



**Statement of Senator Sam Brownback
Joint Economic Hearing**

**“War at Any Cost? The Total Economic Costs of the War Beyond the Federal Budget”
February 28, 2008**

Thank you, Mr. Chairman. When the Committee released the majority staff report “War at Any Price? The Total Economic Costs of the War Beyond the Federal Budget”, Ranking Republican Member Saxton and I questioned much of the methodology and many of the assumptions made in the report.

Before I address those issues, I want express my appreciation for the fact that the Democratic staff of the Committee took the time to sit down with my staff yesterday afternoon to walk through the methodology and assumptions used in the report. One of our initial criticisms was that reports of this nature should include sufficient detail as to data and methods so that other researchers could replicate the results as well as raise questions about the analysis.

We appreciate knowing how the conclusions were reached. We continue to believe that the report’s methodology and assumptions are, at best, very controversial and debatable. Moreover, by making standard economic assumptions, over \$1 trillion of war costs estimated in the report vanish. With results this sensitive to reasonable changes in economic assumptions, it seems that use of the findings in this report to guide policy would be unwarranted.

As an example of questionable assumptions used in the report, let me note that the report asserts that war costs have been debt financed, and the portion borrowed domestically (60%) displaces private investments that would have generated a 7 percent real rate of return which, according to the analysis, seems to be riskless. It would have been more proper to do this evaluation using the risk adjusted rate of return – which, in real terms, would be on the order of maybe 3 percent. In any case, taking the report’s assumptions to heart, we are informed that there seem to be riskless private investment opportunities available that pay 7 percent real returns.

From the report, we also learn that effectively every dollar of government borrowing or tax revenue displaces around two dollars worth of social value. Perhaps we should take this to heart also and begin immediately to cut spending, taxes, and borrowing. Let us allow our private citizens to enjoy the 7 percent real returns that are evidently available to them all.

If the methods and assumptions used in the report are valid to analyze the “true costs” of military operations, those methods and assumptions should also be valid to analyze the “true costs” of many other government spending and taxation programs. The answers arrived at by employing the majority staff report’s methodology and assumptions could give rise to unease among several members of the committee, particularly on the other side of the aisle. Let me use the majority staff report’s approach to address some key questions:

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1. Should the present Social Security system be scrapped in favor of a system of personal accounts? According to the report's methodology, the answer is "yes."
2. Should the U.S. resist domestic borrowing in favor of borrowing from foreigners? According to the report's methodology, the answer is "yes."
3. Do deficit financed tax cuts create a net benefit for the economy? Using the report's methodology, the answer would be "yes."

Let me also note that the report totally ignores economic savings and benefits that may have resulted from attacks or disruptions that may have been prevented by our efforts in Iraq and Afghanistan. Note that, according to some estimates, the economic costs to the U.S. associated with the tragic attacks on 9-11 amounted to loss of life, well over half a trillion dollars of economic activity, and millions of lost jobs. The loss of economic activity alone is more than the costs of direct spending in Iraq and Afghanistan to date. If our war efforts prevent another tragedy like 9-11, tremendous benefits are obtained.

We can debate extensively whether and how those unprovoked attacks might have been prevented. Some might argue that by allowing our Defense expenditures as a percent of GDP to fall by nearly 45% in the 1990s from 5.4% of GDP to 3.0% left us exposed. That may or may not have been a contributing factor. It is clear, however, that the losses were real – real in human costs and real in economic costs. It necessarily follows that preventing future attacks provides benefits both in economic and human terms. To dismiss out of hand or to ignore potential benefits is an improper approach when undertaking this type of analysis.

Mr. Chairman, I must remark for the record what a coincidence it is that this hearing's scheduling coincides so closely with the Democratic Senatorial Campaign Committee's new anti-Iraq advertising campaign against Senator McCain and incumbent Republican Senators up for re-election.

I look forward to the exchange of views between members of the committee and our witnesses. My staff's more detailed analysis of the problematic nature of the majority reports follows.