5

The "Ghost Budget"

How America Pays for Endless Wars

Linda J. Bilmes

Introduction

Historically, wars come to an end when one or both parties run out of "blood or treasure."[1] "Treasure" is an equal partner in this equation; hence, one of the central questions that arise during wartime is how each country will pay for the war. America's military history reflects this experience. During every major military conflict prior to 2001, the U.S. government raised taxes and cut domestic spending to pay for the costs of war. Every previous U.S. military conflict entailed considerable debate on how to identify resources to fund the conflict.[2] During wartime, U.S. presidents asked the public to support higher taxes and make financial sacrifices. At times, Congress invoked its "power of the purse," even withholding funds to end U.S. involvement in the fighting, as it did during the Vietnam War.

By contrast, after September 11, 2001, the United States financed the conflicts in Iraq, Afghanistan, and the nearby region entirely through debt and budgeted for these wars without increasing taxes or reducing nonwar spending. Such policies helped insulate most Americans from the painful costs of war, helping the United States remain on a perpetual war footing for more than two decades.

This chapter will explain how and why the United States severed the link between war policy and war funding. The main reasons include failed reforms in the congressional budgetary process, a more assertive military establishment, and unusual conditions in global capital markets. I will argue that breaking the link between war policy and war funding has decreased accountability for spending, reduced legislative control over policy, and removed an important constraint from waging war.

[1] The Formation of National States in Western Europe (Charles Tilly & Gabriel Ardant eds., 1975); Carolyn Webber & Aaron B. Wildavsky, A History of Taxation and Expenditure in the Western World (1986).

[2] Rosella Capella Zielinski, How States Pay for Wars (2016); Robert D. Hormats, The Price of Liberty: Paying for America's Wars (1st ed. 2007).

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America's Post-9/11 Wars in Afghanistan and Iraq

The U.S. military campaigns in Afghanistan, Iraq, and neighboring areas from 2001 through 2021 (referred to as the "post-9/11 wars") were the longest and likely most expensive conflicts in U.S. history.[3] Estimates of the cost range from $2 trillion, using the narrowest definition of war spending, to nearly $8 trillion.[4] Joseph Stiglitz and I estimated the costs (in real terms) at over $4.5 trillion.[5]

How was it possible to sustain such an expense—which exceeded 1 percent of U.S. GDP for several years and reached peak spending levels during the 2008 financial crisis—while provoking almost no public debate over the cost?

The short answer is that the vast majority of the public neither fought in nor paid for the wars. Fewer than half of 1 percent of Americans were deployed to Iraq or Afghanistan, the lowest percentage in any foreign war in modern U.S. history.[6] There was no conscription, and private sector contractors supplied some 50 percent of the manpower.[7] In addition, the post-9/11 wars were funded differently than previous conflicts in two important respects. First, they were financed entirely by debt, which deferred costs to future taxpayers. Second, the war budget itself was structured in a way that allowed the government to avoid confronting the full cost of the conflict.[8] As military historian Andrew Bacevich commented in 2016:

[3] It is not possible to disaggregate total spending between Iraq and Afghanistan accurately due to the structure of appropriations, which in most cases funded personnel, equipment, weapons, and contracts that were deployed to some extent in both conflicts. Additionally, veteran disability benefits and medical care is categorized by year of service and condition, such that the level of benefits is calculated based on the cumulative disability resulting from multiple tours of duty, which were typically in different locations.

[4] Brendan W. McGarry & Emily Morgenstern, Cong. Rsch. Serv., R44519, Overseas Contingency Operations Funding: Background and Status 10–11 (2019), https://fas.org/sgp/crs/natsec/R44519.pdf; Watson Inst. for Int'l & Public Affairs, http://watson.brown.edu/costsofwar/. 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, debt service, and loan forgiveness to coalition partners.

[5] Joseph E. Stiglitz & Linda J. Bilmes, The Three Trillion Dollar War: The True Cost of the Iraq Conflict (2008); Joseph E. Stiglitz & Linda J. Bilmes, *Estimating the Costs of War: Methodological Issues, with Applications to Iraq and Afghanistan, in* The Oxford Handbook of the Economics of Peace and Conflict (Michelle Garfinkel & Stergios Skaperdas eds., 2012).

[6] Approximately 0.43% of the adult U.S. population was deployed to the post-9/11 conflict, compared with 12% in World War II, 1.77% during the Korean War, and 1.5% during the peak years of fighting in Vietnam. Timothy Kane, *The Decline of American Engagement: Patterns in U.S. Troop Deployments* (Hoover Inst. Econ. Pol'y Working Group, Econ. Working Paper No. 16101, 2016).

[7] Heidi M. Peters & Sofia Plagakis, Cong. Rsch. Serv., R44116, Department of Defense Contractor and Troop Levels in Iraq and Afghanistan: 2007–2018 1 (2019) [https://perma.cc/SH3X-YMHZ].

[8] The *budgeting* for the wars refers to the cycle during which funds are planned, requested, justified, evaluated, authorized, appropriated, apportioned, obligated, and executed to fund the conflict. Such money may be enacted in the regular annual budget (the "base" budget), in supplemental

> 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.[9]

The combination of *budgetary* policies (exempting war spending from budget limits 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 wholly on debt) established what I have termed a "Ghost Budget."

I coined the term "Ghost Budget" based on the widespread use of the word "ghost" in government reports on the post-9/11 wars, referring to alleged people, places, or projects that turned out to be phantoms, and where funds vanished. The U.S. Special Inspector General for Afghanistan Reconstruction (SIGAR) has written about "ghost" projects that appeared only on paper, as well as "ghost workers" and "ghost schools."[10] The Pentagon acknowledged the rampant problem of "ghost" soldiers and "ghost" police in Afghanistan in numerous reports.[11]

Post-9/11 war spending gradually evolved into a permanent second defense war chest, with minimal oversight, which has endured despite the end of the Iraq and Afghanistan wars and has been repurposed to pay for unrelated military activities.

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 budget caps and pay-as-you-go limits and not counted against the total budget surplus or deficit. ALLEN SCHICK, THE FEDERAL BUDGET: POLITICS, POLICY, PROCESS (1995).

[9] LINDA J. BILMES, THE "GHOST BUDGET": EXPLAINING US BUDGETARY DEVIATIONS IN THE POST-9/11 WARS, 2020; interview with Andrew J. Bacevich, Professor Emeritus of Hist. and Int'l Relations, Boston Univ. (Sept. 23, 2016).

