thoughts on economic policies.

Specifically, the periods of the Korean War, Vietnam War, and the post-9/11 wars were examined, spanning the Presidencies of Truman, Johnson, Nixon, Bush, and Obama. Full transcripts of each report were obtained from FRASER, a digital library of U.S. economic, financial, and banking history, housed at the Federal Reserve Bank of St. Louis.

In total, three reports from the Korean War period, nine reports from the Vietnam War period, and 15 reports from the post-9/11 period were reviewed.

Methodology B:

The transcripts were run through data mining software, which analyzed the large amount of text on the intersection of discussion on costs and war. See the Senate Finance Committee and House Ways and Means Committee Hearings Analysis, Methodology B section above for the search terms used. The scraped data was manually reviewed, ensuring that each sentence accurately reflected a discussion of strategies to fund the war. The scraped data's surrounding text was also reviewed to check for any additional mentions.

SENATE AND HOUSE BUDGET COMMITTEES HEARING ANALYSIS

	Number of Hearings	Post 9/11	Criteria
Senate Budget Committee	Total Hearings	98	Methodology A
	Relevant Hearings	28	Methodology A
	Mentions	17	Methodology B
	Percent mentions	61%	
House Budget Committee	Total Hearings	261	Methodology A
	Relevant Hearings	41	Methodology A
	Mentions	33	Methodology B

Methodology A – Budget Committees

I examined the Senate Budget Committee and House Budget Committee hearings during the post-9/11 period to determine if discussion of war finance strategy occurred.

Because the Senate and House Budget Committees were formed in 1974, the hearings could only be examined for the post-9/11 period.

Using the ProQuest Congressional database, I specifically searched the “Hearings 1824–Present” sub-database for the hearings of the Senate Budget Committee and House Budget Committee for the period of 2001–2017. The search field was further modified to be “Congressional Source” and the terms “Committee on Budget. Senate.” and “Committee on Budget. House.” were individually searched for this time period.

After the initial search, I modified the search further by selecting the “Document Type” as “Hearings Published” and “Hearings Unpublished,” as well as the “Committee Source” as the specific committee (either “Committee on Budget. Senate.” or “Committee on Budget. House.”).

ProQuest Congressional yielded 98 hearings for the Senate Budget Committee and 261 hearings for the House Budget Committee during the post-9/11 wars (2001–2017). Out of these results, I removed hearings unrelated to taxation, revenue collection, debt management, or wartime finance, including hearings on health care, unemployment, trade, and nominees.

Methodology B – Budget Committees

Through this culling exercise, 28 Senate Budget Committee hearings and 41 House Budget Committee hearings were selected to data mine for the post-9/11 period. Further details about the data mining procedure can be found in the Senate Finance Committee and House Ways and Means Committee Hearings Analysis, Methodology B section above. Overall, for the post-9/11 period, 17 Senate Budget Committee hearings and 31 House Budget Committee hearings mentioned wartime finance strategy beyond two sentences. These were manually reviewed to identify hearings that discussed these topics more extensively.

**APPENDIX II-B BIBLIOGRAPHICAL LISTS OF CONGRESSIONAL
HEARINGS FOR DATA MINING**

Korean War: Senate Finance Committee Hearings	
Date	Title
7/5/50– 7/13/50	Revenue Revisions of 1950
8/2/50	Revenue Act of 1950. Volume 1
6/27/51	Revenue Act of 1951
6/28/51– 7/3/51	Revenue Act of 1951. Part 1
7/5/51– 7/20/51	Revenue Act of 1951. Part 2
7/23/51– 8/3/51	Revenue Act of 1951. Part 3
8/15/51	Revenue Act of 1951
8/16/51	Revenue Act of 1951
8/1/53	Increasing the Public Debt Limit

Korean War: House Ways and Means Committee Hearings	
Date	Title
2/22/50– 3/3/50	Revenue Revision of 1950. Volume 2
2/5/51– 2/19/51	Revenue Revision of 1951. Part 1
2/20/51– 3/2/51	Revenue Revision of 1951. Part 2
3/5/51– 4/2/51	Revenue Revision of 1951. Part 3
6/16/53– 7/21/53	General Revenue Revision. Part 1
7/22/53– 8/5/53	General Revenue Revision. Part 2
8/6/53– 8/14/53	General Revenue Revision. Part 3: Topics 31-39

