

# Executive Summary

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## War Without End? The Costs of the New Military Buildup

The Bush administration's war on terrorism and its proposed military intervention in Iraq have sparked the steepest increases in military and security spending in two decades.

- Since September 11, 2001, the federal government has approved over \$110 billion in increased military spending and military aid. Spending on national defense is slated to reach \$399 billion in the Fiscal Year 2004 budget, and to rise to over \$500 billion annually by the end of this decade.
- These vast sums do not include the costs of the ongoing war in Afghanistan *or* a war with Iraq.
- Steven Kosiak of the Center for Strategic and Budgetary Assessments estimates that only 5 to 10 percent of the Fiscal Year 2003 Pentagon budget is being set aside for anti-terror activities and homeland security.

The greatest potential driver of military and security costs in the coming decade is the open-ended nature of the Bush administration's national security strategy. The administration has moved rapidly from a focus on acting against "terror networks of global reach," to a commitment to displace regional tyrants like Saddam Hussein, to a pledge to use American military might to promote "democracy and free markets" worldwide.

## The Hidden Costs of War: A Historical Perspective

As Robert Hormats of Goldman Sachs International has observed, "History is littered with gross underestimates of the cost of war . . . The first world war was originally forecast to be short and inexpensive. The Vietnam War cost 90 percent more than forecast."

Yale economist William D. Nordhaus has suggested that governments often understate the costs of conflict because "If wars are thought to be short, cheap, and bloodless . . . it is easier to persuade the populace and the Congress to defer to the President."

Hidden costs also arise, especially in the postwar era. For example, the 1991 Gulf conflict had an unprecedented rate of "postwar casualties." More than one-quarter of the veterans of that war are receiving benefits to deal with service-related medical problems ranging from memory lapses and fatigue to cancer and birth defects in their children. The costs of treating Gulf War-related injuries and illnesses is \$2 billion per year.

## Rolling the Dice on Gulf War II: Real Money, Real Risks

The Bush administration has yet to offer a detailed estimate of the costs of U.S. intervention in Iraq, but several scholars have made estimates. Studies by Congressional analysts suggest that the budgetary costs of a war with Iraq are likely to be in the \$100 to \$200 billion range, as suggested by Lawrence Lindsey, past chief White House economic advisor.

A September 2002 report by the nonpartisan Congressional Budget Office indicated that at three-month war in Iraq followed by a two-year military occupation could cost between \$58 and \$92 billion. This would include \$9 to \$13 billion to deploy a substantial military force to the Persian Gulf; \$6 to \$9 billion for the first month of conflict, and \$5 to \$8 billion for each month of combat thereafter; \$1 to \$4 billion per month for peacekeeping/postwar occupation; and a \$5 to \$7 billion one-time cost for redeploying U.S. forces to their home bases after the war.

A related analysis by the Democratic staff of the House Budget Committee puts the initial costs of a war with Iraq, involving thirty to sixty days of combat, at \$48 to \$93 billion; adding the cost of rebuilding and stabilizing the country could push the figure up to \$200 billion. If the U.S. engages in war on its own, without the blessing of its allies, it will have to pay these costs mostly on its own. Substantial net costs could also be incurred by the U.S. if it tries to persuade its allies to engage in this conflict. For example, the Bush administration has pledged an aid package of approximately \$14 billion in grants and long-term loans for Turkey in exchange for Ankara's agreement to let U.S. air and ground forces launch a "northern front" against Iraq from Turkish soil.

Two nongovernmental studies of the costs of war with Iraq go beyond the *budgetary costs* addressed in Congressional analyses to examine the full costs of war to the U.S. economy. Economist William Nordhaus has evaluated six major cost factors involved in a war with Iraq, and has estimated that the costs of a conflict with Iraq could range from \$99 billion to \$1.9 trillion over the next decade.

The Center for Strategic and International Studies (CSIS) has also produced a range of estimates of the costs of war with Iraq using a case study approach. The CSIS has determined the possibility of a wide range of economic outcomes—from mildly positive to seriously negative—underscoring the uncertainties involved in going to war with Iraq at this time. These uncertainties are compounded by the fact that a "Gulf War II" will be substantially different than the first Persian Gulf conflict or the war in Afghanistan.

General Joseph Hoar, the retired former chief of the U.S. Central Command, has suggested that driving Saddam from power could be substantially more difficult than driving Iraqi troops from Kuwait, particularly if it involves significant urban combat. Military expert Anthony Cordesman notes that Iraq still retains substantial military forces, and that "some of these forces are almost certain to be loyal and to fight effectively.

## **Considering the Alternatives: Opportunity Costs of Military Spending and War**

The economic impacts of a war with Iraq will be made more severe by the way in which the Bush administration is choosing to finance the war effort, by running deficits and pressing for major tax cuts even as military spending costs continue to mount. With deficits slated to top \$300 billion in 2004 even before the costs of war are factored in, there is a real danger that the United States will project an image of ongoing budgetary disarray that could undermine private investment and the value of the dollar. A rush to war without full allied support could also prompt a worldwide backlash against U.S. products.

The federal government's ability to respond to nonmilitary needs, both domestic and international, is already severely circumscribed. Spending on national defense accounts for 51 percent of federal discretionary spending in the FY 2004 budget, *more than all other federal priorities combined*. Interest on the national debt is slated to grow from roughly \$160 billion this year to \$254 billion by 2008. Something will have to give.

Given the major budgetary tradeoffs and considerable economic uncertainties cited in this report, it is well past time for President Bush to level with the American people about the full costs involved in going to war with Iraq.