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**HEADLINE:** America failed to calculate the enormous costs of war

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Before the Iraq war began, Lawrence Lindsey, then president George W. Bush's economic adviser, suggested that the costs might reach Dollars 200bn. The White House promptly fired him. Mr Lindsey was indeed wrong. But his error lay in grossly underestimating the costs. The administration's estimates of a cost of some Dollars 50-Dollars 60bn were a fantasy, as were Saddam Hussein's weapons of mass destruction, and much else.

An analysis by Linda Bilmes of Harvard University and the Nobel-laureate Joseph Stiglitz of Columbia University suggests that the administration underestimated the economic costs by considerably more than an order of magnitude.\* To paraphrase erstwhile senator Everett Dirksen: "a Dollars 100bn error here, a Dollars 100bn error there and pretty soon you are talking real money".

So far the government has spent Dollars 251bn (Pounds 142bn) in hard cash. But the costs continue. If the US begins to withdraw troops this year, but maintains a diminishing presence for the next five years, the additional cost will be at least Dollars 200bn, under what Profs Bilmes and Stiglitz call their "conservative" option. Under their "moderate" one, the cost reaches Dollars 271bn, because troops remain until 2015 (see table).

Additional costs must be added: medical treatment; cost of injuries; disability payments; cost of demobilisation; need for increased defence spending (partly because of higher recruitment costs in the aftermath of the war) and additional interest on debt. Such costs will be bigger, the longer and greater the troop presence. Under the conservative scenario, the total budgetary cost is estimated at Dollars 750bn. Under the moderate scenario, the cost is Dollars 1,184bn. To put this in context, the minimum budgetary cost is 10 times the world's net annual official development assistance to all developing countries.

Now consider the wider costs to the US economy. In the conservative case, the adjustments add Dollars 187bn to the budgetary cost, even if the macroeconomic impact is ignored. In the moderate one, they add Dollars 305bn.

What are these economic costs? The difference between the wages reserves earn in their normal occupations and the lower wages they earn in service are a cost. While life is

priceless, the government necessarily values lives in making its decisions. Using the Environmental Protection Agency's valuation of Dollars 6.1m, the authors conclude that the cost of fatalities will be at least Dollars 23bn. There are also ongoing economic costs from the terrible injuries. Finally, there is accelerated depreciation of military hardware.

So far, then, the economic cost comes out at a minimum of Dollars 839bn (excluding interest). This, alas, does not end the story. In one area, at least, further costs are evident: the jump in the price of oil. Mr Lindsey is reported to have said that "the best way to keep oil prices in check is a short, successful war on Iraq". He was wrong. Oil production in Iraq has plummeted, from around 2.6m barrels a day before the war to 1.1m.

Before the war, the oil price was expected to remain at between Dollars 20 and Dollars 30 a barrel. In practice, it has been more than twice as high. The authors' conservative assumption is that Dollars 5 of this is due to the war. Their moderate assumption is that the impact has been Dollars 10 a barrel. A Dollars 5 increase imposes a cost of Dollars 25bn a year on the US and a Dollars 10 increase one of Dollars 50bn.

Higher oil prices have wider macroeconomic effects. In the short to medium run, spending by the now poorer consumers tends to fall faster than spending by the now richer producers rises. Central banks concerned about inflation also adopt tighter monetary policies than they would otherwise do, while fiscal policy does not normally adjust swiftly to such changes. With a modest "income multiplier" of 1.5, the conservative estimate of the additional losses in output is Dollars 187bn over five years. With a multiplier of two and the higher price effect, these costs rise to Dollars 450bn.

The authors also add two differences between expenditures on the war in Iraq and likely alternatives: first, they are overwhelmingly abroad; second, they do not contribute directly to consumption, either now or in the future. With these costs taken into account, the total macroeconomic costs may add up to Dollars 750bn (see chart) and total costs to Dollars 1,850bn.

Critics will stress that both authors served under President Bill Clinton. In the current heated atmosphere of US politics that will be enough to discredit their analysis. It should not do so. Whether or not one believes the war was justified, one should still be concerned that a decision to go to war was taken in the absence of any intelligent analysis of the likely costs.

Nor can one argue that it was impossible to do such an analysis. As I pointed out in a questioning column on the war published almost three years ago (this page, February 4 2003), William Nordhaus of Yale had already prepared a superb analysis, which suggested that Dollars 100bn was the lowest imaginable cost and close to Dollars 2,000bn perfectly conceivable.

The present analysis also ignores a host of significant economic and non-economic effects. Among these are: costs borne by other countries, including those created by higher oil prices; costs consequent upon creating a link between Iraq and the jihadi

movement that did not, on the evidence, previously exist; costs of increasing the income of some of the world's least desirable regimes, above all, Iran's; costs of throwing away the option to fight ground wars elsewhere or to fight in Iraq later on, under better conditions, better information and a better state of preparedness; costs of enraging many Muslims; costs to the effectiveness of the US military; costs of fragmenting the western alliance; the loss of Iraqi lives; the cost to US credibility of going to war on a false premise; and the cost to the US reputation of the torture scandals.

It is possible to argue that the benefits for Iraq, the Middle East and the world will outweigh all these costs. But that depends on the emergence, in Iraq, of a stable and peaceful democratic order. That has not yet been achieved.

Even those who supported the war must draw two lessons. First, the exercise of military power is far more expensive than many fondly hoped. Second, such policy decisions require a halfway decent analysis of the costs and possible consequences. The administration's failure to do so was a blunder that will harm the US and the world for years to come.