

The “Ghost Budget”: How America Pays for Endless War. Funding the Post-9/11 Wars

Implications for Perpetual War

By [Linda J. Bilmes](#)

Global Research, January 12, 2024
[Just Security](#) 3 January 2024

Region: [USA](#)

Theme: [Intelligence](#), [Military](#) and [WMD](#)

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The post-9/11 wars in Iraq and Afghanistan were enabled by a historically unprecedented combination of budgetary procedures and financing methods.

Unlike all previous U.S. wars, the post-9/11 wars were funded without higher taxes or non-war budget cuts, and through a separate budget.

This set of circumstances – one that I have termed the “Ghost Budget” – enabled successive administrations to prosecute the wars with limited congressional oversight and minimal transparency and public debate. I adopted the name “Ghost Budget” because the term “ghost” appeared frequently in post-9/11 government reports in reference to funds allocated to people, places, or projects that turned out to be phantoms.

The Ghost Budget was the result of an interplay between changes in the U.S. budgetary process, a more assertive military establishment, and the conditions in global capital markets. It has had far-reaching implications for the conduct and course of the post-9/11 wars and for defense policy today.

Funding the Post-9/11 Wars

The “Ghost Budget” was the biggest budgetary anomaly in U.S. history. Prior to 9/11, U.S. wars were financed through a mixture of higher taxes and budget cuts, and funded mostly through the regular defense budget. One third of the costs of World War I and half the costs of World War II were met through higher taxes. During World War II, President Franklin D. Roosevelt [described](#) paying taxes as a “patriotic duty” as he raised taxes on business, imposed a “wealth tax,” raised inheritance taxes, and expanded the number of income

taxpayers to roughly 80 percent of the workforce by 1945. Wars in Korea and Vietnam largely followed a [similar pattern](#), with President Harry Truman pledging to make the country “[pay as you go](#)” for the Korean War. War funding was also a central issue in the Vietnam War, which ended when Congress refused to appropriate money for the South Vietnamese military.

The post-9/11 war funding pattern was completely different. For the first time since the American Revolutionary War, war costs were covered almost entirely by debt. There were no wartime tax increases or cuts in spending. Quite the reverse: far from demanding sacrifices, President George W. Bush slashed federal taxes in 2001 and again in 2003, just as the United States invaded Iraq. President Donald Trump reduced taxes further in 2017. Overall, federal taxes [declined](#) from 18.8 percent of GDP in 2001 to 16.2 percent by the start of 2020. In the same period, outstanding federal debt held by the public [rose](#) from \$3.5 trillion to \$20 trillion. War spending contributed at least \$2.2 trillion to this increase.

Not only was the financing strategy unprecedented, but the budgetary mechanism used to approve the vast post-9/11 wartime spending also diverged radically from the past. In all previous conflicts, the United States paid for wars as part of its regular defense appropriations (the defense “base budget”), after the initial period (1-2 years) of supplemental “emergency” funding bills. By contrast, for the entire decade from FY 2001 to FY 2011, Congress paid for the conflicts in Iraq and Afghanistan as “emergencies,” devoid of serious legislative or executive oversight.

By statute, emergency spending is [defined](#) as “unanticipated...sudden...urgent...unforeseen...and temporary” and is typically reserved for one-off crises such as floods and hurricanes. Such emergency spending measures are [exempt](#) from regular procedural rules in Congress because the [intent](#) is to disburse money quickly in situations where delay would be harmful.

Congress continued to enact “emergency supplemental” funding even as the war effort expanded. The United States [sent](#) 130,000 military personnel into Iraq in 2003 (alongside troops from more than 30 countries). By 2009, there were 187,200 U.S. “boots on the ground” in Iraq and Afghanistan, [supported](#) by a similar number of military contractors, with nearly 500 U.S. military bases set up across Iraq, but the conflict was still being paid for as an “emergency.” In FY 2012, President Obama renamed the “Global War on Terror” as “[Overseas Contingency Operations](#)” (OCO) but the war continued to be funded using money that – although not designated as “emergency” – was explicitly exempted from regular spending limits on other government spending programs.

How We Got Here

There were three primary drivers of the Ghost Budget: unusual economic conditions, congressional budget dysfunction, and military assertiveness.

