COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Memo to: Board and Members
From: Carol Cox Wait
Date: October 15, 2002

SUBJECT: NO BUDGET; NO BUDGET RULES; NO APPROPRIATIONS; NO END IN SIGHT

End of Session?

Budget debates swing from emergency to ennui and back again. We only hope that this is near the bottom of a budget cycle. In the normal course of things, this would be an end of session memo—a quick overview and summary of the budget and related matters at the end of the second session of the 107th Congress. But there is little to summarize and no end in sight.

Last week, the House passed the Iraq resolution and a continuing resolution to expire December 15. Then they went home to campaign for reelection. We understand that Senator Daschle intends to keep the Senate in session right through the election—if only a couple of days a week. One thing is certain, with a CR that lasts well into December, Congress will be in session very nearly until Christmas again this year.

This is not good. Congress is supposed to pass a budget in the spring each year. In 1984 and in 1990, Congress completed action on budget resolutions in October. In 1998, the House and Senate failed to reach a conference agreement. But the Senate's failure even to consider a budget at all this year is an all time low. This is the first time since the Budget Act debuted in 1975 that either body has failed to pass any version of the budget at all. And that failure has thrown a monkey wrench into the whole legislative process.

Congress will be back in a "lame duck" session. They should call it a "lame turkey", as post-election sessions often are downright embarrassing. If the elections do little to change the balance of power, there might be a deal on spending levels and appropriations before the end of the year. If either or both Houses of Congress changes hands stalemate seems nearly certain and the new Congress will have to start all over again. In that event, many if not most government departments could operate on continuing resolutions for the entire fiscal year. That likelihood may increase if we are in a shooting war.

220 ½ E Street, N.E.*Washington, DC 20002*Tel. (202) 547-4484*Fax (202) 547-4476*CRFB @ aol.com

Budget Outlook under Current Policies

CBO Baseline Budget Projections August 2002 -- $ in billions, Totals may not add due to rounding

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total 2003-2007
Revenues	1,860	1,962	2,083	2,244	2,381	2,513	11,184
Outlays	2,017	2,017	2,195	2,283	2,366	2,461	11,413
Surplus/Deficit	-157	-145	-111	-39	15	52	-229
On-Budget	-314	-315	-299	-246	-209	-190	-1,259
Off-Budget	157	170	188	207	224	242	1,031
Debt Held By the Public	3,504	3,676	3,805	3,862	3,865	3,829	n.a.

The CBO Baseline almost certainly understates near-term budgetary pressures.

- The flat outlay forecast from 2002 to 2003 could be explained by large amounts expended in the immediate aftermath of 9/11/01. On the other hand, much of the outlay stream from commitments responding to 9/11 still lay ahead; and “homeland security” continues to provide political cover for all kinds of proposals to increase spending on everything from aid to State and local governments to education, transportation, etc.
- The discretionary outlay projection is based on new budget authority $5 billion below the President’s and the House-passed budget levels and $18 billion below the Senate’s current working assumptions.
- The forecast does not take into account other obvious budgetary pressures such as prescription drugs, tax extenders, Medicare provider reimbursement increases, etc.

Blame Games and Budget Rules

Section 303 of the Budget Act prohibits consideration of any new spending or revenue legislation, including appropriations, prior to adoption of a budget resolution. In 1998, the House and Senate each passed budgets and when they failed to reach a conference agreement each took steps to enforce their own budget resolution. We count it no accident that Congress’ first failure to pass a final budget resolution coincided with the emergence of budget surpluses and the scramble over how to allocate the new found resources among competing priorities.

The point of order against violations of §303 can be waived by majority vote. But the Senate has passed only three appropriations bills: defense, legislative branch, and military construction.

The Budget Enforcement Act also established a number of 60-vote points of order in the Senate but the BEA expired at midnight on September 30. (More about that later.)

The House may consider appropriations bills if no budget is adopted by May 15. The House is supposed to complete action on all appropriations by June 30. But the House passed only the defense, interior, legislative branch, military construction and treasury postal bills. Big domestic bills languish because conservatives insist on enforcing the House-passed Budget and other Members are reluctant to vote for lower spending for popular programs as they view compromise with the Senate on higher numbers as inevitable (see Attachment 1, *Status of FY 2003 Appropriations Bills*).

Democrats point to what they call unrealistically low domestic discretionary spending numbers in the House-passed budget. Republicans blame the impasse on Senate failure to pass any budget at all.

