CBO TESTIMONY

Statement of
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Congressional Budget Office

before the
Committee on the Budget
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NOTICE

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Mr. Chairman and Members of the Committee, I appreciate the opportunity to discuss CBO's analyses of the economic effects of Iraq's invasion of Kuwait and the Persian Gulf war. My statement will address three topics: the Administration's request for funding for the war, the effects of the war on the U.S. economy, and the potential cost of postwar U.S. policies.

Because the war is still going on, considerable uncertainty surrounds each of these topics. Nevertheless, our analyses point to three general conclusions.

- Allied contributions may well offset the substantial majority of the added costs of the war, which could range between about $45 billion (if the war ended today) and $60 billion (if ground combat lasts another month, which at this point seems unlikely), according to the Administration's request for supplemental funding.

- By increasing oil prices and dashing consumer confidence, the Iraqi invasion contributed to the current recession. But the events that occurred after hostilities began, including sharply lower oil prices, have offset some of the negative economic effects of the invasion.

- The costs of postwar policies, while especially uncertain, could be substantial, perhaps costing the United States more than the war.

SUPPLEMENTAL FUNDING FOR THE WAR

In its request for supplemental appropriations, the Administration asks for $15 billion in U.S. funds to pay for the incremental costs associated with the war. The Administration also requests authority to spend all monies received from U.S. allies. If all current pledges are fulfilled, allied contributions could amount to more than $50 billion. The Administration would determine when these funds were spent and for what types of expenses. Any funds remaining after paying all incremental costs would be returned to the U.S. Treasury.

The documentation the Administration submitted in support of its request does not justify any one particular dollar level of added costs. Instead, the documentation estimates added costs in three periods (calendar year 1990, January to March 1991, and all of fiscal year 1991) assuming no hostilities. The Administration also provides daily cost factors that can be used to estimate the additional cost of combat under differing assumptions about the course of the war. In addition, the Administration estimates expenses associated with near-term investment, the drawdown of forces after the war, and costs of transporting troops back home. The documentation submitted with the supplemental is extensive, filling 109 pages.

Some Administration Estimates May Be Overstated

At the time this testimony was prepared, CBO had completed only a preliminary review of this extensive documentation. Some of the estimates we analyzed seemed reasonable in light of data in the documentation and military planning factors.

Other estimates may be overstated. For example, all of the estimates include the extra costs associated with higher fuel prices, not just for U.S. forces involved in Operation Desert Storm but for all U.S. forces worldwide. Arguably, the costs of higher fuel prices for U.S. forces outside of the Persian Gulf do not represent an added cost of Operation Desert Storm. (The Chairman of the House Armed Services Committee has made this argument.) If not, then the Administration's estimate of required additional funding during 1991 is overstated by $2.8 billion.

Added fuel costs may be overstated for other reasons. DoD's estimates are based on oil prices that are higher than today's level. If DoD is able to purchase fuel for the rest of the year at current prices, the department would need about 50 percent fewer funds for added fuel costs. In some cases, the estimates also appear to assume rates of fuel use that are higher than those suggested by military planning factors.

There may also be disagreement about portions of the Administration's request for $6.4 billion for "near-term investment." Substantial portions of these funds are justified based on anticipated rates of use during future combat. Included in this category are funds for several Army munitions (for example, MLRS rockets along with Patriot, Hellfire, and ATACMS missiles) and, possibly, some other munitions as well (for example, Tomahawk and HARM missiles). Before appropriating funds to replace such munitions, the Congress may want to ascertain how many of them were actually expended in combat. Nor does the documentation for near-term investment provide data about changes in requirements associated with the end of the Cold War. It is possible that some of the munitions expended in Operation Desert Storm may no longer be needed because of reductions in requirements.

Moreover, the Administration's cost estimates may not always isolate the incremental costs of Operation Desert Storm. CBO's preliminary review uncovered no obvious cases of costs that were not incremental. It is always difficult to identify incremental costs even in peacetime. It is surely much more difficult in the midst of a war, especially one in which some allies are providing substantial amounts of in-kind assistance.

