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The Iraq War Will Cost Us \$3 Trillion, and Much More

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By Linda J. Bilmes and Joseph E. Stiglitz
Sunday, March 9, 2008; B01

There is no such thing as a free lunch, and there is no such thing as a free war. The Iraq adventure has seriously weakened the U.S. economy, whose woes now go far beyond loose mortgage lending. You can't spend \$3 trillion -- yes, \$3 trillion -- on a failed war abroad and not feel the pain at home.

Some people will scoff at that number, but we've done the math. Senior Bush administration aides certainly pooh-poohed worrisome estimates in the run-up to the war. Former [White House](#) economic adviser Lawrence Lindsey reckoned that the conflict would cost \$100 billion to \$200 billion; Defense Secretary [Donald H. Rumsfeld](#) later called his estimate "baloney." Administration officials insisted that the costs would be more like \$50 billion to \$60 billion. In April 2003, Andrew S. Natsios, the thoughtful head of the [U.S. Agency for International Development](#), said on "Nightline" that reconstructing [Iraq](#) would cost the American taxpayer just \$1.7 billion. [Ted Koppel](#), in disbelief, pressed Natsios on the question, but Natsios stuck to his guns. Others in the administration, such as [Deputy Defense Secretary Paul D. Wolfowitz](#), hoped that U.S. partners would chip in, as they had in the 1991 [Persian Gulf](#) War, or that Iraq's oil would pay for the damages.

The end result of all this wishful thinking? As we approach the fifth anniversary of the invasion, Iraq is not only the second longest war in U.S. history (after [Vietnam](#)), it is also the second most costly -- surpassed only by World War II.

Why doesn't the public understand the staggering scale of our expenditures? In part because the administration talks only about the upfront costs, which are mostly handled by emergency appropriations. (Iraq funding is apparently still an emergency five years after the war began.) These costs, by our calculations, are now running at \$12 billion a month -- \$16 billion if you include [Afghanistan](#). By the time you add in the costs hidden in the defense budget, the money we'll have to spend to help future veterans, and money to refurbish a military whose equipment and materiel have been greatly depleted, the total tab to the federal government will almost surely exceed \$1.5 trillion.

But the costs to our society and economy are far greater. When a young soldier is killed in Iraq or Afghanistan, his or her family will receive a U.S. government check for just \$500,000 (combining life insurance with a "death gratuity") -- far less than the typical amount paid by insurance companies for the death of a young person in a car accident. The stark "budgetary cost" of \$500,000 is clearly only a fraction of the total cost society pays for the loss of life -- and no one can ever really compensate the families. Moreover, disability pay seldom provides adequate compensation for wounded troops or their families. Indeed, in one out of five cases of seriously injured soldiers, someone in their family has to give up a job to take care of them.

But beyond this is the cost to the already sputtering U.S. economy. All told, the bill for the Iraq war is likely to top \$3 trillion. And that's a conservative estimate.

[President Bush](#) tried to sell the American people on the idea that we could have a war with little or no economic sacrifice. Even *after* the United States went to war, Bush and Congress cut taxes, especially on the rich -- even though the United States already had a massive deficit. So the war had to be funded by more borrowing. By the end of the Bush administration, the cost of the wars in Iraq and Afghanistan, plus the cumulative interest on the increased borrowing used to fund them, will have added about \$1 trillion to the national debt.

The long-term burden of paying for the conflicts will curtail the country's ability to tackle other urgent problems, no matter who wins the presidency in November. Our vast and growing indebtedness inevitably makes it harder to afford new health-care plans, make large-scale repairs to crumbling roads and bridges, or build better-equipped schools. Already, the escalating cost of the wars has crowded out spending on virtually all other discretionary federal programs, including the [National Institutes of Health](#), the [Food and Drug Administration](#), the [Environmental Protection Agency](#), and federal aid to states and cities, all of which have been scaled back significantly since the invasion of Iraq.

