



THE THREE TRILLION DOLLAR

WAR

Nobel Prize-winning economist Joseph E. Stiglitz spoke on April 24, 2008, to a standing-room-only crowd at a talk sponsored by The Levy Economics Institute, the Bard Economics Program, and the Economics Club. He was introduced by Dimitri B. Papadimitriou, executive vice president of the college, president of the Levy Institute, and Jerome Levy Professor of Economics. The following is an edited transcript of Stiglitz's remarks.

One of the big debates in the coming election is whether the war or the economy is the most important issue. In fact, the two are closely related: the war has contributed to the weaknesses in our economy.

The title of my and Linda J. Bilmes's book is *The Three Trillion Dollar War: The True Cost of the Iraq Conflict* (W. W. Norton). Three trillion is a number that is so large that it is hard to fathom. To try to explain it, we talk about what we could have purchased with a fraction—an hour or a day—of the Iraq War. For instance, we could have put Social Security on sound financial footing for the next 50 to 75 years or more for approximately one-sixth of the cost of the Iraq War. Congress passed a bill to provide health insurance for poor children, and the president vetoed that bill, saying we could not afford it. The cost of that insurance was equal to just a few days of fighting in Iraq. There's an epidemic of autism in America. We don't understand why the instances have increased or what to do about it. But, for about four hours of fighting, we could have doubled the research on this subject. These are just a few of the ways of seeing that \$3 trillion is a lot of money.

The Bush administration has not responded enthusiastically to our book; they have suggested that the numbers are exaggerated. On the contrary, we believe that the numbers are very conservative: a more reasonable number is actually closer to \$4 trillion or \$5 trillion. It should be clear why the administration wants to hide the true cost: its arguments for the war were false. There were no weapons of mass destruction in Iraq and no connection with al Qaeda. But not only did it mislead the American people about the reasons for going to war; it also misled them about the costs of the war—it claimed that they would amount to less than \$50 to \$60 billion.

In Iraq alone, we are spending over \$12 billion a month, but that is the *up-front* amount, which is only about half of what this war is actually costing us per month. The way we calculated \$3 trillion was by adding up the current and future costs of the war. Congress has so far appropriated around \$800 billion for the war. However, they continue to use emergency appropriations that are not subjected to the same kinds of scrutiny as regular appropriations, which is one reason the cost of the war has been so high. Until we started our work, many in Congress did not know the total that they had appropriated because it was done piecemeal.

But how do you get from the \$800 billion that has been appropriated to the \$3 trillion to \$5 trillion that we believe is the true cost? There are costs hidden in the regular Department of Defense budget, which over the last five years has increased by half a trillion dollars. We estimate that about a quarter of the increase is attributable to the war. As an example, because the war is so unattractive, we have had to pay higher salaries to servicemen and servicewomen and larger enlistment and reenlistment bonuses. Yet this cost is not included in calculations of the Iraq War's cost.

These are the amounts already spent, but there is much yet to be paid. So long as the war goes on, we will continue to have to pay for operations.

The second big item of bills yet to be paid is the cost of restoring the military. Most senior officers believe our military is less equipped to meet any challenge today than it was five years ago. It will cost several hundred billion dollars to restore the military to its prewar strength.

But the biggest chunk of money yet to be paid involves costs associated with veterans. Think back to 1991, when we had a very short war in the Persian Gulf. Today we are paying \$4.3 billion a year in disability benefits to the veterans of that short, 100-hour war. The ratio of injuries to fatalities in the current war is much, much larger than in any previous war. In this war, including noncombat injuries, the ratio is 15 to 1, compared to just over 2.5 to 1 for the Vietnam and Korean Wars and less than 2 to 1 for World War I and World War II. About 30 percent of those returning will have brain injuries or psychological problems. Soldiers report an average of five to eight separate disabilities, as opposed to three to five in previous wars. We estimate the cost of caring for our veterans in the future to be in excess of \$600 billion. However, the government has put no money aside for these costs.

A further budgetary item comes from the fact that this is the first war in American history that has been financed totally on credit. When we went to war, we had a deficit. Months into the war, the administration passed a tax cut for upper-income Americans. In other words, every dollar spent in Iraq has been borrowed. It's like buying a car by borrowing: the total payments will be twice as much as if you had paid cash up front. This war, we estimate, will add \$2 trillion to our national debt by 2017.

Adjusting for inflation, previous wars have cost about \$50,000 per troop. This war is costing \$400,000 per troop. One reason is that no war has been privatized to the extent that this one has. This is one effect of trying to hide the true cost of the war. We did not want to increase the size of the military, but without an increased military, we had no choice but to turn to contractors. In many cases, these contractors charge more than twice what it would have cost to have the military do exactly the same thing.

However, the war's costs go beyond the budgetary cost to the microeconomic and macroeconomic costs to our economy. The microeconomic costs encompass those borne by individuals and families, which are not reflected in the federal budget. For instance, much of the cost of caring for returning injured veterans rests with the families. In one out of five cases where a veteran is seriously injured, someone in the family has to give up their job. The problem has been made worse because of underfunding of the Department of Veterans Affairs (VA); many families who can afford it have turned to private care. The administration has consistently underfunded the VA. As late as 2005–06, it was funding the VA on the basis of projections made in 2002, *before* we went to war. That has meant Iraq War veterans have not been able to get the benefits to which they are entitled.

