

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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### 9/11 and Iraq War Costs Are Not Primary Cause of Deficits

When President Bush took office in January 2001, he inherited a projected cumulative surplus of \$5.6 trillion for 2002 through 2011. Now these surpluses have been replaced by deficits for as far as the Congressional Budget Office (CBO) forecasts. This unprecedented turn in federal finances begs the question: What caused it? Some have blamed the deterioration on events related to the 9/11 terrorist attacks and the war in Iraq. However, as the following analysis shows, the data show that post-9/11 spending and the wars in Iraq and Afghanistan at most account for only 14.6 percent of the steep fiscal decline. Any economic downturn as a result of 9/11 at most accounts for only another 7.7 percent of the budget deterioration. Taken together, these two factors explain at most 22.3 percent of the budgetary decline.

### A \$2.0 Trillion Decline in the Last Three Bush Budgets – 2002 through 2004

The last three complete fiscal years, all under the Bush Administration and all of which are post-9/11, reveal an unprecedented deterioration in the fiscal health of the federal government. In 2001, CBO projected a three-year surplus of \$1.1 trillion for 2002 through 2004. Only three years later, those projected surpluses evaporated and the budget is in deficit totaling \$955 billion for that same period. That is a total swing of \$2.0 trillion.

#### Surplus/Deficit Projections — Then and Now

(Dollars in Billions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>Total, 2002-04</u>
January 2001	313	359	397	1,069
September 2004	<u>-158</u>	<u>-375</u>	<u>-422</u>	<u>-955</u>
<b>Deterioration</b>	<b>-471</b>	<b>-734</b>	<b>-819</b>	<b>-2,024</b>

Source: Congressional Budget Office

## Did Post-9/11 Costs, the War on Terror, and the Iraq War Cause the Deficits?

Spending in the wake of 9/11, increased homeland security costs, and the wars in Iraq and Afghanistan are not the primary reasons that record surpluses have been replaced by record deficits. As shown in the following table, the total of these three categories – increased homeland security spending, the cost of the wars in Iraq and Afghanistan, and all of the disaster assistance, which includes aid to airlines, and funds to rebuild New York City and the Pentagon after 9/11 – is only \$296.2 billion over fiscal years 2002 through 2004. But as was demonstrated above, for those same three years, there was a \$2.0 trillion swing in the total projected surplus to actual deficit. Even if every penny of the funding made available during these three years was “spent” during that three-year period (an assumption favorable to the Administration’s claim, though unrealistic), the total would account for only a small fraction – only 14.6 percent – of the change in the federal budget over the last three years.

The table below summarizes the eight items that provided \$296.2 billion from 2002 through 2004 to fund the initial response to 9/11, to increase homeland security, and to fund the wars in Iraq and Afghanistan. Other legislation likely contains some incremental funding in these categories, but the amounts were extremely small, and these eight items listed below also contain some funding unrelated to the 9/11 response and the wars. Overall, these eight areas comprise a close approximation of the total cost to the government. The eight types of legislation listed in the table are described below.

### Spending on 9/11 Response, Iraq and the Global War on Terrorism, and Increased Homeland Security: 2002-2004

(Budget Authority in Billions of Dollars)

Cost	Legislation	Explanation
<i>Emergency supplemental funding</i>		
<b>\$40.0</b>	PL 107-38 and 107-117 (Fall 2001)	Disaster relief, DoD, homeland security
<b>\$24.7</b>	PL 107-206 (August 2002)	NYC, airline relief, DoD, homeland security
<b>\$79.2</b>	PL 108-11 (April 2003)	Iraq, Afghanistan, airline relief, homeland security
<b>\$87.5</b>	PL 108-106 (Nov. 2003)	Iraq and Afghanistan
<i>Homeland security funding</i>		
<b>\$47.3</b>	2002-2004 regular funding	non-emergency funding above 2001 level
<i>Other related funding</i>		
<b>\$11.0</b>	PL 107-42 (Sept. 2001)	Victim compensation and aid to airlines
<b>\$10.0</b>	PL 108-7 (Feb. 2003)	DoD funding in FY 2003 omnibus
<b><u>-\$3.5</u></b>	<u>PL 108-87 (Sept. 2003)</u>	<u>DoD rescission in FY 2004 DOD bill</u>
<b>\$296.2</b>	<b>2002 - 2004 total cost for these three categories</b>	

- **Emergency Supplemental Funding**

From late September 2001 through November 2003, Congress enacted four supplemental funding bills to provide immediate disaster relief after 9/11, to help rebuild the Pentagon and New York City, to help airlines that had economic losses, to provide additional homeland security, and to fund the wars in Iraq and Afghanistan. These four appropriation bills provided \$231.4 billion in emergency funding that was available from 2002 through 2004. The table above does not include supplemental bills that funded items (such as wildfire management and hurricane relief) unrelated to 9/11, homeland security, and the wars.

