

A Review of Iraq War Cost Estimates

by Lucy Law Webster

as presented to Al-Jazeera English TV

On November 13, 2007, the Joint Economic Committee of the US Congress released a new report, based in part on testimony by Linda Bilmes, entitled, "War at Any Price? The Total Economic Costs of the War Beyond (sic) the Federal Budget." This report predicted that the total cost of the war could be as much as 3.5 trillion dollars over the next ten years. The following day, ranking Republican members of the committee called for the retraction of the report, citing both factual and logical errors.

In an effort to sort the facts from the propaganda, Al Jazeera English TV contacted me to comment on the cost of the Iraq war as understood by U.S. economists. I was able to answer their questions based on a paper I had written earlier in the year which reviewed various estimates of the costs of the war, from the early low numbers to the latest reports by Linda Bilmes, Joseph Stiglitz and others. The following article outlines what I told Cicly Scott, the Al Jazeera English TV reporter, during the interview.

The main point at issue was the idea of full economic costs. The November 13 JEC Report makes this clear; its press release refers to "High Hidden Costs to U.S. Economy of Borrowing Funds to Pay for War, Foregone Investments, Veterans' Post-War Care, and Oil Market Disruptions."

In my literature review, completed in July 2007, I had looked briefly at early studies of the costs of the war and actively at three major studies, which had covered some or all of the full economic costs. A tabulation of studies published prior to March 2003 showed:

SOURCE AND DATE OF ESTIMATE

(in chronological order)

COST ESTIMATES

(in billions \$US)

DURATION

Sept. 16, 2002 Lawrence Lindsey

Cited by Nordhaus in his Oct. 29 paper 100 to 200 No duration specified

Sept. 23, 2002 Democratic Caucus of the House Budget Committee 100 to 200 2003 to 2012

Sept. 30, 2002 Congressional Budget Office 9 to 13 to deploy

+ 6 to 8/mo to prosecute Duration important,

but not known

Oct. 29, 2002 William D Nordhaus 120 to 1,600 as per duration and difficulty 2003 to 2012

Dec 31, 2002 White House OMB

Mitchell E. Daniels, Jr., OMB Director in a NYT article of December 31,2002 50 to 60 No duration specified

A later set of studies that came out during the campaigns preceding the 2004 U.S. election also focused on relatively low costs, which were primarily direct appropriation costs as opposed to full economic costs:

SOURCE AND PUBLICATION DATE

(in chronological order)

COST ESTIMATE

(in billions \$US)

OTHER INFORMATION

May 13, 2004 USA Today by Susan Page 152 thru 2005 Cites analysts

June 24, 2004 Institute for Policy Studies 151 thru 2004 Cites non-budget costs

Sept. 13, 2004 FactCheck.org Says 200 is wrong Debates Kerry campaign

The article in USA Today by Susan Page drew attention to other reports published at the time. One by Andrew Krepinevich, a former Pentagon aide who was then executive director of the Center for Strategic and Budgetary Assessments said the unrest in Iraq "is going to extend the time horizon over which we'll need to be involved in stabilizing Iraq." The article also cited a comment by Anthony Cordesman, a former Defense Department official at the Center for Strategic and International Studies who said officials were "decoupled from reality" when they made their early predictions about the war in Iraq.

The study of June, 2004 by the Institute for Policy Studies presented an array of non-budgetary costs from the war in Iraq. Costs to the United States were classified as Human Costs, Security Costs, Economic Costs and Social Costs. The economic costs included the budget appropriations of \$151.1 billion, and the long-term impact on the U.S. economy where Doug Henwood was cited as saying that the bill would average at least \$3,415 for every U.S. household and James Galbraith as predicting that while the war spending might boost the economy initially, over the long term it would be likely to bring a decade of economic troubles. The report also predicted high gas prices and rising crude oil prices, which the study said would lead to a decline in the U.S. GDP of \$50 billion if gas stayed at around \$40 per barrel for a year. The security costs predicted for the United States included increased recruitment of terrorists, which they reported had already led to more suicide attacks around the world in 2003 than in any previous year plus 390 deaths and 1,892 injuries as documented by a former CIA analyst and State Department official as being due to terrorist attacks in 2003.

