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War Story

# US economy a '\$3 trillion' casualty of war in Iraq

5:00AM Tuesday March 04, 2008

NEW YORK - The Iraq war has contributed to the US economic slowdown and is impeding an economic recovery, Nobel-winning economist Joseph Stiglitz says.

Meanwhile, the US Government is severely underestimating the cost of the war, Stiglitz and co-author Linda Bilmes write in their book, *The Three Trillion Dollar War*, due to be published in the US this week.

The nearly five-year-old war, once billed as virtually paying for itself through increased Iraqi oil exports, has cost the US Treasury US \$845 billion (\$1064 billion) directly.

"It used to be thought that wars were good for the economy. No economist really believes that anymore," Stiglitz said.

Stiglitz and Bilmes argue the true cost is at least US\$3 trillion, under what they call an

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The book's authors say war has forced America to borrow more money. Photo / Reuters

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ultraconservative estimate. They say it could surpass the cost of World War II, which they put at US\$5 trillion, adjusted for inflation.

The direct costs exclude interest on the debt raised to fund the war, health-care costs for veterans coming home, and replacing the destroyed hardware and degraded operational capacity caused by the war.

In addition, there are costs not accounted for in the budget, like rising oil prices and social and macro-economic costs.

To illustrate how the money could be spent elsewhere, Bilmes cited the annual US budget for autism research - US \$108 million - which is spent every four hours in Iraq. A trillion dollars could have hired 15 million additional public school teachers for a year or provided 43 million students with four-year scholarships to public universities, the book says.

Stiglitz and Bilmes say they were excessively conservative in calculating the US\$3 trillion figure, overcompensating for their bias in having opposed the war.

Asked if the war has contributed to the US slowdown, Stiglitz said: "Very much so.

"To offset that depressing effect, the Fed has flooded the economy with liquidity and the regulators looked the other way when very imprudent lending was going up," Stiglitz said.

"We were living on borrowed money and borrowed time and eventually a day of reckoning had to come, and it has now come."

The war has also altered how the United States has reacted to its current economic troubles, he said.

"When America's financial institutions had a problem, they had to turn to the sovereign

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wealth funds in the Middle East for recapitalisation, for the bailout," he said.

"The reason was obvious. The war had led to high oil prices. The war had meant that America had to borrow more money. There weren't sources of liquid funds in the United States. The sources of the liquid funds were in the Middle East," he said.

Bilmes, a former assistant secretary and chief financial officer of the US Customs Department, said the war also limited options for the US\$168 billion stimulus package signed into law by President George W. Bush.

"We really had very little wiggle room in order to pass this because of the fact that we're spending US\$16 billion a month on Iraq and Afghanistan," Bilmes said. "Actually the country could have used a larger fiscal stimulus but there is [no] cash to accommodate it."

The authors said they were surprised by the hidden costs they found, citing what they called the under-reporting of casualty figures by the Pentagon. The official Pentagon figure of nearly 30,000 wounded in action does not account for 40,000 service members who have required medical attention for non-combat injuries or illness, Bilmes said.

- REUTERS

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