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Transcript

America's Second-Longest War: Taking Stock The Trillion-Dollar War – And Counting

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MARWAN MUASHER: Thank you. The next part of the program has to do with addressing some of the economic costs of the war. And to do that, there's no one that, probably, is more of an expert than this: Professor Linda Bilmes, who is the Daniel Patrick Moynihan Senior Lecturer at the Harvard Kennedy School. She is perhaps best-known to all of you as the co-author, with Joe Stiglitz, of the 2008 book and international best-seller, "The Three Trillion Dollar War: The True Cost of the Iraq Conflict," now translated into 22 languages, which casts a spotlight on the direct and indirect costs of the war and the impact of lost investments on the U.S. economy.

Professor Bilmes is one of the leading experts in the United States studying the costs of war and has pioneered work in the area with a particular focus on the long-term costs related to veterans. She has written extensively on topics of wartime spending and its impact on future national security considerations. She is also one of 30 academics contributing to the recent Brown University costs of war project, which has established a website for following these issues.

We are very fortunate to have Professor Bilmes with us today to address this critical and far-reaching legacy of the Iraq War – a war that administration officials testified, at the time, would pay for itself. (Laughter.) Please join me in welcoming Professor Linda Bilmes to Carnegie. (Applause.)

[00:02:44]

LINDA J. BILMES: Thank you very much, Marwan, for the kind introduction. I am really pleased to be here today at this wonderful institution. And as I was preparing for this talk, I was rereading some of the papers written by Carnegie Endowment scholars in 2002 and 2003 – particularly by Jessica Mathews – and they argued compellingly – they were some of the few voices arguing compellingly that the U.S. really did have other options; that the U.S. could have pursued an enhanced inspection process; that the U.S. could have allowed the inspectors to complete their jobs. And as we all know, that advice was ignored.

And there were a number of other voices at the time that did call for restraint. There were a number of voices that suggested that the war could cost far more than we had anticipated. But as is typical in the history of the cost of wars, those who are most in favor of going to war, typically, are most optimistic about how long it's going to take and how much it is going to cost. And you may recall back to that time 10 years ago when we were told that the war needed to happen very quickly before the summer became too hot for our troops and that it would be quick and cheap.

So 10 years later, that decision to ignore the voices of caution has cost us – has literally cost us trillions of dollars and counting. And you may recall that before the war, the Bush administration had predicted that the war would cost about \$50 to \$60 billion. That was the estimate from Donald Rumsfeld and Mitch Daniels and Dick Cheney. And in fact, Larry Lindsey, the top economic advisor in the Bush administration, was fired for saying that the war might cost up to \$200 billion. And Larry subsequently wrote a book in which he argued that many of the problems that occurred later on in the war were related to the fact that no one, early on, was willing to confront the true potential cost in those early days.

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Today, the U.S. has already spent \$2 trillion in direct outlays for Iraq – over \$3 trillion if you include some of the indirect costs that I'll describe and some of the Afghanistan costs. And at this point, as we're thinking about the difference between 50 billion and 3 trillion, I usually remind my students about the difference between a billion

and a trillion because they kind of sound the same. Just sort of thinking about it, we know that if you had a million thousand-dollar bills stacked up on the table here, this would be about 4 inches high, and a billion would be about 350 feet, which is – well, the Washington Monument is 555 feet, and the Capitol Dome is 268 feet, so it's somewhere in between that range. And a trillion thousand-dollar bills is 65 miles high.

So we're really talking about an order of magnitude – that's the definition of order of magnitude – bigger when we think about the war costs. But that out-of-pocket cost is just a fraction of the total cost. Of course, there are many costs. There are costs to Iraq. There are costs to the regions. There are opportunity costs of what we might have done with the money.

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But this morning, I'm going to focus on three areas of implications of the costs, as follows: First, I want to argue that one of the most significant challenges to future U.S. national security policy is not going to stem from any external threat but from simply coping with the legacy of the cost from the Iraq War – from these wars that we have already fought. Second, I'll argue that the costs of war are not only high but unpredictable. The Iraq War cost far more than originally estimated, but it also set off a chain of events that had far-reaching economic consequences. And third, we discovered that the U.S. lacks any kind of system to track war costs and that by ignoring the costs, we made it much easier to make poor choices.