Finally, by the standards of the last major U.S. war, the Administration estimates for certain costs seem high. Some of those estimates, which are made assuming no hostilities are under way, suggest that the Administration expects to spend an average of about $2 billion a month from August 1990 through March 1991 on operation and maintenance, to pay for day-to-day operating costs. That matches the rate of incremental monthly expenditure (adjusted to 1991 dollars) associated with the peak period of the Vietnam War, when fighting was intense. This apparent inconsistency might be explained by the high costs of operating and maintaining today's weapons, or because Operation Desert Storm involves many tanks, whereas the Vietnam War did not. On the other hand, the high estimates for Operation Desert Storm may reflect the difficulty of identifying incremental costs.

The questions I have raised are based on a preliminary review of the Administration's documentation. They are not meant to imply that all or even most of the Administration's estimates are overstated, but the questions do suggest the need for careful scrutiny of the supplemental request.

Costs of the War

The documentation associated with the request for supplemental appropriations does not estimate the costs of the war. However, the Administration did provide estimates and factors that permit us to approximate the costs.

The Administration factors suggest that, if the war ended today with only a few days of major ground combat, added costs of U.S. military activities would amount to roughly $45 billion. This estimate includes added costs of $7.0 billion associated with a phase-down period after the war, which the Administration assumes will last for three months. The estimate also includes an allowance of $5.2 billion for transporting all troops and equipment back to their home stations.

If the war continued until the end of March (which at this point seems **unlikely),** and included ground combat with substantial losses of equipment (including about 400 U.S. tanks and 75 fixed-wing aircraft), then added costs would be about $60 billion.

These estimates may overstate the amount of actual spending on the war. Costs could be overstated to the extent that some of the Administration's underlying estimates are overstated. The estimates of $45 billion to $60 billion also assume that all equipment and munitions lost in the war are replaced. However, the United States may decide not to replace some or all of the major equipment lost in combat because of planned reductions in its military forces, a decision that would hold down costs. If no major equipment is replaced, but munitions stocks are rebuilt, total wartime costs could range between about $44 billion and $54 billion rather than between $45 billion and $60 billion. (CBO derived estimates of costs without replacing equipment based on information in the Administration's documentation.)

These estimates of wartime costs fall within the range of total wartime costs estimated by CBO before the beginning of actual combat.[1] At that time, CBO estimated that the total added costs of the war could range between $28 billion and $86 billion if all losses of equipment and munitions were replaced, and between $23 billion and $58 billion if munitions stocks were rebuilt but major equipment was not replaced. CBO's lower estimate assumed that the war involved modest losses of equipment. The higher estimate assumed a war involving substantial air and ground combat with considerably larger losses of equipment than now seem likely to occur. While the Administration's estimates are within the wide range of figures provided by CBO, its estimates for many types of operating costs are higher than those assumed by CBO.

Costs of Veterans' Benefits. CBO's estimates of the costs of the war included allowances for the medical costs of casualties, some of which would become the responsibility of the Department of Veterans Affairs. Because there is concern about the effects of the costs of wartime casualties on funding for veterans' programs, CBO has subsequently developed estimates that focused on these costs.

The estimates suggest that, for each 1,000 casualties that occur during Operation Desert Storm, the Department of Veterans Affairs could eventually

1. See Congressional Budget Office, "Costs of Operation Desert Shield" (January 15, 1991).

incur annual costs of about $14 million (see Table 1 in the Appendk to this testimony). Most of these costs are likely to be incurred in future years. Many Dependency and Indemnity Compensation (DIC) payments would typically begin in the current budget year. But other categories--including burial benefits, which would be paid on behalf of service-connected deaths following discharge--would chiefly be paid in later years. The estimates for DIC, disability compensation, vocational rehabilitation, and medical care represent annual costs that might continue for many years after the end of Operation Desert Storm.