[10] In 2008, the U.S. Congress established the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to provide "independent and objective oversight" of the $144 billion in U.S.-funded Afghanistan reconstruction projects and activities. Since then, it has conducted hundreds of audits and investigations to detect and prevent waste, fraud, and abuse, as well as performance assessments and other reporting. SIGAR, CONTRACT OVERSIGHT CAPABILITIES OF THE DEFENSE DEPARTMENT'S COMBINED SECURITY TRANSITION COMMAND—AFGHANISTAN (CSTC-A) NEED STRENGTHENING (2009) [https://perma.cc/UJ6M-DA69]; SIGAR, SCHOOLS IN HERAT PROVINCE: OBSERVATIONS FROM SITE VISITS AT 25 SCHOOLS (2016) [https://perma.cc/ENM6-RG3X]; SIGAR, GOOD PERFORMERS INITIATIVE: STATUS OF SEVEN COMPLETED PROJECTS IN KHOST PROVINCE, AFGHANISTAN (2017) [https://perma.cc/6XQS-8HQT]; SIGAR, SCHOOLS IN PAKTRIKA PROVINCE, AFGHANISTAN: OBSERVATIONS FROM SITE VISITS AT 6 SCHOOLS (2019) [https://perma.cc/RK84-QEXJ].

[11] *See, e.g.*, Letter from Jedidiah P. Royal, Deputy Assistant Sec'y of Def. for Afg., Pak. and Cent. Asia, to John Sopko (Oct. 3, 2016) (regarding DOD efforts to eliminate "ghost personnel" from the Afghan National Security Forces (ANSDF)).

Table 5.1 Taxes and Spending 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 Increase	YES	YES	YES	YES	YES	YES	YES	YES	NO
Nonwar Budget Cuts	YES	YES	YES	YES	YES	YES	YES	YES	NO

How Did America Pay for Previous Wars?

All U.S. wars prior to 9/11 were paid for by taxes and budget cuts enacted specifically to cover costs of the conflict (see Table 5.1).[12] One-third of World War I costs and one-half of the costs of World War II were funded by higher taxes.[13] These practices were path-dependent on previous practices. For example, U.S. President Woodrow Wilson decided to raise taxes to defray World War I costs after studying tax policy during the American Civil War.[14]

In previous wars, many lawmakers were concerned with the distribution of the fiscal burden and that the public perceived their decisions as being fair.[15] During World War I, Democrats in Congress advocated using war taxes to redistribute income, arguing that fighting the war required "conscription of wealth" as well as "conscription of men."[16] President Wilson argued that corporations benefited from the war through increased demand for their products and hence should be taxed more heavily.[17] To make higher income taxes palatable to voters, Congress raised corporate income taxes from 1 percent at the start of the war to 12 percent and enacted an excess corporate profits tax, as well as increasing income tax rates for individuals.[18]

[12] Louis Fisher, Congressional Abdication on War and Spending (2000); Hormats, *supra* note 2; Sarah E. Kreps, Taxing Wars: The American Way of War Finance and the Decline of Democracy (2018); Richard M. Miller, Funding Extended Conflicts: Korea, Vietnam, and the War on Terror (2007); Zielinski, *supra* note 2.

[13] Hormats, *supra* note 2; Kreps, *supra* note 12.

[14] Steven R. Weisman, The Great Tax Wars: Lincoln to Wilson: The Fierce Battles over Money and Power That Transformed the Nation (2002).

[15] William G. Howell, Saul P. Jackman, & Jon C. Rogowski, The Wartime President: Executive Influence and the Nationalizing Politics of Threat (2013); Weisman, *supra* note 14.

[16] Hormats, *supra* note 2 at 120.

[17] Weisman, *supra* note 14.

[18] Top marginal rates were raised to 77%, but only 13% of the population paid income taxes at the time. Weisman, *supra* note 14.

Wilson appealed to citizens to buy war bonds, in what he called "capitalizing patriotism."[19] He viewed Liberty Bonds not only as sound economic policy (to curb consumption and reduce the likelihood of inflation) but also as a way for ordinary people to support the war effort.

During World War II, President Franklin D. Roosevelt described paying taxes as "not a sacrifice" but a "privilege."[20] He raised taxes on business, imposed a "wealth tax," raised inheritance taxes, and expanded the number of income taxpayers to roughly 80 percent of the workforce by 1945.[21]

The budgeting and financial decisions for U.S. wars in Korea and Vietnam largely followed this pattern.[22] U.S. President Harry Truman pledged to make the country "pay as we go" for the Korean War and to distribute the burden fairly across society. As he declared in a radio and television address 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 increase in the national debt.[23]

Truman pushed three major tax bills to fund the war through Congress. This legislation increased corporate tax rates from 38 percent to 45 percent, and raised taxes on cars, alcohol, and gasoline, as well as other excise taxes. He raised top marginal income tax rates to 92 percent, while increasing median rates from 22 percent to 27 percent.[24] He gave more than two hundred speeches in support of his "pay as we go" approach.[25] He abandoned his domestic spending plans, deeming them too costly. Consequently, the nation ended the war with a lower national debt than when it began.[26]

War funding was a central issue in waging the Vietnam War and a key factor in determining its outcome. Congress repeatedly sparred with Presidents Lyndon

[19] Hormats, *supra* note 2 at 122.

[20] President Franklin D. Roosevelt, Fireside Chat (Dec. 9, 1941), https://www.presidency.ucsb.edu/node/210419.

[21] Thomas Piketty & Emmanuel Saez, *Income Inequality in the United States, 1913–1998*, 118 Q.J. Econ. 1 (2003).

[22] Kreps, *supra* note 12; Miller, *supra* note 12; Zielinski, *supra* note 2.

[23] President Harry S. Truman, Radio and Television Address to the American People Following the Signing of the Defense Production Act (Sept. 9, 1950) [https://perma.cc/XS6M-E6VZ].

[24] Letter from L. Laszio Ecker-Racz to Walter F. George (July 25, 1950) (on file with the Harry S. Truman Presidential Library & Museum); The Tax Foundation, *U.S. Federal Individual Income Tax Rates History, 1862–2013 (Nominal and Inflation-Adjusted Brackets)* (2013) [https://perma.cc/M4BB-UPG4].

[25] American Bar Association, *The Revenue Act of 1950*, 3 Bulletin (A.B.A. Section of Tax'n) 8 (1950). Congress designated these tax increases temporary, set to expire in 1953.

[26] Thomas Piketty, Emmanuel Saez, & Gabriel Zucman, *Distributional National Accounts: Methods and Estimates for the United States*, 133 Q.J. Econ. 553 (2018).