So let me turn first to the first point: the legacy of costs. The legacy is the long-term commitments that we have made to members of the military, to veterans and their families. Historically, the bill for war costs always comes due 30 to 40 years after the war. The peak year for paying disability benefits to World War I veterans was in 1969 – more than 50 years after armistice. The peak year for paying World War II veterans benefits was in the late 1980s. Payments to Vietnam and Gulf War I veterans are still climbing. And even the first Gulf War, which only lasted for a few weeks, is a war that costs us more than \$5 billion a year in disability benefits, which is twice the annual cost of paying for all 400 national parks.

But the magnitude of future expenditures will be much higher for Iraq because this war has been characterized by much higher survival rates, more generous benefits and new, expensive medical treatments. Between 2001 and today, the Department of Veterans Affairs – the VA budget – has increased, in real terms, from \$61 billion per year to \$140 billion per year – so from 2 percent of the U.S. budget to 3.5 percent of the U.S. budget. And much of this growth was due specifically to the Iraq and Afghanistan wars.

And here, when I speak about veterans, I am including both Iraq and Afghanistan veterans because so many of the veterans fought in both wars, and the VA does not actually keep statistics separately. So they are all aggregated. But more specifically, because when you think about many of the injuries and traumas that have occurred as a result of the past decade of war, it has been the cumulative effect – for example, post-traumatic stress that has been exacerbated by that third tour of duty in Afghanistan after severe firefight in two in Iraq. I don't want to over-laden you with statistics, but I'm about to, so let me go through – (laughter) – a few numbers here.

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Since 2002, the number of men and women who have been deployed to Iraq and Afghanistan is 2.5 million; 1.56 million have returned home and left active duty and therefore become eligible for veterans' medical care and benefits. Now, we knew, looking at the history of past wars – when Joe Stiglitz and I were writing in 2008 – we knew that there would be long-term cost consequences. And we predicted that the costs of medical care and disability benefits would grow.

We predicted that by today, 45 percent of new veterans would be receiving medical care in the VA and that 40 percent would have applied for disability benefits. But we were wrong. Our estimates were far too low. The VA is actually treating not 45 percent but more than 56 percent already, which is more than 860,000 people. And more than half – more than 50 percent of returned veterans have already applied for permanent disability benefits, of which, currently, 98 percent get approved.

This reflects a great deal of suffering. Two hundred and fifty three thousand troops have suffered a traumatic brain injury, of which 20 percent have been moderate-to-severe. One-third of veterans returning are diagnosed with mental health conditions, in many cases concurrent with traumatic brain injury. One hundred and forty five thousand veterans are 80, 90 or 100 percent disabled in the ratings system, which means, typically, that in addition to veterans' benefits, they also qualify for Social Security disability insurance. And we know that, as in previous wars, veterans' medical and disability compensation will rise as veterans get older and suffered from complications from injuries they sustained during wartime.

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We also found out that our system for transitioning veterans back to civilian life is fundamentally broken. The VA has spent more than \$5 billion every year, for the past four years, just to hire more claims processing employees and to upgrade IT systems, but as you probably read in the newspapers, the backlog of claims is still more than 1 million, and it keeps growing. And veterans of the war, particularly my current area of research – women veterans – are suffering from higher levels of unemployment, homelessness, suicide, depression, substance abuse and divorce than the civilian population of their age.

So in total, when you take into account the amount that we have already spent for veterans' medical care and disability benefits and all the special programs and computer investments and readjustment counseling, et cetera, that the VA has spent on this effort, it comes to about \$134 billion. But we estimate that there is another \$836 billion that has already accrued in these disability benefits and medical benefits and Social Security benefits, and that's the present value of what we will owe in the next 40 years, not even counting what happens after the veterans retire.

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Let me turn, still, as part of the first point but to a second part of this cost legacy, and that is being felt in the Pentagon, where one-third of the total budget is now in personnel and health-care costs. The department made a series of decisions during the past decade – some in order to boost recruiting when it ran into difficulty attracting sufficient numbers of troops into the Army and Marines in 2004. These include increased personnel benefits, pay indexing, health care, benefits for National Guards and retirement pay.

I don't have time to go through – although I'm happy to talk about it later – all of these, but for example, the TRICARE system, which serves active duty troops who are injured while serving in the war theater – this is troops before they are discharged into the VA system or troops who don't leave active duty and their families. The TRICARE system is the fastest-growing part of the Pentagon budget. TRICARE spending has risen from \$18 billion in 2001 to \$56 billion today. And this is largely the result of wartime decisions, including expanding TRICARE to include National Guards and reservists, which it didn't before, because they made up 40 percent of the fighting force, keeping co-pays and enrollment fees extremely low so that the price for troops and retirees is a tiny fraction of the private-sector cost.