Vietnam War: Senate Finance Committee Hearings	
Date	Title
2/25/66– 3/1/66	Tax Adjustment Act of 1966
6/13/66	Public Debt Limit
2/15/67– 2/16/67	\$336 Billion Debt Limit
6/23/67	\$358 Billion Debt Limit
3/12/68– 3/14/68	Tax Adjustment Act of 1968
3/4/69	\$377 Billion Debt Limit
7/8/69– 7/15/69	Proposed Extension of the Surcharge and Repeal of the Investment Tax Credit
8/12/69	Briefing on Tax Reform Act of 1969
8/13/69	Briefing on Tax Reform Act of 1969
9/4/69	Tax Reform Act of 1969. Part 1: Statements and Recommendations of the Department of the Treasury

Vietnam War: House Ways and Means Committee Hearings	
Date	Title
1/19/66– 2/1/66	1966 Tax Proposals of the President
5/23/66– 5/24/66	Temporary Increase in the Debt Ceiling
1/30/67– 1/31/67	Temporary Increase in the Debt Ceiling
5/15/67– 5/16/67	Public Debt Ceiling
8/14/67– 8/25/67	President's 1967 Tax Proposals. Part 1
8/28/67– 9/14/67	President's 1967 Tax Proposals. Part 2
11/27/67– 11/30/67	President's 1967 Surtax Proposal: Continuation of Hearing to Receive Further Administration Proposal Concerning Expenditure Cuts
1/22/68– 1/23/68	President's Surtax Proposal: Continuation of Hearing
2/5/68– 2/6/68	Administration's Balance-of-Payments Proposals. Part 1

2/19/68– 2/26/68	Administration's Balance-of-Payments Proposals. Part 2
2/27/68– 3/1/68	Administration's Balance-of-Payments Proposals. Part 3
3/12/69– 3/14/69	Tax Reform, 1969. Part 7
3/28/69– 4/2/69	Tax Reform, 1969. Part 12
5/20/69	President's Proposal to Repeal Investment Tax Credit and to Extend Tax Surcharge and Certain Excise Tax Rates
5/25/70	Increase in Public Debt Ceiling
9/9/70– 9/17/70	Tax Recommendations of the President
2/17/71	Public Debt Increase and Interest Rate Ceiling on U.S. Government Bonds
9/8/71– 9/9/71	Tax Proposals Contained in the President's New Economic Policy. Part 1
9/18/72– 9/19/72	Administration Request to Increase Debt Ceiling, Accompanied by a Spending Ceiling

Post-9/11 Wars: Senate Finance Committee Hearings	
Date	Title
2/5/02	President's Fiscal Year 2003 Budget
2/5/03	Revenue Proposals in the President's FY 2004 Budget
2/11/03	Examination of Proposals for Economic Growth and Job Creation
2/8/05	Revenue Proposals in the President's Fiscal Year 2006 Budget
2/16/05	The President's Budget Proposals for Fiscal Year 2006
2/7/06	President's Fiscal Year 2007 Budget (Revenue Proposals)
2/6/07	President's Fiscal Year 2008 Budget (Revenue Proposals)
2/5/08	President's Fiscal Year 2009 Budget (Revenue Proposals)
3/4/09	President's Fiscal Year 2010 Budget Proposal
2/2/10	Analysis of the President's Fiscal Year 2011 Budget with Treasury Secretary Timothy Geithner
2/4/10	Analysis of the President's Fiscal Year 2011 Budget with OMB Director Peter Orszag

2/6/11	President's Budget for Fiscal Year 2012
2/15/12	President's Fiscal Year 2013 Health Care Proposals
2/14/12	President's Budget for Fiscal Year 2013
2/26/13	The Budget and Economic Outlook: Fiscal Years 2013 to 2023
4/11/13	President's Fiscal Year 2014 Budget
2/12/14	Revenue Proposals in the President's Fiscal Year 2005 Budget
3/5/14	President's Fiscal Year 2015 Budget
2/5/15	President's Budget for Fiscal Year 2016
2/10/16	President's Budget for Fiscal Year 2017
2/10/16	President's Fiscal Year 2017 Budget

Post-9/11 Wars: House Ways and Means Committee Hearings	
Date	Title
2/13/01	President's Tax Relief Proposals: Individual Income Tax Rates
3/21/01	President's Tax Relief Proposals: Individual Income Tax Rates
7/11/01	Bush Administration Budget Proposals
9/21/01	Economic Models Available to the Joint Committee on Taxation for Analyzing Tax Reform Proposals
2/5/02	President's Fiscal Year Budget 2003 with Treasury Secretary O'Neill
2/6/02	President's 2003 Budget Proposals Featuring OMB Director Daniels
5/7/02	Modeling the Economic Effects of Changes in Tax Policy
6/26/02	Creation of the Homeland Security Department
7/17/02	H.R. 5005, the Homeland Security Act of 2002, Day 3
2/4/03	President's FY2004 Budget with an Official of the U.S. Department of the Treasury
2/5/03	President's FY2004 Budget with OMB Director Daniels
3/4/03– 3/11/03	President's Economic Growth Proposals
2/3/04	President's FY2005 Budget with U.S. Department of the Treasury Secretary John Snow
2/11/04	President's FY2005 Budget with OMB Director Bolten
6/15/04	Simplification of the Tax System
2/8/05	President's FY2006 Budget with U.S. Department of the Treasury Secretary John Snow