B. Johnson and Richard M. Nixon over war appropriations and taxes.[27] Many aspects of the war made Vietnam increasingly unpopular with the public, including the military draft, the high casualty toll, and the bombing of innocent civilians overseas. Yet the question of how to *pay* for the war and the trade-offs between military and domestic spending were key to the debate.

Johnson began his presidency confident that the United States could fund both the Vietnam War and his ambitious domestic agenda, but he feared that the war might become too expensive.[28] As he said in January 1964: "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."[29] Johnson was extremely reluctant to raise taxes for the war because he thought doing so would be unpopular. But his advisers convinced him there was no alternative, due to rising inflation.[30] Eventually, Johnson announced in 1967 that he intended to "borrow a part of it, tax a part of it, and save a part of it."[31] He imposed a tax surcharge on individual and corporate taxes, with an exemption for the two lowest brackets of income, that raised top marginal rates to 75 percent.[32]

As Johnson predicted, the plan set off a firestorm. Polls showed public opinion was against the tax by a margin of 65 percent to 25 percent.[33] Ultimately, the fight over the war tax forced Congress to examine how the conflicts were being financed and provided the leverage for Congress to terminate the fighting.[34] On May 15, 1973, Congress voted to cut off funding for the bombing of Cambodia and thereafter refused to fund the South Vietnamese military.[35] This action effectively ended America's involvement in the war.

In summary, although decision makers faced unique political, national security, and economic issues in each conflict, the United States adhered to certain norms when it came to war funding. First, the U.S. president and his advisers played an active role in formulating the fiscal strategy and debated a range of options to raise war funds, including postponing domestic investments, issuing war bonds, raising

[27] LOUIS FISHER, THE POLITICS OF SHARED POWER: CONGRESS AND THE EXECUTIVE (4th ed. 1998); ALLEN SCHICK, CONGRESS AND MONEY: BUDGETING, SPENDING, AND TAXING (1980).

[28] Francis M. Bator, *No Good Choices: LBJ and the Vietnam/Great Society Connection*, 32(3) DIPLOMATIC HIST. 309 (June 2008).

[29] LLOYD C. GARDNER, PAY ANY PRICE: LYNDON JOHNSON AND THE WARS FOR VIETNAM (1995).

[30] BILMES, *supra* note 9; interview with Francis Bator, Lucius N. Littauer Professor of Pol. Econ., Harv. Univ. (July 12, 2017).

[31] President Lyndon B. Johnson, The President's News Conference on the Tax Message (Aug. 3, 1967), https://www.presidency.ucsb.edu/documents/the-presidents-news-conference-the-tax-message.

[32] President Lyndon B. Johnson, Annual Message to the Congress on the State of the Union (Jan. 10, 1967), https://www.presidency.ucsb.edu/node/238176.

[33] "Harris Release for Monday," Feb. 24, 1967, WHCF 5-2 (3)—BOX 31 (1967).

[34] FISHER, *supra* note 12.

[35] *See* Memorandum from President Gerald Ford to Congress (Jan. 8, 1975) (asking congressional leaders for assistance to provide ammunition to the South Vietnamese).

taxes, and using deficit spending.[36] Congress responded to these proposals and made direct trade-offs between war spending and nonwar expenditures.[37]

Second, the bulk of war spending (after an initial period) was requested through the regular defense budget, with only lesser amounts of supplemental appropriations. This ensured that war funding was subject to scrutiny and oversight within the executive branch broadly, the Department of Defense (DOD) narrowly, and the congressional appropriations process. The executive branch even weighed in on smaller-scale decisions, such as whether the DOD was permitted to shift funds from nonwar accounts into war funds.[38]

Third, the president requested tax increases for the explicit purpose of funding military actions. Since Congress is required to authorize all taxes, this meant that the congressional fiscal committees (Senate Finance Committee and House Ways and Means Committee) were *obliged* to hold hearings on the financing of the wars. The committees devoted a significant level of attention to the question of how to fund the wars. In turn, the media reported on these developments and the subject of war costs remained in public view.

Paying for the Post-9/11 Wars

The post-9/11 wars diverged markedly from this pattern in both financing and budgeting. For the first time since the Revolutionary War, the United States relied almost exclusively on debt financing. There were no tax increases or budget cuts enacted to offset war costs.[39] *In addition* to the financial deviation, this was also the first time that Congress employed "emergency" and "contingency" funding over many years, rather than integrating war monies into the base defense budget and the regular budget processes after the initial period.

In his essay *Perpetual Peace* (1795), Immanuel Kant's fourth principle for states to exist in peace is that they should not incur debt to wage wars. He argued that running out of resources is a key constraint on wars. The Ghost Budget provided the ability to keep borrowing and spending for more than two decades and thus was a critical enabler in sustaining military activity over a prolonged period.[40]

36 Federal budgeting was governed by the Budget and Accounting Act of 1921, 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. Reviews of the Truman and Johnson archives show that the presidents were engaged in this function. Hormats, *supra* note 2; Miller, *supra* note 12; Zielinski, *supra* note 2.

37 Hormats, *supra* note 2; Webber & Wildavsky, *supra* note 1; Zielinski, *supra* note 2.

38 Louis Fisher, The Politics of Shared Power: Congress and the Executive (3rd ed. 1993).

39 Hormats, *supra* note 2; Kreps, *supra* note 12.

40 Bilmes, *supra* note 9.

Table 5.2 Mentions of War Funding Policies in Hearings of the Fiscal Authorizing Committees during the Korean, Vietnam, and Post-9/11 Wars

		Korea (1950–53)	Vietnam (1965–73)	Post-9/11 (2001–18)
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%**

*Excludes hearings on procedures and rules.

My original research, based on data mining thousands of historical documents and interviewing dozens of senior administration and military officials, shows that the lack of debate over war finance stifled conversation over the value of the war itself. Compared with earlier wars, presidents made fewer public speeches about the wars and seldom talked about their cost.[41] Congress held fewer hearings, and there was far less oversight over the spending itself.[42] For example, the Senate and House fiscal committees mentioned war costs in a much smaller fraction of hearings than they did during the Korean and Vietnam conflicts (see Table 5.2).[43]

The Ghost Budget contained three anomalies in war funding that transformed the relationship between war policy and war funding: (1) use of emergency spending; (2) the Overseas Contingency Operations (OCO) budget; and (3) debt financing.