Economic Conditions: Unlike earlier wars, the post 9/11 conflicts took place in an era of free-flowing international capital markets. That provided the U.S. Treasury with access to a deep and global pool of capital, making it easy to borrow large amounts without negatively affecting the cost. It was also a period of historically low interest rates. Real interest rates (nominal rate minus inflation) on 10-year Treasury bonds [fell](#) from 3.4% at the start of 2001 to negative (-0.4%) by early 2021 — a 40-year low. Consequently, the Treasury was able to

borrow trillions of dollars to pay for the wars, and simultaneously finance the tax cuts of 2001 and 2003 without having any material effect on the amount of debt service being repaid through the annual budget. By FY 2017, total public debt had more than tripled, but debt service payments as a percentage of annual budget outlays had *decreased* to 6.6 percent, compared to 8.5 percent of federal budget outlays in FY 2002. In terms of cash outlays, this meant that the United States paid only slightly more in interest payments in FY 2017 than it had in FY 2002 (\$268 billion versus \$232 billion in 2018 dollars). Borrowing seemed virtually painless.

Budget Dysfunction: For several decades, the federal budget process has become increasingly dysfunctional. This breakdown may be traced to the post-Watergate budget reforms enacted in 1974, which shifted power away from the President and to the Congress. Most budget experts from both parties agree that the reforms made the budget process weaker, less predictable, less capable of reconciling competing demands, and more prone to fiscal crises. Prior to 1974, the federal government had never ceased operations for lack of funding. Since then, it has “shut down” 22 times, completely or partially. There have been only four years in which Congress passed its annual appropriations bills on time, and a series of near-defaults and other fiscal crises. In the absence of reliable budgets, Congress has enacted hundreds of short-term stopgap “continuing resolutions” to pay the bills. In this context, it was convenient for all the stakeholders to fund the wars as an “emergency” outside the regular process. The President was able to exclude war funding from his annual defense budget request to Congress, thus presenting an artificially low number for the federal budget deficit. This helped the Bush administration sustain the pretense that the wars would be short, while pursuing its political agenda of cutting taxes. Meanwhile, Congress was freed from the need to find politically painful spending cuts elsewhere to pay for the war, and the Pentagon was able to prosecute the wars without worrying about whether Congress would pass the defense appropriations bills on time.

Military Assertiveness: In 2001, the Pentagon was actively seeking to increase its budget after a decade of post-cold war budget cuts. The Afghanistan and Iraq conflict not only reversed the downward trend in military spending, but opened the floodgates to a spending bonanza due to the nature of emergency and OCO appropriations. Unlike the regular defense base budget, the wartime supplemental money was easier to secure, had few restrictions on how it could be spent, and avoided the lengthy internal Planning, Programming, Budgeting & Execution Process (PPBE) budget justification process. Consequently, the Defense Department was able to shift war funding into other categories to obtain items on its long-time “wish list” that were only tangentially (or not at all) related to the wars in Iraq or Afghanistan. Former Defense Secretary Robert Gates [termed](#) this a “culture of endless money” inside the Pentagon.

By 2009, war spending accounted for almost one quarter of the total military budget; the Pentagon budget had grown to its highest level since the Second World War, and military spending had rebounded from 2.9% of GDP in FY 2001 to above 4% of GDP, where it remained through FY 2019. The OCO budget had evolved into a second defense budget that was largely untethered from the wars, and protected the military from congressional budget volatility.

Implications for Perpetual War

The Ghost Budget provided the ability to keep borrowing and spending in an almost unconstrained manner for more than two decades. The absence of new taxes insulated the

public from the mounting cost of the wars and broke the expectation that wars would inevitably involve higher taxes. The OCO budget extended far beyond the immediate operational needs of the wars in Afghanistan and Iraq, perpetuating military actions throughout the region. As Immanuel Kant predicted in *Perpetual Peace* (1795), the ability to keep borrowing and spending with minimal oversight allowed the United States to keep fighting indefinitely.

The Ghost Budget also weakened the main lever through which Congress maintains control of a war, namely its control of the purse. The combination of deferred spending, weak oversight, broadening definition of war costs, and readily available supplemental funding relaxed the pressure to maintain budget discipline over military spending. Congress held fewer hearings and presidents made fewer public speeches about the war compared to previous conflicts. And the ready availability of funds for new defense programs encouraged successive administrations to see the world through a “Pentagon lens,” which [views](#) military intervention as the default foreign policy option.

The legacy of the Ghost Budget is that money is no longer a serious deterrent to war. To date, 99% of US assistance to Ukraine has been funded by supplemental emergency funds – which means that this spending is *in addition* to the \$840 billion regular defense budget. The Biden administration has asked Congress to approve another \$106 billion in emergency funding for the Middle East, Ukraine, and other regions. Regardless of the merits of any particular endeavor, the use of Ghost Budgets makes it far easier to prolong the fighting at any cost.

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Professor Linda J. Bilmes ([@LJBilmes](#)) is the Daniel Patrick Moynihan Senior Lecturer in Public Policy at the Harvard Kennedy School. Her research focuses on budgeting and public administration in the public, private and non-profit sectors.

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