2/9/05	President's FY2006 Budget with OMB Director Bolten
6/8/05	Tax Reform
6/28/05	Member Proposals for Tax Reform
2/8/06	President's FY2007 Budget with OMB Director Joshua Bolten
2/15/06	President's FY2007 Budget with U.S. Department of the Treasury Secretary John Snow
2/6/07	President's FY2008 Budget with U.S. Department of the Treasury Secretary Henry Paulson
2/7/07	President's FY2008 Budget with OMB Director Rob Portman
9/6/07	Fair and Equitable Tax Policy for America's Working Families
10/17/07	Heroes Earnings Assistance and Relief Tax Act of 2007
2/7/08	President's Fiscal Year 2009 Budget
6/19/08	Economic Stimulus Payments
10/29/08	Economic Recovery and Job Creation through Investment in America
3/3/09	President's Fiscal Year 2010 Budget Overview
2/3/10	The President's Fiscal Year 2011 Budget Overview with OMB Director Peter R. Orszag
2/3/10	The President's Fiscal Year 2011 Budget
3/23/10	Taxes as Part of the Federal Budget
1/20/11	Fundamental Tax Reform
2/15/11	Hearing on the President's Fiscal Year 2012 Budget Proposal with U.S. Department of the Treasury Secretary Timothy F. Geithner
2/16/11	The President's Fiscal Year 2012 Budget Proposal with Office of Management and Budget Director Lew
3/30/11	Impediments to Job Creation
4/13/11	How the Tax Code's Burdens on Individuals and Families Demonstrate the Need for Comprehensive Tax Reform
6/2/11	How Business Tax Reform Can Encourage Job Creation
7/13/11	Tax Reform and the Tax Treatment of Debt and Equity
2/15/12	President's Fiscal Year 2013 Budget Proposal with U.S. Department of the Treasury Secretary Timothy F. Geithner
4/26/12	Certain Expiring Tax Provisions
9/20/12	Tax Reform and the Tax Treatment of Capital Gains
1/22/13	The Debt Limit

4/11/13	The President's Fiscal Year 2014 Budget Proposal with U.S. Department of the Treasury Secretary Jacob J. Lew
6/13/13	Tax Reform: Tax Havens, Base Erosion and Profit-Shifting
3/6/14	The President's Fiscal Year 2015 Budget Proposal with the U.S. Department of the Treasury Secretary Jacob J. Lew
7/30/14	Dynamic Analysis of the Tax Reform Act of 2014

Korean War: Senate Appropriations Subcommittee on Defense Hearings	
Date	Title
3/13/50– 4/26/50	Department of Defense Appropriations for 1951
7/13/50– 9/9/50	Supplemental Appropriations for 1951
12/9/50– 12/19/50	Second Supplemental Appropriation Bill, 1951
3/6/51– 3/30/51	Third Supplemental Appropriation Bill, 1951
5/3/51	Fourth Supplemental Appropriation Bill, 1951
6/7/51– 8/27/51	Department of Defense Appropriations for 1952
10/11/51– 10/12/51	Mutual Security Appropriations for 1952
10/12/51– 10/15/51	Second Supplemental Appropriation Bill, 1952
2/4/52– 6/21/52	Department of Defense Appropriations for 1953
3/20/52– 4/2/52	Third Supplemental Appropriation Bill, 1952
6/11/52– 7/2/52	Supplemental Appropriation Bill, 1953
6/17/52	Urgent Deficiency Appropriation Bill, 1952
2/23/53– 2/25/53	Second Supplemental Appropriation Bill, 1953
5/19/53– 6/17/53	Department of Defense Appropriations for 1954. Part 1
6/15/53– 6/27/53	Supplemental Appropriation Bill, 1954

6/18/53– 7/10/53	Department of Defense Appropriations for 1954. Part 2
7/9/53– 7/20/53	Mutual Security Appropriations for 1954

