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## **FY2004 Supplemental Appropriations for Iraq, Afghanistan, and the Global War on Terrorism: Military Operations & Reconstruction Assistance**

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# FY2004 Supplemental Appropriations for Iraq, Afghanistan, and the Global War on Terrorism: Military Operations and Reconstruction Assistance

## Summary

In a nationwide address on September 7, 2003, the President announced that he would request an additional \$87 billion for ongoing military operations and for reconstruction assistance in Iraq, Afghanistan, and elsewhere. On September 17, the White House submitted a formal request for FY2004 supplemental appropriations of that amount to Congress. Administration officials have said that they would like to see congressional action on the request completed some time before October 24, when an international donors conference is scheduled in Madrid to seek pledges of economic assistance for Iraq. House Appropriations Committee Chairman Bill Young has recently said that he hopes to have a conference report on supplemental appropriations completed by then.

The House Appropriations Committee marked up its version of a supplemental appropriations bill for defense and for reconstruction (H.R. 3289) on October 9, and floor action began on October 15. The Senate Appropriations Committee marked up its version of a supplemental appropriations bill, S. 1689, on September 30, and the full Senate began floor debate on the bill on October 1. The Senate resumed consideration of the measure on October 14.

A wide range of legislative measures addressing costs, burdensharing, and other issues have been considered in congressional action. Proposals have included measures providing part or all of reconstruction aid to Iraq as loans rather than grants; conditioning funds on strict reporting requirements; requiring the president to make greater efforts to increase international assistance; rolling back tax cuts to pay for the bill; shifting funds from Iraq reconstruction to domestic programs; transferring control of Iraq reconstruction from the Defense Department to the State Department; requiring competition in contracts in Iraq; increasing personnel benefits for deployed troops; and providing reconstruction assistance to Liberia.

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# FY2004 Supplemental Appropriations for Iraq, Afghanistan, and the Global War on Terrorism: Military Operations and Reconstruction Assistance

## Most Recent Developments

On October 9, the House Appropriations Committee marked up its version of a supplemental appropriations bill (H.R. 3289) providing funds for military operations and reconstruction assistance in Iraq and elsewhere. General debate began on October 15. In the markup, the committee rejected, among other proposals, an Obey substitute that would have reduced funds for Iraq reconstruction and would have required that half the remaining funds be provided as World Bank loans. The Senate Appropriations Committee marked up its version of a supplemental appropriations bill, S. 1689, on September 30, and the full Senate began floor debate on the bill on October 1. In the early debate on the measure, the Senate rejected (38-59) an amendment by Senator Byrd that would have removed \$15.2 billion for Iraq reconstruction in order to review the proposal more closely and consider it at a later point; tabled (57-42) an amendment by Senator Biden that would have suspended a portion of tax reductions in order to pay the costs of Iraq security and reconstruction; and tabled (65-42) an amendment by Senators Leahy and Daschle to place Iraq reconstruction under the authority of the State Department. The Senate resumed consideration of the measure on October 14.

## Overview

In a nationwide address on September 7, 2003, the President announced that he would request an additional \$87 billion for ongoing military operations and for reconstruction assistance in Iraq, Afghanistan, and elsewhere.<sup>1</sup> On September 17, the White House submitted a formal request for the funds to Congress, and on September 21, the Defense Department provided backup material to congressional committees.<sup>2</sup> On September 23, the Coalition Provisional Authority that is

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<sup>1</sup> President George W. Bush, "President Addresses the Nation," The Cabinet Room, September 7, 2003, available electronically at [<http://www.whitehouse.gov/news/releases/2003/09/20030907-1.html>].

<sup>2</sup> Office of Management and Budget, "FY2004 Supplemental: Iraq and Afghanistan Ongoing Operations/Reconstruction," September 17, 2003, available electronically at: [[http://www.whitehouse.gov/omb/budget/amendments/supplemental\\_9\\_17\\_03.pdf](http://www.whitehouse.gov/omb/budget/amendments/supplemental_9_17_03.pdf)].

(continued...)

administering Iraq provided information on the details of its request for reconstruction aid.

Congressional consideration of the proposal is well underway. Both House and Senate leaders expect to complete floor action this week, clearing the way for a conference agreement to be voted on next week, before an international donors conference on Iraq meets in Madrid on October 24. Numerous hearings have been conducted (cited below). Readers in congressional offices may click on the highlighted hearings listed below (in the .html version of this report) to link to hearing transcripts.

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<sup>2</sup> (...continued)

Department of Defense, "FY2004 Supplemental Request for Operation Iraqi Freedom (OIF), Operation Enduring Freedom (OEF), and Operation Noble Eagle (ONE)," September 21, 2003. Available electronically at [[http://www.dod.mil/comptroller/defbudget/FY\\_2004\\_Supplemental.pdf](http://www.dod.mil/comptroller/defbudget/FY_2004_Supplemental.pdf)].

### Iraq Supplemental Hearings

**September 9:**

Senate Armed Services Committee — Witnesses: Paul Wolfowitz, General Richard Myers, Dov Zakheim, Marc Grossman

**September 16:**

Senate Banking Committee — Witnesses: Alan Larson, John Taylor, Phillip Merrill

**September 22:**

Senate Appropriations Committee — Witness: L. Paul Bremer

**September 24:**

House Foreign Operations Appropriations Subcommittee — Witnesses: L. Paul Bremer, General John Abizaid

Senate Appropriations Committee — Witnesses: Donald Rumsfeld, General Richard Myers, General John Abizaid, Dov Zackheim

Senate Foreign Relations Committee — Witness: L. Paul Bremer

House Armed Services Committee — Witnesses: Paul Wolfowitz, L. Paul Bremer, General John Abizaid, and General John Keane

House International Relations Committee — Witness: L. Paul Bremer

**September 25:**

Senate Armed Services Committee — Witnesses: L. Paul Bremer, General John Abizaid

**September 30:**

House Defense Appropriations Subcommittee — Witnesses: Donald Rumsfeld, General Richard Myers, Dov Zakheim

House Foreign Operations Appropriations Subcommittee — Witnesses: Richard L. Armitage, Andrew S. Natsios

**October 2, 2003:**

House Military Construction Appropriations Subcommittee — Witnesses: Ray Dubois, Larry Lanzillotta, Major General Larry Lust, Major General Dean Fox

House Armed Services Committee — Witnesses: Admiral E. P. Giambastiani, Brigadier General Robert Cone.

A wide range of legislative measures addressing costs, burdensharing, and other issues have been proposed. Measures have been proposed to

- ! require the Administration to provide reports on Iraq policy, giving details of plans to establish security and restore basic services;
- ! roll back reductions in the top income tax rate from 2005 through 2010 enough to offset costs;
- ! encourage greater allied contributions of troops and reconstruction aid;
- ! transfer control of Iraq reconstruction from the Defense Department to the State Department; and
- ! require fair and open competition on contracts in Iraq.

Perhaps the major issue in Congress has been whether to provide Iraq reconstruction funds as grants, as the Administration proposed, or as loans. In the Senate Appropriations markup of S. 1689 on September 30, Senator Dorgan proposed two amendments to establish mechanisms by which Iraq would repay the funds. The Committee tabled both amendments. Senator Dorgan then introduced one of his proposals on the floor, which was rejected on October 14. On October 1, Senators Hutchison, Graham of South Carolina, Collins, Craig, and Chambliss submitted an amendment to provide \$10 billion of the reconstruction aid through a trust fund that would be reimbursed by Iraq; action on this amendment is expected on October 15 or 16.

Other amendments in the Senate markup included a proposal to divide the defense from the reconstruction funds, to provide only half of the reconstruction money immediately with release of the rest conditioned on reporting requirements, to reduce the amount of funding flexibility provided to the Defense Department, to stiffen penalties for fraud and profiteering, and to require that U.S.-funded projects ensure access for the disabled. The committee rejected or tabled all but the latter two provisions, which were accepted. Many of these measures have come up, or are likely to come up, during floor action in the Senate and may also be raised in the House.

In the House, the Appropriations Committee marked up its version of a supplemental appropriations bill (H.R. 3289) on October 9. The reported bill reduces funds for some reconstruction projects that had been matters of contention in Congress and adds funds for Afghan reconstruction. Representative Zach Wamp proposed but then withdrew an amendment in the committee markup to provide half the Iraq reconstruction funds as loans available once a new Iraqi government is installed. The committee also rejected a substitute by Representative Obey that also would have provided half the funds as loans.

As is often the case when large supplemental appropriations bills are under consideration in Congress, a number of other funding and policy issues could arise. Matters that have been mentioned or acted on include additional funding for homeland security; funding for international HIV/AIDS programs; funding for the AmeriCorps volunteer service program; a proposal to provide health insurance for military reservists; funding for humanitarian and reconstruction aid to Liberia and, perhaps, to some other nations; and limits on profits by companies providing support for operations in Iraq and Afghanistan.

The following discussion (1) briefly reviews the basic elements of the request; (2) discusses the debate about long-term costs; (3) identifies legislative proposals that may arise as congressional action proceeds; (4) provides an overview of proposed funding for ongoing military operations in Iraq, Afghanistan, and elsewhere; and (5) provides an overview of proposed funding for reconstruction and security in Iraq, for reconstruction in Afghanistan, and for other foreign policy initiatives.



## Basic Elements of the Administration Request

Of the \$87 billion that the Administration is requesting, \$65.6 billion is for defense, and \$21.4 billion is for foreign policy programs. Of the \$65.6 billion for defense, \$51.5 billion is for ongoing military operations in Iraq, \$10.5 billion for U.S. forces in Afghanistan, and the remaining \$3.6 billion for homeland defense and support to allies.<sup>3</sup> Of the \$21.4 billion for foreign policy programs, \$20.3 billion is for security and reconstruction in Iraq, about \$800 million for Afghanistan, and about \$200 million for other Global War on Terrorism foreign policy initiatives. **Table 1** provides an overview of the request.

**Table 1. Basic Elements of the Administration Request for Additional Funding for Iraq, Afghanistan, and Other Activities**  
(amounts in billions of dollars)

<b>Defense</b>	<b>\$65.6</b>
Operation Iraqi Freedom (Iraq)	\$51.5
Operation Enduring Freedom (Afghanistan)	\$10.5
Operation Noble Eagle (Homeland Defense)	\$2.2
Coalition Support	\$1.4
<b>Foreign Policy</b>	<b>\$21.4</b>
Iraq Reconstruction	\$15.2
Iraq Security	\$5.1
Other Iraq <sup>a</sup>	\$0.1
Afghanistan Reconstruction	\$0.8
Other Global War on Terrorism	\$0.3
<b>Total</b>	<b>\$87.0</b>

**Sources:** Congressional Briefing material provided by the Office of Management and Budget, the Department of Defense, the Department of State, and the Office of the Coalition Provisional Authority, September 8, 2003; Office of Management and Budget, Supplemental Appropriations Request, September 17, 2003; Department of Defense, FY2004 Supplemental Request, September 21, 2003.

**Note:**

a. Includes \$61 million for U.S. diplomatic facilities and security and \$50 million for multinational division peacekeeping costs.

Administration officials have said that the request is designed to cover only pressing requirements through the next year to fifteen months — the defense money through FY2004, which ends on September 30, 2004, and the Iraq reconstruction money through December 2004. The request for military operations assumes that current troop levels and the current pace of operations in Iraq, Afghanistan, and elsewhere will continue unchanged through the fiscal year. The new request does

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<sup>3</sup> DOD has not broken down previous spending by operation, however, so it is not possible to make a direct comparison between the current request to earlier funding.

not address ongoing military costs after FY2004. Presumably, if the number of troops deployed in Iraq were to change, costs would change as well.

The \$20 billion requested for reconstruction and security in Iraq finances only a part of what Administration officials estimate will be needed in the long run. Current estimates, from a variety of sources, including the U.S. government, put the figure in the \$50-75 billion range. The World Bank and the U.N. Development Program (UNDP) have released a needs assessment that puts the cost of reconstruction in 14 key sectors at \$36 billion over four years, not including \$19.4 billion estimated by the CPA for security, oil, and other critical sectors not covered by the Bank assessments.<sup>4</sup> Total Bank/CPA projected reconstruction costs through 2007 amount to \$55 billion, \$17.5 billion in 2004 alone. The White House says that the Iraqi oil revenues and “recovered assets,” along with additional international support, are expected to contribute to meet remaining needs. Officials have also said, however, that Iraqi oil revenues are expected to total about \$12 billion in the next year, and that government operations will cost about as much,<sup>5</sup> leaving no Iraq oil money for reconstruction efforts in the near term.

## Long-Term Costs

The request for \$87 billion for defense and reconstruction assistance comes on top of more than \$110 billion provided for those purposes since the September 11, 2001, terrorist attacks. Congress has provided \$103 billion in defense funding, over and above regular defense appropriations, for military operations in Afghanistan, for other global counter-terrorism military and intelligence operations, for homeland defense, and, most recently — in last April’s Emergency Wartime Supplemental appropriations bill — for the war in Iraq . **Table 2** provides a summary of defense funding by appropriations bill.

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<sup>4</sup> “UN/World Bank Present Iraq Reconstruction Needs to Core Group.” World Bank/United Nations press release no. 2004/100/S, October 2, 2003. For the full text of the report online, see the World Bank website at [[http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/Iraq+Joint+Needs+Assessment/\\$File/Joint+Needs+Assessment.pdf](http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/Iraq+Joint+Needs+Assessment/$File/Joint+Needs+Assessment.pdf)].

<sup>5</sup> Congressional briefing by executive branch officials, September 8, 2003.

**Table 2. Defense Funding for Iraq, Afghanistan, and Other  
Global War on Terrorism Activities: FY2001-FY2003**

(amounts in billions of dollars)

Name of Law	Date of Enactment	Public Law Number	Defense Funding
FY2001 Emergency Terrorism Response Supplemental Appropriations Act; FY2002 DOD Appropriations Act	9/18/01; 1/10/02	P.L. 107-38; P.L. 107-117	\$17.4
FY2002 Emergency Supplemental	8/2/02	P.L. 107-206	\$13.4
FY2003 Consolidated Appropriations	2/20/03	P.L. 108-8	\$10.0
FY2003 Emergency Wartime Supplemental	4/16/03	P.L. 108-11	\$62.6
<b>Total</b>	—	—	<b>\$103.3</b>

**Note:** Total may not add due to rounding.

Since September 11, Congress has appropriated about \$12 billion for Iraqi and Afghan reconstruction and foreign aid to the “front-line” states in the global war on terrorism. Of that, Congress has provided \$1.4 billion in reconstruction assistance to Afghanistan, with another \$600 million pending in regular FY2004 appropriations bills. For Iraq, the April FY2003 Emergency Wartime Supplemental provided \$2.5 billion in foreign operations funding for relief and reconstruction. Additional funding for Iraq reconstruction totals \$1.6 billion, of which \$1.1 billion is from Department of Defense funds (part of the \$62.6 billion shown above in **Table 2** from the FY2003 Emergency Wartime Supplemental), and the remainder from the regular U.S. Agency for International Development (USAID) budget (see below for a further discussion).