Emergency Spending

For the first decade of the Afghanistan and Iraq conflicts, the United States used "emergency" appropriations, which are typically reserved for one-off crises such

[41] For example, the number of times President Bush mentioned war costs in his budget transmittal memos was only 13% of the number of mentions during Truman and Johnson administrations.
[42] Bilmes, *supra* note 9.
[43] Data-mined from congressional hearing records.

as floods and hurricanes. Emergency spending is defined in statute as "unanticipated . . . sudden . . . urgent . . . unforeseen . . . and temporary."[44] It is exempt from regular rules, because the intent is to disburse money quickly in situations where delay would be harmful.[45]

In March 2003, the United States invaded Iraq, an operation that deployed over 130,000 U.S. military personnel alongside troops from more than thirty countries.[46] By 2009, there were 187,200 U.S. "boots on the ground" in Afghanistan and Iraq, supported by a similar number of military contractors, and the United States was occupying nearly five hundred military bases across Iraq.[47]

Despite this entrenched presence, Congress continued to enact "emergency supplemental" funding for the entire first decade (FY 2001–11) of what President George W. Bush termed the "Global War on Terror" (GWOT).[48] These type of appropriations had never been used to fund such a large, extended conflict.[49] As shown in Figure 5.1, it marked a deviation from past conflicts, when war funding had migrated to the base budget as soon as there was a partial projection of costs.[50]

The result was what former Defense Secretary Robert Gates termed a "culture of endless money" inside the Pentagon.[51] War spending was specifically excluded from congressional budget limits. The Pentagon used the special war budget to buy upgrades, services, and new equipment that were in some cases barely related to Iraq or Afghanistan. Consequently, by 2009 the Pentagon budget grew to its highest level since the Second World War (see Figure 5.1).[52]

44 Balanced Budget and Emergency Deficit Control Act of 1985, Pub. L. No. 99-177 § 250(c)(20–21) (codified as amended at 2 U.S.C. § 900).

45 David Weiler & Brian Callanan, *War Budgeting Strategies: Case Studies of the Gulf War and the Iraq War*, at 37 (Harv. L. Sch. Fed. Budget Pol'y Seminar, Briefing Paper No. 39, 2008) [https://perma.cc/6MNB-CMJA]; Stephen Daggett, Cong. Rsch. Serv., RS22926, Costs of Major U.S. Wars (2010), https://fas.org/sgp/crs/natsec/RS22926.pdf.

46 The initial invasion on March 20, 2003, included 160,000 troops, including those from the United States (130,000), the United Kingdom (38,000), and smaller numbers from other participating countries. Joyce Battle, *The Iraq War—Part I: The U.S. Prepares for Conflict, 2001*, Nat'l Sec. Archive (Sept. 22, 2010) [https://perma.cc/TM2W-6X25].

47 Amy Belasco, Cong. Rsch. Serv., RL33110, The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11 (2014), https://sgp.fas.org/crs/natsec/RL33110.pdf.

48 The term GWOT was used to refer to military operations in Afghanistan, Iraq, and surrounding areas beginning in 2001 until when President Obama replaced it with "Overseas Contingency Operations."

49 Hormats, *supra* note 2.

50 Stephen Daggett, Cong. Rsch. Serv., RS22455, Military Operations: Precedents for Funding Contingency Operations in Regular or in Supplemental Appropriations Bills (2006), https://fas.org/sgp/crs/natsec/RS22455.pdf.

51 Daniel Dombey & Jeremy Lemer, *Pentagon's "Endless Money" Era Ends*, Fin. Times (Aug. 9, 2010), https://www.ft.com/content/316ba40c-a40a-11df-a872-00144feabdc0.

52 Brendan W. McGarry & Emily Morgenstern, Cong. Rsch. Serv., R44519, Overseas Contingency Operations Funding: Background and Status 10–11 (2019), https://fas.org/sgp/crs/natsec/R44519.pdf.

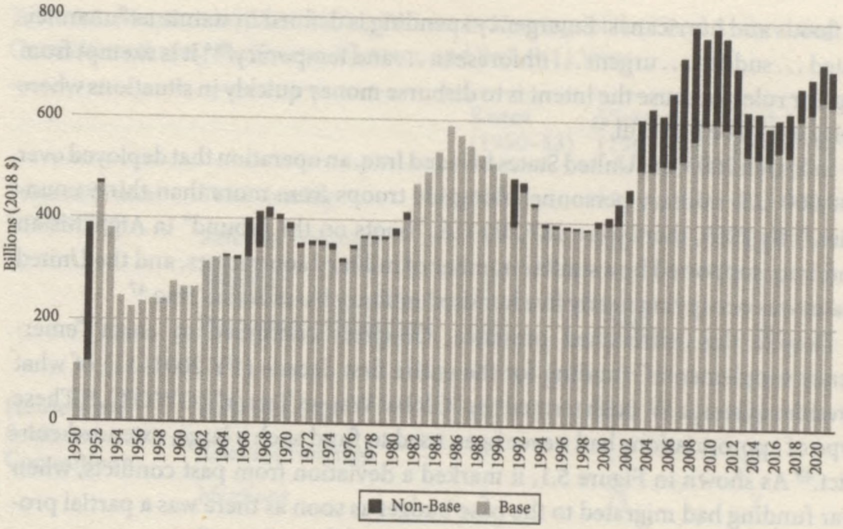

Figure 5.1 Base and Supplemental Funding in DOD Budget, FY 1950–FY 2022

The "emergency" designation provided benefits to all the key stakeholders. It helped the president present an artificially low federal budget deficit because he did not have to include war funding in his annual defense budget request. This helped the George W. Bush administration uphold the pretense that the wars would be over shortly and pursue its electoral pledge to cut taxes, despite the growing cost of the war.[53] Congress was freed from the need to find offsetting budget cuts elsewhere in the budget. Legislators could pay for rising entitlement spending while also providing extra funding for the war.[54]

Within the Pentagon, emergency money was convenient. It avoided the lengthy internal budget justification process (Planning, Programming, Budgeting, and Execution (PPBE))[55] and was placed in the "Operations and Maintenance" account, which has few restrictions on how it may be spent, providing the Pentagon with even greater autonomy.[56]

[53] BILMES, *supra* note 9.
[54] Entitlement spending refers to mandatory appropriations for programs such as Social Security that are based on a set formula and do not require annual legislative approval.
[55] PPBE system is a strategic planning process for allocating resources among DOD military departments that originated under Secretary Robert McNamara in 1961. *See, e.g.*, BRENDAN W. MCGARRY, CONG. RSCH. SERV., R47178, DOD PLANNING, PROGRAMMING, BUDGETING, AND EXECUTION (PPBE): OVERVIEW AND SELECTED ISSUES FOR CONGRESS 14 (2022), https://crsreports.congress.gov/product/pdf/R/R47178.
[56] BELASCO, *supra* note 47; BILMES, *supra* note 9.