Korean War: House Appropriations Subcommittee on Defense Hearings	
Date	Title
7/11/50– 8/3/50	Supplemental Appropriation Bill for 1951
7/17/50– 7/19/50	Department of Defense Appropriations for 1951. Military Construction
7/25/50– 8/8/50	Supplemental Appropriation Bill for 1951. Department of Defense, Mutual Defense Assistance Program
5/7/51– 7/17/51	Department of Defense Appropriations for 1952. Part 1
5/8/51– 6/5/51	Department of Defense Appropriations for 1952. Part 3: Department of the Navy
5/16/51– 6/19/51	Department of Defense Appropriations for 1952. Part 2: Department of the Army
6/22/51– 7/16/51	Department of Defense Appropriations for 1952. Part 4: Department of the Air Force
1/10/52– 2/13/52	Department of Defense and Related Independent Agencies Appropriations for 1953. Part 1
5/7/52– 5/28/52	Department of Defense and Related Independent Agencies Appropriations for 1953. Part 2
2/24/53– 6/16/53	Department of Defense and Related Independent Agencies Appropriations for 1954

Vietnam War: Senate Appropriations Subcommittee on Defense Hearings	
Date	Title
2/24/65– 3/15/65	Military Procurement Authorizations, FY66
2/24/65– 3/15/65	Department of Defense Appropriations, 1966. Part 1
5/5/65	Supplemental Appropriations for Department of Defense, 1965, Emergency Fund, Southeast Asia

7/14/65– 8/4/65	Department of Defense Appropriations, 1966. Part 2
1/20/66– 3/14/66	Supplemental Defense Appropriations for FY66
1/20/66– 2/2/66	Supplemental Military Procurement and Construction Authorizations, FY66.
2/23/66– 3/31/66	Department of Defense Appropriations for FY67. Part 1
2/23/66– 3/31/66	Military Procurement Authorizations for FY67
7/18/66– 8/1/66	Department of Defense Appropriations for FY67. Part 2
1/23/67– 1/25/67	Supplemental Military Procurement and Construction Authorizations, FY67
1/23/67– 1/25/67	Supplemental Defense Appropriations and Authorizations, FY67
1/25/67– 2/2/67	Department of Defense Appropriations for FY68. Part 1
1/25/67– 2/2/67	Military Procurement Authorizations for FY68
2/17/67	Budget for FY68
5/2/67– 5/11/67	Second Supplemental Appropriations for FY67
7/12/67– 7/19/67	Department of Defense Appropriations for FY68. Part 2
7/14/67	Department of Defense Appropriations for FY68. Part 3
10/19/67– 10/20/67	Continuing Resolution, FY68
2/14/68	Budget of the U.S. for FY69
5/6/68	Department of Defense Appropriations for FY69. Part 1
5/9/68– 5/14/68	Department of Defense Appropriations for FY69. Part 2
5/15/68– 6/10/68	Department of Defense Appropriations for FY69. Part 3
5/23/68– 6/15/68	Department of Defense Appropriations for FY69. Part 4
7/13/68– 7/14/68	Second Supplemental Appropriations for FY68
9/17/68– 9/18/68	Department of Defense Appropriations for FY69. Part 5

4/14/69– 5/20/69	Second Supplemental Appropriations for FY69
6/10/69– 9/25/69	Department of Defense Appropriations for FY70. Part 1
6/17/69– 6/20/69	Department of Defense Appropriations for FY70. Part 2
7/23/69– 7/30/69	Department of Defense Appropriations for FY70. Part 3
7/29/69– 8/6/69	Department of Defense Appropriations for FY70. Part 4
10/13/69	Department of Defense Appropriations for FY70. Part 5
12/9/69	Department of Defense Appropriations for FY70. Part 6
4/13/70– 5/20/70	Department of Defense Appropriations for FY71. Part 1
4/16/70– 5/8/70	Department of Defense Appropriations for FY71. Part 2: Department of Army
4/23/70– 5/1/70	Department of Defense Appropriations for FY71. Part 3: Department of Navy
5/4/70– 5/7/70	Department of Defense Appropriations for FY71. Part 4: Department of Air Force
11/20/70	Department of Defense Appropriations for FY71. Part 5
11/21/70– 12/8/70	Supplemental Appropriations, FY71
2/18/71– 2/19/71	Budget of the United States, FY72
3/15/71– 4/22/71	Urgent Supplemental Appropriations for FY71
3/15/71– 4/27/71	Department of Defense Appropriations for FY72. Part 4
3/16/71– 4/29/71	Department of Defense Appropriations for FY72. Part 2
3/17/71– 4/21/71	Department of Defense Appropriations for FY72. Part 3
3/22/71– 10/18/71	Department of Defense Appropriations for FY72. Part 1
2/1/72– 2/4/72	Budget of the U.S. for FY73
2/16/72– 5/4/72	Department of Defense Appropriations, FY73. Part 4: Department of Air Force
2/17/72– 4/24/72	Second Supplemental Appropriations for FY72