Added Benefits for Military Personnel. Concern for the welfare of military personnel deployed to the Persian Gulf, and that of their families and dependents, has already generated nearly 100 legislative proposals for enhancing military pay and veterans' benefits. Most of these initiatives would affect only military personnel now serving in the Persian Gulf, but others would affect all military personnel. CBO's estimates of the costs of the war do not include any allowance for the costs of these proposals.

CBO has estimated the costs of some of these legislative proposals (see Table 2 in the Appendix to this testimony). Most of the individual initiatives CBO has analyzed would cost $200 million or less, a tiny percentage of the total cost of military pay and veterans' benefits. But the total package of benefits if enacted could well result in added costs of $1 billion or more, particularly if the Congress enacted proposals that applied to all military personnel.

These added costs could be especially important because of the budgetary limits established in last year's Budget Enforcement Act (BEA). Some proposals might qualify as discretionary incremental costs of the war, which are exempt from the limits of the BEA. Other proposals might not qualify, because they entail expenses that are not incremental or discretionary. Proposals that are not exempt would require offsetting reductions in spending or increases in taxes. Because many of these proposals would increase costs both in 1991 and later years, any offsetting reductions would be required for more than one year. Proposals that include direct spending would mean that there would be less room under the caps for other discretionary spending.

Apart from budgetary issues, the justifiable concern for the well-being of service members in a war zone should not obscure the need to balance the benefits the military compensation system offers with other national needs and the interests of the taxpayer. The American military personnel who are performing so brilliantly in this conflict are all volunteers who were attracted into and have remained in the military in large part because of the opportunities it offers. The military compensation system has played an important role in the decisions of service members. Operation Desert Storm provides an opportunity to reconsider some elements of military pay and benefits. In general, however, the current system of military compensation appears to be serving the nation well.

Contributions from Other Nations

As of February 20, U.S. allies have contributed a total of **$12.2** billion in cash to the United States to offset war costs (see Table 3 in the Appendix). An additional $2.7 billion in in-kind contributions such as fuel, water, and food had been received as of January 31, 1991, the latest date for which estimates are available.

These same allies have pledged that they will eventually contribute a total of roughly $53 billion to offset U.S. war costs. This total includes almost $10 billion in pledges from calendar year 1990 and an additional $43 billion in new pledges announced since the beginning of hostilities.

The Administration is hopeful that most of the pledges will be redeemed in cash. Kuwait is likely to make its entire contribution in cash, and most of the German pledge of $5.5 billion is expected to be in cash. Of the additional $9 billion the Japanese government recently pledged to the multinational forces, the Administration hopes that the United States will receive most of it, and in cash. Saudi Arabia, in contrast, has provided much of its contribution in kind and will probably continue to do so.

Net Costs of Operation Desert Storm

It is, of course, too soon to know for sure how many of the pledges made by the allies will translate into contributions. Contributions will probably be larger if the war lasts many more weeks, and smaller if it ends soon. Nevertheless, the United States has received pledges of more than $50 billion. Estimates discussed earlier suggest that total costs could range from $44 billion (if the war ends today and major equipment is not replaced) up to $60 billion (if ground combat continues through March and lost equipment is replaced). Thus, if most of these pledges are fulfilled, it seems reasonable to assume that the allies will pay the substantial bulk of the total costs of the war.

EFFECTS OF THE PERSIAN GULF CRISIS ON THE U.S. ECONOMY

The Iraqi invasion of Kuwait was a key factor contributing to the current slowdown in U.S. economic activity. Developments during the initial weeks of hostilities, however, are likely to offset many of these adverse effects.