And during this period, the cost of private-sector health insurance has skyrocketed, so the differential between getting health insurance in the TRICARE system versus in the private sector has gone from three-to-one to nine-to-one. And so, unsurprisingly, the number of people who are eligible for TRICARE who are participating in the system has risen from 22 percent to 59 percent as a result of basic economics. In addition, the sheer raw numbers of claims in the TRICARE system has risen extensively. For example, behavioral counseling – health counseling for troops and families – rose by 65 percent, and counseling for the children of the troops has risen by 85 percent. Medical visits from active duty troops due to musculoskeletal problems grew from 2.8 million to 4 million, as of 2009. And another interesting factor is that the companies that make up TRICARE were some of the biggest beneficiaries of the war in terms of profits.

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When I did some work a couple of years ago and wrote a paper on who were the main beneficiaries of the war, in terms of profits, I had expected to see Blackwater and Halliburton and the kind of usual suspects, but in fact, at the top of the list were the three companies that make up TRICARE who, taken together, would be the sixth-largest contractor in the Defense Department. This is because they've enjoyed an enormous amount of growth with all of these additional beneficiaries coming into the system, but since they haven't passed on any of the costs to those beneficiaries, who still pay less than \$250 a year for health care – but the government has reimbursed all the increases in the actual price of diagnostics, and the actual utilization of treatments and diagnostics within the TRICARE system is much higher than in private-sector systems.

And this TRICARE program will increase even further when the Affordable Care Act pushes everyone into buying a medical plan because for all of those who are not insured now – particularly guards and reservists, of whom at least 30 percent, according to a recent RAND study, don't have insurance – it will be cheaper to buy into the TRICARE system than even to pay the penalty for not having insurance. Another key decision taken in 2004 in response to the recruiting shortfall was to adopt higher pay-scale indexing in the Pentagon. Previous pay increases were linked to the employment cost index, but in 2004, the department changed that to use the employment cost index plus .5 percent. And this has added a whole other layer of costs to the DOD base.

And for the past two or three years, the Pentagon has been asking Congress to repeal some of these benefits – for example, the additional incremental pay indexing and to increase the co-pays for TRICARE. But politically, it's very difficult, as you all understand better than me, to change these benefits, and so far, there is no likelihood of major reforms. And finally, on this point, the Pentagon has a retirement system in place in which we only pay servicemembers who have served for 20 years. If you serve for 19-and-a-half years, you don't get anything, which means that in the all-volunteer force, the vast majority – 87 percent of Iraq and Afghanistan troops will not qualify for pensions through the Defense Department.

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And my theory is that one of the reasons for the huge pressure on the disability system is that troops get out – I work with a large number of active duty and veteran troops. I have about 20 who work for me at the Kennedy School. And the feeling is, they serve for several years; they serve three tours; they don't get anything, but they're not quite the same. And the disability comp system essentially becomes a small benefit that takes the place of any kind of a pension system. And I believe that there will be increasing pressure for that to be reformed, which will add another layer of long-term cost.

All of these legacy costs that I'm describing are in addition to the legacy of needing to replace a generation of military equipment and vehicles, which has been depreciating at six times the peacetime rate, not to mention

long-term commitments, such as the agreement we have signed to support Afghanistan for the next decade. All of this, together, adds another \$700 billion, or so, to the cost of the war, and it means that the U.S. will not be enjoying a peace dividend. You know, quite the contrary, the Pentagon, which is already facing pressure on its budget, will have its hands tied very much over the next decade dealing with, coping with the legacy of these costs.

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Let me turn now to my second point, after I do a Marco Rubio here. (Laughter, off-side conversation.) The war has affected the economy, as well, and left us with a legacy of high oil prices and a much higher national debt. And the Iraq War costs set off a chain of events that has had far-reaching consequences. I have been speaking, up until now, about budgetary costs, but of course, there are vast costs to civil society, both here and in Iraq, and economic costs and financial costs. And some of the costs that I am now going to talk about are costs that are borne by individuals and society, or society at large, rather than directly by the government.

The first – there are many of these costs that I could talk about, but let me highlight just a couple. First, if we think back to when we invaded Iraq in 2003, oil prices were \$25 a barrel, and we had been at that level for more than two decades. And the futures markets, which take into account an already increasing demand from China and India, predicted that oil prices would remain in that range for the next decade. Oil prices are complicated, but most experts agree that Iraq was one of the triggers that led to oil prices shooting up shortly after the invasion. Oil prices peaked at \$140 a barrel three years later, and since then, we have barely seen oil prices at a level below \$100.