2/22/72– 5/3/72	Department of Defense Appropriations. Part 3: Department of the Navy
2/24/72– 5/4/72	Department of Defense Appropriations for FY73. Part 1
3/7/72– 5/2/72	Department of Defense Appropriations. Part 2: Department of the Army
6/13/72– 9/13/72	Department of Defense Appropriations for FY73. Part 5
2/20/73	Budget of the U.S. Government, FY74
3/14/73– 5/9/73	Second Supplemental Appropriations for FY73. Part 2

Vietnam War: House Appropriations Subcommittee on Defense Hearings	
Date	Title
2/9/65– 3/25/65	Second Supplemental Appropriation Bill, 1965. Part 1
2/11/65– 2/15/65	Department of Defense Appropriations for 1966. Part 1
2/16/65– 3/17/65	Department of Defense Appropriations for 1966. Part 2
1/11/66– 3/3/66	Supplemental Defense Appropriations for 1966
2/14/66– 2/28/66	Department of Defense Appropriations for 1967. Part 1
2/15/66– 3/28/66	Second Supplemental Appropriation Bill, 1966
3/1/66– 3/3/66	Department of Defense Appropriations for 1967. Part 2
3/7/66– 3/23/66	Department of Defense Appropriations for 1967. Part 3: Operation and Maintenance
3/24/66– 4/29/66	Department of Defense Appropriations for 1967. Part 4: Procurement
4/4/66– 4/20/66	Department of Defense Appropriations for 1967. Part 6
4/5/66– 4/27/66	Department of Defense Appropriations for 1967. Part 5
8/23/66	Department of Defense Appropriations for 1967
2/20/67– 2/28/67	Supplemental Defense Appropriations for 1967

2/27/67– 3/2/67	Department of Defense Appropriations for 1968. Part 1
3/6/67– 3/15/67	Department of Defense Appropriations for 1968. Part 2
3/20/67	Department of Defense Appropriations for 1968. Part 3: Research, Development, Test, and Evaluation
3/21/67– 5/19/67	Second Supplemental Appropriation Bill, 1967
4/12/67	Department of Defense Appropriations for 1968. Part 4: Procurement
4/25/67– 5/15/67	Department of Defense Appropriations for 1968. Part 6
4/26/67	Department of Defense Appropriations for 1968. Part 5: Operation and Maintenance
4/2/68– 5/9/68	Department of Defense Appropriations for 1969. Part 4: Operation and Maintenance
2/14/68– 3/1/68	Department of Defense Appropriations for 1969. Part 1
2/14/68– 6/18/68	Department of Defense Appropriations for 1969. Part 6
2/21/68– 3/28/68	Second Supplemental Appropriation Bill, 1968
3/4/68– 3/12/68	Department of Defense Appropriations for 1969. Part 2: Research, Development, Test, and Evaluation
3/18/68– 4/1/68	Department of Defense Appropriations for 1969. Part 3
5/6/68– 5/8/68	Department of Defense Appropriations for 1969. Part 5: Military Personnel
1/29/69– 6/3/69	Department of Defense Appropriations for 1970. Part 3
2/5/68– 5/7/69	Second Supplemental Appropriation Bill, 1969
3/11/69– 3/25/69	Department of Defense Appropriations for 1970. Part 1
3/12/69– 4/28/69	Department of Defense Appropriations for 1970. Part 2: Operation and Maintenance
4/30/69– 6/24/69	Department of Defense Appropriations for 1970. Part 6
6/3/69	Department of Defense Appropriations for 1970. Part 4: Research, Development, Test, and Evaluation

7/1/69– 7/17/69	Department of Defense Appropriations for 1970. Part 5: Research, Development, Test, and Evaluation
10/7/69– 11/18/69	Department of Defense Appropriations for 1970. Part 7
2/10/70– 4/22/70	Department of Defense Appropriations for 1971. Part 5: Procurement, Reprogramming Actions
2/10/70– 3/5/70	Department of Defense Appropriations for 1971. Part 2: Military Personnel
2/16/70– 3/3/70	Department of Defense Appropriations for 1971. Part 1
3/9/70– 3/25/70	Department of Defense Appropriations for 1971. Part 3: Operation and Maintenance
3/16/70– 4/16/70	Second Supplemental Appropriation Bill, 1970
4/8/70– 4/10/70	Department of Defense Appropriations for 1971. Part 4: Safeguard Antiballistic Missile System
4/23/70– 6/11/70	Department of Defense Appropriations for 1971. Part 6
5/13/70	Department of Defense Appropriations for 1971. Part 7: Testimony of Vice Adm. Hyman G. Rickover
2/22/71– 4/6/71	Department of Defense Appropriations for 1972. Part 2
3/4/71– 3/17/71	Department of Defense Appropriations for 1972. Part 1
3/22/71– 4/28/71	Second Supplemental Appropriation Bill, 1971
3/30/71– 4/28/71	Department of Defense Appropriations for 1972. Part 3
4/29/71– 5/17/71	Department of Defense Appropriations for 1972. Part 4
5/11/71	Department of Defense Appropriations for 1972. Part 8
5/12/71– 6/3/71	Department of Defense Appropriations for 1972. Part 5
5/17/71– 9/23/71	Department of Defense Appropriations for 1972. Part 9
5/27/71– 6/7/71	Department of Defense Appropriations for 1972. Part 6
6/3/71– 6/9/71	Department of Defense Appropriations for 1972. Part 7