The Overseas Contingency Operations Budget

After a decade of emergency spending, President Barack Obama (who had criticized this policy as a candidate) replaced it with a slightly different mechanism named "Overseas Contingency Operations" in 2011.[57] The OCO money required the president to submit a "placeholder" estimate of war costs during the annual budget cycle but nevertheless continued to be regarded as an extra infusion of money, distinct from regular defense spending. The same year, Congress enacted the Budget Control Act of 2011, which set modest spending limits on some discretionary government spending but exempted GWOT/OCO funds.[58]

This funding pattern endured through 2021, adding a sizable boost to the Pentagon budget every year (see Figure 5.2).[59] Consequently, the Pentagon became dependent on OCO and used it to pay for various missions outside of Iraq and Afghanistan. For example, OCO funded $26 billion for the European Reassurance Initiative, launched in 2014 after the Russian annexation of Crimea, to "bolster the security and capacity of U.S. allies and partners" in Europe.[60] The OCO fund was flexible enough to enable the Pentagon to secure many items on its wish list that had been rejected by Congress previously.[61] The DOD practiced an "arbitrage" strategy of requesting desired items through OCO in order to secure them more easily.[62]

Financing

When President George W. Bush took office in January 2001, the federal budget was already in deficit. He slashed taxes in 2001 and again in 2003, as the United States invaded Iraq. Taxes were cut yet again in 2017 under President Donald J. Trump. Consequently, instead of financing the wars through some

[57] Most government records use the term OCO to refer to the entire GWOT/OCO budget stream since 9/11. *See, e.g.*, McGarry & Morgenstern, *supra* note 4.

[58] *Id.* at 6–10.

[59] Off. of the Under Sec'y of Def. (Comptroller), Dep't of Def., National Defense Budget Estimates 2001–2021.

[60] Paul Belkin & Hibbah Kaileh, Cong. Rsch. Serv., IF10946, The European Deterrence Initiative: A Budgetary Overview (2021); Todd Harrison, *The Enduring Dilemma of Overseas Contingency Operations Funding*, Defense 360 (Jan. 11, 2017), https://defense360.csis.org/enduring-dilemma-oco-funding/.

[61] Bilmes, *supra* note 9.

[62] Tai Fukumoto & Patrick Sharma, *The Two-Tiered Defense Budget: The Base Budget and Overseas Contingency Operations* 18–19 (Harv. L. Sch. Fed. Budget Pol'y Seminar, Briefing Paper No. 53, 2015) [https://perma.cc/U78Q-HL8X].

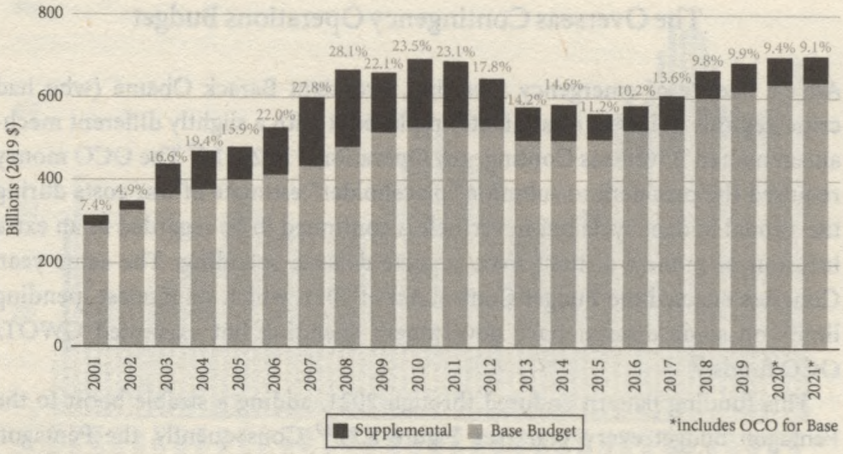

Figure 5.2 OCO Supplemental War Funding on Top of the DOD Base Budget

combination of higher taxes, fees, dedicated war bonds, borrowing, and monetary expansion, the post-9/11 wars were financed almost entirely by borrowing.[63]

Americans paid a much lower tax rate during the post-9/11 wars compared not only to earlier wars but also to the beginning of the period. For example, in FY 2001 (the year the United States invaded Afghanistan) a household earning $300,000 would have paid a 39.1 percent top marginal tax rate (see Figure 5.3).[64] By 2018, that rate had fallen to 35 percent. By contrast, a household with the *equivalent* income during the Korean and Vietnam wars would have paid a top marginal rate of 71 percent in 1953 and 61 percent in 1973 (adjusting for the tax code).[65]

Federal taxes declined from 18.8 percent of GDP in 2001 to 16 percent of GDP at the start of 2020, while federal debt held by the public rose from $3.4 trillion to $17.2 trillion during the same period.[66] War spending contributed at least $2.2 trillion in direct outlays to this total debt.[67]

[63] McGarry & Morgenstern, *supra* note 4; Hormats, *supra* note 2; Kreps, *supra* note 12; Stiglitz & Bilmes, The Three Trillion Dollar War, *supra* note 5.

[64] Piketty, Saez, & Zucman, *supra* note 26; The Tax Foundation, *supra* note 24; Fed. Reserve Bank of St. Louis, U.S. Dep't of the Treasury, U.S Individual Income Tax: Tax Rates for Regular Tax: Highest Bracket (2020), https://fred.stlouisfed.org/series/IITTRHB.

[65] There were twenty-six separate tax brackets in the 1950s and thirty-six during the Vietnam War, compared with six to seven during the post-9/11 period. Hence, the number of households in the top 92% during the Korean War was small. This chart has adjusted for these differences, and state tax effects, based on data from Piketty & Saez, *supra* note 21, and Piketty, Saez, & Zucman, *supra* note 26.

[66] Fed. Reserve Bank of St. Louis, U.S. Dep't of the Treasury, Federal Receipts as Percent of Gross Domestic Product (2024), https://fred.stlouisfed.org/series/FYFRGDA188S; Fed. Reserve Bank of St. Louis, U.S. Dep't of the Treasury, Federal Debt Held by the Public (2024), https://fred.stlouisfed.org/series/FYGFDPUN.

[67] Including $200 billion in debt service for borrowing attributable to war spending.

