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SACRIFICE IS RELATIVE:

Cost of War, Though High, Remains Far Less than Cost of Tax Cuts

By Richard Kogan

When President Bush recently requested \$87 billion for the costs of war and reconstruction in Iraq and Afghanistan for the coming year, he praised the sacrifices of those stationed overseas and expressed sympathy with the burdens placed on them and their families.¹

The word “sacrifice” invites reflection. Which Americans, other than the members of the armed services and their families, have been asked to sacrifice for the common good? Two possible answers to that question stand out.

- The President’s key budget priority — large and growing tax cuts — remains unaffected by the war. While \$87 billion for 2004 is costly, the tax cuts enacted since the President has taken office cost three times as much in 2004, and disproportionately favor the well off. The President does not ask recipients of the tax cut to make even the most modest of sacrifices.
- Because the President does not propose to scale back either enacted or proposed tax cuts or proposed funding increases for prescription drugs, education, or other programs, all of the costs of war will be added to the already high deficits. As a consequence, the financial burden of this war will be handed to future generations.

War and Tax Cuts

Broadly defined, the costs of war will total approximately \$120 billion in 2004. This figure includes up to \$60 billion in expenditures during 2004 from the proposed \$87 billion in

¹ “Two years ago, I told the Congress and the country that the war on terror would be a lengthy war, a different kind of war, fought on many fronts in many places. Iraq is now the central front. Enemies of freedom are making a desperate stand there -- and there they must be defeated. This will take time and require sacrifice. Yet we will do what is necessary, we will spend what is necessary, to achieve this essential victory in the war on terror, to promote freedom and to make our own nation more secure..... The heaviest burdens in our war on terror fall, as always, on the men and women of our Armed Forces and our intelligence services. They have removed gathering threats to America and our friends, and this nation takes great pride in their incredible achievements. We are grateful for their skill and courage, and for their acts of decency, which have shown America's character to the world. We honor the sacrifice of their families. And we mourn every American who has died so bravely, so far from home.”

additional funding for the war. (The remaining funding would be expended in years after 2004.) It also includes: \$31 billion in expenditures in 2004 from the supplemental funding for the war that was

Estimated War-Related Expenditures in 2004	
Dollars in billions	
Expenditures in 2004 from the following:	
“911” funding, supplemental appropriations, September, 2001	8
Defense contingency funded, Omnibus appropriations, Feb. 2003	3
\$80 billion supplemental appropriations, April 2003	31
Increases in homeland security, (regular appropriations bills)	18
<u>Proposed \$87 billion supplemental appropriations</u>	<u>60</u>
Total war-related expenditures, 2004	120

enacted in April 2003; \$3 billion in 2004 expenditures from the \$10 billion “defense contingency” funding enacted as part of the Omnibus 2003 Appropriations bill this past February; and \$8 billion in 2004 expenditures from the supplemental funding enacted immediately after September 11, 2001. Finally, the \$120 billion in war expenditures in 2004 includes an estimated \$18 billion for homeland security.²

By any accounting, \$120 billion of expenditures in a single year is not cheap. It is, for example, more than twice the cost of all federal education programs, all veterans programs, or all transportation programs. It represents three times the cost of the programs run by the Department of Housing and Urban Development, and 15 times the cost of the entire Environmental Protection Administration budget. Measured as a share of the economy, it is more than half of the annual cost of the Vietnam War at its peak.

Yet the cost of the war, however large, is far smaller than the cost of the tax cuts enacted to date. According to CBO estimates, the three tax cuts enacted under the Bush Administration will cost approximately \$275 billion in 2004 alone.³ Of these tax cuts:

- One-third of the costs are attributable to the three “middle-class” provisions: the new 10 percent bracket, the \$500 increase in the child tax credit, and the additional tax benefits for married couples.
- The other two-thirds of the costs — or about \$185 billion in 2004 alone — are attributable to tax provisions that primarily or exclusively benefit the well off, principally the reductions in tax rates for the upper tax brackets, the investment tax breaks for businesses, and the reduced tax rates on dividends and capital gains.
- Estimates separately provided by CBO and Citizens for Tax Justice suggest that in 2004, approximately \$85 billion of the tax cuts will accrue to the top one percent

² This \$18 billion in expenditures for homeland security is the amount we estimate that homeland security expenditures for 2004 have *increased*, relative to the 2001 level (before the terrorist attack), adjusted only for inflation.

³ The full 2004 cost of the three pieces of tax legislation exceeds \$300 billion, but the \$300 billion figure includes some expenditure programs such as the state fiscal relief enacted as part of the most recent tax cut, and more than \$20 billion in 2004 interest costs generated by higher federal debt resulting from lower federal revenues caused by the tax cuts.

of Americans. These individuals live in households with income in excess of \$300,000 per year. The average income of such households exceeds one million dollars per year.

Future Generations

Ordinary present-day taxpayers are not being asked to pay for either the massive tax cuts or the large war costs. Only members of the armed services and their families are asked to sacrifice. Most of the rest of us are left to enjoy tax cuts and, in many cases, the continuation or expansion of public benefits. As a result, the cost of tax cuts and the cost of war do no more than add to the nation's deficit and thereby expand the national debt. In simple terms, the costs of the tax cuts and the war are being pushed onto future generations.

As long as higher debt appears painless, the public may not fully realize why such a policy is unsustainable over time. This issue has been discussed in much greater detail elsewhere,⁴ but the short answer is that the nation will be facing an even more serious mismatch between the cost of programs and the level of revenues to support them once the baby-boom generation starts to retire at the end of this decade. The best way to prepare for this coming "age wave" is to reduce the national debt during this decade so that the nation's fiscal house will be in order as the baby boom generation starts to retire. If we reduce the debt during the decade ahead, the large amount of revenue devoted to paying interest on the debt can be substantially reduced.

If, however, we follow a different course and let the debt mushroom — which is the path we currently are following — more and more revenue will have to be devoted to interest payments on the debt, which will leave less and less for programs, either for the elderly (such as Medicare and Social Security) or for other public purposes, such as education, transportation, biomedical research, environmental protection, defense and homeland security, and assistance to the poor and people with disabilities. This unpleasant result will be the legacy we bequeath to future generations if we continue to finance all desired or necessary costs — such as for tax cuts or for the war — by running even larger deficits.

⁴ For example: "Fiscal Exposures," General Accounting Office, GAO-03-213, January 2003. Also see "Exploding Deficits, Declining Growth: The Federal Budget and the Aging of America," Committee for Economic Development, March 2003, at http://www.ced.org/docs/report/report_deficit.pdf. Also see testimony of Peter G. Peterson, President of the Concord Coalition, before the House Financial Services Committee, April 30, 2003, at http://www.concordcoalition.org/federal_budget/030430petersonstestimonyfull.htm.