If Joe Stiglitz were here, he would argue very strongly that we need to connect the dots, that oil prices contributed to the Federal Reserve's decision to increase liquidity and credit, that, that decision played a role in the housing bubble, the bursting of which, of course, led to the financial crisis. And he would argue that it's reasonable to attribute some of the cost of the financial crisis back to the oil price rise, which was precipitated, in part, due to the U.S. invasion of Afghanistan, particularly in light of the fact that we all know that oil was one of the reasons we went to war in the first place.

Perhaps easier to see, in the context of today's budget quagmires, is the fact that, in an unprecedented move, the U.S. has borrowed all of the money that we've spent in Iraq. This is the first time in history, since the Revolutionary War, when we borrowed from France, that we cut taxes and paid for an entire war out of debt. So we added some \$2 trillion to the national credit card, which is a major component of the \$9 trillion in U.S. debt that has been accrued since 2001. Of course, when we think about debt and deficits, there are two kinds of deficits. There are those that invest in human capital or infrastructure or invest in education, and then there are those which do not – which endanger our future by adding to the national debt – and this war deficit was of the second kind.

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My third point that I am passionate about, although it's difficult for many people to be passionate about accounting – but I am very passionate about the lack of war accounting. One of the purposes of our book and the several book chapters that we've written since then is to argue that bad accounting matters. The U.S. owes nearly a trillion dollars in what business would call deferred compensation to the men and women who fought the war, but this liability doesn't appear anywhere on the national balance sheet. We did not account for the value of the 6,658 lives lost in Iraq and Afghanistan – and that's just the troops, not civilians and not contractors – except for a small amount of life insurance money, even though civilian government agencies estimate the value of a life at \$7.2 million, and so OSHA or EPA would value each one of those lives and account for it at a cost of \$7.2 million.

We have accrued trillions of dollars in war debt, but we don't keep track of it. And in recent years, the Congressional Research Service, the Congressional Budget Office, the GAO, the Pentagon inspector generals and others have repeatedly and loudly bemoaned the fact that we lack the basic accounting systems necessary to understand where the money is spent. Over the past decade, the military budget has increased by \$1.5 trillion, in addition to the money appropriated for war spending. Some of that I already identified as attributed to increases in personnel and TRICARE and recruiting costs, but we know that at the same time, the Air Force and the Navy have gotten smaller and older fleets than before, and the Army and Marines – the Army has grown a little bit, but the Marines, the Navy and the Air Force have stayed the same size.

But if we look at where has all the money gone, the Pentagon's accounting systems are so flawed that there's no way even to perform an audit. And the result, unsurprisingly, is not only that we can't track war costs but a legacy of rampant waste and cost overruns and war profiteering and comingling of war- and non-war-related funds. Now, I have spent years trying to untangle some of these comingled accounts, but it shouldn't be the fact that in a city where there are thousands and thousands of economists – many of them, my former students – that it takes somebody sitting outside the government to track where trillions of dollars have been spent.

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We have also created a system in which Congress can and has appropriated vast sums of money for war and yet circumvent the entire budget accountability system by calling it emergency money. We've had more than 30 emergency supplementals, which have funded the war, and the whole point of these emergency supplementals is that they are supposed to be for actual emergencies, like earthquakes and hurricanes, where the priority is not to pay too much attention to anything except getting the money fast. So the actual requirements for the budget submissions and tracking where the money goes are very loose, so we have spent trillions of dollars through these emergency supplementals with minimal accountability by either side of the aisle.

I want to stop soon, so let me conclude by saying that one of the lessons of Iraq is that by underestimating the costs and ignoring the costs and refusing to think about how will we pay for the war, we made it easier for the costs to grow and to make poor choices. A democracy relies on an informed citizenry, but we have trillions of dollars that have sort of sneaked up on us without anyone really knowing how much was being spent. We have spent \$2 trillion, at least, to date, in out-of-pocket money. We have committed at least an additional \$2 trillion, to date, in veterans', Social Security and defense spending.