A large part of the debate in Congress to date has focused on cost issues, including

- ! the impact of the new funding on the overall federal budget;
- ! whether the Administration was adequately forthcoming in its previous statements about costs;
- ! how accurate and complete the current cost projections are; and
- ! how great costs will be in future years.

The following sections review each of these issues in turn.

## Impact on the Federal Budget

The Office of Management and Budget (OMB) mid-session review of the budget, released in July, estimates that the federal budget deficit will total \$455 billion in FY2003 and \$475 billion in FY2004, assuming congressional enactment

of the Administration program FY2004.<sup>6</sup> White House officials have said that the requested additional appropriations of \$87 billion for FY2004 would push the deficit to about \$525 billion for that year.<sup>7</sup> The most recent Congressional Budget Office (CBO) budget baseline projects deficits of \$401 billion in FY2003 and \$480 billion in FY2004.<sup>8</sup> It is important to note that the CBO baseline for FY2003 includes outlays from the April 2003 wartime supplemental, and CBO projections for future years assume growth with inflation in overall discretionary spending. So, in effect, the CBO estimate of the FY2004 deficit already assumes additional supplemental appropriations for military activities in Iraq and elsewhere roughly equal to the amount provided in FY2003. (Reconstruction assistance for Iraq and Afghanistan, however, is more than three times as high in the FY2004 request as in FY2003.)<sup>9</sup>

Administration officials have argued that the economy can readily absorb additional federal borrowing entailed by the requested supplemental, particularly since the economy is still recovering from recession. Using OMB economic projections, a deficit of \$525 billion in FY2004 would total equal 4.4% of gross domestic product — less than the 5%-6% of GDP that the government borrowed in the mid-1980s. Congressional critics argue that funding for domestic programs, though not tax cuts, has been constrained; that borrowing 20%-25% of the overall federal budget is fiscally irresponsible; and that continuing deficits will endanger the economy in the long term.

Others, including some Members of Congress, contend that, given Iraq's future oil revenue potential, reconstruction costs should be financed as loans rather than grants. In this way, they say, future loan repayments would be a source of revenue for the United States.

## Earlier Administration Statements about Costs

In the months leading up to the war with Iraq, Administration officials were generally unwilling to provide long-term estimates either of the costs of a war or of subsequent post-war needs, saying that no final decision had been made to go to war and that costs could not be projected with sufficient accuracy. What little officials did say, however, is now a matter of contention in Congress. In a September 9 Senate Armed Services Committee hearing, Senator Levin recalled that former White House economic advisor Larry Lindsey had said a year ago that a conflict with Iraq could cost \$100-200 billion.<sup>10</sup> Other Administration officials, however, notably then-

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<sup>6</sup> Office of Management and Budget, "Mid-Session Review of the Budget: Fiscal Year 2004," July 15, 2003.

<sup>7</sup> So OMB projects that of the \$87 billion in new budget authority, about \$50 billion would actually be spent as outlays in FY2004, with the remainder as outlays in future years.

<sup>8</sup> Congressional Budget Office, "The Budget and Economic Outlook: An Update," August 2003.

<sup>9</sup> CBO estimates that first year outlays from the Senate Appropriations Committee reported version of the supplemental, S. 1689, will total \$37 billion.

<sup>10</sup> For Lindsey's original comments, see Bob Davis, "Bush Economic Aide Says Cost Of (continued...)"

Budget Director Mitch Daniels, immediately dismissed Lindsey's figures as ill-founded, and the press widely reported Administration estimates that costs would be in the range of \$50 billion.<sup>11</sup> That figure proved reasonable for the war itself and for subsequent stability operations for the remainder of FY2003, but did not take account of later post-war costs.

By March of this year, shortly before the White House submitted its FY2003 supplemental request, some legislators were complaining that the Administration was withholding cost projections so as not to weaken support for pending tax cut legislation. At one point, during the tax debate, the Senate approved an amendment to set aside \$100 billion of the of the tax cut as a hedge against unplanned war costs. Before the war began, several independent estimates of war costs and of post-war expenses were prepared, including assessments by the Congressional Budget Office, the House Budget Committee Democratic Staff, Yale economist William Nordhaus, the Center for Strategic and International Studies, and the Council on Foreign Relations. Several of these independent estimates projected considerably higher costs than the Administration was providing, mainly because the independent projections took account of post-war peacekeeping and reconstruction costs and, in some cases, costs of borrowing funds because the war added to the deficit. For a list of major cost studies, see "For Additional Reading," below.

Estimates of reconstruction costs have become a particular focus of attention in view of the Administration's request for \$20 billion for Iraq. In a widely quoted statement last March, when asked about long-term reconstruction costs in Iraq, Deputy Secretary of Defense Paul Wolfowitz said that

the oil revenues of that country could bring between 50 and 100 billion dollars over the course of the next two or three years. Now, there are a lot of claims on that money, but ... we're not dealing with Afghanistan that's a permanent ward of the international community. We are dealing with a country that can really finance its own reconstruction and relatively soon.<sup>12</sup>

More recently, Secretary of Defense Rumsfeld acknowledged that the U.S. government underestimated Iraq reconstruction costs, saying,

The infrastructure of that country was not terribly damaged by the war at all. It was damaged by 30 years of Saddam Hussein, with a Stalinist-like economy, denying the people of that country the money and the funds and the resources and the investments that they could have had.... Now ... did we underestimate something? Yes. I don't think people really fully understood how devastating that regime was to the infrastructure of the country; how fragile the electric system

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<sup>10</sup> (...continued)

Iraq War May Top \$100 Billion," *Wall Street Journal*, September 16, 2002, p. 1.

<sup>11</sup> See, for example, Elizabeth Bumiller, "Budget Director Lowers Estimate Of Cost Of A War," *New York Times*, December 31, 2002 Pg. 1.

<sup>12</sup> Deputy Secretary of Defense Paul Wolfowitz, before the House Defense Appropriations Subcommittee, March 27, 2003.

is, how poorly the water's being managed, and how — the extent to which the people are being denied.<sup>13</sup>

## Reliability of Current Estimates

Leaving aside the politically contentious issue of past cost estimates, many questions remain about the accuracy of the most recent military and reconstruction cost projections. On the military side, officials have said that they do not believe there will be any need for more U.S. troops in Iraq, first, because the security situation in the country is generally good except in areas, like the “Sunni triangle,” where diehard opposition is concentrated; second, because rapid progress is being made in organizing Iraqi security forces which, the Administration expects, will take up most of the burden;<sup>14</sup> and, third, because of expected contributions of forces from other nations. Cost projections justifying the supplemental request assume that current force levels and the current pace of operations will be maintained for the next year. Whether that is sufficient, however, depends first of all on whether the security situation is improving, as Administration officials insist, or getting worse, as others argue.

There have also been some questions about specific elements of the Defense Department's supplemental funding request. In a hearing of the Senate Appropriations Committee on September 24, Senator Harkin questioned whether several requested projects were war-related emergencies that require immediate funding, including \$293 million for various military construction projects, \$329 million for R&D projects, and \$345 million for base camp housing. Others have raised the opposite question: whether the DOD request understates costs by leaving for the future projects for which it will later need funding. One particular issue is that the request includes relatively little money for “reconstituting” or — in the new DOD vernacular “resetting” — Army forces. The Army estimates that several billion dollars will be required to refill stocks of prepositioned materiel and repair equipment to pre-war standards, but the request does not finance these measures.

In addition, as a recent Congressional Budget Office assessment concluded, it is questionable whether the current force level can be maintained without further extending reserve tours and, perhaps, mobilizing even more reserves, either of which might undermine reserve personnel retention.<sup>15</sup> Several Members of Congress have proposed increasing the size of the Army to ease pressures on the force, though CBO

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<sup>13</sup> Secretary of Defense Donald Rumsfeld before the National Press Club, September 10, 2003.

<sup>14</sup> For a discussion of the status of efforts to reconstitute Iraq's military forces, see Walter Slocombe, Coalition Provisional Authority Special Advisor on Security and Defense, Department of Defense News Briefing on the Status of the New Iraqi Army and Police Force, September 16, 2003. Available electronically at: [<http://www.defenselink.mil/transcripts/2003/tr20030917-0683.html>].

<sup>15</sup> Congressional Budget Office, “An Analysis of the U.S. Military's Ability to Sustain an Occupation of Iraq,” Letter to the Honorable Robert Byrd, September 3, 2003. Available electronically at: [<http://www.cbo.gov/showdoc.cfm?index=4515&sequence=0>].

cautions that this would take up to five years to implement and would subsequently cost \$9-10 billion per year.

On the reconstruction side, officials acknowledge that they originally underestimated significantly the weakness of Iraq's infrastructure and overestimated potential short-term Iraqi oil revenues. Even now, however, different officials project somewhat different upper estimates of likely reconstruction costs. Moreover, how much multilateral donors will contribute to cover the current reconstruction financing gap (\$50 to 75 billion, minus the \$20 billion supplemental and perhaps \$5 to \$6 billion per year from Iraqi oil revenues beginning in 2005) is highly unclear. Undersecretary of State Larson told the Senate Banking Committee on September 16 that, while the Administration believed that bilateral donors and international financial institutions should "make a maximum effort to pay their share," he was not in a position to provide a specific figure until better estimates of reconstruction costs are available. With the Madrid donor conference scheduled for October 23-24, U.N. officials estimate that about \$2 billion for Iraq will be pledged for 2004.<sup>16</sup> On top of this amount, the World Bank plans to recommend to its governing board \$1 billion in concessional and market rate loans to Iraq through June 30, 2005.<sup>17</sup>

## Future Costs

Of all the uncertainties about costs of U.S. operations in Iraq (and Afghanistan), perhaps the greatest is how long the United States will have to maintain a substantial military presence. Secretary of Defense Rumsfeld has said that he does not anticipate that large numbers of U.S. military forces will be required in the long term. Some legislators, however, including some supporters of Iraqi regime change, have said that the United States should expect to be involved for five years or more. Recently Lt. Gen. Carlos Sanchez, who commands U.S. and allied forces in Iraq, said "it's going to be a few years" before the United States can withdraw from Iraq.<sup>18</sup> How long U.S. forces will stay is the main factor affecting long-term estimates of costs. Most recently, the House Budget Committee Democratic Staff has prepared an updated report that projects "that the long-term cost of the war in Iraq and the post-war reconstruction effort will be more than \$178 billion and under plausible assumptions could exceed \$400 billion."<sup>19</sup> By comparison, the Vietnam war, from 1964 through 1973, cost about \$584 billion in FY2003 prices.

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<sup>16</sup> "Donors Seen Pledging \$2 billion to Iraq in Madrid," *Reuters*, October 14, 2003.

<sup>17</sup> "World Bank Considers Lending \$4 Billion to Iraq," *Financial Times*, October 15, 2003.

<sup>18</sup> James O'Shea, "Force Reduction In Iraq 'Years' Off," *Chicago Tribune*, October 5, 2003, Pg. 1.

<sup>19</sup> Hon. John Spratt, "News Release: Spratt Statement on Potential Cost of Operations in Iraq," September 23, 2003. Available electronically at [[http://www.house.gov/budget\\_democrats/news/iraq\\_cost\\_update.htm](http://www.house.gov/budget_democrats/news/iraq_cost_update.htm)]. The full study is, House Budget Committee Democratic Staff, "The Cost of War and Reconstruction in Iraq: An Update," September 23, 2003. Available electronically at [[http://www.house.gov/budget\\_democrats/analyses/iraq\\_cost\\_update.pdf](http://www.house.gov/budget_democrats/analyses/iraq_cost_update.pdf)].

## Issues in Congress

A number of issues have been a focus of legislative attention, including both issues directly related to the supplemental request and some not directly related. Legislative measures that have been proposed or acted on include the following:

- ! proposals to assert congressional oversight;
- ! measures on taxes and domestic priorities;
- ! a measure to review Administration performance in preparing for post-war Iraq;
- ! proposals to provide additional funding for various programs;
- ! a measure to provide health insurance for military reservists;
- ! competitive contracting and limitations on profits of corporations with contracts in Iraq; and
- ! proposals to provide loans rather than grants for Iraq reconstruction.

### Proposals to Assert Congressional Oversight

Several legislators have either mentioned or formally proposed measures to require more information from the Administration about the progress of security and reconstruction operations and about future policy. Senator Levin has said that he and several other Senators are considering a legislative measure setting conditions on reconstruction funds, including a requirement that foreign governments would assist in the reconstruction, and a requirement that the Administration submit a detailed report on the reconstruction plans. Early in the debate over the bill, Senator Feinstein and ten other Democratic Senators introduced a freestanding bill, S. 1594, designed to be attached to the supplemental, that requires an extensive report on Iraq policy. In Senator Feinstein's words,

Our legislation requires the President within 60 days of the enactment of this act to report to Congress on: the current economic, political, and military situation in Iraq including the number, type and location of attacks on U.S. and Coalition military and civilian personnel in the previous 60 days; a discussion of the measures taken to protect U.S. troops serving in Iraq; a detailed plan for the establishment of civil, economic and political security in Iraq, including the restoration of basic services such as water and electricity and the construction of schools, roads, and medical clinics in Iraq; the current and projected monetary costs incurred by the United States, by Iraq, and by the international community; actions taken and to be taken by the Administration to secure increased international participation in peacekeeping forces and in the economic and political reconstruction of Iraq; a detailed time-frame and specific steps to be taken for the restoration of self-government to the Iraqi people; cost estimates for achieving those goals; and U.S. and international military personnel requirements for achieving those goals.<sup>20</sup>

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<sup>20</sup> *Congressional Record*, September 9, 2003, pp. S-11247-11248. In addition to Senator Feinstein, the original co-sponsors are Senators Daschle, Dodd, Lieberman, Johnson, Bingaman, Lincoln, Feingold, Lautenberg, Leahy, and Durbin.