Did Lack of Focus on Full Economic Costs in 2004 Affect the Election?

The debate about the costs of the war sparked by the Kerry campaign led to a public airing of the idea that the costs were some \$152 billion and not the \$200 billion cited in the Kerry campaign commercials. The lower number was the one being used by most analysts who added up the congressional appropriations, and the Kerry campaign responded to the criticism from FactCheck.org and others by pointing to the various appropriations that could be added in different ways to reach the higher totals they had cited.

The important point is that there was no effective effort made to undertake and communicate a more comprehensive accounting for the total economic costs to the nation or to assess the longer term costs likely to arise from the war. If the difference between budgeted appropriations and full economic costs had been much more fully and widely understood at the time, it might have changed the outcome of the election.

The main body of my review paper considered three academic papers that focused on full economic costs. The 2002 study by William Nordhaus concluded that the cost of a short, successful war would be about \$120 billion while a longer, less successful war with urban warfare would range from \$140 billion to \$600 billion for the United States, including peacekeeping and occupation, and that macroeconomic impacts would be up to \$500 billion and above. The length of any oil shocks of more than a year or two would determine the size of these effects and bring the total to at least 1.3 trillion. Nordhaus explained that the cost of a short war "is likely to be surprisingly small because most of the costs are already paid

for in the defense budget." In contrast, a difficult war would have many economic and macroeconomic effects especially if the war, occupation, and nation-building were costly and destroyed significant Iraqi oil infrastructure. Also a major adverse psychological reaction to the conflict could bring costs to about \$1.6 trillion, most from sources outside the direct military costs, and, including costs to countries other than the United States and possible outcomes following the use of chemical or biological weapons by Iraq or from extreme reactions "against perceived American disregard for the lives and property of others" would lead to even higher costs.

A working paper from September, 2005 by Scott Wallsten and Katrina Kosec for the American Enterprise Institute and the Brookings Institution was the only study of the three examined closely here that provided data and cost estimates for Iraq and for the non-U.S. coalition partners. It concluded that direct costs through August 2005 were \$225 billion for the United States, \$134 billion for Iraq and \$40 billion for coalition partners, and that the total net value costs including the expected costs of deaths and injuries through 2015 would be one trillion dollars. This study did not include oil price changes or other macroeconomic effects.

A series of studies by Linda Bilmes of the Harvard Kennedy School and Joseph Stiglitz of Columbia University, including a paper of November 2006, found that direct costs would be between \$750 billion and \$1.2 trillion and that the macroeconomic effects of regional instability in the prime-oil regions affected by the war would lead to an additional cost of \$450 billion to Americans. Another \$450 billion in macroeconomic costs could be attributed to the fact that money spent in Iraq could not be spent in the United States where it would stimulate production, create jobs and bring value to the U.S. economy. Thus the writings of Bilmes and Stiglitz in the work cited here predicted a \$1.2 trillion cost coming from direct costs, plus oil-price effects plus other macroeconomic effects, which would add another \$900 billion—just for the United States.

In my November 14, 2007 interview with Al Jazeera English TV, I tried to communicate the essence of these various conclusions to my interviewer in Qatar and her audience. I believe I was able to demonstrate that the full economic costs of the Iraq war have been seen by serious U.S. economists as being at least as high as the numbers reported by the Joint Economic Committee of the United States Congress.

References:

Bennis, Phyllis and Leaver, Erik, "The Iraq Quagmire: The Mounting Costs of the War and the Case for Bringing Home the Troops", Institute for Policy Studies and Foreign Policy in Focus, August, 2005, and previously published informally in June, 2004.

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Congressional Budget Office, "Estimated Costs of a Potential Conflict with Iraq," September, 2002, available at <http://www.cbo.gov/> , and also later reports

FactCheck.org, "Kerry Exaggerates Cost of War in Iraq", <http://www.FactCheck.org> , September 23, 2004

House Budget Committee, Democratic Staff, Assessing the Cost of Military Action Against Iraq, September 23, 2002

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