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## Middle East

Jan 14, 2006

### Iraq, the mother of all budget busters

By David Isenberg

*"If Bush had come to the American people with a request to spend several hundred billion dollars and several thousand American lives in order to bring democracy to Iraq, he would have been laughed out of court."*

- noted political scientist Francis Fukuyama

It turns out the eventual cost of the war in Iraq will not be several hundred billion, but according to a new study at least a thousand



billion dollars - US\$1 trillion, in other words. This figure dwarfs any previous estimate by orders of magnitude.

Given the projected cost of \$1 trillion to \$2 trillion, one might imagine that American taxpayers are now rolling on the floor in hysterical laughter while gasping for air.

To get an idea of the economic black hole the Iraq war could become, it is useful to remember some of the past estimates given by the administration of President George W Bush. Recall, for example, when then-White House economic adviser Lawrence Lindsey suggested in 2002, six months before the war,

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that the mission could cost \$100 billion to \$200 billion, Bush fired him because his estimate was up to three times the \$70 billion the administration estimated.

Conservative columnist Paul Craig Robert wrote after the latest estimate: "Americans need to ask themselves if the White House is in competent hands when a \$70 billion war becomes a \$2 trillion war. Bush sold his war by understating its cost by a factor of 28.57. Any financial officer anywhere in the world whose project was 2,857% over budget would instantly be fired for utter incompetence."

The latest study was done by US economist and Nobel Prize winner Joseph Stiglitz, who teaches at Columbia University, and Linda Bilmes of Harvard University.

For the sake of comparison, consider that late last summer the Pentagon was spending \$5.6 billion per month on operations in Iraq, an amount that exceeds the average cost of \$5.1 billion per month (in real 2004 dollars) for US operations in Vietnam between 1964 and 1972. Currently, the Pentagon is spending about \$6 billion per month in Iraq. The total direct cost of the decade-plus Vietnam War to the United States was estimated to be \$600 billion. And not even three years after its start, Iraq has already cost 42% of what the Vietnam war did.

While the economic costs are staggering, they are not a total surprise. Lawrence Korb, a former assistant secretary of defense during the Ronald Reagan administration and now a senior fellow at the Center for American Progress, recalled: "I said at least \$500 billion or a trillion before the war."

Economically, he said, "it's a tremendous shock". He notes that the costs of the war come at a time when other governmental expenditures are scheduled to increase. "From 2007 to 2011, [baby] boomers start sucking up money, plus the Medicare drug benefits. It makes budget planning more difficult." He predicts the defense budget will be flat for at least the next five years.

Currently, according to Steve Kosiak, director of budget studies at the Center for Strategic and Budgetary Assessments, the Pentagon's direct costs of military operations and foreign assistance in Iraq are about \$250 billion. He notes that the government does not include many important costs.

"There are clearly additional costs. We are financing the war through deficit financing. That will be at least \$100 billion over the next decade." He added that government figures do "not include overall economic impact, such as the rise in oil prices generated by the war".

Stiglitz and Bilmes agree with Kosiak. They note: "Given that at the onset of the war, the [US] was already running a deficit, and no new taxes have been levied, it is not unreasonable to assume, for purposes of budgeting, that all of the funding for the war to date has been borrowed, adding to the already-existing federal budget deficit. In the conservative scenario we assume that these funds are borrowed at 4% and repaid in full within five years. The moderate scenario assumes that the country continues to have a deficit over the next 20 years and therefore interest continues to accrue."

This presents political difficulties for the Bush administration.

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According to Korb, "Possible actions the administration will have to take include keeping the [military] budget flat, rescinding tax cuts and rescind drug benefits."

But some of the most interesting revelations of the new study have not been noted. For example, despite the political rhetoric one hears from all politicians, it turns out that America's fighting men and women are not worth that much.

The authors wrote: "The military may quantify the value of a life lost as the amount it pays in death benefits and life insurance to survivors - which has recently been increased from \$12,240 to \$100,000 [death benefit] and from \$250,000 to \$500,000 [life insurance]. But in other areas, such as safety and environmental regulation, the government values a life of a prime age male at around \$6 million."

So a civilian death is worth at least \$5.4 million or about 11 times that of a serviceman or woman. The economic cost for civilian deaths also applies to private contractors. According to the study, the cost of the American soldiers who have already lost their lives adds up to about \$12 billion.

It is reminiscent of the old military cliché, "Nothing is too good for our boys, so that's what we'll give them - nothing."

The report also reveals that caring for wounded military personnel is going to be a far bigger and more expensive job than previously thought. The study notes that the Veterans Benefits Administration had originally projected that 23,553 veterans returning from Iraq would seek medical care last year, but in June it revised this number to 103,000. It also is now responsible for providing care to an estimated 90,000 National Guard personnel, who previously were not eligible for its services. To meet these unforeseen demands, the administration appealed to Congress for an emergency \$1.5 billion in funding for fiscal 2005. It is likely to face a shortfall of \$2.6 billion in 2006.

It is unclear, though, how much of a difference to the policy debate the study will make. According to Korb: "Had the study come out before we went to war, it might have made a difference. But now its impact will only be incremental. It might influence the administration to withdraw troops more quickly than previously planned.

"I wish we had thought about this before we got into this mess."

**David Isenberg**, a senior analyst with the Washington-based British American Security Information Council (BASIC), has a wide background in arms control and national security issues. The views expressed are his own.

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