On September 17, Representative Tauscher introduced an identical measure in the House, H.R. 3131, and Representative Thompson of California offered a measure, H.R. 3132, requiring detailed reports as reconstruction assistance to Iraq is released.

On October 1, Senator Daschle mentioned several amendments that he expected Democrats to offer on the supplemental, including a measure to impose strict reporting requirements before reconstruction aid could be released. In its markup of its version of the supplemental appropriations bill, the House Appropriations Committee approved an amendment by Representative Hoyer to establish extensive reporting requirements (see the section on “Congressional Action” below for a further discussion).

## **Taxes and Domestic Priorities**

In a speech at the National Press Club on September 9, Senator Biden announced that he would offer a measure to offset costs of the supplemental by delaying implementation of tax cuts for the top 1% of taxpayers for one year, which, he said, would free up about \$85 billion. On October 1, he, along with Senators Kerry, Chafee, Corzine, Feinstein, and Lautenberg, proposed an amendment to limit the planned reduction in the top marginal income tax rate from 2005 through 2010 sufficiently to increase revenues by \$87 billion. The Senate rejected the amendment on October 2. The Administration has vigorously opposed any offsetting reduction in tax cuts. In effect, both prominent Democrats and the White House are inviting an ongoing debate over the issue.<sup>21</sup> On October 14, Senator Baucus proposed another amendment to offset costs by reducing planned tax cuts. (See below for Senate action on Senator Biden’s amendment and for action in the House Appropriations Committee on a substitute by Representative Obey that included a reduction in tax cuts.)

Funding for domestic programs has also been an issue. Many legislators have criticized the Administration for opposing some domestic spending while asking for larger amounts for similar programs in Iraq, including border security, schools, and prison construction. In the House, Representatives Emanuel and DeFazio will reportedly introduce an amendment requiring parity between money for domestic needs and the amount devoted to Iraq reconstruction. On October 14, the Senate rejected an amendment by Senator Stabenow to reduce reconstruction funding by \$5 billion and transfer the money to domestic priorities. (See below for a further discussion of congressional action).

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<sup>21</sup> For the Biden proposal and the White House response, see Bud Newman, “Bush Calls ‘Absurd’ Democratic Proposal To Skip Tax Cuts to Pay for Iraq, Afghanistan,” *BNA Daily Report for Executives*, September 11, 2003, p. G-11. For the Emmanuel proposal, see “As Appropriators, Rank And File Digest Funding Request,” *National Journal Congress Daily*, September 10, 2003.

## **Administration Performance in Preparing for Post-War Iraq**

Reportedly, the Joint Chiefs of Staff has prepared a classified report, entitled “Operation Iraqi Freedom Strategic Lessons Learned,” that, among other things, identifies failures in preparing for post-war security operations in Iraq.<sup>22</sup> Representative Wexler and 12 co-sponsors, have proposed a resolution, H.Res. 358, that may be offered as an amendment to the supplemental, that requires the President to transmit the report to the House of Representatives.

## **Additional Funding for Various Programs**

Several measures to provide funds for various domestic and international programs have been matters of continuing debate in Congress, and proposals to add funds could very well be offered as amendments to the supplemental. Programs that have been mentioned include homeland security; international HIV/AIDS programs, in which proposed funding has so far fallen about \$1 billion short of anticipated levels; the AmeriCorps volunteer service program, for which Senator Mikulski has proposed adding \$100 million on other appropriations bill, but which could be added to the supplemental if it is not approved earlier. The House Appropriations Committee recommends \$345 million for Liberia peacekeeping and reconstruction and for Sudan, in line with an earlier Dear Colleague letter from Representative Payne and others.

## **Health Insurance for Military Reservists**

The Senate approved an amendment to the FY2004 defense authorization bill that would offer health insurance to non-active duty reservists (of which there are about 800,000) and their families through the DOD TRICARE program. Non-active duty reservists would be allowed access to TRICARE by paying premiums substantially below the average cost of private health insurance. CBO estimates that the provision would cost about \$500 million in FY2004 and over \$2 billion a year by FY2008 as more reservists sign on. The Administration has threatened to veto the authorization if it includes this provision. Supporters have said that they may offer the measure as an amendment to the supplemental if it is not enacted in the authorization. The Senate approved an amendment to its version of the supplemental bill providing health insurance, though only to reservists who are unemployed or ineligible for employer provided insurance (see below under “Congressional Action” for a discussion of Senate action on this issue).

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<sup>22</sup> See “Awaiting Bush’s Supplemental, Hill Bears Down On Approps,” *National Journal Congress Daily AM*, September 15, 2003.

## **Competitive Contracting and Limitations on Profits of Corporations with Contracts in Iraq**

A politically sensitive issue is whether companies like Halliburton, which have been awarded non-competitive contracts for support of U.S. forces and for reconstruction activities in Iraq, may be earning excessive profits. Some legislators have mentioned measures to address the issue. Representative Maloney has introduced the Clean Contracting in Iraq Act of 2003 (H.R. 3275), for example. In its markup, the Senate Appropriations Committee approved an amendment by Senator Leahy to stiffen penalties for fraud and profiteering on contracts for Iraq (see below for Senate action on this issue). The House Appropriations Committee version of the bill includes a measure to limit non-competitive procedures for reconstruction contracts (see “Congressional Action” below for House action on this issue).

## **Loans Rather than Grants for Iraq Reconstruction**

Some Members have drafted amendments that would require some portion of the \$20.3 billion Iraq reconstruction request to be guaranteed by Iraqi oil or extended as loans rather than grants. The Administration’s proposal calls for all assistance to be provided on a grant basis. As noted below under “Congressional Action” section, an amendment offered, but tabled (15-14), during Senate Appropriations Committee markup by Senator Dorgan would have created an Iraq Reconstruction Finance Authority that would obtain financing for infrastructure rehabilitation by collateralizing the revenue from future sales of Iraq oil. The full Senate, on October 14, tabled (57-39) the same amendment by Senator Dorgan. Representative Wamp offered, but withdrew under White House pressure, a proposal during House Committee markup that would have made half of the reconstruction available only after an elected government was in place and only on a loan basis.

Senator Hutchison and others have introduced an amendment (S.Amdt. 1798) that would direct \$10 billion of the proposed \$20.3 billion supplemental to an Iraq Reconstruction Trust Fund, to be created within the World Bank, that would issue loans and loan guarantees to implement economic development projects in Iraq. Any U.S. contribution to the Fund would require a matching pledge from other bilateral donors. After six months, if the Trust Fund had not been established, the \$10 billion would transfer to the CPA and be used for reconstruction loans to the Iraq Governing Council. There are, however, legal questions as to who could assume responsibility in the near term for accepting sovereign loans and concerns raised by the Administration, of increasing Iraq’s already large and currently unserviceable debt. Additional legislative proposals could come up as congressional action proceeds. (For more discussion, see below under sections on Congressional Action and Iraq Reconstruction Issues.)

## Congressional Action

On October 9, the House Appropriations Committee marked up its version of a supplemental appropriations bill providing funds for ongoing military operations and for reconstruction assistance in Iraq and Afghanistan. Floor action began on October 15. The Senate Appropriations Committee marked up its version of a bill, S. 1689, on September 30, and the Senate began floor debate on October 1. Debate resumed on October 14.

### Senate Appropriations Committee Markup

As proposed by Committee Chairman Ted Stevens and as agreed to by the committee, the reported bill provides the amounts requested both for defense and for foreign operations, though with some shifts of funds among various activities.

For defense, the bill provides \$65.560 billion, equal to the amount requested. The committee bill makes some minor changes in requested equipment funding and, most notably, rejects an Administration proposal to revise military personnel benefits. In action on some key issues, the Senate committee bill

- ! Extends through FY2004 an increase in Imminent Danger Pay and in Family Separation Allowances that Congress provided in the April 2003 Wartime Emergency Supplemental. The Administration proposed eliminating these increased benefits after December 31, 2003, and instead using an increase in amounts of Hazardous Duty Pay to provide the same amounts to troops deployed in conflict areas (see below for a further discussion).
- ! Provides an additional \$962 million for Army operations and maintenance and procurement funding for materiel and activities such as body armor for soldiers in Iraq and Afghanistan, battlefield ordinance cleanup, transportation of damaged combat equipment to depots, communications equipment, and replenishment of Army prepositioned stocks used in combat. These increases are offset by reductions in Air Force, Navy, and Defense-Wide accounts.
- ! Provides the Defense Department with the authority to transfer up to \$2.5 billion among defense accounts without advance congressional approval rather than \$5 billion as requested by the Administration. The bill also, however, provides authority for DOD to transfer an additional \$5 billion subject to approval by the House and Senate Appropriations Committees. Senator Byrd has proposed measures to limit the funding flexibility the bill provides.
- ! Allows DOD to transfer \$150 million into unplanned military construction projects rather than the \$500 million requested.
- ! Provides \$200 million to provide training and equipment to the new Iraqi Army and the Afghan National Army. The Administration had

requested the funds for forces in Iraq, Afghanistan, and “other nearby regional nations.”

- ! Provides \$1.0 billion for “coalition support” to reimburse Pakistan, Jordan, and other cooperating nations for logistical and other support to U.S. operations. This is \$400 million less than the Administration requested.

Although there was some debate about the defense request, most of the debate during the Senate markup concerned reconstruction funds. The committee rejected an amendment by Senator Byrd to eliminate most of the reconstruction funds — except for amounts for security — leaving reconstruction to be considered later in a separate measure. The committee also rejected an amendment by Senator Byrd to limit the transfer authority for defense programs that the bill provides.

For Iraq and Afghanistan reconstruction and other global war on terrorism, S. 1689 provides \$21.445 billion, as requested, supports the full request for Afghanistan, and makes small changes in other areas.

Regarding Iraq reconstruction, the Senate Appropriations Committee supports the total funding request of \$20.3 billion and provides the President with the flexibility to allocate resources to any federal account. This would allow the Coalition Provisional Authority, headed by Ambassador Bremer who reports to the Secretary of Defense, to continue its coordination role and control over reconstruction funding. The Senate-reported measure, however, deletes the \$60.5 million requested for U.S. diplomatic facilities in Iraq, noting that these funds were previously provided in the FY2003 emergency supplemental measure (P.L. 108-11). The Administration, however, had planned to use these supplemental resources for what it considered as more urgent needs for an interim USAID mission in Kabul and training for the Afghan transitional government. Instead, S. 1689 provides a separate \$60.5 million appropriation for USAID’s Capital Investment Fund to meet the requirements in Afghanistan, making the FY2003 supplemental funds available for U.S. facilities in Baghdad.

Other additions and changes made by the Senate panel would

- ! earmark \$100 million of the \$20.3 billion total for democracy-building activities in Iraq;
- ! require full and open competitive contracting procedures (waivable);
- ! apply current and future USAID standards related to meeting the needs of disabled persons to activities in Iraq and Afghanistan;
- ! ensure that a new Iraqi constitution preserves full rights to religious freedom;
- ! prohibit any funds from being used to repay debts incurred by the former government of Saddam Hussein; and
- ! impose fines and criminal charges against persons engaged in war profiteering and fraud relating to military action, relief, and reconstruction in Iraq.

Also during Senate Committee markup, the panel tabled (15-14) two amendments by Senator Dorgan related to reducing U.S. costs of rebuilding Iraq. The first would have created an Iraq Reconstruction Finance Authority that would use future Iraq oil revenues to secure financing for reconstruction projects. Senator Dorgan argued that the Iraq Governing Council had sufficient authority to create such a facility and to raise money that could reduce the size of proposed U.S. expenditures. Senator Dorgan subsequently re-introduced the amendment for Senate floor debate, at which time the Senate tabled the proposal 57-39. The second Dorgan amendment considered during Committee markup would have converted the reconstruction package from grants to loans. Opponents of the Dorgan amendments maintained that adding to Iraq's already sizable debt obligations would enormously complicate the difficult task of stabilizing the economy. Also tabled during markup (15-14) was a proposal by Senator Harkin that would have reduced reconstruction funds to \$10 billion and delayed submission of additional requests until the President had reported on contributions made by other donors and submitted a detailed reconstruction plan.

For other matters concerning the global war on terrorism, S. 1689, as reported, approves the President's request for a \$100 million emergency fund for complex foreign crises. The Senate Appropriations Committee expressed support for using the contingency fund for peace and humanitarian efforts, such as those required in Liberia. The bill further authorizes the use of \$200 million for Pakistan debt relief pending in the regular FY2004 Foreign Operations bill and extends through FY2004 the waiver of foreign aid restrictions that applied to Pakistan prior to September 11, 2001. Beyond agreeing to \$50 million proposed for Emergencies in the Diplomatic and Consular Services for rewards for Osama bin Laden and Saddam Hussein, S. 1689 adds \$41 million for two other specific purposes:

- ! reimbursement to New York City for additional costs of protecting foreign missions and officials since September 11 (\$32 million); and
- ! costs of the 2003 Free Trade Area of the Americas Ministerial meeting (\$8.5 million).

The Senate measure further includes \$40 million, as requested, for USAID operating expenses in Afghanistan and Iraq, plus an additional \$60.5 million for construction and upgrades of more secure overseas USAID facilities.

## Senate Floor Debate and Amendments

The Senate began floor consideration of S. 1689 on October 1 and continued on October 2, 3, and, after recess, on October 14.

**Amendments Considered.** The major debates in the initial days of floor action were over an amendment by Senator Byrd to eliminate \$15.2 billion of the \$20.3 billion requested for Iraq reconstruction in order to review the proposal more closely and consider it at a later point; and an amendment by Senator Biden that would have suspended a portion of tax reductions in order to pay the costs of Iraq security and reconstruction. The Senate rejected both proposals: it voted down the Byrd amendment by a vote of 38-59 and tabled the Biden amendment by a vote of 57-42.