The Effect of the Invasion of Kuwait on the U.S. Economy

The invasion of Kuwait reduced the growth of the U.S economy in the last half of 1990. Higher oil prices were a primary reason for the slowdown. From late August to mid-December, petroleum prices averaged about $12 a barrel more than would have been expected had there been no invasion. Large petroleum and natural gas inventories and relatively mild weather in the United States softened the effect of this price shock. Even so, higher prices for imports of oil drained roughly $20 billion from the economy (at annual rates), severely reducing the growth of real spending during the third and fourth quarters.

The amount of economic slowdown caused by higher oil prices cannot be known with confidence, but it was probably substantial. Economic simulations based on preliminary data indicate that, during the last half of 1990, the shock from oil prices reduced the **annualized** rate of growth of real **GNP** by roughly a percentage point. Growth in the current quarter will also be reduced, as the effects of the initial shock reverberate through the economy.

Consumer and business confidence also declined dramatically after the invasion, contributing to the recession. The decline in business expectations may have been more important than the fall in consumer confidence, since it appears that firms cut back on production and employment earlier than in previous recessions. Although real consumer spending fell sharply, fundamental factors, such as real disposable income and interest rates, can explain most of that drop.

The Economic Effect of the War

The dramatic drop in oil prices at the outbreak of hostilities will help moderate the recession. The price of petroleum is currently about $18 a barrel. That is similar to its likely level in the absence of the invasion and war. This suggests that oil prices will not have any further negative effects on economic growth after this quarter, and further declines could give the economy a boost.

Two other developments associated with the war will aid growth. First, military purchases of U.S. goods and services have risen above levels expected before the war. The increase is moderate because much war materiel is being drawn out of inventories. Nevertheless, those purchases that are made will cause more than the usual economic stimulus because many will be paid for by foreign governments, rather than by U.S. borrowing or tax increases. Spending financed by borrowing tends to raise interest rates, which offsets some of the stimulus caused by the spending. Spending financed by foreign governments suffers no such offsets.

The response of the financial markets to the war will also stimulate the economy. Long-term interest rates fell by about 20 basis points following the outbreak of war. This stimulative decline in interest rates occurred in part because investors became convinced that oil prices would not rise and push up prices--an increase that the Federal Reserve might have partially accommodated. Other factors may help explain the drop in interest rates--for example, growing expectations of a deeper recession or the greater willingness of the Federal Reserve to increase the money supply. But the reduced chance of an interruption in oil supplies was surely an important factor.

The rise in stock market prices that has followed the outbreak of hostilities, if sustained, will also aid the recovery. Broader market indices have surpassed the record high levels achieved just before the invasion. Higher stock prices reduce the capital costs of corporations, increase household wealth, and generally improve the financial positions of firms and financial institutions.

Changes in uncertainty and consumer confidence, other factors that influence the economy, are more ambiguous. While surveys of consumer confidence do not yet indicate a strong rebound, there is some evidence of its strengthening. Surveys of business groups also indicate a renewed optimism, and the strong performance of the stock market may stem in part from a decline in uncertainty.

In sum, improvements in petroleum prices and financial markets, coupled with increased military outlays, are likely to reverse many of the negative effects on U.S. economic growth caused by the Iraqi invasion of Kuwait. The CBO economic forecast released last month did not explicitly incorporate these improvements. Recent developments do, however, reinforce our conclusion that the current recession is likely to be briefer and milder than the average of postwar recessions. Moreover, the war may well add no more than a few billion dollars to the federal deficit in the next year or so and should not interfere with the sharp decline in federal deficits that is expected to begin after 1992.

Paying for the Costs of War

Should taxes be raised, or nonwar spending reduced, to pay the added costs of the war? Paying for the war through such measures would be important if the war-induced increase in the deficit were large enough to detract significantly from national saving. At present, however, the relatively small increase the war is likely to cause in the deficit probably will not have significant long-term effects on the economy.