Before we examine the macroeconomic costs, it is important to dispel the view that wars are good for the economy. This idea originated because many people thought World War II played an important role in getting the world out of the Great Depression. But since the time of John Maynard Keynes, we have known how to stimulate the economy in ways that lead to long-term increases in productivity and living standards. Wars, on the other hand, do not do that.

This war has been particularly bad for the economy. The most important reason has been what it has done to the price of oil. It is not a coincidence that the price of oil began to soar in 2003. At that time, it was \$23 to \$25 a barrel. Futures markets expected the price to remain at that level for a decade or more. They understood that there would be an increase in demand, but they thought there would be a concomitant increase in supply, especially from the low-cost providers in the Middle East. The war changed that equation. The Bush administration thought that the war would lead to lower oil prices or more secure oil, but that was just naïve oil geopolitics.

Why did the American economy not seem as badly off as our calculations suggested it should be? All this money was going to the Middle East and to other oil-producing countries. As a result, the economy was weakened, and the Fed had to take action. The combination of a flood of liquidity, lax regulations, and low interest rates led to a housing bubble and a consumption boom.

But we were living on borrowed money and borrowed time. Savings rates in the United States plummeted to zero. The bubble has now burst.

The general consensus is that monetary policy will not reinflate the economy. The Bush administration's stimulus package gives very little bang for the buck, and its focus is on the one thing America does not need: more consumption. The most effective policy would be to provide increased unemployment benefits and aid to states and localities.

We are going to have a serious downturn. The International Monetary Fund estimates that we will not recover until 2010. If you calculate the gap between U.S. potential output and actual output, the loss in GDP is between \$1.5 and \$2 trillion.

This book began as a paper analyzing the economic costs of the war. The paper was presented at the 2006 American Economic Association conference under the auspices of Economists for Peace and Security, which has its headquarters at the Levy Institute. As we worked on the book, it turned into more than just a matter of economic and

budgetary analysis. Scandals kept turning up—some of which gave insight into why the war was going so badly.

For instance, Halliburton pays workers through an off-shore subsidiary so that it does not have to pay Social Security and Medicare. You would think the government would not encourage tax evasion, but the Bush administration looks the other way, as it wants to keep the cost of the war down. We will ultimately have to pay those Medicare and Social Security costs, but they are not showing up on the books now.

Another shocking practice we found involves sign-up and reenlistment bonuses and soldiers who are injured. Say a soldier signed up for a four-year period of service. What happened if, in the first month of service, he was injured so badly that he could not return to duty? The military then demanded that he repay his enlistment bonus on a prorated basis because he did not finish his tour of duty. [As attention got drawn to this particular abuse, Congress put an end to it.]

In the book, we propose 18 reforms: half deal with accounting and budgetary issues and the remaining half with our veterans.

One issue is accounting reform. Every major American firm has to use accrual accounting. Firms take into account future liabilities and put aside money to cover them. The Department of Defense, however, uses cash accounting, and, as we have noted, has not set aside money to provide either health care or disability benefits for the returning disabled veterans. If a company handled its accounting the way the Department of Defense does, its executives would be in prison.

Bad accounting practices lead to bad decisions. The president said that he would give the military anything that it needed, but our research showed that this was not true. Military officers requested MRAP [mine-resistant ambush-protected] armored vehicles as early as 2005. They are more expensive than Humvees, which are what the military was using in Iraq, but they save lives and prevent injuries. However, [then-Secretary of Defense Donald] Rumsfeld refused to order them. Not because they are ineffective—there is a long record of their effectiveness—but because Rumsfeld was trying to keep the up-front costs of the war down. Instead, because our soldiers were not as protected as they could be, the overall cost, particularly from those injured, increased.

The other set of recommendations has to do with the treatment of our troops. We ought to give them the benefits they have been promised. For example, the VA has not even hired enough psychiatrists to take care of the 100,000 peo-



Joseph Stiglitz signs his book after his talk at Bard.

ple who have already come back with severe psychological problems.

What is our exit strategy? Do we leave now or, say, in four years? I think we need to exit as rapidly as we can. The surge in the level of troops may have succeeded in reducing violence—though there is some controversy about the role of the surge versus other contributing factors—but there has been no real progress in achieving a political solution. Without a political solution, it is hard to see the possibility of real stability in Iraq. If we wait four years, we will have spent another \$1.2 trillion. Will the difference between what it would be like if we leave now or in four years be worth that? I think there is a growing consensus that the answer is no.

Joseph E. Stiglitz is University Professor at Columbia University and chair of Columbia's Committee on Global Thought. He is cofounder and president of the Initiative for Policy Dialogue. In 2001, he won the Nobel Memorial Prize in Economic Sciences for his analyses of markets with asymmetric information. He chaired the Council of Economic Advisers during the Clinton administration, then became a senior vice president and chief economist at the World Bank. He is an honorary alumnus of Bard, having received the Doctor of Humane Letters degree in 2001, and a member of the Board of Governors of The Levy Economics Institute.