Overall, during the four days of debate, the Senate acted on 15 amendments, adopting 8 and rejecting 7. Those adopted include the following:

- ! a provision by Senators Collins and Wyden (S.Amdt. 1820) to require all contracts over \$1 million military purposes and reconstruction in Iraq to use full and open competition procedures unless the executive agency responsible for the contract justifies the reasons for using a non-competitive process;
- ! an amendment by Senators Murray and Durbin (S.Amdt. 1822) requiring that a number of women's issues be given priority in reconstruction programs in Iraq and Afghanistan;
- ! a proposal by Senators Voinovich and Lott (S.Amdt. 1808) requiring a report within 6 months on efforts made by the United States to increase contributions by other nations and organizations for Iraq reconstruction, the status of pre-war Iraqi debt, and the prospect for repayment of infrastructure costs by Iraq;
- ! an amendment by Senators Daschle and Graham of South Carolina (S.Amdt. 1816) to offer health insurance under the Defense Department-run TRICARE program to reservists and their families who are either unemployed or who are not eligible for employer-sponsored health insurance (see below, under "Military Personnel Benefits," for a description of the specific proposal); and
- ! a measure proposed by Senators Reed and Kennedy (S.Amdt. 1812), to increase by \$191.1 million the amount provided up-armored High Mobility Multipurpose Wheeled Vehicles offset by a cut in funds in the Iraq Freedom Fund.

The Senate also rejected the following amendments:

- ! an amendment by Senators Leahy and Daschle (S.Amdt. 1803, tabled by a vote of 56-42) to place the Coalition Provisional Authority under the direct authority and foreign policy guidance of the Secretary of State (tabled 56-42); and
- ! an amendment by Senator Dodd (S.Amdt. 1817) to provide an additional \$322 million for safety equipment for United States forces in Iraq offset by reducing the amount provided for reconstruction (tabled by 49-37);
- ! an amendment by Senator Bingaman (S.Amdt. 1830) to authorize the award of the Iraqi Liberation Medal as a campaign medal for members of the Armed Forces who serve in Southwest Asia in connection with Operation Iraqi Freedom (rejected 47-48, October 14);

- ! an amendment by Senator Stabenow (S.Amdt. 1823) to reduce Iraq reconstruction funds by \$5.03 billion and to provide an equal amount of additional spending for domestic education, veterans, health, and transportation programs (tabled by 59-35, October 14); and
- ! an amendment by Senator Dorgan (S.Amdt. 1826) to require that Iraqi oil revenues be used to pay for reconstruction in Iraq (tabled by 57-39, October 14).

**Amendments Pending.** As the Senate continues its consideration of S. 1689, several Senators have introduced amendments with the intention of reducing the U.S. costs of Iraq reconstruction, either through a cut in the total appropriation and redirecting the funds to another purpose or by making Iraq responsible for repaying reconstruction loans or using its oil to secure loans.

**Reconstruction Transfers as Loans.** Senator Hutchison and others propose (S.Amdt. 1798) that the Secretary of the Treasury negotiate with the World Bank and member nations of the Bank to create within World Bank an Iraq Reconstruction Trust Fund. Under the terms of the Hutchison amendment, the Fund would be governed by a Board of Trustees made up of a U.S. official and five others representing the top country contributors to the Trust Fund. The Board would use Trust Fund contributions to extend loans and loan guarantees for projects advancing economic development in Iraq. Of the \$20.3 billion appropriated Iraq reconstruction, the amendment would direct \$10 billion to the Trust Fund, although the U.S. contribution could not exceed the total amount pledged by other nations. After 6 months, if the Trust Fund had not been established, the \$10 billion would be transferred to the Coalition Provisional Authority, which would loan to, or guarantee loans made by, the Iraq Governing Council.

Another proposal by Senators Bayh and Nelson (S.Amdt. 1815) would require that prior to the obligation of non-security reconstruction funds, each country that is owed debt incurred during the Saddam Hussein regime forgives such debt. Otherwise, after 6 months, reconstruction appropriations would be transferred to an account for use as a loan to the Iraq Governing Council.

As discussed in more detail below, under the section on Iraq Reconstruction Issues, there remain a number of legal and political challenges to implementing a loan or oil collateralization mechanism. Whether the Iraq Governing Council has sufficient authority to assume loan obligations, as assumed in the Bayh and Dorgan amendments, or whether the World Bank and member states would agree to establish a Trust Fund along the lines envisioned in the Hutchison amendment remain open questions. Administration officials have argued against such proposals, largely on the grounds that Iraq already faces severe debt and reparations claims that should not be further complicated with new loans.

**Reductions in Reconstruction Costs.** Some pending amendments propose to reduce appropriations for Iraq reconstruction and redirect the funds for other purposes:



- ! a proposal by Senators Dodd and Corzine (S.Amdt. 1817) would reduce reconstruction amounts by \$322 million for security and private sector programs and use the savings for added safety equipment for U.S. military personnel;
- ! an amendment by Senators Byrd and Durbin (S.Amdt. 1819) would restrict the use of funds for a series of specified projects and use the \$600 million for securing and destroying conventional munitions in Iraq;
- ! a provision by Senators Byrd, Leahy, and Kennedy (S.Amdt. 1818) would allow only \$5 billion of non-security Iraq reconstruction funds to be used prior to April 1, 2004; after April 1, the remaining funds would become available if the President issues certain certifications and Congress approves a subsequent appropriations law approving the additional funds;
- ! a proposal by Senators Chafee and Leahy (S.Amdt. 1807) would cut Iraq reconstruction by \$100 million, using the funds as part of a \$200 million relief, rehabilitation, and reconstruction aid package for Liberia.

Other pending amendments in the Senate include measures to increase the size of the Army, to permit full concurrent receipt of military retired pay and veterans disability benefits, and to increase Veteran's Administration funding. These measures include

- ! an amendment by Senators Reed, Hagel, and Levin (S.Amdt. 1834) to increase the end strength of the Army by 10,000, to structure the additional forces for constabulary (i.e., peacekeeping) duty, and to allocate \$409 million from funds provided in the bill for the Iraq Freedom Fund to cover the costs in FY2004;
- ! an amendment by Senators Bond, Mikulski, Dorgan, and Jeffords (S.Amdt. 1825) to add \$1.3 billion for Department of Veterans Affairs health care;
- ! an amendment by Senators Reid and Lincoln (S.Amdt. 1835) to permit full concurrent receipt of military retired pay and VA disability compensation (the Senate added a similar provision to the FY2004 defense authorization bill, which remains in conference);
- ! an amendment by Senator Lincoln (S.Amdt. 1829) to provide tax relief to military families;
- ! an amendment by Senator Baucus (S.Amdt. 1831) to reverse the accelerated reduction of top income tax rates in the 2001 tax act;
- ! an amendment by Senator Leahy (S.Amdt. 1833) to require a Senate confirmed official to oversee reconstruction funds (identical to a requirement in the House-reported version of the bill);

- ! an amendment by Senator Reid (S.Amdt. 1836) to permit citizens held as POWs or as “human shields” in the 1991 Gulf War to pursue damages in court; and
- ! an amendment by Senators Durbin, Mikulski, and Corzine (S.Amdt. 1837) to ensure that federal employees who take leave without pay when called up to serve in the National Guard shall continue to receive total pay at least equal to base civilian pay.

## House Appropriations Committee Markup

The House marked up its version of a supplemental appropriations bill (H.R. 3289) on October 9. As approved by the House Appropriations Committee, the bill

- ! provides \$86.9 billion in total, \$184 million below the request;
- ! provides \$18.65 billion for Iraq reconstruction, \$1.65 billion below the request;
- ! provides \$1.2 billion for Afghanistan reconstruction, \$400 million above the request;
- ! moves \$858 million from the defense part of the bill to the foreign operations part to cover operating expenses of the Coalition Provisional Authority in Iraq; and
- ! adds \$544 million to the defense part of the bill to cover Hurricane Isabel damage at military facilities.

In the defense part of the bill, the committee bill also

- ! adds funds for force protection and unexploded ordnance clearing, offset by cuts elsewhere;
- ! allows the Army to contract out for security guards at military facilities in the United States to replace 7,000 to 10,000 reserve personnel mobilized for those duties;
- ! as in the Senate version of the bill, extends through FY2004 increases in Imminent Danger Pay and Family Separation Allowances provided in the April 2003 Wartime Emergency Supplemental and rejects the Administration proposal to instead use Hardship Duty Pay to increase pay to deployed personnel;
- ! provides the Defense Department with the authority to transfer up to \$3.0 billion among defense accounts without advance congressional approval rather than \$5 billion as requested by the Administration (the Senate bill provides \$2.5 billion for transfer without advance congressional approval plus \$5 billion subject to prior approval by the defense appropriations subcommittees);

- ! allows DOD, as requested, to transfer up to \$500 million into unplanned military construction projects, rather than the \$150 million allowed in the Senate bill;
- ! provides \$100 million to provide training and equipment to the new Iraqi Army and the Afghan National Army, rather than the \$200 million provided in the Senate bill – the Administration had requested \$200 million for forces in Iraq, Afghanistan, and “other nearby regional nations;” and
- ! provides \$1.3 billion for “coalition support” to reimburse Pakistan, Jordan, and other cooperating nations for logistical and other support to U.S. operations, rather than the \$1.4 billion requested or the \$1.0 billion in the Senate bill.

In the Iraq/Afghanistan reconstruction part of the bill, the committee bill

- ! provides all Iraq reconstruction in the form of a grant, as requested;
- ! cuts Iraq reconstruction by reducing by \$300 million funds for proposed prison modernization and construction, \$153 million for recommended solid waster management programs (including trash trucks), \$335 million for transportation and communication projects (including zip codes), \$100 million for 7 new housing communities, \$150 million for a new children’s hospital in Basra, and \$200 million for an American-Iraqi Enterprise Fund (see **Table 5**, below, for more details on sector and project adjustments);
- ! provides full or near-full funding for security and law enforcement (\$3.2 billion), electrical generation and distribution infrastructure (\$5.56 billion), and oil infrastructure (\$2.1 billion), and adds \$100 million for modernizing medical facilities (\$493 million total) and \$90 million for education programs;
- ! increases funding for Afghan reconstruction from \$799 million proposed to \$1.2 billion, adding resources for road construction, private sector development, power generation, education, and improved governance;
- ! limits the use of non-competitive contracts for Iraq, but with a presidential waiver;
- ! continues the organizational structure for Iraq reconstruction of Ambassador Bremer reporting to the President through the Secretary of Defense; and
- ! prohibits the use of funds to pay Iraq’s foreign debts.

The Committee bill further adds several items unrelated to Iraq and Afghan reconstruction issues concerning Pakistan, Liberia, and victims of September 11:

- ! The Administration had requested authority (but not money) to use \$200 million in Economic Support Funds (ESF) pending in the regular FY2004 Foreign Operations Appropriation (H.R. 2800 and S. 1469) for Pakistan debt reduction. The House Committee grants this authority, plus provides \$200 million in ESF to fund debt restructuring;
- ! Responding to international calls for additional humanitarian relief aid and finances for a U.N. peacekeeping force, the House measure adds \$100 million for disaster and famine support and \$245 million for a U.S. contribution to a U.N. peacekeeping operation. The disaster relief money can also be used in Sudan; and
- ! The House Committee includes \$15 million for the Department of Justice September 11 Victims Compensation Program.

During the markup, the committee agreed to a manager's amendment by committee Chairman Bill Young that –

- ! adds \$150 million for Hurricane Isabel storm damage at military and Coast Guard facilities to the \$413 million in the chairman's mark, for a total of \$544 million; and
- ! prohibits the use of any funds in the bill for defense or reconstruction activities "coordinated by any officer of the United States Government" not subject to confirmation by the Senate.

The latter provision is a response to the White House decision, announced on October 6, to give White House National Security Advisor Condoleezza Rice responsibility for coordinating Iraq reconstruction activities. The issue for Congress is that officials not subject to Senate confirmation are not readily available to provide congressional testimony. (See below for a further discussion of issues regarding management of reconstruction funds.)

The committee also accepted a number of other amendments, including proposals

- ! by Representative Hoyer to require the President to submit a quarterly report on reconstruction in Afghanistan and Iraq, the security situation, troop requirements, and other matters;
- ! by Representative Wolf requiring the General Accounting Office to review most reconstruction contracts;
- ! by Representative Lowey to shift \$90 million of Iraq reconstruction funds to education;
- ! by Representative Cunningham to ensure that impact aid to local school districts is not reduced if both parents of a student are deployed abroad;
- ! by Representative Kolbe to strengthen requirements in the bill regarding competitive bidding on reconstruction contracts;

- ! by Representative Hinchey to prohibit funding for foreign military units that are credibly suspected of violating human rights;
- ! by Representative Nethercutt to allocate 10% of reconstruction funds administered by the U.S. Agency for International Development to small and minority-owned businesses;
- ! by Representative Nethercutt to require the Secretary of Defense to submit to Congress within 30 days an analysis of alternatives for replacing the existing Air Force fleet of KC-135 tanker aircraft; and
- ! by Representative Bonnilla, regarding repatriation of illegal immigrants (two amendments).

The Nethercutt amendment regarding tanker aircraft has to do with an Air Force proposal to lease 100 Boeing 767 aircraft as tankers that is currently being held up. The Senate removed an identical provision from its version of the bill in floor action on October 2. Some regard this measure as a place holder allowing the appropriations committees to provide funds for the lease in a conference report on the bill.

The committee rejected (by a recorded vote of 25-36) a substitute amendment by Representative Obey that would

- ! transfer \$4.6 billion from Iraq reconstruction to defense to among other things, increase the size of the Army by 20,000, increase funding for force protection measures, expand health care for military personnel, and increase family support services;
- ! require that half the remaining \$14 billion in reconstruction aid (i.e., \$7 billion) be provided as loans through the World Bank;
- ! require that other donors make a matching contribution of 50%; and
- ! reduce tax cuts to offset costs.

Representative Wamp brought up but then withdrew a widely discussed amendment to provide half of the reconstruction money for Iraq as loans. Representative Culberson brought up but also withdrew an alternative measure that would require the President to ensure that the United States is ultimately reimbursed for the reconstruction funds.

Other measures that the committee rejected include amendments

- ! by Representative Goode to eliminate all Iraq reconstruction funds;
- ! by Representative Jackson to add \$100 million for assistance to Liberia;
- ! by Representative Hinchey to require information on non-competitive contracts for activities in Iraq entered into after September 30, 2002; and
- ! by Representative Obey to add \$14 billion to buy, rather than lease, Boeing 767 tanker aircraft.