And if we add in any of the micro- or macroeconomic costs – any impact from oil prices, any impact from the thousands of people who have left their jobs to become caregivers – we easily reach \$5 trillion. If we add in Afghanistan costs, which, after all, were precipitated by the fact that we devoted 80 percent of troops and money to Iraq in 2003, it would easily reach \$6 trillion. That's a lot of money on which to have almost no accountability, almost no transparency. And it's money that has left us the poorer in many, many ways. Let me stop there and take questions. (Applause.) Yes, sir?

[00:30:15]

Q: For those of us who have watched the Iraq War, both prior to the war, during and after, we can point – (off-side conversation). Is it working now? For those of us who watched the Iraq war, both prior, during and after, if we looked at it before, we can point to certain things, certain decisions that were made before the war and certain decisions that weren't made. And we could look at some of the consequences of those decisions or non-decisions later. Your comment, in the economic context, was interesting to me because you said that because certain

economic-based decisions were made or not made, it impacted outcome later, during the war. Could you give, like, a couple good examples of what the relationship was on those economic decisions?

MS. BILMES: Well, I think the number-one decision that has led to long-term consequences is that – there were two main decisions with regard to Iraq. You know, one was the decision to invade Iraq, and the second was how to pay for it. And the decision that was taken was that we would not – unlike previous wars, we would not increase taxes. We would not do anything special to pay for the war, but we would put the war – and don't forget that at the time, we had \$6 trillion in debt – we now have \$16 trillion in debt – we had, actually, less than that. We had \$5.8 trillion in debt. So the decision, at that point in 2003, to cut taxes at the same time that we went to war was a major decision that has had long-term consequences.

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So much of the discussion that happens in Washington now around, you know, whether it's the sequester or the budget breakdown or, you know, all of the stuff that the Pentagon is dealing with because of the sequester and all that – goes back to the fact that the debt has grown so precipitously. And the original decision that sort of triggered the debt – and as anyone with a credit card knows, debt, you know, begets debt – was the decision to immediately – within the first couple of years – add hundreds of billions of dollars through borrowing. And I think this is a very important decision because of the fact that it was unprecedented. You know, it really was a decision that was at odds with the way we had paid for wars throughout history.

So it's hard to argue that we just kind of did what we always did because we did something, actually, quite different. But I think some of the decisions, like the one I described in the Pentagon about changing the way pay indexing was done, were decisions that were taken at the time for a specific reason, which was the recruiting shortfall, but we didn't think about the fact that it would be – I mean, and maybe that was the right decision, but there was no conscious decision to think about the fact that if we do this, we will be baking another half-a-percent increase into pay rises forever, pretty much, you know, and no way of sort of thinking through – because in the kind of, you know, rush to – rush of money that came in with the war and the rush of the ability to get Congress to appropriate anything, we didn't think about that. We also didn't think about the fact that, even though we knew, from previous wars, that every dollar spent would cost at least another 50 cents in veterans' long-term costs, we didn't give Congress the choice of appropriating anything for those long-term costs. So we sort of willfully, purposefully under-priced the war. Bryan?

Q: Thank you. Bryan Bender with the Boston Globe. A couple of quick questions. One, the unforeseen Pentagon budget costs that you talked about – just real quick, do you include those costs in your overall estimate of the long-term cost of the war? And then I guess the second question is, do you have a new estimate of that total, long-term cost of Iraq, specifically? Obviously, it was \$3 trillion at one point, but it sounds like you've gone back and recalibrated some of your estimates, so I assume that it's higher.

And so the last question, if I can lob one more, is just, briefly, what is your advice for Congress, for policymakers on what to do about this, not just in the future to take into consideration some of the things that were talked about that were willfully ignored, but is there a way that they should start to plan for or account for some of these Iraq War costs, given that they'll be around for so many years?

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MS. BILMES: Bryan, so you asked a few questions. I mean, the quick answer to your first question is we had – when we wrote “The Three Trillion Dollar War,” that was essentially based on forecasting, from previous

wars, what we expected the long-term costs of veterans and military personnel to be. We have now been through and I have personally analyzed 600,000 veteran claims. There are 860,000 claims, so you know, I'm well on the way – and as part of a team at the University of California-San Francisco Medical School where we analyzed the medical, the social and the economic costs of each claim.

And the TRICARE cost that I outlined is part of sort of the new and updated analysis. So when we wrote “The Three Trillion Dollar War,” we came up with the number 3 trillion because no matter which way you counted it, the minimum you could get to was 3 trillion, and we didn't include financial interest costs in that. If we had included economic costs in that amount, I mean, we could have called the book, then, 4 trillion or 5 trillion – in fact, Joe Stiglitz got in trouble with our publisher for running around the world calling it the \$5 trillion war, and people would be asking for the wrong book. (Laughter.)