To make matters worse, the U.S. economy is facing a recession. But our ability to implement a truly effective economic-stimulus package is crimped by expenditures of close to \$200 billion on the two wars this year alone and by a skyrocketing national debt.

The United States is a rich and strong country, but even rich and strong countries squander trillions of dollars at their peril. Think what a difference \$3 trillion could make for so many of the United States' -- or the world's --

problems. We could have had a Marshall Plan to help desperately poor countries, winning the hearts and maybe the minds of Muslim nations now gripped by anti-Americanism. In a world with millions of illiterate children, we could have achieved literacy for all -- for less than the price of a month's combat in Iraq. We worry about [China](#)'s growing influence in [Africa](#), but the upfront cost of a month of fighting in Iraq would pay for more than doubling our annual current aid spending on Africa.

Closer to home, we could have funded countless schools to give children locked in the underclass a shot at decent lives. Or we could have tackled the massive problem of Social Security, which Bush began his second term hoping to address; for far, far less than the cost of the war, we could have ensured the solvency of Social Security for the next half a century or more.

Economists used to think that wars were good for the economy, a notion born out of memories of how the massive spending of World War II helped bring the United States and the world out of the Great Depression. But we now know far better ways to stimulate an economy -- ways that quickly improve citizens' well-being and lay the foundations for future growth. But money spent paying Nepalese workers in Iraq (or even Iraqi ones) doesn't stimulate the U.S. economy the way that money spent at home would -- and it certainly doesn't provide the basis for long-term growth the way investments in research, education or infrastructure would.

Another worry: This war has been particularly hard on the economy because it led to a spike in oil prices. Before the 2003 invasion, oil cost less than \$25 a barrel, and futures markets expected it to remain around there. (Yes, [China](#) and [India](#) were growing by leaps and bounds, but cheap supplies from the [Middle East](#) were expected to meet their demands.) The war changed that equation, and oil prices recently topped \$100 per barrel.

While Washington has been spending well beyond its means, others have been saving -- including the oil-rich countries that, like the oil companies, have been among the few winners of this war. No wonder, then, that [China](#), [Singapore](#) and many Persian Gulf emirates have become lenders of last resort for troubled [Wall Street](#) banks, plowing in billions of dollars to shore up [Citigroup](#), Merrill Lynch and other firms that burned their fingers on subprime mortgages. How long will it be before the huge sovereign wealth funds controlled by these countries begin buying up large shares of other U.S. assets?

The Bush team, then, is not merely handing over the war to the next administration; it is also bequeathing deep economic problems that have been

seriously exacerbated by reckless war financing. We face an economic downturn that's likely to be the worst in more than a quarter-century.

Until recently, many marveled at the way the United States could spend hundreds of billions of dollars on oil and blow through hundreds of billions more in Iraq with what seemed to be strikingly little short-run impact on the economy. But there's no great mystery here. The economy's weaknesses were concealed by the [Federal Reserve](#), which pumped in liquidity, and by regulators that looked away as loans were handed out well beyond borrowers' ability to repay them. Meanwhile, banks and credit-rating agencies pretended that financial alchemy could convert bad mortgages into AAA assets, and the Fed looked the other way as the U.S. household-savings rate plummeted to zero.

It's a bleak picture. The total loss from this economic downturn -- measured by the disparity between the economy's actual output and its potential output -- is likely to be the greatest since the Great Depression. That total, itself well in excess of \$1 trillion, is not included in our estimated \$3 trillion cost of the war.

Others will have to work out the geopolitics, but the economics here are clear. Ending the war, or at least moving rapidly to wind it down, would yield major economic dividends.

As we head toward November, opinion polls say that voters' main worry is now the economy, not the war. But there's no way to disentangle the two. The United States will be paying the price of Iraq for decades to come. The price tag will be all the greater because we tried to ignore the laws of economics -- and the cost will grow the longer we remain.

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