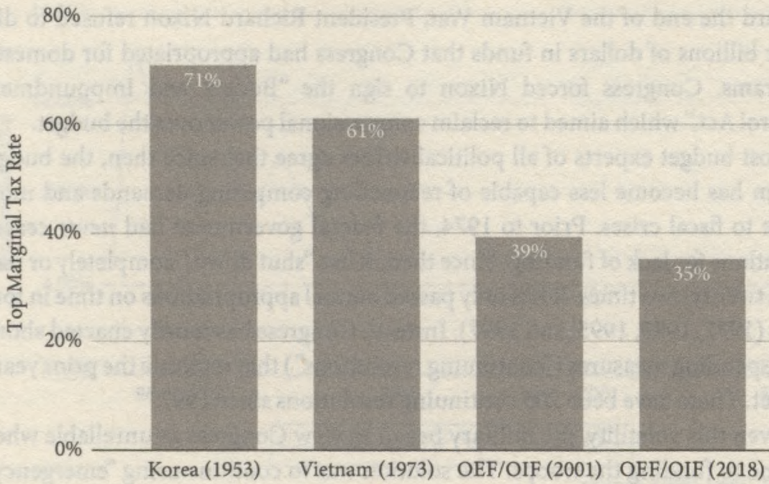

Figure 5.3 Wartime Federal Tax Rate for a Household Earning $300,000 (in 2001 Dollars)

Note: OEF/OIF is Operation Enduring Freedom (Afghanistan)/Operation Iraqi Freedom

The absence of taxes had a profound impact on how the public viewed the wars. As Sarah Kreps has shown, 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. The public is more attentive to the costs and the duration of a conflict if it is financed through taxation. Kreps argues that the debt financing severs this relationship, since the public no longer associates the value of war with the level of taxation.[68]

Why Did the Ghost Budget Emerge?

The Ghost Budget was the biggest budgetary anomaly in U.S. history. My research has identified three primary drivers of this phenomenon: congressional budget dysfunction, military assertiveness, and unusual economic conditions.

Congressional Budget Dysfunction

A critical factor in the rise of the Ghost Budget was the breakdown of the legislative budget process following budget reforms enacted in 1974. For most of the twentieth century, the U.S. president had dominated the budget process.

[68] Kreps, *supra* note 12.

Toward the end of the Vietnam War, President Richard Nixon refused to disburse billions of dollars in funds that Congress had appropriated for domestic programs. Congress forced Nixon to sign the "Budget and Impoundment Control Act," which aimed to reclaim congressional power over the budget.

Most budget experts of all political stripes agree that since then, the budget system has become less capable of reconciling competing demands and more prone to fiscal crises. Prior to 1974, the federal government had *never* ceased operations for lack of funding. Since then, it has "shut down," completely or partially, twenty-two times. It has only passed annual appropriations on time in four years (1977, 1989, 1995, and 1997). Instead, Congress has mostly enacted short-term spending measures ("continuing resolutions") that replicate the prior year's budget. There have been 205 continuing resolutions since 1997.[69]

Given this volatility, the military began to view Congress as unreliable when it came to funding the troops. The solution was to continue using "emergency" OCO funding, which was shielded from the budgetary dysfunction in Congress. This became the default method for funding the wars.

Institutional Military Assertiveness

The second factor was the desire of the defense establishment to secure an increase in defense spending after 2001.[70]

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–World War II low of 2.9 percent—approximately one-fifth of the postwar peak of 14.4 percent in 1953.[71] This policy helped produce a fiscal surplus in the years 1998–2001. However, the defense cuts were unpopular within defense and defense contractor circles, what President Dwight D. Eisenhower termed the "military-industrial complex."[72] Even before the 9/11 attacks, a vocal group of conservatives was urging the United States to peg defense spending at 4 percent of GDP regardless of any specific national security threats.[73]

[69] CONG. RSCH. SERV., R46595, CONTINUING RESOLUTIONS: OVERVIEW OF COMPONENTS AND PRACTICES (2025), https://www.congress.gov/crs-product/R46595.

[70] BILMES, *supra* note 9.

[71] *See* OFF. OF MGM'T & BUDGET, SUMMARY OF RECEIPTS, OUTLAYS, AND SURPLUSES OR DEFICITS: 1789–2022 (2017).

[72] President Dwight D. Eisenhower, Farewell Radio and Television Address to the American People (Jan. 17, 1961) [https://perma.cc/C6KF-PCQ7] (warning against "the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex" and stating that "the potential for the disastrous rise of misplaced power exists, and will persist"); BILMES, *supra* note 9.

[73] Mackenzie Eaglen, *Four Percent for Freedom: The Need to Invest More in Defense—Selected Writings*, HERITAGE FOUND. (Sept. 25, 2007) [https://perma.cc/MD56-6M4M].

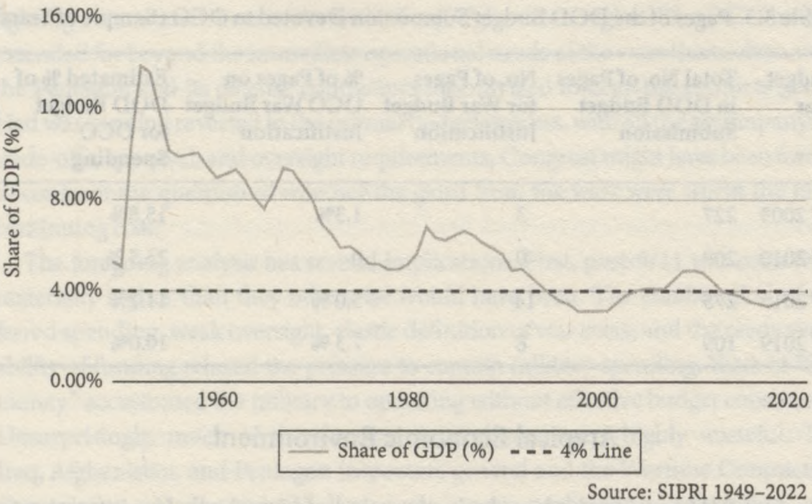

Figure 5.4 U.S. Defense Spending as Percentage of GDP, 1950–2020

Following the U.S. invasion of Afghanistan, the downward budget trend in the military was reversed. Between FY 2001 and FY 2017, the Pentagon budget grew by more than $1 trillion. The infusion of supplemental cash through emergency and OCO war money brought the total DOD budget back to 4 percent of GDP by 2005[74] and kept it there through 2014 (see Figure 5.4).[75]

The DOD tried to shift as much spending as possible into OCO, as there was less risk of Congress or the president rejecting it and fewer restrictions on how it could be spent.[76] Even better, OCO money required far less justification than ordinary defense expenditures. For example, in FY 2010, the Pentagon spent 23.5 percent of the total military budget to pay for OCO/wartime expenditures, but the annual defense budget estimate (which was over two hundred pages long and submitted just four months prior to the beginning of the FY 2010 fiscal year on October 1, 2009) contained *zero* pages of justification details (see Table 5.3).[77]

[74] McGarry & Morgenstern, *supra* note 4.