## Military and Intelligence Operations: Overview and Issues

The Administration proposal devotes \$66 billion of the \$87 billion total to military and intelligence operations in Iraq, Afghanistan and elsewhere. On September 21, the Administration provided Congress with backup material justifying the request. **Table 3** provides a breakdown of the proposed funding as the Defense Department presented it. Several aspects of the request are worth noting, including

- ! basis of the cost projections,
- ! funding flexibility,
- ! authority to train and equip foreign military forces, and
- ! military personnel benefits.

**Table 3. Department of Defense FY2004 Supplemental Request**  
(amounts in millions of dollars)

	Military Operations	Depot Maintenance	Procurement and RDT&E	Military Construction	Defense Working Capital Fund	Other	Total
Iraq Freedom Fund (IFF) Transfers	1,988.6	-	-	-	-	-	1,988.6
Military Personnel [Subtotal of IFF]	[778.8]	-	-	-	-	-	[778.8]
Other [Subtotal of IFF]	[1,209.8]	-	-	-	-	-	[1,209.8]
Military Personnel, Army	12,858.9	-	-	-	-	-	12,858.9
Military Personnel, Navy	816.1	-	-	-	-	-	816.1
Military Personnel, MC	753.2	-	-	-	-	-	753.2
Military Personnel, Air Force	3,384.7	-	-	-	-	-	3,384.7
O&M, Army	21,674.9	1,221.7	-	-	-	1,293.9	24,190.5
O&M, Navy	1,268.2	775.0	-	-	-	45.0	2,106.2
O&M, MC	1,128.0	71.0	-	-	-	-	1,199.0
O&M, MC Reserve	16.0	-	-	-	-	-	16.0
O&M, Air Force	5,484.3	419.0	-	-	-	45.0	5,948.3
O&M, Air Force Reserve	-	53.0	-	-	-	-	53.0
O&M Air National Guard	10.0	204.0	-	-	-	-	214.0
O&M, Defense-Wide	3,119.1	99.3	-	-	-	1,400.0	4,618.4
Drug Interdiction and Counter-Drug Activities, Defense	73.0	-	-	-	-	-	73.0
Defense Health Program	658.4	-	-	-	-	-	658.4
Overseas Humanitarian Disaster & Civic Aid	35.5	-	-	-	-	-	35.5
Aircraft Procurement, Navy	-	-	128.6	-	-	-	128.6
Aircraft Procurement, Air Force	-	-	41.0	-	-	-	41.0
Procurement, MC	-	-	123.4	-	-	-	123.4
Procurement, Defense-Wide	-	-	435.6	-	-	-	435.6
Other Procurement, Army	-	-	930.7	-	-	-	930.7
Other Procurement, Navy	-	-	76.4	-	-	-	76.4

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	Military Operations	Depot Maintenance	Procurement and RDT&E	Military Construction	Defense Working Capital Fund	Other	Total
Other Procurement, Air Force	-	-	3,441.0	-	-	-	3,441.0
Missile Procurement, Army	-	-	6.2	-	-	-	6.2
Missile Procurement, Air Force	-	-	20.5	-	-	-	20.5
Procurement of Weapons & Tracked Combat Vehicles, Army	-	46.0	-	-	-	46.0	
RDT&E, Navy	-	-	34.0	-	-	-	34.0
RDT&E, Air Force	-	-	39.1	-	-	-	39.1
RDT&E, Defense-Wide	-	-	265.8	-	-	-	265.8
National Defense Sealift Fund	-	-	-	-	24.0	-	24.0
Defense Working Capital Fund	-	-	-	-	600.0	-	600.0
Military Construction, Army	-	-	-	119.9	-	-	119.9
Military Construction, Air Force	-	-	-	292.6	-	-	292.6
Intelligence Community Management Account	-	-	-	-	-	21.5	21.5
<b>Total Requirements</b>	<b>53,286.8</b>	<b>2,843.0</b>	<b>5,588.3</b>	<b>412.5</b>	<b>624.0</b>	<b>2,805.4</b>	<b>65,560.0</b>

**Source:** Department of Defense, "FY2004 Supplemental Request for Operation Iraqi Freedom (OIF), Operation Enduring Freedom (OEF), and Operation Noble Eagle (ONE)," September 21, 2003.



## **Basis of the Cost Projections**

According to DOD officials, the request is based, first, on the assumption that current force levels and the current pace of operations will be maintained throughout FY2004, although it assumes some change in the mix of active and reserve forces deployed. DOD and OMB backup material on the request notes that the number of Army combat divisions in Iraq will be reduced, but this will not substantially affect the total number of personnel deployed in Southwest Asia and nearby areas in support of Operation Iraqi Freedom and Operation Enduring Freedom (in Afghanistan).

The requested is based, second, on the use of a model for estimating costs of military operations known as the “Contingency Operations Support Tool” (COST). The COST model was developed by the Institute for Defense Analyses (IDA) in the late 1990s under a contract from the Department of Defense Comptroller following problems the Defense Department had in accurately projecting costs of operations in the mid-1990s. Using inputs of data about the duration of an operation, the number and original location of units to be deployed, means of transportation both to deploy and to sustain forces, and unique expenses, and relying on historical cost factors based on earlier operations, the model can provide quite detailed breakdowns of projected costs in advance of an operation.

Although these projections are not technically considered “budget quality” data for purposes of making congressional requests, the estimates resulting from the model appear to be the most reliable available advance projections of costs of an operation, though actual expenses may differ as operations unfold. One question for Congress may be why the Defense Department is using COST model data now, but did not choose to provide COST model figures to Congress last spring in advance of the war. An answer may be the Defense Department did not feel in a position to provide an estimate of war costs until a final decision was made to go to war, and the size and composition of the force remained in flux until very shortly before the war began. DOD’s new cost estimates appear to be substantially higher, on a per troop basis, than recent estimates by the Congressional Budget Office.

## **Funding Flexibility**

An ongoing issue between the Administration and Congress — particularly the appropriations committees — has been how much flexibility the Defense Department needs to reallocate funds after they are appropriated. In the FY2003 Emergency Wartime Supplemental, the Administration proposed that \$59.9 billion of the \$62.6 billion it requested for the Department of Defense be provided in a flexible transfer account called the Iraq Freedom Fund. Congress agreed to provide \$15.7 billion in the fund, some of which was subject to additional ceilings on expenditures. In the new request, the Defense Department asked for \$2.0 billion to be appropriated into the Iraq Freedom Fund, while the rest is requested in regular appropriations accounts. The Iraq Freedom Fund amount is, in effect, a contingency fund, that DOD says it will use either to support a multinational division or, if allied forces are not available,

to deploy two Army National Guard Enhanced Separate Brigades and one Marine Expeditionary Force.<sup>23</sup>

The Defense Department also requested authority to transfer \$5 billion between appropriations accounts provided that “the Secretary shall notify the Congress promptly of each transfer made pursuant to this authority.” According to DOD, “promptly” means that the Secretary will inform Congress within five days after such transfers. This money, therefore, would not be subject to normal limitations on “transfers” — or, in DOD parlance “reprogramming” of funds — in which transfers above certain thresholds require advance approval of congressional defense committees. In addition, in another proposed general provision, the Defense Department has requested that \$500 million of the amounts appropriated be available for a contingency construction account for military construction projects that are not otherwise authorized by law.<sup>24</sup> (See above for a discussion of Senate and House Appropriations Committee action on these proposals.)

### **Authority to Train and Equip Foreign Military Forces**

Though not a budget item, *per se*, one element of the request reintroduces an issue that has been controversial in Congress in the past. The request includes a proposal to provide the Defense Department with general authority to use up to \$200 million of available funds for “training and equipping” military forces in Iraq, Afghanistan and “other friendly nearby regional nations” to carry out counter-terrorism operations and support U.S. military operations in Iraq and Afghanistan. In earlier funding bills, Congress has agreed to Administration requests to provide money, termed “coalition support,” to reimburse nations, such as Pakistan and Jordan, that have provided material support for U.S. military operations, and to “lift and sustain” foreign troops, such as the Polish forces now in Iraq, that are directly participating in operations. The new request includes \$1.4 billion for coalition support, and additional amounts to lift and sustain multinational forces.

Congress has, however, rejected repeated Administration requests for funds for the Defense Department to train and equip foreign militaries, which would be, in effect, a DOD-run military assistance program not approved through the usual congressional budget procedures and not subject to human rights and other provisions of standing law governing U.S. foreign aid. Most recently, the Administration requested \$200 million for that purpose in the regular FY2004

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<sup>23</sup> An Army National Guard brigade, like active duty brigades, normally has about 3,000 personnel. (Three combat brigades are typically in a division, which also includes additional support units – full divisions range from about 10,000 to 15,000 personnel.) A Marine Expeditionary Force (MEF) typically includes 30,000-50,000 personnel, including ground combat units, air units, and support units. It seems unlikely that a full MEF would be deployed for peacekeeping in Iraq. More likely, only ground elements of a Marine Expeditionary Brigade (MEB), about 3,000 troops, would be deployed.

<sup>24</sup> See Department of Defense, “FY2004 Supplemental Request for Operation Iraqi Freedom (OIF), Operation Enduring Freedom (OEF), and Operation Noble Eagle (ONE),” September 21, 2003. For the Iraq Freedom Fund request, see p. 46, and for the general transfer authority and construction contingency fund request, see pp. 65-66.

appropriations, but neither the House nor the Senate approved the request in any version of the regular FY2004 defense authorization or appropriations bills. The new request differs in that it is limited to support for nations in the region of Iraq and Afghanistan. The Senate Appropriations Committee agreed to provide \$200 million to train and equip the new Iraqi Army and the Afghan National Army, and the House Appropriations Committee provided \$100 million (see above). Both committees also required 15 days' advance notification to Congress before obligating funds.

## **Military Personnel Benefits**

In the April 2003 Emergency Wartime Supplemental (P.L. 108-11), Congress increased Imminent Danger Pay (from \$150 to \$225 per month) and the Family Separation Allowance (from \$100 to \$250 per month). These increases expire at the end of FY2003 on September 30. The House and Senate have taken somewhat different approaches to extending these benefits permanently in their versions of the FY2004 defense authorization bill (H.R. 1588). In its supplemental proposal, the Defense Department is requesting that the increased Imminent Danger Pay and Family Separation Allowance payments continue through December 31, 2003. After that, DOD requests that it be permitted instead to provide \$225 per month in additional Hardship Duty Pay to personnel serving "in a combat zone" in Operation Iraqi Freedom and Operation Enduring Freedom. DOD argues that this would equalize pay between troops deployed in combat zones; troops with dependents now receive more because of the Family Separation Allowance. It may also mean, however, that troops not actually deployed "in a combat zone" would receive less, so there may be some opposition from military advocacy groups and in the Congress. The Senate Appropriations Committee rejected the Administration request and instead extended increased Imminent Danger Pay and Family Separation Allowances through FY2004.

Another significant issue in Senate action on the supplemental is whether to provide health insurance for non-deployed military reservists. As noted above, the Senate approved an amendment to the FY2004 defense authorization bill that would allow non-activated reservists to sign up for health insurance for themselves and their dependents through the DOD-run TRICARE program. The Administration has threatened to veto the authorization if it includes this provision. In floor action on the supplemental, the Senate approved an amendment by Senators Daschle and Graham of South Carolina to offer health insurance to reservists through TRICARE, though with somewhat different provisions from those in the Senate version of the FY2004 authorization. Specifically, the Daschle-Graham amendment is available only to reservists who are receiving unemployment compensation or who are not eligible for an employer-sponsored health insurance plan. The measure also requires a co-payment of 28% of the value of the plan, on the model of the federal government's FEHBP insurance plan for civilian employees. So the Daschle-Graham amendment is much more limited and more targeted than the Senate provision in the FY2004 defense authorization bill.

## **Iraq/Afghanistan Reconstruction and Other Global War on Terrorism Foreign Policy Initiatives**

The Administration seeks a total of \$21.44 billion in its FY2004 supplemental for reconstruction activities in Iraq and Afghanistan and for other foreign policy programs related to the global war on terrorism. As shown in **Table 4** \$20.44 billion would be allocated for Iraq. To put the amount of resources in some perspective, Congress appropriated about \$9.6 billion in FY2003 for similar activities, including Iraq reconstruction and aid to the “front-line” states in the global war on terrorism, and has been considering funding requests totaling roughly \$4.9 billion in the pending FY2004 Foreign Operations appropriation bill (H.R. 2800/S. 1426).

**Table 4. Iraq, Afghanistan, Other Foreign Policy Funding**  
(billions of dollars)

Activity	Request	Senate	House
<b>Iraq</b>	<b>\$20.415</b>	<b>\$20.354</b>	<b>\$19.597</b>
Reconstruction and security	\$20.304	\$20.304	\$18.649
CPA Operating Expenses	<sup>a</sup>	<sup>a</sup>	\$0.858
U.S. diplomatic facilities	\$0.061	<sup>b</sup>	<sup>b</sup>
Peacekeeping for a multinational division <sup>c</sup>	\$0.050	\$0.050	\$0.050
Broadcasting to Iraq	\$0.000	\$0.000	\$0.040
<b>Afghanistan <sup>d</sup></b>	<b>\$0.799</b>	<b>\$0.860</b>	<b>\$1.218</b>
Economic reconstruction	\$0.422	\$0.422	\$0.672
Train, equip, deploy police	\$0.120	\$0.120	\$0.170
Military aid for Afghan army	\$0.222	\$0.222	\$0.297
Anti-terrorism training/Karzai protection	\$0.035	\$0.035	\$0.035
Kabul Embassy annex	\$0.000	\$0.000	\$0.044
USAID interim facility <sup>a</sup>	\$0.000	\$0.061	\$0.000
<b>Other Global War on Terrorism</b>	<b>\$0.266</b>	<b>\$0.231</b>	<b>\$0.410</b>
Emergency Fund for Complex Crises	\$0.100	\$0.100	<sup>e</sup>
Personnel security in Afghanistan & Iraq; Machine Readable Visa shortfall <sup>f</sup>	\$0.076	\$0.036	\$0.156
Diplomatic & Consular Progs (rescission)	—	(\$0.036)	(\$0.036)
Terrorist Rewards and Machine Readable Visa shortfall <sup>f</sup>	\$0.050	\$0.091	\$0.050
USAID operating expenses — Iraq & Afghan. <sup>g</sup>	\$0.040	\$0.040	\$0.040
Pakistan economic aid	<sup>h</sup>	<sup>h</sup>	\$0.200
<b>Other</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.360</b>
Liberia & Sudan disaster/famine relief	\$0.000	\$0.000	\$0.100
U.N. Peacekeeping contribution for Liberia	\$0.000	\$0.000	\$0.245
Sept. 11 Victims Compensation Program	\$0.000	\$0.000	\$0.015
<b>TOTAL</b>	<b>\$21.480</b>	<b>\$21.445</b>	<b>\$21.585</b>

a. The Administration and Senate bill include operating expense funding under title I (Defense), in the account for Operations and Maintenance, Army.

b. The Administration proposes to use funds previously appropriated for Baghdad facilities in P.L. 108-11 for urgent USAID needs in Afghanistan and requests in this supplemental additional resources for Iraq facilities to replace those diverted to Afghanistan. The Senate bill appropriates funds for USAID in Afghanistan separately, thereby making funds provided in P.L. 108-11 available for U.S. diplomatic facilities in Baghdad, without the need for new appropriations in this supplemental. The House bill provides \$35.8 million for a new U.S. mission in Iraq in the D&CS account below and rescinds \$35.8 million provided in P.L. 108-11.