Other arguments, too, suggest that raising taxes or cutting nonwar spending may not be important or advisable. During past wars, defense spending threatened to increase aggregate demand by enough to increase inflation. Coming as it does in the middle of a recession, the Persian Gulf war does not pose the same threat of heightened inflation. Indeed, while the recession lasts, many economists would argue that no new reductions in spending or increases in taxes should be enacted. Such measures could reduce the strength of demand and conceivably prolong the recession. Even the expectation of future measures to reduce the deficit might weaken economic growth, at least slightly.

However, last year the Administration and the Congress made a commitment to reducing the U.S. deficit. Paying for the costs of the war through increases in taxes or reductions in nonwar spending, rather than through higher deficits, would reaffirm that commitment. Such a reaffirmation could reassure world financial markets, thus helping to keep interest rates down.

COSTS OF POSTWAR POLICIES

The costs of postwar policies stemming from U.S. involvement in the Persian Gulf are especially difficult to estimate but are potentially large. Let me illustrate this point by discussing the costs of three such policies.

Maintaining U.S. Military Forces in the Gulf

Current U.S. policy calls for withdrawing our military forces once Operation Desert Storm has been successfully concluded. In recent Congressional testimony, Secretary of State Baker stated that "the President has said that we have no intention of maintaining a permanent ground presence on the Arabian peninsula" after the war is over and the threat recedes. The secretary did not, however, rule out maintaining U.S. forces at sea. Thus, the

United States could possibly leave military equipment aboard ships that are stationed or "prepositioned" in the Persian Gulf area. Depending on the resolution of the war, U.S. ground forces might also remain in some Gulf states for some period.

Prepositioning of Equipment on Ships. Before the war, the United States had equipment for three Marine Expeditionary Brigades prepositioned aboard ships. Prepositioning ships stationed at Diego Garcia in the Indian Ocean--carrying about 53 tanks, other combat equipment, and 30 days of supplies for one brigade--delivered the first U.S. heavy combat equipment to Saudi Arabia after the Iraqi invasion of Kuwait.

After the war, the United States might decide to preposition substantially more military equipment aboard ships in or near the Persian Gulf. Assume, for the sake of illustrating costs, that this country decides to preposition aboard ships the equipment and support for one heavy Army division. That would mean putting about 300 tanks and substantial amounts of other military equipment aboard ships. Presumably the equipment would come from existing stocks. Thus, procuring the equipment would not involve any near-term costs.

Purchasing the prepositioning ships, however, would involve substantial costs. About 15 specially designed prepositioning ships--each costing roughly $250 million--would be required to hold the equipment and support elements for one heavy Army division. Thus, the total shipbuilding costs would amount to about $3.75 billion (see Table 4 in the Appendix). (Some of these shipbuilding funds might be drawn from the $1.3 billion in funds the Congress appropriated in earlier years to procure sealift vessels. These funds have not yet been expended.) Operating costs for these 15 ships would amount to about $150 million a year.

Prepositioning of U.S. equipment on ships offers important advantages. For example, it avoids the political problems associated with leaving U.S. military equipment on the ground in the Persian Gulf region, and it permits equipment to be moved if military requirements change. However, prepositioning on ships also has limitations. Ports must be located for the ships. Saudi Arabian ports on the Red Sea, or ports in Egypt, Oman, or Somalia, are all possibilities. But all of these locations would be subject to some military threats, including mines, missiles launched either from aircraft or hostile ships, shore gunfire, and even small-arms fire from patrol boats. In time of conflict, prepositioning ships require a secure port in which to unload, and, moreover, one near an airport so that troops can be flown in to receive the equipment. Such ports might not always be available.

Prepositioning U.S. military equipment at ground sites in the Persian Gulf region would probably be less costly than prepositioning the equipment on ships. Based on U.S. experience with prepositioning in Europe, equipment could be stored in simple, climate-controlled warehouses, and maintained by a relatively small complement of personnel. Costs for stationing the equipment for a heavy division might total $45 million in annual maintenance plus an undetermined one-time cost for initial construction of storage facilities. However, prepositioning on land, like that on ships, would be vulnerable to a variety of military threats, and would require nearby air and sea ports. For security and maintenance, land prepositioning would require the continued presence of some U.S. ground troops in the Persian Gulf, and the United States would not have as much flexibility to move the equipment should military requirements change.