[75] Off. of the Under Sec'y of Def. (Comptroller), Dep't of Def., National Defense Budget Estimates for FY 2020, tbl. 2-1 (2019); Off. of Mgmt. and Budget, Historical Table 3.1—Outlays by Superfunction and Function: 1940–2029 (2024).

[76] Bilmes, *supra* note 9.

[77] Off. of the Under Sec'y of Def. (Comptroller), Dep't of Def., National Defense Budget Estimates 2005–2019.

Table 5.3 Pages of the DOD Budget Submission Devoted to OCO (Sample of Years)

Budget Year	Total No. of Pages in DOD Budget Submission	No. of Pages for War Budget Justification	% of Pages on OCO War Budget Justification	Estimated % of DOD Budget for OCO Spending
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%

Atypical Economic Environment

The post-9/11 wars took place during a period of historically 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. Taking inflation into account, real interest rates (rates minus inflation) during the post-9/11 period started at 1.75 percent in 2002 and plummeted to 0.65 percent after 2008, a sixty-year low.[78]

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 percent, compared to 8.5 percent of federal budget outlays in FY 2002. In terms of cash outlays, the United States paid only slightly more in interest payments in FY 2017 than it had in FY 2002 ($268 billion versus $232 billion in 2018 dollars). This meant that the public did not see tangible evidence of mounting war costs in the annual budget, so from a cost point of view, the war seemed almost invisible.[79]

In this environment, there was no worry that such spending would spark inflation, and the money being spent on the war may also have provided a form of stimulus for the economy. These 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.

Implications for Perpetual War

As Kant predicted, the ability to keep borrowing and spending with minimal oversight produced an Orwellian outcome in which the United States was always

[78] Fed. Res. Bank of Minneapolis, Real Interest Rates over the Long Run (2016) [https://perma.cc/F4SC-W8PA].
[79] Bilmes, *supra* note 9.

fighting a war somewhere in the wider Iraq/Afghanistan region. The OCO budget extended far beyond the immediate operational needs of the wars themselves, with the Pentagon and its defense contractors incentivized to keep the conflicts going. Had war funding reverted to the normal budget process, with all the accompanying trade-offs, approval, and oversight requirements, Congress might have been forced to confront the question of whether the gains from the wars were worth the huge continuing cost.

The foregoing analysis has several implications. First, post-9/11 war costs were materially higher than they otherwise would have been. The combination of deferred spending, weak oversight, elastic definition of war costs, and the ready availability of funding relaxed the pressure to contain military spending. Years of "free money" accustomed the military to operating without effective budget constraints. Unsurprisingly, much of the wartime expenditures were highly wasteful. The Iraq, Afghanistan, and Pentagon inspectors general and the Wartime Contracting Commission all documented large-scale waste, profiteering, corruption, and "ghost" spending (money spent on nonexistent activities). OCO accounts could not even be submitted for audits, as they contained significant material weaknesses and discrepancies, particularly related to contingency contracts.[80]

Private defense contractors, who supplied 50 percent of the workforce, were key beneficiaries of the Ghost Budget. The DOD lacked any clear framework for determining which functions could be turned over to private companies efficiently. Defense stocks outperformed the stock market overall by nearly 60 percent during the Afghanistan War, fueled by the surge in war spending and a wave of consolidation in the industry.[81]

Second, the Ghost Budget weakened the main lever through which Congress maintains control of a war, namely, its control of the purse. The U.S. Constitution grants Congress both the power to declare wars and the power to fund them through the appropriations process. These are the principal levers that Congress has to control war policy,[82] with the appropriations process providing the most leverage.[83] The Ghost Budget facilitated paying for a long series of wars in ways that

[80] BILMES, *supra* note 9; ANN FLORINI, THE RIGHT TO KNOW: TRANSPARENCY FOR AN OPEN WORLD (2007); CHRISTOPHER KINSEY & MALCOLM HUGH PATTERSON, CONTRACTORS AND WAR: THE TRANSFORMATION OF US EXPEDITIONARY OPERATIONS (2012); COMM'N ON WARTIME CONTRACTING, TRANSFORMING WARTIME CONTRACTING: CONTROLLING COSTS, REDUCING RISKS (2011) [https://perma.cc/CEW8-NWPC]; HEIDI PELTIER, THE COMMERCIALIZATION OF THE US MILITARY POST-9/11: IMPLICATIONS FOR NATIONAL SECURITY, THE FEDERAL BUDGET, AND LABOR MARKETS (2020); SIGAR, CORRUPTION IN CONFLICT: LESSONS FROM THE U.S. EXPERIENCE IN AFGHANISTAN (2016) [https://perma.cc/FD97-MHTR]; F. MATTHEW WOODWARD, CONG. BUDGET OFF., FUNDING FOR OVERSEAS CONTINGENCY OPERATIONS AND ITS IMPACT ON DEFENSE SPENDING (2018) [https://perma.cc/JTG7-TAG8].

[81] Linda J. Bilmes, *Where Did the $5tn Spent on Afghanistan and Iraq Go? Here's Where*, GUARDIAN (LONDON) (Sept. 11, 2021), https://www.theguardian.com/commentisfree/2021/sep/11/us-afghanistan-iraq-defense-spending.

[82] FISHER, *supra* note 12; Weiler & Callanan, *supra* note 45.

[83] FISHER, *supra* note 12; LOUIS FISHER, PRESIDENTIAL WAR POWER (3d rev. ed. 2013).

diminished the role of the legislative branch, creating a vacuum that enabled the military bureaucracy to gain control.[84] In Congress, the question of whether war funding was necessary shifted over time to the question of "how big" the OCO budget should be.

Third, the Ghost Budget contributed to the increasing militarization of U.S. foreign policy. The surge in military spending 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.[85] Roughly 92 percent of emergency supplemental OCO funding after 2001 was awarded to the DOD, even for activities such as postwar reconstruction that are not traditionally under the DOD's purview.[86] This precluded any serious debate over whether the rapid increase in military spending and the accompanying shift of power to the Pentagon was the optimal way to promote U.S. national security. This approach has endured despite evidence that natural security threats can and do arise from nonmilitary sources, such as the COVID-19 pandemic and climate change.