- c. The House bill specifies the peacekeeping funds are available for both Iraq and Afghanistan.
- d. The total request for Afghan reconstruction is \$1.19 billion, including a \$390 million reprogramming from prior year appropriations.
- e. Instead of funding this account, the Senate bill provides \$100 million in disaster and famine relief aid for Liberia and Sudan, below.
- f. Under the account for Diplomatic and Consular Services (D&CS), the Administration proposes \$11 million for additional security operations in Afghanistan and \$29.5 million to cover a projected shortfall in Machine Readable Visa (MRV) fees that had been expected to fund border security initiatives. The Senate bill provides \$35.8 million as a rescission and reappropriation for security operations in Afghanistan and Iraq, and adds funding under the separate account of Emergencies in the Diplomatic and Consular Services to cover the MRV shortfall. The Administration requests funds under this latter account only for rewards related to Osama bin Laden and Saddam Hussein. The House bill provides \$156.3 million in the D&CS account, of which \$109.5 million is for MRV fees and consular services, \$11 million for security measures in Afghanistan, and \$35.8 million for a diplomatic mission in Iraq.
- g. The Senate bill provides \$40 million for USAID operating expenses in Afghanistan only.
- h. The Administration requests authority to use \$200 million in Economic Support Funds pending in the regular FY2004 Foreign Operations Appropriation (H.R. 2800 and S. 1469) for debt reduction for Pakistan. The Senate bill includes this authority, while the House bill includes both the authority for debt reduction and the \$200 million appropriation.

## Iraq Reconstruction and Security

**Supplemental Request.** The \$20.3 billion Administration request for reconstruction and security in Iraq represents a significant increase from amounts previously appropriated for reconstruction. Up to now, the United States has committed \$4.1 billion to reconstruction, including the \$2.5 billion appropriated to an Iraq Relief and Reconstruction Fund established by the April 2003 Emergency Wartime Supplemental (P.L. 108-11).<sup>25</sup>

These earlier funds have been used to support a broad range of humanitarian and reconstruction efforts. The new request is intended to fund the most pressing, immediate needs in Iraq, with the aim of having a noticeable impact on the two greatest reconstruction concerns that have been raised since the occupation of Iraq began: security and infrastructure. More than \$5 billion would be targeted at improving the security capabilities of the Iraqi people and government, including training and equipment for border, customs, police, and fire personnel, and to develop a new Iraqi army and a Civil Defense Corps. Enhanced efforts to reform the judicial system would also be included.

Most of the remaining \$15 billion supplemental request would go toward rapid improvements in infrastructure, including electricity, oil infrastructure, water and sewerage, transportation, telecommunications, housing, roads, bridges, and hospitals

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<sup>25</sup> Other reconstruction components have been funded out of DOD's Iraq Freedom Fund, established in P.L. 108-11, to repair of oil facilities (\$502.5 million) and for costs of the Coalition Provisional Authority (\$599 million). An additional \$529.2 million has come from USAID and other agencies regular funding.

and health clinics (see **Table 5** for a breakdown). According to Administration officials who have briefed Members of Congress and staff, these investments represent the most urgent needs over the next 12 months, but by no means address total reconstruction requirements in the coming year.<sup>26</sup> Other concerns in such areas of government reform, agriculture, economic development, and education, are not included in the Administration request. A relatively small amount of funds, \$300 million, has been requested for programs designed to encourage the growth of the private sector and jobs training.

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<sup>26</sup> Congressional briefing by executive branch officials, September 8, 2003.

**Table 5. Iraq Supplemental: Proposed Sector Allocation**  
(billions of dollars)

Sector	Request	Senate	House
<b>Security</b>	<b>\$5.136</b>	<b>\$5.136</b>	<sup>a</sup> <b>\$4.561</b>
Public safety, including border enforcement, police, fire, & customs	\$2.100	—	—
Security forces and Iraq Civil Defense Corps	\$2.100	—	—
Justice and civil society development	\$0.900	—	—
<b>Reconstruction</b>	<b>\$15.168</b>	<b>\$15.168</b>	<b>\$14.088</b>
Electric power rehabilitation	\$5.675	\$5.675	\$5.560 <sup>b</sup>
Oil infrastructure rehabilitation	\$2.100	\$2.100	\$2.100
Water and sewerage services repair and improvement	\$3.710	\$3.710	\$4.332 <sup>c</sup>
Water resources improvement	\$0.875	\$0.875	<sup>c</sup>
Transportation and telecommunications rehabilitation	\$0.835	\$0.835	\$0.500 <sup>d</sup>
Housing, building, road, and bridge repair/reconstruction	\$0.470	\$0.470	\$0.370 <sup>e</sup>
Health facility construction and medical equipment replacement	\$0.850	\$0.850	\$0.793 <sup>f</sup>
Private sector business initiatives and job training programs	\$0.353	\$0.353	\$0.153 <sup>g</sup>
Refugee aid, local governance, other human rights/civil society	\$0.300	\$0.300	\$0.280 <sup>h</sup>
<b>TOTAL</b>	<b>\$20.304</b>	<b>\$20.304</b>	<b>\$18.649</b>

**Source:** Office of the Coalition Provisional Authority Representative, September 8, 2003, OMB, FY2004 Supplemental Appropriation request, September 17, 2003, and House and Senate Appropriation Committees.

- a. Excludes \$50 million requested for Iraq traffic police and \$400 million for two prisons; reduces funding for the National Security Communications Network.
- b. Excludes \$25 million for consultants to plan for continued development and building rehabilitation.
- c. The House bill combines the categories of Water and sewerage services and Water resources. The amount excludes \$153 million for solid waste management, including 40 trash trucks and \$100 million for environmental restoration projects.
- d. Excludes \$4 million for a nationwide telephone numbering system, \$9 million for postal information architecture and zip codes, and \$10 million for television and radio industry modernization.
- e. Excludes \$100 million for seven housing communities.
- f. Excludes \$150 million for a new children's hospital in Basra and \$7 million for American and Iraqi health care organization partnerships, but includes an additional \$100 million for clinics and hospital modernization.



- g. Excludes \$200 million for an American-Iraqi Enterprise Fund.
- h. Excludes \$90 million for Public Information Centers in Iraq municipalities and \$20 million for business training courses.

**Background.** Among the key policy objectives laid out by the Bush Administration in conjunction with the war in Iraq were the restoration of basic human services and the economic and political reconstruction of the country. The Coalition Provisional Authority (CPA) under the administration of Ambassador L. Paul Bremer is responsible for the formulation and implementation of this effort.

The CPA has initiated a process intended to lead to Iraqi self-rule. It has appointed a 25-member Iraqi Governing Council and provided it with specific powers and duties, including the choosing of a cabinet to serve as ministers under the supervision of CPA advisors and the responsibility to set in motion formulation of a national constitution. It has encouraged establishment of councils in villages and cities throughout the country to run local affairs and identify community needs. With CPA funding and encouragement, institutions of civil and economic society have been reconstituted. Schools, including universities, hospitals and health clinics, are functioning. The oil-for-food program continues to provide basic foodstuffs. New police and security forces are being trained. Programs to renovate and repair electric power, water, oil production, roads and bridges, airports, and the seaport have been launched. Jobs programs have been instituted to help stimulate the economy and lessen unemployment.

Although much has been accomplished since the U.S. occupation began in April, the occupation authority in the view of many has failed to successfully reestablish order and security, restore infrastructure, and introduce political and economic reform, including Iraqi self-governance, in a timely manner. These problems are interlinked; the successful conduct of much reconstruction work is contingent on an environment of order and stability, and the lack of visible progress in restoring basic infrastructure and institutions of security opens the door to political discontent and opposition. The \$20.3 billion supplemental request apparently seeks to address those infrastructure and security needs on which other U.S. objectives in Iraq hinge.

Until recently, the Administration had suggested that the cost of reconstruction through the end of 2003 could largely be met by Iraqi and already previously appropriated U.S. resources. A national budget for Iraq covering the rest of the year, announced by the CPA on July 7, estimated expenditures of \$6.1 billion and the creation of a Central bank currency reserve of \$2.1 billion, for a total budget of \$8.2 billion. New oil revenue, taxes, and profits from state owned enterprises would make up \$3.9 billion of these costs, according to the CPA's analysis. The remaining deficit of \$4.3 billion would be covered by recently frozen and seized assets (\$2.5 billion), the Development Fund for Iraq (\$1.2 billion), and \$3 billion in already appropriated

U.S. assistance. Iraq was projected to have \$1.1 billion remaining for reconstruction by end of December 2003.<sup>27</sup>

The Administration request suggests that a re-assessment of Iraq's immediate reconstruction needs demanded greater outlays of revenue than projected in July. It also suggests that presumed sources of additional revenue in the coming year — chiefly, oil export production and international donor contributions — might not be as large as originally anticipated. In any case, the result is a supplemental reconstruction request nearly 20% larger than the size of the entire national budget for Iraq projected on an annualized basis in early July.<sup>28</sup>

## Issues.

**Total Iraq Reconstruction Needs.** The supplemental request is intended to meet only the most important, immediate needs in Iraq in the 2004 fiscal year. Until now, the cost of Iraq reconstruction was based on speculation and educated guesswork. However, as part of the lead-in to an international donors conference to be held in Madrid on October 24, the World Bank and the U.N. Development Program have released a needs assessment they conducted of 14 Iraqi economic and social sectors.<sup>29</sup> The resulting Bank/UNDP estimates are likely to establish the targets by which the adequacy of available resources will be judged. The Bank/UNDP assessments put the cost of reconstruction for the 14 sectors at \$36 billion over four years, a figure that does not include \$19.4 billion estimated by the CPA for security, oil, and other critical sectors not covered by the Bank assessments.<sup>30</sup> Total Bank/CPA projected reconstruction costs through 2007 amount to \$55 billion, \$17.5 billion in 2004 alone. If Iraqi oil revenues are not sufficient to meet the projected needs — which appears likely in the near term by most accounts — and other international donors do not pledge significant contributions, the United States may face increased financial demands, if it seeks to meet projected Iraqi needs.

The new needs assessment points out a possible concern that might affect congressional consideration of the Administration request. The Bank/UNDP report suggests that Iraq cannot absorb more than \$6 billion in infrastructure program commitments (excluding oil) in 2004, in view of the unstable security situation and the time it takes to plan and implement contracts.<sup>31</sup> The Administration request for

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<sup>27</sup> See [<http://www.cpa-iraq.org/Budget2003.pdf>] for text of the budget.

<sup>28</sup> For a more detailed discussion of the Iraq reconstruction program, see CRS Report RL31833, *Iraq: Recent Development in Humanitarian and Reconstruction Assistance*.

<sup>29</sup> For the full text of the report online, see the World Bank website at [[http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/Iraq+Joint+Needs+Assessment/\\$File/Joint+Needs+Assessment.pdf](http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/Iraq+Joint+Needs+Assessment/$File/Joint+Needs+Assessment.pdf)].

<sup>30</sup> “UN/World Bank Present Iraq Reconstruction Needs to Core Group.” World Bank/United Nations press release no. 2004/100/S, October 2, 2003.

<sup>31</sup> The Bank further notes that, based on its experience in previous post-conflict situations, if commitments were made on all \$36 billion in identified reconstruction needs, actual disbursements in 2004 would likely only reach \$5.2 billion. *United Nations/World Bank*

infrastructure (excluding oil) is \$12.4 billion. In response to this point, OMB has reportedly confirmed that the reconstruction request is intended to cover 18 months.<sup>32</sup> That the Administration request in categories such as electric power and water composes half or more of requirements projected by the World Bank assessment over a four-year period, however, suggests that the request may meet needs beyond even 18 months.

***Iraqi Oil Revenues and Financing Reconstruction.*** Until recently, the Administration had expected most costs of reconstruction to be borne by Iraq through receipts from its oil exports. While the decrepit state of oil production infrastructure and recurrent sabotage to pipelines and facilities have forced experts to downgrade expectations of potential exports and receipts, any sustained increase in production will assist the reconstruction effort. Current rates of production are nearing 2 million barrels a day, but Iraqis do not expect to reach the prewar level of 2.8 million barrels until spring. After subtracting 0.5 million barrels/day for domestic consumption, a level of 2.3 million might generate between \$18.5 billion and \$23 billion annually, depending on the price of oil. Production levels of 6 million/day, possible within a decade, would require significant investment outlays.<sup>33</sup> In the near term, Administration officials say that their budget calculations assume an average production of 2 million barrels per day over the next 12 months, generating about \$12 billion in revenues that will roughly cover government operating expenses, but not the type of urgent reconstruction needs identified in the supplemental request.<sup>34</sup>

Roughly \$503 million has already been allocated from the 2003 Emergency Wartime Supplemental for repair of oil facilities and restoration of production and distribution systems. The Administration request for these purposes under the FY2004 supplemental is \$2.1 billion. Additional sums for Iraqi security forces are in part intended to create an Iraqi force to defend against pipeline and other oil facility sabotage.