Maintaining Ground Forces. While the United States might eventually leave only equipment in the Persian Gulf region, substantial U.S. ground forces could remain for some period, perhaps under the auspices of the United Nations. Such a peacekeeping force has historical precedent. The Sinai peacekeeping force, comprised of personnel from Egypt, Israel, and the United States, consisted in 1982 of roughly 2,700 military and 1,000 civilian personnel, of whom some 1,200 were from the United States. Today that force consists of 2,100 military and 800 civilian personnel, slightly more than 1,000 of them Americans. Other U.N. forces in the area include those in southern Lebanon and in Syria, near the Golan Heights; both contingents include small numbers of U.S. personnel.

Such a small force might not be sufficient to maintain peace along the Kuwait-Iraq border, particularly if Operation Desert Storm ends with Iraq still in control of large, capable ground forces. In that event, the United Nations might request commitment of a brigade or even a division of U.S. ground forces, along with one or two wings of tactical aircraft.

Commitments of this magnitude would involve substantial costs. A brigade-sized force and its supporting elements would total 11,500 personnel, with an annual total cost of $600 million and a one-time basing cost of $500 million or more (see Table 4). Stationing a division and associated support, with 38,000 personnel, would cost $2.4 billion per year, plus roughly $2.5 billion for base construction. Each air wing and its support, with 3,000 or more personnel and about 72 combat aircraft, would add about $240 to $390 million annually, depending on the type of aircraft in the wing, plus undetermined one-time basing costs if facilities at existing airfields were inadequate to house these units.

Added Costs to the United States. The cost to U.S. taxpayers of maintaining some U.S. forces in the Persian Gulf area would depend on U.S. and allied policies. If the troops or equipment would otherwise have been part of our stateside forces, then the only additional costs would be those for basing and the added costs of foreign operations. If leaving troops or equipment in the Persian Gulf region required the United States to expand the size of its military, then the added costs would be the total costs shown in Table 4.

It is also likely that our allies would pay some, and perhaps all, of any added U.S. costs. There is certainly precedent for such payments; Japan and Germany currently pay part of the costs of supporting U.S. troops stationed on their soil.

Reconstruction and Aid

As Secretary Baker noted in his recent testimony before the House Committee on Foreign Affairs, "an economic catastrophe has befallen the Gulf and the nations trading with it." Damage is not limited to the physical destruction of Kuwait and the substantial damage done to Iraq. Human capital, in the form of thousands of foreign workers vital to the functioning of local economies, has been uprooted. Refugees from the war may well exceed one million. Vast ecological damage has been wrought. Trade, political relations, and the whole climate for economic development have deteriorated.

In the aftermath of previous conflicts, the United States has been generous in victory. In the years following World War II, the defeated nations received aid in excess of $52 billion (in today's dollars), and the United States contributed a further $70 billion toward rebuilding Europe under the Marshall Plan. Nor is the Marshall Plan an isolated example of American aid for reconstruction. After past conflicts, other nations such as

Korea have received U.S. contributions that, in per capita terms, are similar to amounts provided under the Marshall Plan.

There will certainly be no lack of countries desiring aid. Substantial damage has obviously been done to Iraq and Kuwait. Israel, Egypt, and Turkey have been mentioned in press speculation as possible recipients of aid or indirect economic concessions. Jordan, one of the countries most severely hurt by the war and in the past a force for stability in the region, might welcome U.S. aid as a gesture of goodwill toward its predominantly Palestinian population.