So the minimum now – you know, the minimum that it could cost is 4 trillion (dollars). Many of our costs were accurate, but the veterans cost, in particular, and some of the TRICARE costs have grown a lot faster than we predicted – so the minimum. But you know, where the range was kind of three-to-five (trillion dollars) before, it's sort of four-to-six. The Brown cost of war study is putting it at \$6 trillion. I'd probably put it at \$5 trillion, but you know, at a minimum, it's at least a trillion higher.

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Secondly, in terms of what to do about it, I mean, I have a number of proposals. On the veterans issue, which is where I have spent a lot of my time, the first major recommendation is that we should be appropriating money into a veterans trust fund at the time that we go to war. So right now, we under-price war. We under-price war the same as if we said, you know, here's a car for \$20,000, but in fact, it's actually – there's a hidden price tag of another \$30,000.

So nobody, when they actually go in to vote in Congress, gets to vote on the full cost. I mean, I think we should be appropriating at least an additional 25 percent, you know, for every dollar of war spending. This would have the benefit of, one, making people consider more carefully the actual true cost of war and, two, putting aside money for the inevitable deferred compensation of veterans' benefits. Secondly, I think we should prohibit the use of emergency money for war spending.

Emergency money, as I said, is supposed to be restricted to emergencies or new programs, and after 13 years of war, it's very difficult to argue that this is an unforeseen, unexpected expense. And every year, the budget caps that are given in the allocations to Congress, you know, are set in a certain structure with a certain amount, but emergency money allows you to completely bust those. So if we had not allowed the emergency supplemental mechanism to be the vehicle for paying for the wars, we would have had to confront, earlier, how we were paying for those wars.

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Third of all, I believe that the Pentagon needs a top-to-bottom investment in cost accounting and capital budgeting, which is basic common sense that is done by most cities and states and all private-sector businesses larger than a corner grocery store, so they can get a grip on what former Secretary Gates referred to as the 30 percent of Pentagon costs that go to overhead. And we are well-aware of the fact that the sequester is a very crude method for cutting budgets. It's like what I call the cutting-off-your-arm-to-lose-weight method. (Laughter.) You know, it works really well, but it creates some other problems – (laughter) – because of the fact that, you know, dieting is really tedious and painful and takes a long time. And what the Pentagon needs, in particular, is a way of

tracking, through cost accounting, indirect costs – so not just the costs of the – the final cost of a weapon, but all the costs associated with developing it and planning for it and evaluating it and procuring it and re-evaluating it and auditing it and monitoring it and, you know, all those indirect costs that add so much to the base.

Third, or fourth or whatever I'm up to, on the VA disability claim system, it's been obvious to me for a long time that the system is completely broken. We have spent, by my accounting, at least \$20 billion on trying to fix the bad system – you know, trying to hire people, to train them, to invest in the IT systems, et cetera. The system is still broken, and that's because the system is the wrong system.

What we should be doing is something closer to what the IRS does with taxes, which is that they don't audit all the taxes. They just audit some of the taxes. You accept the taxes, and they audit some. And that enables the system to function, and in the VA, they should – considering that 98 percent of the claims get approved in the end, we should be simply taking all the new claims, approving them to a minimum level, auditing a small subset and giving them a final resolution within five years. The medical system – Blue Cross Blue Shield processes 30 million medical claims a year. They do 99 percent of them within 30 days, and we should be able to do the same thing. So those are some of my suggestions. Yes, the gentleman in the yellow tie? That's you. And then I'll go to –

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Q: (Hugh Grindstaff?). I'm a Vietnam veteran who's getting care at the local VA. And really, one of the biggest hazards, sometimes, is the claims person who determines what kind of claim you get. I'm there for Agent Orange-related – and I had a stroke. They didn't increase my allotment. But anyway, getting back to what you have now, it's sort of like what you have in the regular community. The Vietnam veterans – and now, the IAVA, the Iraq and Afghanistan veterans – are in the system at the same time, but the Vietnam veterans are getting geriatric treatment. And that is going to drive up the costs to the VA a lot. And General Shinseki, getting back to Iraq – he said that we need 400,000 troops, and now he's at VA, and he's not getting much more support there than he did –

MS. BILMES: Well, I think the team at the VA – General Shinseki, Scott Gould – the team at the VA has worked – you know, they are a top-rate team. And so the way we should be thinking about it is that even with the best possible leadership at the VA that really, really tried hard to make the current system work, it's not working, which leads me to think that it's the system. You know, the system is the graduate school application system. You have to fill out a huge amount of paperwork and send it in to someone who then sends you back something that says, you're missing this piece of paper or that piece of paper or whatever. That's the system.