***Loans vs. Grants for Reconstruction.*** Closely related to the issue of Iraqi oil revenues as a means of financing reconstruction projects is the question of whether assistance could be extended on a loan rather than grant basis. Some have argued that, given the substantial amount of oil revenues that Iraq will generate at some point in the future, Baghdad will have the means to service debt incurred for the purpose of rebuilding its infrastructure. Loans, either extended bilaterally or through some sort of trust fund, possibly managed by the World Bank, would be repaid at some point, thereby reducing reconstruction costs to the United States, they say.

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<sup>31</sup> (...continued)  
*Joint Iraq Needs Assessment*, October 2003, page x.

<sup>32</sup> "White House Defends Iraq Spending," *Financial Times*, October 10, 2003.

<sup>33</sup> See Petroleum section by Larry Kumins in CRS Report RL31944, *Iraq's Economy: Past, Present, Future*, pp. 17-23.

<sup>34</sup> Congressional briefing by executive branch officials, September 8, 2003.

The Administration, which has proposed that the entire \$20.3 billion supplemental be offered as grants, has argued repeatedly during congressional hearings against adding to Iraq's already substantial debt obligations. Witnesses have asserted that Iraq owes roughly \$200 billion in pre-war debts, reparations, and other claims. G7 leaders agreed informally at the June 2003 summit to suspend through 2004 the requirement for Iraq to service any existing debt, giving time to construct some sort of multilateral debt restructuring arrangement.<sup>35</sup> Further, U.N. Security Council Resolution 1483 states that Iraqi oil exports or proceeds could not be attached by creditors through 2007 unless authorized by the Council.

Beyond the matter of whether Iraq should incur more debt obligations in the near term is the question over who could legally assume responsibility for new sovereign debt. Although it is possible that the World Bank could manage an Iraq reconstruction trust fund that would receive contributions from international donors, if the Bank were to use these resources for project lending, it would almost certainly require, as it has in the past, that some sort of sovereign Iraq authority assume the debt obligation. Until such time that legal authority is transferred to Iraqi hands, the Coalition Provisional Authority is the temporary government of Iraq and would be the one signing for the loans. Most legal scholars take the position that an occupying power has no authority to incur new debts on behalf of the displaced sovereign.<sup>36</sup> Some contend, however, that there is an exception in which a new government would be responsible for the debt if it can be shown that the loans were required for the welfare of the occupied territory and the terms were fair and reasonable.<sup>37</sup>

Also, while loan reconstruction assistance would likely require smaller appropriations than grant aid, some congressional appropriation would be necessary. Under the 1990 Credit Reform Act, Congress must provide a subsidy appropriation in advance of the U.S. government extending direct loans or loan guarantees. The size of the subsidy appropriation is based on several factors, including any subsidy value of the loan terms and the likelihood that the loan will be repaid fully and on time. Given the current state of the Iraqi economy and the high degree of uncertainty over when the debt service payments could begin, the necessary subsidy appropriation likely would be quite large.

As discussed in more detail above under "Congressional Action," this issue is being closely examined by lawmakers. Senator Dorgan offered two amendments during Senate committee markup (both tabled 15-14) that would have created an

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<sup>35</sup> See, for example, testimony of Secretary of Defense Rumsfeld before the Senate Appropriations Committee on September 22 and L. Paul Bremmer before the House Foreign Operations Appropriations Subcommittee on September 24.

<sup>36</sup> See, for example, Pieter H.F. Bekker, "The Legal Status of Foreign Economic Interests in Occupied Iraq." *ASIL Insights*. American Society of International Law. July 2002. Available at the ASIL web site at [<http://www.asil.org/insights/insigh114.htm>]. See also Gerhard von Glahn. *The Occupation of Enemy Territory...A Commentary on the Law and Practice of Belligerent Occupation*. Minneapolis: University of Minnesota Press, 1957, p. 159, citing various sources.

<sup>37</sup> von Glahn, citing (with comments) U.S. Army Judge Advocate General's School. *Law of Belligerent Occupation*. (JAGS Text No. 11) Ann Arbor: JAGS 1944, pp. ix, 277.

authority to use Iraqi oil to secure reconstruction financing and convert U.S. grants to loans. The full Senate tabled the first Dorgan amendment (57-39). Senator Hutchison and others have submitted an amendment (S.Amdt. 1798) for floor consideration that would direct \$10 billion of the total reconstruction supplemental to a Trust Fund, to be established within the World Bank, out of which loans and loan guarantees would be made. On the House side, Representative Wamp proposed but later withdrew an amendment during Committee markup that would have withheld one-half of Iraq funds until after the election of a new Iraqi leader, at which time the remaining money would be available in the form of a loan. Representative Obey offered an amendment (defeated 25-36) that, among other things, would have transferred about \$7 billion of reconstruction funds to a World Bank-administered loan facility. These and related amendments may be considered as the debate continues.

***The Supplemental's Impact on Other Donors.*** It is possible that congressional action on the supplemental could influence the contributions of international donors at the upcoming donors' conference. Some argue that a large pledge of U.S. aid prior to the conference may stimulate other donors to contribute more; diminution of the Administration plan, they argue, may have the opposite effect. Opponents of making U.S. aid for reconstruction in the form of loans also contend that other donors may follow the American lead and offer loans rather than grants, adding further to Iraq's debt problems. In addition, the supplemental targets sectors — infrastructure and security — that other donors are less likely to support themselves. In similar “nation-building” exercises elsewhere, donors have tended to funnel contributions to the social sectors, such as education and health, and grassroots democratization and economic development, all areas relatively untouched by the supplemental.

Perhaps a more important factor in other donor calculations will be the extent to which they have a say in the use of funds. Up to now, donors have been reluctant to provide assistance because they were wary of being perceived as supporting a unilateral U.S. policy. In response to this concern, donors discussed at a September 6 meeting in Brussels, the concept of creating Iraq reconstruction trust funds, managed by the U.N. or World Bank, which would accept and distribute contributions. Control over how the money was spent, according to Undersecretary of State Alan Larson who represented the U.S. at the September 6 meetings, would be handled by some sort of a multilateral management board that might include officials from international organizations, major donors, and Iraqis representing interim ministries.<sup>38</sup>

***Management of Iraq Reconstruction Funds by U.S. Agencies.*** Administrative control over Iraq reconstruction funds became a significant issue during congressional debate on the \$2.475 billion appropriation in P.L. 108-11. At

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<sup>38</sup> *Iraq Reconstruction an International Responsibility, Larson Says.* Press briefing by Under Secretary of State for Economic, Business, and Agricultural Affairs Alan Larson, September 4, 2003 [<http://usinfo.state.gov/topical/pol/terror/texts/03090434.htm>]. Under Secretary Larson also said that no decision had been made as to whether the United States would participate in a trust fund.

that time, most had expected that transfers for reconstruction and post-conflict aid would be made to USAID, the State Department, and other traditional foreign assistance management agencies. But with plans for the Defense Department to oversee the governing of Iraq immediately after the end of hostilities, the White House wanted to maintain maximum flexibility over the distribution of resources so the President could transfer some or all of the funding to DOD. The proposal stimulated immediate controversy with a number of critics, including Members of Congress, arguing that aid programs should remain under the policy direction of the State Department and under the authorities of a broad and longstanding body of foreign aid laws. Although initial House and Senate decisions would have blocked Administration efforts to place control of reconstruction funds with the Pentagon, ultimately Congress agreed to allow the White House to allocate the resources among five agencies, including DOD. Funds for the Iraq Relief and Reconstruction Fund appropriated in P.L. 108-11 have been managed by L. Paul Bremer, head of the Coalition Provisional Authority (CPA), and the U.S. civilian administrator in Iraq, who reports to the Secretary of Defense.

The Administration proposes that the entire \$20.3 billion be placed in the Iraq Relief and Reconstruction Fund, as was the case with the previous supplemental, and to continue Ambassador Bremer and the CPA's role as administrators of the Fund under DOD guidance. Since submission of the supplemental, however, the White House announced the establishment of a new "Iraq Stabilization Group," headed by National Security Advisor Condoleezza Rice. The Group is intended to help speed up reconstruction efforts by identifying and resolving problems that had in some cases been the source of decision-making disputes in Washington. Some analysts believe that the move is also intended to allow the State Department a greater voice in reconstruction policy. At the same time, the State Department staff serving under the CPA in Iraq is expected to grow from 55 to about 110. Nevertheless, Ambassador Bremer will continue to report to the Secretary of Defense.<sup>39</sup>

As noted above, the Senate tabled (56-42) an amendment by Senators Leahy and Daschle (S.Amdt. 1803) that would have placed the CPA under the direct authority and foreign policy guidance of the Secretary of State. The House bill, however, adds a provision barring the coordination of defense or reconstruction activities in Iraq or Afghanistan by a U.S. government officer who is not subject to confirmation by the Senate. The House Committee wants to ensure that whoever is in charge of coordination be available to testify at congressional oversight hearings. Senator Leahy has proposed a similar amendment (S.Amdt. 1833) for Senate consideration. These proposals appear to block the initiative of placing National Security Council Advisor Rice, who is not subject to confirmation and who does not testify before Congress, in charge of coordinating reconstruction.

**Reconstruction Priorities and Costs.** The Administration has said that the request includes only the most pressing, immediate needs for Iraq in FY2004. However, the relative importance of certain items detailed in the request — 're-engineering of postal service business practices' and construction of seven residential

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<sup>39</sup> "White House to Overhaul Iraq and Afghan Missions," *New York Times*, October 6, 2003; "Rice to Lead Effort to Speed Iraqi Aid," *Washington Post*, October 7, 2003.

communities, for example — is being questioned in Congress. Further, the costs associated with reconstruction requests have been subject to skepticism, with some congressional staff reportedly suggesting that the price tag is intentionally inflated so that the Administration will not have to return to Congress to ask for more funds in 2004.<sup>40</sup> As mentioned above in the Congressional Action section, several Senate amendments are pending that would reduce funding for what the sponsors regard as low-priority needs and redirect the resources for domestic or other military programs in Iraq. The House bill proposes a \$1.655 billion cut in Iraq reconstruction funding, reducing or eliminating resources for a wide range of activities that the Committee found to be un-executable, low priority, or likely to receive funding from other international donors. See **Table 5** above for details of sector and project reductions recommended in the House bill.

## Afghanistan Reconstruction

**Request.** The Administration's \$1.2 billion supplemental aid request, of which \$799 million would be for new appropriations and \$390 million would come from previously appropriated DOD, State Department, and USAID funds, would more than double current U.S. assistance to Afghanistan for FY2003. The proposal comes at a time of growing criticism over delays in aid delivery, deteriorating security conditions, and concern that U.S. and international attention has shifted to Iraq.<sup>41</sup> Key features of the \$799 million in new appropriations include targeting projects intended to have the most immediate impact on the lives of the Afghan population, such as

- ! \$402 million for security, with funding included to train and support police, border patrol, the military and counter-narcotics forces, disarmament and de-mobilization programs, and courthouse construction in Kabul.
- ! \$129 million to reinforce the authority of the government of Afghanistan with budget support for high priority projects, technical experts placed in Afghan ministries, and voter registration and election support.
- ! \$105 million for completion of the Kabul-Kandahar-Herat major highway, a program jointly financed by the United States, Japan, and Saudi Arabia;

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<sup>40</sup> "In GOP, Concern Over Iraq Price Tag; Some Doubt Need for \$20.3 Billion for Rebuilding," *Washington Post*, September 26, 2003.

<sup>41</sup> The supplemental also arrives while Congress is still considering a \$550 million regular FY2004 request for Afghanistan. Over one-third of this total would continue infrastructure rehabilitation, focusing largely on roads, bridges, schools, health clinics, and wastewater facilities. House passed and Senate-reported legislation (Foreign Operations Appropriations, FY2004; H.R. 2800 and S. 1426, respectively) provide not less than \$600 million for Afghanistan.

- ! \$163 million for social programs and critical infrastructure, including education, health, and local projects.

An additional \$390 million will be made available from reallocated, prior-year funds, but the Administration has not specified how they will be used. The White House is further asking that the \$300 million limit on military drawdowns from DOD stocks enacted in the Afghanistan Freedom Support Act of 2002 (P.L. 107-327) be increased to \$600 million.

**Table 6. U.S. Assistance to Afghanistan**  
(billions of dollars)

FY2001	FY2002	FY2003 Estimate	FY2004 Request	FY2004 House	FY2004 Senate	FY2004 Supplemental
\$0.226	\$0.527	\$0.647	\$0.550	\$0.600	\$0.600	\$1.189 <sup>a</sup>

- a. Of which \$799 million is requested as new appropriation and \$390 million is a re-allocation of prior year DOD, State Department, and USAID appropriations.

If progress on security, road construction, and reconstruction efforts are made in advance of the 2004 elections, it could increase the chances of the success of moderates in those elections. Supporters argue that additional funding could also have an impact on decisions by the international community at the upcoming donors conference, possibly resulting in larger contributions. It could also help efforts now being discussed to expand the International Security Assistance Force (ISAF), which is now limited only to Kabul.

Increased funding may also have negative effects. There are concerns that more money could add to the already high levels of corruption. Some experts are concerned about absorption capacity and whether additional funds can be allocated quickly and effectively. If progress is not achieved, the increase may be seen as largely symbolic and ineffective. Others have raised the possibility that the United States will be perceived as giving too much support to the Karzai government in advance of the elections next spring.

**Background.** Since the beginning of post-conflict aid in late 2001, U.S. assistance has focused on three broad areas: security, governance, and reconstruction.

**Security.** Much of the U.S. program for Afghanistan is intended to establish security institutions to bolster the authority of the central government and prevent the regrouping of the Taliban or Al Qaeda. The pillars of this effort are (1) the presence of an International Security Assistance Force (ISAF); (2) the establishment and training of an Afghan National Army; (3) the demobilization of private militias; and (4) the formation of “Provincial Reconstruction Teams” (PRTs).

Despite their defeat, Taliban groups reportedly continue to operate in Afghanistan, mostly in the southeast, targeting U.S. and Afghan forces and creating



a perception of continuing insecurity. Factional in-fighting and increased criminal activity have also undermined humanitarian operations. In some cases, where international operations have been directly targeted, this has led to the temporary suspension of U.N. missions or withdrawal of aid agencies from certain areas.