The budget vacuum forces Congress simultaneously to grapple with overall spending levels and discrete funding levels for literally thousands of programs, projects and activities. Passage of a budget makes the appropriations process go more smoothly Committee and subcommittee allocations provide agreed guidelines and tend to force trade-offs. It is much more difficult to compromise differences in the absence of agreement on the aggregates.

On the face of it, this year's differences over appropriations levels are relatively small—

- $8 billion on the face of it between the House and Senate;
- $5 billion± additional advance appropriations in Senate (but not House) bills; and
- $5 billion in "emergency" appropriations contained in the FY 2002 supplemental that passed both Congress. The President declined to designate those funds "emergencies" effectively vetoing those expenditures. Clearly, most of that money would have been spent in FY 2003 and the President's action may put further upward pressure on total appropriations for FY 2003.

Even if the total difference is $18 billion, that is about 2.5% of discretionary spending and less than one-tenth of one percent of total Federal outlays.

Those amounts represent only the tip of the iceberg with regard to budgetary pressures and the longer decision-makers delay the more pressure builds.

In 1998, the United States Budget balanced for the first time in thirty years. Surpluses grew like topsy. Projected very large surpluses as far as the eye could see eroded budget discipline. Large spending increases and tax cuts combined with recession and the war against terrorism to turn surpluses into deficits. Economic and technical change caused about 50% change from surplus to deficit between Fiscal Years 2002 and 2006—and about 40% of the change over ten years. Tax cuts and spending increases contributed just about equally to cause the balance of the deterioration. (see Attachment 2. *Reductions in Projected Surpluses Due to Policy Change, 1998-2002*) Economic downturns have far greater impact on revenues than on spending. Tax cuts combined with recession actually to reduce receipts in nominal dollars. Revenues are not projected to reach or exceed FY 2001 levels again until FY 2004. (see Attachment 3, *Revenue Collections by Source 2001-2003*)

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The amounts in the table at Attachment 2 do not reflect costs associated with a prescription drug program, extending popular provisions in the 2001 tax cut that are due to expire. (see Attachment 4, *The Expriation of Revenue Provisions* and *Effect of Extending Tax Provisions that will Expire before 2012)* *Nor* do they reflect the potential cost of war with Iraq. (see Attachment 5, *Estimated costs of Deployment to, Combat Operations in, and occupation of Iraq)*

In general, Democrats blame disappearing surpluses, the 2001 tax cut and, to a lesser extent, increases in defense spending. Some suggest that tax provisions not yet effective should be postponed or repealed. But no one in a leadership position has articulated that view. And most of the tax cut's opponents would, if they had the money, use it to finance higher spending on domestic priorities *not* to balance the budget

Republicans tend to emphasize the role of rescission and the impacts of 9/11/01 for the swing from surplus to deficits. Most Republicans argue that the 2001 tax cut came just in time to spur a lagging economy. Many Republicans argue for further tax cuts to stimulate the economy and most support making permanent most if not all provisions in the 2001 bill. In general, Republicans argue that too much spending, not too little revenue causes deficits. On the other hand, many if not most support some form of prescription drug coverage, defense and education increases, etc. One final gross generalization: most Republicans would simply spend less than most Democrats on domestic priorities.

Budget Enforcement post-BEA

Last week, the Committee hosted a roundtable discussion about budget enforcement post-BEA. Some of the most knowledgeable people in Washington shared their frustration over the decline in budget discipline and demise of the Budget Enforcement Act.

The budget caps and pay-as-you-go rules that served better than anything else to constrain budgetary choices expired at midnight on September 30. The 60-vote points of order meant to strengthen budget enforcement in the Senate also expired. (The House routinely adopts rules waiving points of order but such barriers proved very effective in the Senate.) There is no consensus about what should take their place. Senate leaders have attempted, on a bipartisan basis to extend the pay-as-you-go rules for one year. So far, Senator Gramm has resisted on the grounds that they do not also extend caps. And without caps, Senator Gramm argues large new entitlements could be enacted as as part of appropriations bills, while the extended pay-as-you go rules would stop new revenue reductions. (The Senate probably will not act on these issues except by unanimous consent so one Senator can block action that appears to have broad bipartisan support.)

Almost everybody agrees that we need a system to frame broad budget decisions, encourage trade-offs among competing priorities, to keep spending and tax legislation consistent with budgetary limits and hold politicians accountable. But there is little agreement about how to accomplish those objectives and less hope that political leaders will forge such agreement any time soon.