1/25/72– 2/9/72	Department of Defense Appropriations for 1973, Part 1
1/26/72– 3/7/72	Department of Defense Appropriations for 1973, Part 2
2/8/72– 4/10/72	Second Supplemental Appropriation Bill, 1972
2/22/72– 3/1/72	Department of Defense Appropriations for 1973. Part 3
3/8/72– 3/14/72	Department of Defense Appropriations for 1973. Part 5: Operation and Maintenance
3/15/72– 3/23/72	Department of Defense Appropriations for 1973. Part 4
3/27/72– 4/19/72	Department of Defense Appropriations for 1973. Part 7: Procurement
4/11/72– 6/20/72	Department of Defense Appropriations for 1973. Part 8
4/24/72– 5/8/72	Department of Defense Appropriations for 1973. Part 6
5/10/72	Department of Defense Appropriations for 1973. Part 9
1/9/73– 1/18/73	Department of Defense Appropriations Briefings on Bombings of North Vietnam; Reprogramings, Department of the Navy
3/8/73– 4/12/73	Second Supplemental Appropriation Bill, 1973. Part 3, Department of Defense

Post-9/11 Wars: Senate Appropriations Subcommittee on Defense Hearings	
Date	Title
2/28/01– 9/5/01	Department of Defense Appropriations, Fiscal Year 2002
2/27/02– 6/5/02	Department of Defense Appropriations, FY2003
3/19/03– 5/14/03	Department of Defense Appropriations, FY2004
3/27/03	Supplemental Appropriations for FY2003, Special Hearing
9/22/03– 9/24/03	FY2004 Supplemental Request for Reconstruction of Iraq and Afghanistan, Special Hearings

3/1/04– 5/12/04	Department of Defense Appropriations, FY2005
6/2/04	Contingent Emergency Reserve Fund Request for Iraq and Afghanistan for FY2005, Special Hearing
2/16/05– 2/17/05	Emergency Supplemental Appropriations for FY2005, Special Hearings
3/2/05– 5/11/05	Department of Defense Appropriations, FY2006
1/1/06	Department of Defense Appropriations for FY2007. Part 1: Justifications, Department of Defense
3/7/06– 3/9/06	Supplemental Appropriations for FY2006, Special Hearings
3/7/06– 5/17/06	Department of Defense Appropriations, FY2007. Part 2
2/27/07	Supplemental Appropriations for FY2007, Special Hearing
2/28/07– 5/9/07	Department of Defense Appropriations, FY2008
9/26/07	Examining the President’s FY2008 Supplemental Request for the Wars in Iraq and Afghanistan, Special Hearing
2/27/08– 5/20/08	Department of Defense Appropriations, Fiscal Year 2009
3/11/08– 6/23/08	Examining the Effectiveness of U.S. Efforts to Combat Waste, Fraud, Abuse, and Corruption in Iraq, Special Hearings
4/16/08	President’s Fiscal Year 2008 War Supplemental Request, Special Hearing
2/11/09– 3/5/09	Department of Defense Appropriations for 2010. Part 1
4/30/09	President’s Fiscal Year 2009 War Supplemental Request, Special Hearing
5/18/09– 6/10/09	Department of Defense Appropriations, Fiscal Year 2010
3/3/10– 5/10/10	Department of Defense Appropriations, Fiscal Year 2011
5/25/10	Supplemental Appropriations for Fiscal Year 2010, Special Hearing
3/1/11– 6/15/11	Department of Defense Appropriations, Fiscal Year 2012

3/7/12– 6/13/12	Department of Defense Appropriations for Fiscal Year 2013
2/14/13	The Impacts of Sequestration, Special Hearing
4/17/13– 11/13/13	Department of Defense Appropriations for Fiscal Year 2014
3/5/14– 6/18/14	Department of Defense Appropriations for Fiscal Year 2015
2/25/15– 5/6/15	Department of Defense Appropriations for Fiscal Year 2016