If the United States were to respond to these needs, the costs to this country could be substantial. Quite possibly, Egypt, Turkey, and other Middle Eastern nations could be the recipients of aid that could cost billions of dollars. The United States might provide some humanitarian assistance to Kuwait and, if a new government were in place, perhaps even to Iraq. Providing aid to Iraq and Kuwait equal to the per capita aid provided under the Marshall Plan would cost $5 billion.

The role of the United States in addressing the problems of this war may, however, be more limited than its role after previous conflicts. Most of the Gulf nations, including Kuwait and Iraq, are wealthy because of their oil resources. This wealth, rather than U.S. aid, could provide the basis for rapid rebuilding of shattered societies. Less fortunate nations affected by the war, such as Egypt, Turkey, Israel and **Jordan,** might also be helped by nations other than the United States.

Smaller Reduction in U.S. Military Forces

From a budgetary standpoint, the most significant consequence of the Persian Gulf war might be to scale back the reductions in military forces that the Administration has proposed. The added costs associated with a smaller reduction would be substantial, and Allied contributions are not likely to offset them.

In his recent testimony before the House Committee on Armed Services, Secretary of Defense Cheney characterized the Administration's proposed reductions as a "good news" plan that might have to be revised. The secretary indicated that a smaller reduction could come about because of changes in the course of reform in the Soviet Union. Although he did not mention it, the need to maintain forces for future operations like the one now under way in the Persian Gulf could add to pressure for smaller cuts in the military.

There is no way to know exactly what a "bad news" plan might look like. It might just slow the currently planned reduction, which would cut the number of military personnel by 20 percent between 1990 and 1995. Or it might lead to a decision to forgo part of the cut permanently.

To illustrate the budgetary consequences of a smaller reduction, CBO analyzed the savings from defense cuts that, in 1995, are roughly one-third smaller than those the Administration is now proposing. (The Administration plan and the illustration of a smaller reduction in forces are described in Table 5 in the Appendix to this testimony.) By 1995, the annual operating costs stemming from the smaller reduction would be about $10 billion to $12 billion more than those associated with the Administration plan. If funding for procurement of major equipment was increased because of the smaller reduction in forces, added costs could be substantially larger. Within a few years, these costs could easily eclipse the added costs of the war.

CONCLUSION

While the war goes on, it is impossible to predict with confidence its ultimate effects on the U.S. budget and economy. To date, the economic events linked with the war appear to have offset much of the damage to the U.S. economy caused by the Iraqi invasion. Indeed, U.S. allies may pay the substantial majority of wartime costs.

The costs of postwar policies represent the source of greatest uncertainty. They could be larger than the cost of the war, particularly if the United States elects to provide substantial aid to war-damaged countries or if we choose to maintain a larger military than is now planned.

TABLE 1. DEPARTMENT OF VETERANS AFFAIRS COSTS ARISING FROM OPERATION DESERT STORM
(In millions of dollars)

Category	Annual Cost per 1,000 Casualties
Dependency and Indemnity Compensation[a]	1.50
Disability Compensation	3.66
Burial Benefits[b]	0.26
Vocational Rehabilitation[c]	3.60
Medical Care[c]	5.20
Total	14.22

SOURCE: Congressional Budget Office.

a. Assumes that 20 percent of casualties die.

b. Assumes 20 percent death rate among discharged veterans, distributed over 10 years after end of hostilities.

c. Estimated first-year costs. Costs in later years would decline.

TABLE 2. LEGISLATIVE PROPOSALS ON MILITARY PAY AND BENEFITS ANALYZED BY THE CONGRESSIONAL BUDGET OFFICE (As of February 20, 1991)

