



Insight

# Iraq Savings

GORDON GRAY | DECEMBER 14, 2011

## Is Iraq the White House's Next Piggy Bank?

According to the White House, that seems to be the case. Monday was Iraq day for the administration, highlighted by a meeting between President Obama and Prime Minister Nouri al-Maliki. As part of the administration's Iraq messaging, the White House posted a piece on their blog titled, "By the Numbers: \$1 Trillion." Included in the piece is an odd statement: "The war in Iraq cost \$1 trillion, money that can now be invested in creating jobs and building a strong middle-class..." Boilerplate pandering aside, this statement introduces two problematic concepts, first, that past expenditures can somehow be re-spent, and second, that any future savings derived by ending operations in Iraq should be spent on other things, namely whatever brick and mortar is involved in "building" a middle class.

The first issue is probably just a rhetorical flub, but the second appears to reflect policy – that sums that we would have otherwise spent on Iraq can now be spent on domestic programs. This policy approach has three fundamental flaws. The first is that these savings are a blatant budget gimmick. Any "savings" derived by the end of U.S. operations in Iraq are only spending reductions relative to a baseline that assumes an ongoing military campaign.

The Congressional Budget Office (CBO) constructs spending baselines against policy changes are compared to calculate the fiscal impact of a given policy change. The CBO must follow specific rules in the construction of its baselines. For projecting future discretionary spending, including spending on Iraq, CBO must assume prior-year spending levels and adjust those levels for inflation. Accordingly, the CBO baseline assumes last year's Iraq spending adjusted for inflation for the next 10 years. But we're not going to be spending anything close to what we spent last year now that all the troops are coming home. As such, there is a large gap between what CBO projects, and what we'll actually be spending, with annual differences growing over time. Because of this scoring convention, opportunities for budgetary shenanigans abound. The gaps between actual spending on Iraq, which will go down, and projected spending on Iraq, which goes up, represent phony savings since most of the projected spending will never materialize. That's probably why the White House and some members of Congress want to use it to spend money on new things, whether it is the White House's "middle class" construction project or the usual end-of-year items such as the "doc-fix" or the AMT patch.

The second major flaw with the administration's plan for Iraq "savings" reflects the reality of our fiscal situation. The United States is running massive deficits and is projected to be indefinitely in the red. The draw-down of forces from Iraq necessarily reduces future outlays, and reduces the deficit relative to what it would have otherwise been if operations were still ongoing, which is what the baseline assumes. With large, persistent deficits that force the U.S. to add to an already large debt burden, spending reductions on Iraq operations should be allowed to run their course without being siphoned away by new spending rationalized by the budget gimmickry described above.

The third flaw with the White House's approach to this issue is about integrity. If candidate and President Obama wants to complain about the fiscal irresponsibility of the Iraq war, it is entirely disingenuous to then

pretend he can turn around and spend the same money on other projects. Abstracted from the merits of invading Iraq versus say, propping up bankrupt solar panel companies, a dollar that we would spend on Iraq that Obama now evidently wants to spend on other projects is still going to have to be borrowed. He can't have it both ways.

American military involvement in Iraq is drawing to a close. Certainly opinion is divided on the merits of the conflict. What should not be debatable is whether the conflict should be used as a piggy-bank for future spending financed with phony savings. With over \$15 trillion in debt, the United States simply can't afford it.