There is a school of thought that the budget must reach crisis before budgets and budget rules will command widespread public and political attention.

Current deficits—and deficit projections for the medium term future—are not large enough as a percent of GDP to cause economic harm. Given modest discipline, the budget could even return to surplus for a brief period of time. But economic growth cannot and will not close the gap between projected spending and receipts over the longer term and that would be true even if huge numbers of baby boomers were not expected to retire and exacerbate the problem.

The "fiscal margin" has disappeared. In the past we would put government on automatic pilot and in a few years revenues would outstrip spending. That is no longer the case.

The challenge is how to set priorities today and leave something for our children and our grandchildren tomorrow. That will not happen without some sort of orderly budget process. It cannot happen if the choice remains gridlock or compromises that cut taxes and increase spending. It will only happen when we return to some sort of orderly budget process and the kind of hard choices that budget process presupposes. We hope to work with the Administration and the new Congress toward that end.

Status of FY 2003 Appropriations Bills

	House Approvals			Senate Approvals			Conference Approvals			Public Law
	Committee Report	Committee Vote	House Vote	Committee Report	Committee Vote	Senate Vote	Conference Report	House Vote	Senate Vote	
Agriculture **HR5263** **S2801**	House Report 107-623	07/11/02		Senate Report 107-223	07/25/02					
Commerce/ Justice/State **S2778**				Senate Report 107-218	07/18/02					
Defense **HR5010** **Senate Committee**	House Report 107-532	06/24/02 vv	06/27/02 rc	Senate Report 107-213	07/18/02	08/01/02 rc				
District of Columbia **HR5521** **S2809**	House Report 107-716	09/26/02		Senate Report 107-225	07/25/02					
Energy & Water **HR5431** **S2784**	House Report 107-681	09/05/02		Senate Report 107-220	07/24/02					
Foreign Operations **HR5410** **S2779**	House Report 107-663	09/19/02		Senate Report 107-219	07/18/02					
Interior **HR5093** **S2708**	House Report 107-564	07/09/02	07/17/02 rc	Senate Report 107-201	06/27/02 (29-0)					
Labor/HHS/ Education **HR5320** **S2766**				Senate Report 107-216	07/18/02					
Legislative Branch **HR5121** **S2720**	House Report 107-576	07/11/02	07/18/02 rc	Senate Report 107-209	07/11/02	07/25/02 rc				

Military Construction HR5011 S2709	House Report 107-533	06/24/02 vv	06/27/02 rc	Senate Report 107-202	06/27/02	07/18/02 rc				
Transportation House Committee S2808		10/01/02		Senate Report 107-224	07/25/02					
Treasury/Postal HR5120 S2740	House Report 107-575	07/09/02	07/24/02 rc	Senate Report 107-212	07/16/02					
VA/HUD S2797				Senate Report 107-222	07/25/02					
1st Continuing Resolution H.J. Res. 111		09/25/02	09/26/02 rc			09/26/02 uc				PL 107-229 09/30/02
2nd Continuing Resolution H.J. Res. 112			10/03/02 rc			10/03/02 uc				10/04/02
3rd Continuing Resolution H.J. Res. 113										
4th Continuing Resolution H.J. Res. 114										
5th Continuing Resolution H.J. Res. 115										
	Committee Report	**Committee Vote**	**House Vote**	**Committee Report**	**Committee Vote**	**Senate Vote**	**Conference Report**	**House Vote**	**Senate Vote**	**Public Law**
	House Approvals			**Senate Approvals**			**Conference Approvals**			