Post-9/11 Wars: House Appropriations Subcommittee on Defense Hearings	
Date	Title
3/8/01– 7/30/01	Department of Defense Appropriations for 2002. Part 2
3/21/01– 3/22/01	Department of Defense Appropriations for 2002. Part 3
7/16/01– 7/30/01	Department of Defense Appropriations for 2002. Part 1
2/14/02– 3/20/02	Department of Defense Appropriations for 2003. Part 1
2/28/02– 6/5/02	Department of Defense Appropriations for 2003. Part 2
3/12/03– 3/20/03	Department of Defense Appropriations for 2004. Part 1
3/13/03– 9/30/03	Department of Defense Appropriations for 2004. Part 2
2/12/04– 3/30/04	Department of Defense Appropriations for 2005. Part 1
3/10/04– 3/31/04	Department of Defense Appropriations for 2005. Part 2
2/17/05– 3/17/05	Department of Defense Appropriations for 2006. Part 1
2/16/05– 9/28/05	Department of Defense Appropriations for 2006. Part 2
2/16/06– 9/7/06	Department of Defense Appropriations for 2007. Part 1
1/17/07– 2/13/07	Department of Defense Appropriations for 2008. Part 1

3/7/07– 4/20/07	Department of Defense Appropriations for 2008. Part 2
4/24/07– 5/1/07	Department of Defense Appropriations for 2008. Part 3
5/2/07– 5/10/07	Department of Defense Appropriations for 2008. Part 4
2/13/08– 2/27/08	Department of Defense Appropriations for 2009. Part 2
1/23/08– 2/7/08	Department of Defense Appropriations for 2009. Part 1
2/28/08– 3/11/08	Department of Defense Appropriations for 2009. Part 3
3/12/08– 4/24/08	Department of Defense Appropriations for 2009. Part 4
2/11/09– 3/5/09	Department of Defense Appropriations for 2010. Part 1
3/10/09– 3/18/09	Department of Defense Appropriations for 2010. Part 2
3/19/09– 4/20/09	Department of Defense Appropriations for 2010. Part 3
4/21/09– 6/9/09	Department of Defense Appropriations for 2010. Part 4
1/20/10– 3/10/10	Department of Defense Appropriations for 2011. Part 1
3/11/10– 3/23/10	Department of Defense Appropriations for 2011. Part 2
3/24/10– 4/21/10	Department of Defense Appropriations for 2011. Part 3
4/22/10– 5/5/10	Department of Defense Appropriations for 2011. Part 4
3/2/11– 3/30/11	Department of Defense Appropriations for 2012. Part 1
3/31/11– 4/11/11	Department of Defense Appropriations for 2012. Part 2
2/8/12– 3/6/12	Department of Defense Appropriations for 2013. Part 1
3/7/12– 9/20/12	Department of Defense Appropriations for 2013. Part 2
2/26/13– 4/16/13	Department of Defense Appropriations for 2014. Part 1

4/24/13– 5/9/13	Department of Defense Appropriations for 2014. Part 2
3/13/14– 3/27/14	Department of Defense Appropriations for 2015. Part 1
3/26/14– 6/15/14	Department of Defense Appropriations for 2015. Part 2
2/26/15– 3/18/15	Department of Defense Appropriations for 2016. Part 1
3/19/15– 4/15/15	Department of Defense Appropriations for 2016. Part 2
2/24/16– 4/15/16	Department of Defense Appropriations for 2017. Part 2
2/25/16– 3/22/16	Department of Defense Appropriations for 2017. Part 1

Post-9/11 Wars: Senate Budget Committee Hearings		
#	Date	Title
1	6/27/01– 10/25/01	Mid-Session Hearings on the Budget
2	1/23/02– 3/6/02	Concurrent Resolution on the Budget for Fiscal Year 2003
3	1/29/03– 9/3/03	Concurrent Resolution on the Budget for FY2004
4	2/27/04– 2/26/04	Concurrent Resolution on the Budget for FY2005
5	2/1/05– 3/1/05	Concurrent Resolution on the Budget for FY2006
6	4/21/05– 6/20/05	Mid-Session Hearings on the Budget for FY2006
7	2/2/06– 3/2/06	Concurrent Resolution on the Budget for FY2007
8	9/28/06	State of the Economy and Budget
9	1/11/07– 1/31/07	Concurrent Resolution on the Budget for FY2008, Vol. I
10	2/1/07– 3/1/07	Concurrent Resolution on the Budget for FY2008, Vol. II
11	10/31/07	S. 2063, the Bipartisan Task Force for Responsible Fiscal Action Act of 2007
12	1/24/08– 2/14/08	Concurrent Resolution on the Budget for Fiscal Year 2009