Bill Number	Pay/Benefit Subject
S.160	Unemployment Benefits for Military Separatees
S.204	Retiree Pay Grade
S.205	Unemployment Benefits for Military Separatees
S.221	Overseas Savings Programs
S.232	Increases SGLI/VGLI, Death Gratuity
S.237	Increases Imminent Danger Pay
S.281	Family Support Services, Health Plans
S.283	Deployment of Single Parents
S.304	Eviction of Reservists on Active Duty
S.325	Single Parents, Dual Military Parents
S.330	Rights of Activated Reservists
S.331	Accrued Leave to Survivors
S.333	Eviction of Reservists on Active Duty
S.334	Grants to Nonprofit Health Care Centers
S.335	Deferral of Loan Repayments
S.336	Reemployment Rights
S.337	Montgomery GI Bill Benefits for Activated Reserves
S.382	Community Assistance
S.384	CHAMPUS Mental Health Benefits
S.386	War Period Veterans' Benefits
H.R.557	Improved Policies and Compensation for Persian Gulf Personnel
H.R.666	Duty at Certain Places
H.R.695	Reserve Pay Plan
H.R.742	Increased SGLI/VGLI Coverage
H.R.743	War Period Veterans' Benefits
H.R.781	Postpone Increase in CHAMPUS Deductible
H.R.846	Postpone Change in CHAMPUS Mental Health Benefits
H.R.908	Veterans' Benefits and Related Issues

SOURCE: Congressional Budget Office.

TABLE 3. CONTRIBUTIONS TO THE UNITED STATES FOR DESERT SHIELD AND DESERT STORM (In billions of dollars)

	Pledges for Cash and In-Kind Assistance (Estimates)[a]			Contributions Received[b]	
	First Pledge	Second Pledge	Total	Cash	In-Kind
Saudi Arabia	3.3	13.5	16.8	4.46	1.57
Kuwait	2.5	13.5	16.0	3.50	0.01
UAE	1.0	2.0	3.0	0.87	0.14
Japan[c]	1.7	7.2 - 8.6	8.9 - 10.3	0.87	0.46
Germany	1.1	5.5	6.6	2.43	0.53
Korea	0.1	0.3	0.4	0.05	0.02
	9.7	42.0 - 43.4	51.7 - 53.1	12.18	2.73

SOURCE: Congressional Budget Office.

a. Based on data from press reports, press releases, and testimony by Administration officials.

b. According to the Department of Defense, in-kind is as of January 31, 1991; cash is as of February 20, 1991.

c. According to the Japanese Embassy, Japan has fulfilled its initial pledge of $2 billion to the multinational forces. According to embassy officials:

- o Approximately $1.7 billion of the first pledge is for the United States, while $0.3 billion is for other allies.

- o Most of the $1.7 billion has been deposited in an account within the Gulf Cooperation Council (GCC). Any U.S. balances remaining in the GCC account will be drawn down once the United States and Japan agree on how to fulfill U.S. needs.

The estimate for the second pledge assumes the Japanese Diet approves the full $9 billion pledge. The lower estimate assumes 80 percent is for the United States, while the upper estimate assumes 95 percent.

TABLE 4. COSTS OF STATIONING FORCES IN THE PERSIAN GULF (In millions of 1991 dollars)

Force Unit	Initial Cost (One-time)	Annual Cost (Recurring)
Prepositioned Equipment Ashore		
Brigade	n.a.	15
Division	n.a.	45
Prepositioned Equipment Afloat		
Brigade	1,250	50
Division	3,750	150
Active Forces Ashore		
Brigade (Heavy)	550	600
Division (Heavy)	2,500	2,400
A-10 Tactical Wing	n.a.	240
F-15 Tactical Wing	n.a.	390

SOURCE: Congressional Budget Office.

NOTE: n.a. = not available

TABLE 5. CHANGES ASSUMED FOR ONE-THIRD SMALLER FORCE CUTS

Service and Military Unit	Cuts by 1995	
	Smaller Cut	Administration's Proposed Cut
Army Divisions		
Active	4	6
Reserve	3	4
Navy Ships	63	94
Marine Corps Brigades	0	1
Air Force		
Active Tactical Fighter Wings	7	10
Strategic Bombers	58	87
Intercontinental Ballistic Missiles	300	450

SOURCE: Congressional Budget Office.