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A war appraisal too vast to swallow

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Just when the American public, in an inversion of the old saw about economists, was thinking that the Bush administration professes to know the "value" of everything but the "cost" of nothing, along come Joseph Stiglitz and Linda Bilmes - two economists - to restore aphoristic order.

Professors Stiglitz and Bilmes, of Columbia and Harvard respectively, assert knowledge not merely of the cost of the Iraq war but its "true" cost. Of the war's "value", they utter barely a peep: "Our intent is to focus on costs, because they can be measured with some accuracy . . . The benefits are more elusive, but it seems highly unlikely they will be significant."

"By now it is clear," the authors declare in the very first sentence of their pamphlet, "that the US invasion of Iraq was a terrible mistake". A few pages later they make plain that "we both ardently opposed the war and were against it from the start". So theirs is a polemical effort in which they play the role of ideological actuaries in an area where, to the believers in Bushian mismanagement, no real proof is necessary. Yet the faux-precision of the book's title - The Three Trillion Dollar War - is propagandistic. One might aver that the aim of the authors was not so much to write a book as to coin a catchphrase.

The "cost" of the Iraq war is in the eye of the beholder. Our two beholders here are anti-war and so their assertions, it should be understood, are made to bolster the case for the Democrats in the forthcoming US presidential election. I point this out not as a criticism, but as a form of truth in advertising.

How do the authors arrive at their astronomical figure? Here is their framework. They add up "the total relevant appropriations/expenditures to date for military operations" plus "'operational expenditures' and savings hidden elsewhere in the defence budget" plus "(corrections) for inflation and the 'time value' of money" plus "future operational expenditures (both direct expenditures and those hidden elsewhere in the budget)" plus "future (and current) costs of disability and healthcare for returning veterans" plus "future costs of restoring the military to its prewar strength, replenishing spent armaments, repairing equipment whose maintenance has been deferred" plus "budgetary costs to other parts of government" plus "interest" plus "(estimates of) the cost to the economy"

plus (estimates of) the macroeconomic impact". The overall total comes to \$3,000,000,000,000.

There is much that is flawed in these calculations, but I will point to only a couple of examples. The authors write: "We conclude that a significant proportion of the increase in the price of oil resulted from the war." They are way off here: the huge increase in oil prices has much more to do with the growth in world demand, especially from China and India.

In another place, the authors argue that the "true" cost to the US of the 4,300 soldiers killed in Iraq is not 4,300 times Dollars 500,000 (the actual sum paid as compensation by the Department of Defense to the kin of dead soldiers), but 4,300 times Dollars 7.2m (the "value of statistical life" - VSL - in the US, this being the sum awarded, on average, to people who die in civilian accidents). So, using this VSL, the authors conclude that "the economic cost" of American deaths in Iraq to date "already exceeds Dollars 30bn, far greater than the budgetary cost of Dollars 2.15bn." Here, as in other places, the authors are confusing two concepts. One is the direct fiscal expense of the war, which means: how much are we actually spending? This is important for evaluating whether the White House should have raised taxes to finance the war, as the US has done in past wars. Second, economists try to build counterfactuals to evaluate the costs and benefits of a policy. If we do that, then we must ask: suppose the US had not gone into the Iraq war, what would the alternative have been?

Would the US not have incurred mounting expenses for bombing and flying in the "no-fly zone"? And in arming Middle Eastern allies to counterbalance the threats of potential invasion by Iraq? Would the US not, then, have spent more on the Afghan war and on aid to Pakistan? By the time we add up expenditures that follow from a suitable counterfactual, the costs of the Iraq war "diminish" considerably.

The authors have entered into territory where it is fraudulent to offer up the omniscient exactitude of "three trillion". Better to issue a cry from the heart and say: "It's a bad, bad, bad, bad war." That would have been more honest than the wheeling into a political debate of a heavy, but woefully inaccurate, economic blunderbuss.

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