Reductions in Projected Surpluses Due to Policy Change, 1998-2002

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Totals 1998-2002
CBO 08/1998																
Program Outlays	1	3	4	4	4	3	2	1	1	*	1					
Revenues				1	1	1	1									
Interest																
CBO 01/1999																
Program Outlays		17	7	2	2	2	1	1	1	1	1					
Revenues					1		1	1	1							
Interest			1	1	1	2	2	2	2	2	2					
CBO 07/1999																
Program Outlays		4	7	3	2	2	2	2	2	2	2	2				
Revenues				1	1	1	1	1	1	2	2	2				
Interest																
CBO 01/2000																
Program Outlays			32	7	6	6	6	2	2	3	2	2				
Revenues				6	8	2	2	1	1							
Interest			1	2	3	4	4	5	5	6	6	7				
CBO 07/2000																
Program Outlays			10	6	6	5	5	4	3	3	2	2	1			
Revenues																
Interest				1	1	2	2	2	3	3	3	4	4			
CBO 01/2001																
Program Outlays				12	38	44	41	45	46	49	50	52	54			
Revenues				2	2	3	3	3	4	4	5	6	5			
Interest					2	4	7	10	13	17	21	25	30			
CBO 08/2001																
Program Outlays				11	17	15	15	18	18	18	18	21	21	21		
Revenues				70	31	84	101	100	126	142	151	158	176	117		
Interest					4	9	16	23	31	41	53	65	79	92		
CBO 01/2002																
Program Outlays					38	45	47	47	49	50	50	51	51	53		
Revenues						2	2	3	3	2	2	2	2	2		
Interest					1	3	6	9	12	16	20	23	28	32		
CBO 08/2002																
Program Outlays					16	37	34	36	35	35	37	37	37	38	38	
Revenues					-43	-40	-30	-4	15	16	16	13	10	7	4	
Interest					*	3	8	12	14	16	18	21	23	26	29	
TOTALS																
Program Outlays	1	24	60	34	112	144	138	138	139	143	145	146	143	91	38	**1496**
Revenues				80	1	53	81	105	151	166	176	181	193	126	4	**1317**
Interest			2	4	12	27	45	63	80	101	123	145	164	150	29	**945**

SOURCE: CBO Economic and Budget Updates corresponding with dates above
NOTE: * = less than $500 million

Revenue Collections by Source, Fiscal Years 2001, 2002, and 2003 (est)

(In billions of dollars)

	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003[a]
Individual Income Taxes	994	868	934
Corporate Income Taxes[b]	174	123	147
Social Insurance Taxes	694	702	735
All Other Taxes	152	144	147
Total	**2,014**	**1,837**	**1,962**

Sources: Congressional Budget Office; U.S. Department of Treasury

[a] Projected

[b] For the purposes of the comparison in this table, $23 billion in corporate taxes that were shifted from fiscal year 2001 to fiscal year 2002 under the Economic Growth and Tax Relief Reconciliation Act have been shifted back.

The Expiration of Revenue Provisions

Effects on Revenues of Extending Expiring Tax Provisions (In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total 2003-2007	Total 2003-2012
Provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001												
Provisions expiring in 2010	-1	-1	-2	-2	-3	-3	-3	-4	-125	-228	-9	-371
Provisions expiring before 2010[a]	n.a.	n.a.	-3	-12	-18	-22	-27	-29	-33	-37	-33	-181
Subtotal	-1	-1	-5	-15	-20	-25	-29	-33	-157	-265	-43	-553
New Provisions in the Economic Stimulus Law[b]	-1	-6	-35	-43	-38	-34	-30	-28	-26	-25	-122	-264
Other Expiring Tax Provisions[c]	*	-1	-5	-9	-14	-18	-20	-22	-25	-27	-29	-140
Total Effect on Revenues	**-1**	**-8**	**-45**	**-67**	**-72**	**-77**	**-79**	**-83**	**-208**	**-317**	**-194**	**-956**
Memorandum:												
Total Effect on Revenues Excluding the Economic Stimulus Law	-1	-2	-10	-24	-34	-43	-49	-56	-182	-292	-72	-693

Sources: Congressional Budget Office; Joint Committee on Taxation
Notes: n.a. = not applicable; * = between 0 and $500 million

a. Includes the increased exemption amount for the alternative minimum tax (expires in 2004), the deduction for qualified education expenses (expires in 2005), and the credit for individual retirement accounts and 401(k)-type plans (expires in 2006).

b. The Job Creation and Worker Assistance Act of 2002. New provisions in that law that are scheduled to expire include special depreciation-expensing allowances for certain property, a five-year carryback of net operating losses, and tax benefits for the area of New York City damaged in the September 11 terrorist attacks. These estimates do not include provisions in the law that had existed and been extended in previous years. The effects of extending those provisions yet again are included in the line for other expiring tax provisions.

c. Includes numerous provisions, such as the tax credit for research and experimentation.