- **Homeland Security Funding in Annual Appropriations Bills**

According to CBO's April 2004 report, *Federal Funding for Homeland Security*, federal resources for homeland security for 2001 totaled \$17.1 billion, excluding supplemental funding provided after 9/11. The comparable number — again excluding supplemental funding — was \$20.7 billion for 2002, \$36.6 billion for 2003, and \$41.3 billion for 2004. Relative to the 2001 total, these figures represent increases of \$3.6 billion, \$19.5 billion, and \$24.2 billion, respectively, for a cumulative three-year increase of \$47.3 billion. Additional post-9/11 homeland security funding has been provided through supplemental appropriations, and that funding is listed in the table under Emergency Supplemental Funding.

- **Other Related Funding**

From 2002 through 2004, Congress enacted another \$17.5 billion in response to 9/11 and for the war on terrorism. This includes \$11.0 billion enacted in late September 2001 to create a victim compensation fund and to help support the airline industry in the wake of 9/11. It also includes a net \$6.5 billion in additional defense funding for military operations in support of the war in Afghanistan resulting from provisions included in the 2003 and 2004 regular appropriations bills.

## **September 11 and the Economy**

September 11 hurt the budget through its impact on the economy, as well as through its demands on spending. However, that effect falls far short of explaining the \$2.0 trillion budget deterioration from 2002 through 2004.

Federal Reserve Board Chairman Alan Greenspan was skeptical about the impact of September 11 at a House Budget Committee hearing on September 8.

Immediately after 9/11 we had expected a very significant contraction in economic activity, which was likely to be prolonged. Within a matter of weeks, or a few months at the longest, it became quite evident that the economy had

achieved a degree of resiliency which we had not suspected it had, and it stabilized reasonably quickly and started to grow again at a fairly modest but eventually accelerating pace.

The official arbiter of the timing of recessions, the Business Cycle Dating Committee of the National Bureau of Economic Research determined that the economic downturn began in March of 2001 — five months before the September 11 attacks — and ended in November of 2001 — only two months after the attacks.

Hence, the role of terrorism in the economic weakness of the last four years must be limited.

Therefore, an absolute upper bound on the economic effect of terrorism on the budget deficit would be to assume that *all* of the measured economic impact on the budget by CBO after September 11 was the result of the attacks. As shown to the right, even with that extreme assumption, the attacks still would account for only \$156 billion, or 7.7 percent, of the \$2.0 trillion deterioration of the budget.

### Total Impact of the Economy on the Budget, Fiscal Years 2002-2004

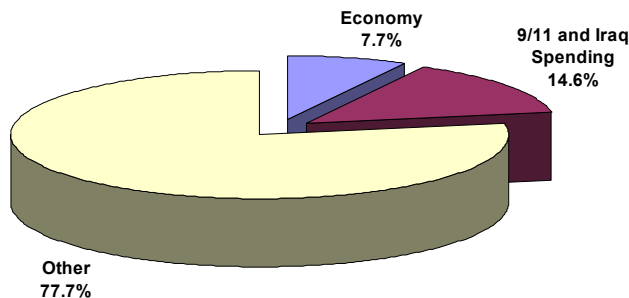
(Billions of dollars: CBO estimates of effects after August 2001)

Estimate Date	2002	2003	2004	Total 02-04
January 2002	-100	-77	-45	-222
March 2002	23	16	5	44
August 2002	5	1	-16	-10
January 2003	N.A.	5	16	21
August 2003	N.A.	-16	-1	-17
January 2004	N.A.	N.A.	14	14
September 2004	N.A.	N.A.	14	14
<b>Total</b>	<b>-72</b>	<b>-71</b>	<b>-13</b>	<b>-156</b>

## Conclusion

The \$296 billion of additional funding in response to September 11 and in support of the war in Iraq, and \$156 billion of adverse economic impact, are not trivial. Still, those figures fall far short of the sharp \$2.0 trillion downturn in the budget's bottom line. As the following chart shows, over the three complete Bush budgets, the post-9/11 response and war costs were only

**Causes of the \$2.0 Trillion Fiscal Deterioration Over FY 2002-2004**



14.6 percent of the deterioration of the budget; and the economy, even assuming that all of its weakness was due to the attacks, was only 7.7 percent. Overall, 77.7 percent of the total worsening of the budget comes from factors other than the spending and economic impacts of the response to September 11 and the Iraq war.