13	1/8/09– 7/16/09	Concurrent Resolution on the Budget FY 2010
14	2/12/09	Senate Procedures for Consideration of the Budget Resolution/Reconciliation
15	3/3/09	Economic and Budget Challenges for the Short and Long Term
16	1/28/10– 3/4/10	Concurrent Resolution on the Budget Fiscal Year 2011
17	8/3/10– 9/28/10	A Status Report on the U.S. Economy
18	1/7/11– 3/10/11	Concurrent Resolution on the Budget Fiscal Year 2012
19	1/26/12– 3/6/12	Concurrent Resolution on the Budget Fiscal Year 2013
20	2/12/13– 6/18/13	Concurrent Resolution on the Budget Fiscal Year 2014
21	2/13/13– 9/24/13	Budget Committee Mid-Session Hearings Fiscal Year 2014
22	2/4/14– 5/8/14	Concurrent Resolution on the Budget for Fiscal Year 2015
23	4/1/14– 7/29/14	Mid-Session Hearings for Fiscal Year 2015
24	1/28/15– 3/11/15	Concurrent Resolution on the Budget Fiscal Year 2016
25	5/19/15– 12/9/15	Senate Budget Committee Mid-Session Hearings Fiscal Year 2016
26	6/8/15– 8/26/15	Senate Budget Committee Field Hearings Fiscal Year 2016
27	2/3/2016– 9/14/16	Concurrent Resolution on the Budget Fiscal Year 2017

Post-9/11 Wars: House Budget Committee Hearings		
#	Date	Title
1	2/5/02	President's Budget for Fiscal Year 2003
2	2/12/02	Department of Defense Fiscal Year 2003 Budget Priorities
3	7/16/03	Mid-Session Review: Budget of the U.S. Government
4	10/16/03	Department of Defense Long-Term Budget Issues
5	2/4/03	President's Budget for FY2004
6	2/27/03	Department of Defense Budget Priorities for FY2004
7	2/3/04	President's Budget: FY2005

8	2/8/05	President's Budget for FY2006
9	2/16/05	National and Homeland Security: Meeting Our Needs
10	7/14/05	Mid-Session Review of the President's FY2006 Budget Request
11	2/8/06	President's Budget for FY2007
12	3/1/06	Department of Defense Budget Priorities FY2007
13	1/18/07	Budgeting for War Costs
14	2/6/07	President's FY2008 Budget
15	3/6/07	Department of Defense and the FY2008 Budget
16	7/31/07	Costs of Military Operations and Reconstruction in Iraq and Afghanistan
17	10/24/07	Growing Budgetary Costs of the Iraq War
18	2/7/08	President's FY2009 Budget
19	2/27/08	Department of Defense FY2009 Budget
20	9/16/08	Iraq's Budget Surplus
21	2/4/09	Long-Term Sustainability of Current Defense Plans
22	3/3/09	President's Fiscal Year 2010 Budget
23	3/18/09	Department of Defense Fiscal Year 2010 Budget
24	10/14/09	The Cost of Current Defense Plans: An Analysis of Budget Issues
25	2/2/10	President's Fiscal Year 2011 Budget
26	3/4/10	Department of Defense Fiscal Year 2011 Budget
27	9/30/10	Defense Department Budget Initiatives
28	2/15/11	The President's Fiscal Year 2012 Budget
29	7/7/11	Budgeting for America's National Security
30	2/15/12	The President's Fiscal Year 2013 Budget
31	2/29/12	The Department of Defense and the Fiscal Year 2013 Budget
32	4/25/12	Replacing the Sequester
33	4/11/13	The President's Fiscal Year 2014 Budget
34	6/12/13	The Department of Defense and the Fiscal Year 2014 Budget
35	3/5/14	The President's Fiscal Year 2015 Budget
36	7/17/14	The President's Funding Request for Overseas Contingency Operations
37	2/4/15	The President's FY2016 Budget
38	3/18/15	The Mark Up of the Concurrent Resolution on the Budget for Fiscal Year 2016
39	3/16/16	Concurrent Resolution on the Budget for FY17
40	9/14/16	Growing Risks to the Budget and the Economy

The Economic Report of the President & Annual Economic Review by the Council of Economic Advisers	
Date	Title
Jan-51	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Jan-52	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Jan-53	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Jan-65	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Jan-66	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Jan-67	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-68	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Jan-69	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-70	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-71	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Jan-72	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Jan-73	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-02	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-03	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-04	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-05	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-06	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-07	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-08	The Economic Report of the President & Annual Review by the Council of Economic Advisers

Jan-09	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-10	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-11	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-12	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Mar-13	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Mar-14	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-15	The Economic Report of the President & Annual Review by the Council of Economic Advisers
Feb-16	The Economic Report of the President & Annual Review by the Council of Economic Advisers

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