Effect of Extending Tax Provisions That Will Expire Before 2012 (In billions of dollars)

Tax Provision	Expiration Date	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total 2003-2007	Total 2003-2012
Provisions That Expired in 2001														
Generalized System of Preferences	09/30/2001	-0.3	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8	-2.4	-6.0
Subpart F for Active Financing Income	12/31/2001	-0.3	-1.5	-1.7	-1.9	-2.1	-2.4	-2.7	-3.1	-3.5	-4.0	-4.4	-9.6	-27.1
Treatment of Nonrefundable Personal Credits Under the AMT	12/31/2001	-0.1	-0.7	-1.0	-1.7	-3.8	-4.7	-5.4	-6.2	-6.8	-8.3	-12.4	-11.8	-50.9
Other Expiring Provisions[a]	12/2001	-0.2	-0.4	-0.6	-0.7	-0.8	-0.8	-0.9	-1.1	-1.1	-1.1	-1.1	-3.9	-9.5
Provisions Expiring in 2002 and 2003														
Total Expiring Provisions[b]	2002-2003	0	0.2	-0.2	-0.7	-0.9	-0.9	-1.0	-0.9	-0.9	-0.9	-1.0	-2.4	-6.7
Provisions Expiring After 2003 and Before 2012														
Credit for Research and Experimentation	06/30/2004	n.a.	n.a.	-0.6	-3.7	-4.8	-5.8	-6.7	-7.4	-7.9	-8.4	-8.9	-14.9	-54.2
Increased AMT Exemption Amount	12/31/2004	n.a.	n.a.	n.a.	-3.7	-11.2	-15.6	-19.9	-24.0	-26.7	-23.3	-14.9	-30.5	-139.4
Deduction for Qualified Education Expenses	12/31/2005	n.a.	n.a.	n.a.	n.a.	-2.2	-3.0	-3.1	-3.2	-3.2	-3.2	-3.3	-5.2	-21.2
Puerto Rico Business Credits	12/31/2005	n.a.	n.a.	n.a.	n.a.	-0.6	-1.5	-1.7	-1.8	-1.9	-2.1	-2.2	-2.1	-11.9
General Expiration of EGTRRA Provisions	12/31/2010	n.a.	-1.2	-1.5	-1.8	-2.3	-2.5	-2.7	-2.8	-4.0	-126.7	-229.0	-9.2	-374.4
Other Expiring Provisions[c]	2004-2012	0	0	0	0.2	0.2	-0.5	-1.3	-1.3	-2.1	-3	-3	0.1	-10.7
All Expiring Provisions[d]														
Total		-1.0	-4.0	-6.0	-14.6	-29.1	-38.3	-46.0	-52.2	-58.9	-188.5	-297.1	-92.0	-734.7

SOURCES: Joint Committee on Taxation, Congressional Budget Office
NOTES: AMT = Alternative Minimum Tax, FUTA = Federal Unemployment Tax Act, EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001; n.a. = not applicable

a. Totals of the 2001 expired provisions that cost less than $10 billion through 2012. These provisions include the Andean Trade Preference Initiative, Credit for Electric Vehicles, Credit for Electricity Production from Renewable Resources, Deductions for Clean Fuel Vehicles and Refueling Property, Net Income Limitation for Marginal Oil and Gas Wells, Qualified Zone Academy Bonds, Rum Excise Tax Revenue to Puerto Rico and the Virgin Islands, Welfare-to-Work Credit, and Work Opportunity Credit.

b. Totals of the 2002-2003 expiring provisions that cost less than $10 billion through 2012. These provisions include the Archer Medical Savings Accounts, Luxury Tax on Passenger Vehicles, IRS (Internal Revenue Service) User Fees, Tax Return Information for Veterans' Payments, Brownfields Environmental Remediation, Corporate Contributions of Computers to Schools, Depreciation for Business Property on Indian Reservations, Indian Employment Tax Credit, and Tax Incentives for Investment in the District of Columbia.

c. Totals of the provisions expiring after 2003 and before 2012 that cost less than $10 billion through 2012. These provisions include Abandoned-Mine Reclamation Fees, Depreciation of Clean Fuel Automobiles, Authority for Undercover Operations, Transfer of Excess Assets in Defined-Benefit Plans, Credit for IRA (Individual Retirement Account) and 401 (k)-Type Plans, FUTA Surtax of 0.2 Percentage Points, New Markets Tax Credit, and Empowerment and Renewal Zones.

d. The overall totals do not equal the sums of the separate provisions because they include estimated interactions among provisions in 2011 and 2012. Those interactions would occur if all of the provisions were extended together.