Even though direct U.S. military engagement in Iraq and Afghanistan is largely over, the legacy of the Ghost Budget continues.[87] OCO was absorbed into the defense base budget following the U.S. withdrawal from Afghanistan in 2021, creating a permanent increase to ongoing spending. But, in FY 2022, it was revived as a mechanism to help pay for U.S. military assistance to Ukraine. A combination of emergency appropriations, presidential budget "drawdown" authority, minimal oversight, accounting tricks, debt finance, heavy reliance on contractors, and Foreign Military Financing (FMF)—in short, a new Ghost Budget—has been used to fund military and security assistance to Ukraine, Israel, and the Middle East region.[88] Such methods have been criticized by standard

[84] Aaron Martin, Paying for War: Funding U.S. Military Operations Since 2001 (2011) (Ph.D. dissertation, Pardee Rand Graduate School) [https://perma.cc/G4HH-3QF3]; Fukumoto & Sharma, *supra* note 62.

[85] Carl Conetta, *Forceful Engagement: Rethinking the Role of Military Power in US Global Policy*, PROJECT ON DEFENSE ALTERNATIVES (2008); ALASDAIR ROBERTS, THE COLLAPSE OF FORTRESS BUSH: THE CRISIS OF AUTHORITY IN AMERICAN GOVERNMENT (2008); BILMES, *supra* note 9.

[86] Note: Of the remaining appropriations, approximately 8% went to the State Department and USAID, with less than 1% to the Department of Homeland Security and the U.S. Coast Guard. MCGARRY & MORGENSTERN, *supra* note 4.

[87] The United States has spent $11.2 billion on assistance and refugee programs for Afghanistan since the U.S. withdrawal in August 2021. SIGAR, QUARTERLY REPORT TO THE UNITED STATES CONGRESS (Jan. 30, 2024). As of February 16, 2024, approximately 2,400 U.S. military personnel were still deployed in Iraq and 800 in Syria. Between October 2023 and February 2024, U.S. personnel in Iraq were attacked more than 60 times by Iran-backed groups, and the United States conducted air strikes in Iraq and Syria. CHRISTOPHER M. BLANCHARD, CONG. RSCH. SERV., IN12309, IRAQ: ATTACKS AND U.S. STRIKES REOPEN DISCUSSION OF U.S. MILITARY PRESENCE (Feb. 16, 2024).

[88] In June 2023, the Pentagon reported that it had overestimated the value of the weapons sent to Ukraine by $6.2 billion resulting in a surplus that it will use for future security packages. Matthew Adams, *Pentagon Overestimated Cost of Weapons Sent to Ukraine by $6.2 Billion*, STARS AND STRIPES (June 23, 2023), https://www.stripes.com/theaters/us/2023-06-20/ukraine-military-aid-rus

government inspection agencies, such as the Government Accountability Office (GAO), for lacking sufficient oversight and monitoring.[89]

The Ghost Budget playbook effectively means that spending constraints are no longer a serious deterrent to war. Although support for the wars in both Ukraine and Israel has encountered domestic political opposition, the objections are almost entirely related to partisan electoral politics during a presidential election year.[90] There is little, if any, focus on the total sum of funding or the financing mechanisms. The Biden administration has even justified its request for new emergency supplemental overseas military spending as a boost for American business. As President Joe Biden stated in February 2024, "While this bill sends military equipment to Ukraine, it spends the money right here in the United States of America in places like Arizona, where the Patriot missiles are built; and Alabama, where the Javelin missiles are built; and Pennsylvania, Ohio, and Texas, where artillery shells are made."[91]

This budgetary and financial structure has become addictive for both the Pentagon and its private contractors. For the Pentagon, it enables military programs to sidestep the unpredictable path of the congressional budget process, with its repeated cycle of threatened government shutdowns and stopgap funding bills. For the contractors, who now play a critical and permanent role in military operations, it is an important source of steady revenues and profits that is protected with powerful congressional lobbying operations.

The Ghost Budget phenomenon is occurring at a time of growing geopolitical tensions and a decisive shift among global powers toward a mood of perpetual war. Evidence of this new ethos is widespread. Sweden's military commander-in-chief General Micael Bydén asked the Swedish population to mentally prepare for the possibility of war.[92] British Army chief General Sir Patrick Sanders called for Britain to train a "citizen army" and observed that the British people are part of a new "prewar generation" who may have to prepare themselves to fight in a

sia-pentagon-10498388.html. Additionally, Israel has been able to take advantage of FMF to buy U.S. weapons directly from manufacturers without public disclosure. Senators Elizabeth Warren, Bernard Sanders, Martin Heinrich, Jeffrey Merkley, Tim Kaine, Letter to The Honorable Joseph R. Biden Jr., 4 (Dec. 5, 2023).

89 U.S. Gov't Accountability Off., GAO-24-106289, Ukraine: DOD Should Improve Data for Both Defense Article Delivery and End-Use Monitoring (2024).

90 In October 2023, the Biden administration proposed $106 billion in supplementary emergency appropriations, which included $61.4 billion for Ukraine, primarily for weapons and to support military intelligence; with the remainder for military assistance to Israel, Indo-Pacific, humanitarian aid, and border enforcement. The Senate enacted a bill for $95 billion without the border component.

91 Jamie Stengle & Josh Boak, *Biden Wants People to Know Most of the Money He's Seeking for Ukraine Would Be Spent in US*, Associated Press (Feb. 20, 2024), https://apnews.com/article/biden-ukraine-johnson-factories-aid-62cbb83a184fd14b1573e25a73475767.

92 Paul Kirby, *Swedish Alarm After Defence Chiefs' War Warning*, BBC News (Jan. 10, 2024), https://www.bbc.com/news/world-europe-67935464.

war.[93] Sales of U.S. arms and military equipment to foreign governments reached a record high of $238 billion in 2023, as governments restock arsenals.[94] *The Economist* magazine, in a feature heralding the new global arms build-up, said the world is "tooling up" for a new global arms race, with global defense spending likely to rise by $200 billion to $700 billion per year and noted that Ukraine and Israel could provide a "battle lab for new ideas."[95]

The increasingly dangerous global environment means that effective oversight, transparency, and control of defense spending have become more important than ever. Congress needs to wrest back its critical role in U.S. war-making if we are to ensure that the mistakes of the past two decades are not repeated in the future.

[93] Jonathan Beale & Doug Faulkner, *Britain Must Train Citizen Army, Military Chief Warns*, BBC News (Jan. 24, 2024), https://www.bbc.com/news/uk-68086188; *see also* House of Commons Defence Committee, Ready for War?, 2023–4, HC 26 (UK).

[94] Mike Stone, *US Arms Exports Hit Record High in Fiscal 2023*, Reuters (Jan. 29, 2024).

[95] *The Cost of the Global Arms Race*, Economist (May 23, 2023), https://www.economist.com/international/2023/05/23/the-cost-of-the-global-arms-race.