In mid-December 2002, the Defense Department said it would work to create secure conditions for aid workers by forming eight "Provincial Reconstruction Teams" (PRTs) composed of about 60 U.S. forces plus Defense Department civil affairs officers, representatives of U.S. aid and other agencies, and allied and some Afghan personnel. The objective of the PRTs is to provide safe havens for international aid workers, to help with reconstruction, and to extend the writ of the Kabul government throughout Afghanistan. PRTs, each with about 60 U.S. military personnel, have begun operations at Gardez, Bamiyan, and Konduz, and Britain is establishing a PRT in Mazar-e-Sharif. Reportedly, the United States might be considering increasing the PRT program to 16 such enclaves in which Germany and others may take a leadership role. Some report the Provincial Reconstruction Teams (PRTs) are helping the security situation in their deployed areas, but other reports dispute their effectiveness.

**Governance and Institution Building.** A conference in Bonn in December 2001, held as the Taliban regime was falling in the U.S.-led war, the pro-U.S. Pashtun leader Hamid Karzai was selected chairman of the interim administration and the *loya jirga*, held during June 11 - 19, 2002, selected him to continue to lead Afghanistan until national elections are held sometime in 2004.

The *loya jirga* adjourned without establishing a new parliament. The scope and powers of such a body might be dependent on the outcome of a "constitutional *loya jirga*," which is expected to fashion a permanent governing structure in a new constitution. This assembly was to be held in October 2003, but it has now been put off until December 2003.<sup>42</sup> However, the unveiling of the draft constitution for public discussion is expected to go forward shortly. Observers say that preparations for the 2004 elections have also fallen behind and that the elections might be delayed beyond the planned June 2004 time frame, although the United Nations and the Afghan government have begun a program to register voters.

Concerns remain about the power of regional leaders and their relative independence from central government authority, although Karzai has moved since May 2003 to bolster Kabul's authority by shuffling or firing some local leaders. In the runup to the planned 2004 Afghan national elections, the United States plans to try to bolster the efficiency and effectiveness of the Kabul government by placing about 120 U.S. officials as advisers to various Afghan ministries.

**Reconstruction.** The international recovery and reconstruction effort in Afghanistan is immense and complicated, involving the Afghan government, numerous U.N. agencies, bilateral donors, many international organizations, and countless non-governmental organizations (NGOs). Intended outcomes of the

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<sup>42</sup> Collett-White, Mike. Afghan Constitution Postponed, Elections May Be Too. *Reuters*, August 28, 2003.

reconstruction process identified by the international community and the Afghan government include political stability and security, access to basic services, an adequate standard of living for the Afghan people, economic growth, and, in the long term, independence from foreign aid.

The Afghan government and the international community are now seeking to increase the pace of reconstruction. According to many observers, successful reconstruction will stop disillusionment with the new system in Afghanistan and will keep Afghanistan from again becoming a haven for terrorists. Programs intended to yield benefits within a short time frame (four to six months) initiated the transition from the humanitarian relief phase to programs targeted toward reconstruction. These so-called “quick impact” programs were followed by more long-term programs in education, health, poppy eradication, and other areas. Numerous small-scale and some large longer-term projects, mostly for road reconstruction, are currently underway.

According to some observers, Afghans have become frustrated with the pace of reconstruction.<sup>43</sup> Many factors may be slowing the reconstruction effort: lack of security, lack of human and physical capacity to implement substantial reconstruction, funding shortages, and funding predominately going towards the continuing humanitarian crisis and towards the administrative costs of the international donor community. Analysts agree that both enhanced security and progress on reconstruction are necessary in order to sustain international donor involvement in Afghan reconstruction, encourage private investment in Afghanistan, and maintain Afghans’ hope for improvement in their country and their own lives.

Effective reconstruction assistance, according to USAID, could reduce the war and drug economies and provide incentives for beneficial economic growth, such as government capacity building, employment generation, and agricultural rehabilitation. Other reconstruction initiatives include road construction, urban reconstruction, infrastructure repair, energy development, and programs for women, education, health, and the media. The strength and influence of the central government is viewed as a key factor in the success of the intervention and assistance on the part of the international community.

Afghanistan officials have reportedly complained about the slow pace at which pledged funds were being paid. Others are concerned that international donors might shift their focus to Iraq reconstruction, and lose interest or run too low on resources to continue to participate in Afghan reconstruction.

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<sup>43</sup> Rashid, Ahmed. “Afghanistan is Waiting for This.” *Far Eastern Economic Review*, August 7, 2003; “US to Revamp Afghan Efforts.” *Chicago Tribune*, August 18, 2003.

## Other Global War on Terrorism Foreign Policy Initiatives

The preliminary supplemental proposal also includes \$201 million for four other foreign policy initiatives labeled by the Administration as “Other Global War on Terrorism” programs:

- ! \$50 million for terrorist rewards for information leading to the capture or killing of Saddam Hussein and Osama bin Laden,
- ! \$11 million for additional diplomatic security,
- ! \$40 million for USAID facilities, operations, and security in Iraq and Afghanistan, and
- ! \$100 million for an Emergency Fund for Complex Foreign Crises

Congress has considered a request to create a foreign policy contingency fund twice this year as part of the regular FY2004 Foreign Operations appropriations and the FY2003 Iraq war supplemental. For many years, Administrations have asked Congress for various types of contingency resources that can be drawn upon immediately to address unanticipated foreign policy emergencies. Except in the case of humanitarian situations, however, Congress has been reluctant to support such requests, stating that the President has other mechanisms and special authorities for temporarily “borrowing” funds from other aid accounts over which Congress can maintain closer scrutiny and consult in advance about the purposes of the transfers. Congress deferred the proposal in the FY2003 supplemental (P.L. 108-11), choosing instead to allocate the resources for specific needs in Iraq and for coalition partners. Thus far, House-passed and Senate-reported FY2004 Foreign Operations appropriation bills (H.R. 2800 and S. 1426, respectively), do not provide money for a Complex Foreign Crises Fund, as requested by the Administration.

The supplemental proposal further includes two provisions concerning Pakistan. The first would extend through FY2004 an existing waiver on aid restrictions to Pakistan. Since September 11, 2001, Congress has authorized temporary waivers of foreign aid restrictions regarding nuclear proliferation and military coups that would prohibit Pakistan from receiving U.S. assistance. The current waiver expires on September 30, 2003. The supplemental also requests that up to \$200 million in FY2004 economic aid to Pakistan be made available to cover the costs of canceling debt owed by Pakistan to the United States. The House, in H.R. 2800, the Foreign Operations Appropriations measure for FY2004, approved the use of \$65 million for such purposes.

## Legislation

### **S. 1689 (Stevens)**

An original bill making emergency supplemental appropriations for Iraq and Afghanistan security and reconstruction for the fiscal year ending September 30, 2004, and for other purposes. Senate Appropriations Committee consideration and markup held, September 30, 2003. Report filed by the Senate Appropriations Committee, October 2, 2003, S.Rept. 108-160. Considered on the Senate floor, October 1, 2, and 3, 2003.

## For Additional Reading

### CRS Resources

For CRS products on Afghanistan, go to  
[<http://www.congress.gov/erp/hotmap/afghanistan.html>]

For CRS products on Iraq, go to  
[<http://www.congress.gov/erp/hotmap/iraq.html>]

For CRS products on terrorism and counter-terrorism, including the Global War on Terrorism, see the CRS Terrorism Briefing Book at:  
[ <http://www.congress.gov/brbk/html/ebter1.shtml>]

For CRS products on defense policy and budgets, go to  
[<http://www.crs.gov/products/browse/all-legislative-categories.shtml#Defense>]

For CRS products on foreign affairs, go to  
[[http://www.crs.gov/products/browse/all-legislative-categories.shtml#Foreign\\_Affairs-Global](http://www.crs.gov/products/browse/all-legislative-categories.shtml#Foreign_Affairs-Global)]

### Administration Request

President George W. Bush, “President Addresses the Nation,” The Cabinet Room, September 7, 2003, available electronically at  
[<http://www.whitehouse.gov/news/releases/2003/09/20030907-1.html>].

Office of Management and Budget, “FY2004 Supplemental: Iraq and Afghanistan Ongoing Operations/Reconstruction,” September 17, 2003, available electronically at  
[[http://www.whitehouse.gov/omb/budget/amendments/supplemental\\_9\\_17\\_03.pdf](http://www.whitehouse.gov/omb/budget/amendments/supplemental_9_17_03.pdf)].

Department of Defense, “FY2004 Supplemental Request for Operation Iraqi Freedom (OIF), Operation Enduring Freedom (OEF), and Operation Noble Eagle (ONE),” September 21, 2003. Available electronically at  
[[http://www.dod.mil/comptroller/defbudget/FY\\_2004\\_Supplemental.pdf](http://www.dod.mil/comptroller/defbudget/FY_2004_Supplemental.pdf)].

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### Cost Analyses

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[<http://www.cbo.gov/showdoc.cfm?index=4515&sequence=0>].

Congressional Budget Office, "Letter to the Honorable Kent Conrad and John M. Spratt Jr. Regarding Estimated Costs of a Potential Conflict with Iraq," September 2002 . Available electronically at [<http://www.cbo.gov/showdoc.cfm?index=3822&sequence=0>].

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Council on Foreign Relations, "Iraq: The Day After — Report of an Independent Task Force on Post-Conflict Iraq," Thomas R. Pickering and James R. Schlesinger, Co-Chairs, Eric P. Schwartz, Project Director, March 12, 2003. Available electronically at [<http://www.cfr.org/publication.php?id=5681>].

House Budget Committee Democratic Staff, "Assessing the Cost of Military Action Against Iraq: Using Desert Shield/Desert Storm as a Basis for Estimates," September 23, 2002. Available electronically at [[http://www.house.gov/budget\\_democrats/analyses/spending/iraqi\\_cost\\_report.pdf](http://www.house.gov/budget_democrats/analyses/spending/iraqi_cost_report.pdf)].

House Budget Committee Democratic Staff, "The Cost of War and Reconstruction in Iraq: An Update," September 23, 2003. Available electronically at [[http://www.house.gov/budget\\_democrats/analyses/iraqi\\_cost\\_update.pdf](http://www.house.gov/budget_democrats/analyses/iraqi_cost_update.pdf)].

Kosiak, Steven, "Potential Cost of a War with Iraq and Its Post-War Occupation," Center for Strategic and Budgetary Assessments, February 25, 2003. Available electronically at [[http://www.csbaonline.org/4Publications/Archive/B.20030225.Potential\\_Costs\\_of/B.20030225.Potential\\_Costs\\_of.pdf](http://www.csbaonline.org/4Publications/Archive/B.20030225.Potential_Costs_of/B.20030225.Potential_Costs_of.pdf)].

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## **Other Resources**

Kay, David, "Statement by David Kay on the Interim Progress Report on the Activities of the Iraq Survey Group (ISG) Before the House Permanent Select Committee on Intelligence, the House Committee on Appropriations, Subcommittee on Defense, and the Senate Select Committee on Intelligence," October 2, 2003. Available electronically at [[http://www.cia.gov/cia/public\\_affairs/speeches/2003/david\\_kay\\_10022003.html](http://www.cia.gov/cia/public_affairs/speeches/2003/david_kay_10022003.html)].

U.S. Central Command, Operation Iraqi Freedom Web Site. Available electronically at [[http://www.centcom.mil/Operations/Iraqi\\_Freedom/iraqifreedom.asp](http://www.centcom.mil/Operations/Iraqi_Freedom/iraqifreedom.asp)].

## Appendix

**Table A1. Costs of Major U.S. Wars**  
(amounts in millions and billions of dollars)

<b>American Revolution</b>		
Current Year	\$120	million
Constant FY2003 \$	\$3,177	million
<b>War of 1812</b>		
Current Year	\$89	million
Constant FY2003 \$	\$1,000	million
<b>Mexican War</b>		
Current Year	\$82	million
Constant FY2003 \$	\$1,765	million
<b>Civil War: Union</b>		
Current Year	\$2,300	million
Constant FY2003 \$	\$50,001	million
<b>Civil War: Confederacy</b>		
Current Year	\$1,000	million
Constant FY2003 \$	\$21,765	million
<b>Spanish American War</b>		
Current Year	\$270	million
Constant FY2003 \$	\$6,471	million
<b>World War I*</b>		
Current Year	\$33	billion
Constant FY2003 \$	\$588	billion
<b>World War II</b>		
Current Year	\$360	billion
Constant FY2003 \$	\$4,799	billion
<b>Korea</b>		
Current Year	\$50	billion
Constant FY2003 \$	\$408	billion
<b>Vietnam</b>		
Current Year	\$111	billion
Constant FY2003 \$	\$584	billion
<b>Persian Gulf War (1991)**</b>		
Current Year	\$61	billion
Constant FY2003 \$	\$82	billion

**Sources and Notes:** American Revolution through Korean War costs from the *Statistical Abstract of the United States*, 1994; deflators and all other data from the Office of the Under Secretary of Defense (Comptroller). FY2003 \$ figures for American Revolution through the Korean War were updated from FY1967 constant dollar figures cited in the *Statistical Abstract*.

\* World War I figures include the amount of war loans to allies, which totaled between \$9.4 and \$9.5 billion in current year dollars, or 28%-29% of the total cost.

\*\* Most Persian Gulf War costs were offset by allied contributions or were absorbed by DOD. Net costs to U.S. taxpayers totaled \$4.7 billion in current year dollars, or 7.7% of the total cost. Source: *Department of Defense Annual Report to Congress*, Jan. 1993.

**Table A2. Costs of Major Reconstruction Efforts**  
(amounts in billions of dollars)

<b>Marshall Plan (1948-1951)</b>	
Current Year \$	\$13.325
Constant FY2003 \$	\$105.037
<b>Bosnia (1996-1999)*</b>	
Current Year \$	\$0.936
Constant FY2003 \$	\$1.041
<b>Kosovo (1999-2001)*</b>	
Current Year \$	\$0.860
Constant FY2003 \$	\$0.916
<b>Afghanistan (2001-2003)</b>	
Current Year \$	\$1.174
Constant FY2003 \$	\$1.185

**Sources and Notes:** U.S. Agency for International Development, Department of State, and House and Senate Appropriations Committees. Deflators are from Office of Management and Budget, February 2003.

\* Although the United States continues to provide economic assistance to Bosnia and Kosovo, figures shown here reflect amounts of humanitarian and reconstruction aid transferred during the post-conflict, “reconstruction” phase of economic and social stabilization efforts.