I mean, the system should be, basically, a system that accepts that we cannot humanly – in 57 different regional offices around the country and with 25,000 26-year-old disability claims processors with an attrition rate of 18 percent a year – we can't do it. And so we need a different kind of system. And what has happened in the VA, as you are well aware is that part of the problem is that the General Shinseki and others have tried to make Agent Orange and others more presumptive to the veteran to recognize the legitimacy and open access to certain claims, but the capacity of the actual process has not been able to accommodate that. So you have a real mismatch, and their belief is that technology is going to fix the problem, but I believe the evidence suggests that it's not. Okay. The gentleman in the blue tie?

[00:45:03]

Q: Thank you. My name's Said Erikat from Al Quds Daily Newspaper, but I also worked at the United Nations spokesman in Iraq for five years. So I want you to comment, if you may, not so much on the trillions of dollars but actually on the much less figure of hundreds of billions of dollars that was wasted under something

called the PRTs – the project (sic) reconstruction teams – mainly under the Pentagon, in which they would start something, and it never goes forward. It would never be completed. The Iraqis never benefited out of it. Where did the money go? What accounts for that? Thank you.

[00:45:40]

MS. BILMES: Well, I think, you know, one of the reasons that we wrote the book was that people had the sense that we were spending a lot, you know, but it's sort of very difficult to get your arms around, what does a lot mean? And when you come to the reconstruction money, I think that it's particularly – that's particularly sort of hard to think about. So just to kind of put it in context, for example, in Afghanistan, we spent \$87 billion Afghani reconstruction, most of which the Pentagon has, as they put it, "lost visibility" on it.

Now, compare that to the national parks, where we spend \$2.5 billion a year to support all 400 of the national parks, you know, versus the \$87 billion. I think if you ask most Americans, they would say that's a bad allocation of resources – you know, national parks versus – now, in Iraq, the U.S. portion of the reconstruction funding has been about \$61 billion. When we look into the sort of disappearance of that money, what we find is that, you know, it goes back to this issue of accountability. Many of the systems, when you actually go through the Pentagon system contract by contract by contract – and there are more than 30,000 contracts – the contracts don't require any reporting relationship for small contracts. And so you find that the reason there are so many small contracts is because there's actually no documentation required.

You find a lot of the contracts that have gone into the reconstruction are classified under what's called "miscellaneous foreign contracts," which is a kind of black hole. I mean, you really have no idea what that money is for. And the question is, if you set up a system where contracts under \$100,000 don't require any documentation, contracts under a million dollars – or actually, up to \$25 million – can be called "miscellaneous foreign contracts" with minimal documentation, of course there is going to be disappearances, corruption, profiteering, et cetera, et cetera. I mean, the system invites it. And we'll never get to the bottom of where all that money has gone, but what we can do, going forward, is think about what kind of accountability mechanisms we set up to allocate a war, track and monitor money.

And you know, I think – you know, I was with General McChrystal last week, and he was talking about the scar tissue, as he puts it, created by the war. And one of the things he was saying – he was talking about scar tissue in a number of ways. He was talking about scar tissue that comes, for example, from drone attacks, whether or not they kill civilians. He said, every drone attack creates this sort of scar tissue because people think that they do.

And as we were talking afterwards, he was saying that a lot of this reconstruction money had created a sort of scar tissue because it perpetuated and created this idea that we didn't care about money. We were just throwing money at the problem. You know, corrupt people could get their hands on money. It created this kind of scar tissue, which is another sort of legacy of so much money being thrown at the war with so little accountability. The gentleman in the back there.

Q: Thank you. John Hurley. I don't have an affiliation. So you make a very compelling case, very sound recommendations, but things in Washington don't happen without, usually, Hill involvement. So do you detect any interest by the Hill or Congress in doing anything with respect to your recommendations?

[00:49:47]

MS. BILMES: You know, I would say mixed. We teach at the Kennedy School – for example, we teach a newly elected members of Congress program every two years. This year, I taught – I think we had 56 newly elected members, and in addition to teaching them budgeting and everything during the day, I mean, I had a whole group of them that met with me privately just to go through some of these issues. A lot of interest in reforming the veterans' disability system; a lot of interest in what's going on in the TRICARE and Pentagon health-care systems; I mean, a lot of interest in trying to get information.

