The Economic Cost of the Iraq War

SCOTT WALLSTEN

In 2002, Lawrence Lindsey, then director of the White House National Economic Council, surprised the Bush administration by saying that a war in Iraq could cost $100 to $200 billion. Some then considered his estimate to be exaggerated, but it now looks far too low. Taking into account many, but not all costs, my tally is closer to a half trillion dollars, with another half trillion likely still to come.

Since the war in Iraq began, economists haven’t been heavily involved in the public debate regarding the conflict. That absence is a mistake. Choosing to go to war reflects a belief that the expected benefits of the conflict exceed the expected costs and that society’s scarce resources could not be better deployed elsewhere. While justification for war is rarely couched in purely economic terms, the tools of cost-benefit analysis apply, just as they can to any policy decision.

Granted, some of the tools may be too crude, and the data too spotty to reach firm conclusions. And we may dispute how to monetize some benefits and costs. Nonetheless, the debate about the war should be informed by estimates—even if imprecise—of its actual economic costs.

I estimate that through the summer of 2005, the direct economic costs of the war in Iraq to the U.S. have been about $300 billion. Including costs to Iraq and coalition partners, the global cost comes closer to $500 billion. Looking forward, the total net present value of the costs could double before this war is done.

The conflict, however, has also led to some benefits. I estimate that the avoided costs of no longer enforcing U.N. sanctions and of Saddam Hussein no longer murdering people are about $120 billion to date, and could total around $430 billion by 2015.

THE MISTAKE OF EQUATING BUDGET ALLOCATIONS WITH ECONOMIC COSTS

Before the war, several economists weighed in on its likely costs. In 2002, William Nordhaus, a prominent Yale economist, noted that politicians throughout history have underestimated the costs of war, and estimated that the economic costs could be anywhere from $100 billion to $2 trillion. Then, in 2003, economists Steven Davis, Kevin Murphy, and Robert Topel compared the costs of continuing with the then-status quo of sanctions and inspections with the costs and benefits of a war.

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Their estimates of the economic and other devastation caused by Saddam Hussein suggested that a war would eventually yield net welfare gains.

Since the war began, however, most of the discussion regarding the costs has focused on the federal budget alone. But as Warwick McKibbin and Andrew Stoeckel noted in 2003, “… the cost to the fiscal position … is a significant underestimate of the overall cost of conflict just as changes in fiscal balances are an inappropriate measure of the possible gains from war.”

Together with Katrina Kosec, I have developed a framework for estimating the direct costs that are not reflected in the budget.

**What are the direct economic costs of the war?**

Alongside the budget debate is anxiety about the war’s other impacts, including the mobilization of Guard and Reserve troops for extended tours of duty, deaths, and injuries. Those are all real costs. Monetizing them provides a coherent way for policymakers to compare the costs and cost-effectiveness of the war with those of other policies, and thus use our scarce resources in the most efficient manner possible.

Consider the use of the Guard and Reserves. About 40 percent of the 140,000 American troops in Iraq belong to the Guard or Reserves, and an additional 63,000 have been mobilized to replace active-duty troops now in Iraq. These former “weekend warriors” can’t do their civilian jobs while they’re on active military duty. How much is this cost? The Defense Department has data on reservists’ occupations, and using Department of Labor data on average wages by industry, we can estimate this lost civilian productivity to be about $4 billion per year, after netting out their reserve wages to avoid double counting.

Measuring the cost of lives in dollars is of course more controversial—how can a dollar figure reflect the death of a child, spouse, or parent? Indeed, economic analyses do not attempt to value any particular individual’s life. Instead, they assess how much individuals are willing to pay to reduce their risks of death and use that information to calculate a “value of a statistical life” (VSL). In policy analysis, these assessments are crucial for evaluating whether benefits outweigh costs, and whether society’s limited resources are being deployed effectively. From an ex ante perspective this approach seems reasonable as no one knows who will die, so each soldier runs a statistical risk.

By the end of October, more than 2,000 American soldiers had died in Iraq. Economists estimate VSL to be between $4 million and $9 million (in 2000 dollars), according to a recent literature survey by Kip Viscusi and Joseph Aldy. An estimate in the middle of that range suggests that the cost of American dead is around $15 billion (in today’s dollars). We can monetize injuries similarly, assuming two major costs: lifetime care and treatment, and welfare loss to the wounded person. Estimating these costs using data from the Defense Department on injury types and calibrating injuries to VSL by their severity suggests that injuries have cost another $20 billion.

Including budget allocations specifically for Iraq, these estimates yield a total cost to date to the United States of around $300 billion.

What about other direct global costs? The VSL estimate used here is based on studies in the
United States, and may not be applicable to other countries. In their 2003 survey of the research around the world, Viscusi and Aldy find that for each one percent change in per capita income, estimated VSL changes by about one-half of a percent.

It is possible to monetize non-American lives using that result, the American VSL, and estimates of countries’ per capita income. Nobody knows the Iraqi death toll for certain, but according to one commonly-cited source, more than 35,000 Iraqis have died (see http://www.iraqbodycount.net/). Monetizing that human cost to Iraq yields around $120 billion. Similar costs to non-American coalition countries and the costs of physical damage caused during the war add another $70 billion or so to the global tab, bringing the total to around $500 billion to date.

**Cost savings**

Even war is not all bad, and the war has also led to some direct cost savings, too. We no longer must enforce U.N. sanctions, and Saddam Hussein is no longer killing people. Davis, Murphy, and Topel estimated that enforcing the sanctions cost about $13 billion per year, and that Hussein was responsible for an average of 10,000 deaths a year. Those benefits top $300 billion so far.

**Looking ahead**

All of those costs, however, are sunk. What about the future?

Nobody knows for sure how long the war will last. But by making several assumptions we can apply this framework, and estimate the net present value of expected future costs. Using Congressional Budget Office projections of troop strength and military expenditures through 2015; assuming that future trends in the death and injury rates and Guard and Reserve use remain constant; and using a five percent discount rate, the expected net present value of the incremental cost of the war could be $300 billion to the U.S., $50 billion to non-U.S. coalition partners, and $200 billion to Iraq.

In other words, the war could still cost the world another half trillion dollars.

**Lessons of the analysis**

These calculations are not exhaustive. They do not, for example, take into account the war’s impact on oil prices or other parts of the macroeconomy.

They also exclude some possible benefits. By some measures, for example, the Iraqi economy is recovering from its total devastation under Saddam Hussein and U.N. sanctions. The wetlands of southern Iraq, drained by Hussein in his campaign against the “marsh Arabs,” may return to their natural state, yielding environmental benefits. And maybe a robust democracy will emerge.

This analysis can’t conclude, as President Bush did recently, that the war is “worth it”—nor can it conclude, as his critics have, that it is not. But it can better frame the question by defining the “it”: Is bringing democracy to Iraq, for example, worth another half trillion dollars?

As we search for an endgame to the war, we need an objective, rigorous, and transparent framework to choose a policy expected to make the best use of our resources. Maybe economics can help provide one.

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