ESTIMATED COSTS OF DEPLOYMENT TO, COMBAT OPERATIONS IN, AND OCCUPATION OF IRAQ (In billions of 2003 dollars)

	Cost Element	Deployment (Three months)	First Month of Combat[d]	Subsequent Months of Combat[e] (Per Month)	Redeployment (Three months)	Occupation (Per month)
Heavy Ground Force Option	Personnel and Personnel Support[A]	4.3	1.4	1.4	4.3	n.a.
	Operations Support[b]	5.4	7.1	5.4	1.5	n.a.
	Transportation[c]	2.8	0.7	0.7	1.5	n.a.
	Total	12.5	9.2	7.5	7.3	1.4 to 3.8[f]
Heavy Air Force Option						
	Personnel and Personnel Support[A]	2.7	0.9	0.9	2.7	n.a.
	Operations Support[b]	4.2	6.2	4.7	1.1	n.a.
	Transportation[c]	1.9	0.5	0.5	1.0	n.a.
	Total	8.8	7.6	6.1	4.8	1.4 to 3.8[f]

SOURCE: Congressional Budget Office
NOTE: n.a. = not applicable

a. "Personnel" includes pay for reserve personnel called to active duty as well as special payments, such as hazardous duty pay, for both reserve and active-duty personnel. The category also covers subsistence items, such as food and water. CBO's estimate also includes those costs for reserve and National Guard personnel called to active duty in support of the Persian Gulf operations and to fill in for positions left vacant by troops deploying to the Gulf. "Personnel support" includes clothing and personal items as well as medical support.

b. This category includes all incremental costs related to the operation and maintenance of air, land, and sea forces involved in the Persian Gulf conflict. It includes costs associated with the incremental increase in flying hours and steaming days, such as costs for increased fuel consumption and repair parts. Operations support also includes the costs of equipping and maintaining ground troops and purchasing equipment, as well as the costs associated with command, control, communications, and intelligence. In addition, the category covers force reconstitution, which includes the replacement of munitions stocks and repair or replacement of damaged equipment--and the incremental cost of increased depot maintenance for items such as aircraft, tanks, and ships.

c. "Transportation" includes the cost of moving personnel and equipment to the theater of operations from the continental United States and from bases around the globe. Those costs are incurred by the U.S. Transportation Command, which operates DoD's heavy-lift aircraft, Navy sealift, and contracts for commercial air and shipping.

d. CBO assumes that in the first month of combat, 50 percent of the targets will be attacked by precision-guided munitions (PGMs).

e. CBO assumes that if combat operations continue beyond one month, 10 percent of the targets would be attacked by PGMs.

f. This estimate is based on an average cost per U.S. Army peacekeeper for occupation forces ranging from 75,000 to 200,000 peacekeepers. The estimate could be significantly larger if the occupation included heavy construction, such as building bases, bridges, and roads. If the United States limited its role to providing logistical support to other nations' occupying forces, costs could be significantly lower.

Brief Summary of CBO Paper

The CBO estimates the incremental costs to deploy a force in Iraq to be between $9 billion and $13 billion. The monthly costs of prosecuting such a war are estimated at $6 -$9 billion. The redeployment of forces back to the United States over a three month period could be between $5-$7 billion. The incremental costs of postwar occupation, without cost estimates for reconstruction and foreign aid, would be between $1-$4 billion. The CBO does not make any assumptions about the duration of the conflict or the occupation.

The total cost estimates of a conflict in Iraq and the aftermath of such a war are very uncertain. Many factors such as: the actual force size that is deployed, the duration of the conflict, the strategy employed, the number of casualties, the equipment lost and the need for the reconstruction of Iraq's infrastructure contribute significantly to the total costs of a war but cannot be estimated in advance. The CBO has not attempted to include the estimates of these costs nor the substantial costs of a war in later years because the extent of these costs cannot be assessed and the decisions made about future policy concerning Iraq are uncertain.

The CBO estimates do include the incremental costs for the operation of two representative force-level options- the Heavy Ground Option and the Heavy Air Option- being discussed. These are cost estimates of force structures that could operate during the potential conflict in Iraq and its aftermath. In these estimates the CBO has assumed the forces will be significantly smaller than those that were previously required by the Department of the Defense for fighting a major theater war (MTW). Both of these options are significantly smaller than the forces used to fight the Desert Storm campaign.

Heavy Ground Option - The CBO approximates a U.S. force composed of five Army divisions, five Air Force wings, five Navy aircraft carriers with associated escort and support ships and one Marine Corps expeditionary force.

Heavy Air Option – For this force option the U.S force will be composed of two and one-third Army divisions, 10 Air Force tactical air wings, five Navy air craft carriers with associated support ships, and about one-third of a Marine expeditionary force.

(Detailed CBO cost estimates for these force structures can be found in the table.)