I have a lot of staffers on the Hill who are contacting me and my students all the time trying to get information. I, you know, have not seen that translate into somebody who would fall on their sword, so to speak, to try and lead a complete transformation in how we think about war costs, and you know, I don't see anyone who is sort of about to take that charge. I think a number of those who have looked at it carefully – for example, Bob Filner, who was the head of the House Veterans Committee, who has very much embraced my reform ideas for the disability system – you know, he left Congress now, and he's mayor of San Diego. So some of them have kind of moved on. I would say there's more hope for some reform in the veterans' disability area than the overall reform.

Q: Were some of these newer ones that you said you gave the seminar to – were Tea Partiers?

[00:51:42]

MS. BILMES: You know, I would say two years ago, when we had the – so not this December, but two years ago – when Doug Holtz-Eakin and I were leading a discussion on the lifting of the debt ceiling, some of the Republicans who were there actually walked out of the room. Now, this year, we didn't have that, so you know, people were more willing to listen, but I think that the extreme wing of the Tea Party typically does not attend the Harvard new members conferences – (laughter) – in my experience. Yes?

Q: Jessica Mathews. Among economists, is there significant debate about your estimate – your \$5-to-\$6 trillion estimate? And if so, on what are the key issues that, if we were a room full of economists, we would be tangling with you on?

MS. BILMES: Well, that's a great question. I think that, you know, the original estimate – when we had the original estimate of \$3 trillion – came back to us sort of early on from a former student of mine who was working in the administration and who was a brilliant student who was in a fairly senior job at OMB who called me and said, I've been tasked with setting up a committee to scrutinize all the numbers in your book and to discredit them. I just want to let you know that. (Laughter.) And I said, okay, fine.

And he came back to me six months later and he said, okay, so I want to tell you we've been through the book, you know, with a fine-toothed comb. We can't discredit any of the numbers because they're all our own numbers, so what we are going to argue is that it was worth it, you know, and sort of short – you know, and in that period came out the comments from President Bush and others that we don't go to war based on green-eye-shaded-accountants type, you know, stuff and this kind of thing.

[00:53:58]

I mean, so the argument was not so much around the numbers, and I think that the numbers – the discussion around budget people around, you know, is it 1.7 or 1.9 or, you know, how much of TRICARE do you attribute to the wars are whatever are minor. The two main areas of disagreement among economists are, one, should one include the financing costs or not? Should one include the costs – you know, if you say, my house cost

\$500,000, you don't usually include the cost of your mortgage, even though you know you're going to be paying 5 percent, whatever.

And you know, the second issue is around to what extent the war indirectly contributed to the financial crisis and oil price increases, and so forth. So with the oil price area – I mean, what we did was – the oil prices went up by \$100 a barrel – we've only attributed between \$5 and \$10 a barrel of that increase to the war costs, which is already several hundred billion.

So we have, certainly, from discussing it with mainstream people like Dan Yergin, found pretty strong support for attributing some percentage of that oil price increase to the Iraq War. On the issue of financing costs, our feeling is that they are direct budgetary costs. They were unprecedented costs, and that to not include – when we made such a radical departure from the way wars have been financed in the past in the way this war was financed, particularly with the combination of the fact that it was financed off the books due to the emergency supplementals – that, that should be on the table.

[00:55:52]

Now, the reason that we called it “The Three Trillion Dollar War” and that I am saying that the minimum is 4 trillion (dollars) is that if you exclude all interest costs and all financing costs, you get to 4 trillion already, you know, not thinking about that. If you don't include some of the economic costs, and you include some of the interest cost, you can also get to 4 trillion, but we don't double count. So you know, it's not right to sort of add everything up together because there might be some double counting between economic costs and interest costs, but it is – but you know, there is a minimum cost that you achieve, no matter how you get there.

Now, the one cost of the war that I am careful never to attribute, where I think I have seen some people attribute this as a cost of war, is the cost of the G.I. Bill – the new G.I. Bill – which we see as an investment in the economy that will produce net benefits, you know, as opposed to a net cost, which is different than money we've paid out to a Sri Lankan contractor or money that we've paid out to pay for a hip fracture. So that's the one area where I make that distinction. Yes? Are we finished? Oh, we're finished. Okay, sorry. (Applause.)

MS. : We're going to take a 30-minute break for lunch and come back at 12:15.

(END)