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The Real Cost of the War

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Welcome to a production from the Center for Emerging Media. I'm Marc Steiner. In this podcast, today, we'll be listening to Joseph Stiglitz, a Nobel Prize winning economist. He wrote the book, *The Three Trillion Dollar War: The True Cost Of The Iraq Conflict*. This book has caused a huge amount of controversy in the facts and statistics that Joseph Stiglitz has laid out. Before he wrote this book he served as Chief Economist and Senior Vice President of the World Bank from 1997 to 2000. He has taught at Princeton, Stanford, MIT, and Oxford, and is the author of many books including *Globalization and Its Discontents*, *Fair Trade For All*, and today, we're talking about his book, *The Three Trillion Dollar War: The True Cost Of The Iraq Conflict*. He wrote the book with Linda Bilmes. So enjoy this conversation with Nobel Prize winning economist, Joseph Stiglitz, about his book, *The Three Trillion Dollar War*.

Let me just start out, there's some overarching issues that have been raised by other economists. I'm sure you've been aware of them since your thesis came out about *The Three Trillion Dollar War*, and this whole argument that war is good for an economy. People are basing that on what happened in World War II, especially, and to a lesser extent, Vietnam. But the war is good for an economy, it fuels an economy, which is one of the reasons the capitalist systems go to war, and that's why the thesis about this being bad for the economy doesn't make sense.

Well, that's actually a question I address very directly in the book. I describe it as a myth that grew out of World War II. At least since the time of Keynes, we know how to stimulate an economy in ways that not only help the economy in the short run, but actually promote long term growth. No one has ever thought that dropping bombs was gonna help to increase the productivity of America or increase our living standards. But there are ways of- oh, ways of spending money that can both stimulate the economy in the short run and lead to long term growth. Now, every category of expenditure has a -what we call a multiplier. How much extra stimuli do you get for every dollar of spending? What we're spending, in this war, probably among the lowest, uh, multiplier, the least good that you could have imagined. Let me give you an example. You take- uh spend money on a Nepalese contractor working in Iraq and contrast that with spending the same dollars within the United States on health and education or infrastructure. There is absolutely no comparison about how much uh - addition to the strength to the U.S. economy - spending money at home adds that much more. The Nepalese contractor is not gonna be spending very much money on the second round of American goods. And the people that they spend money on are not gonna be spending on the third round on American goods, and so, it just doesn't help the economy very much.

So, extrapolate from that how the globalized economy, the- the intertwining of the national economies throughout the globe effect this process of how economy we spend money on this war.

Well I mean- uh, obviously the- some of the money that is spent in Nepal or Iraq is eventually spent on imports. And some of those imports are imports from the United States, but relatively little. We aren't producing the kind of export goods that are going to Nepal or to other countries. So, we benefit indirectly, but only to a very limited extent. And then, the concept of the multiplier comes in- how much extra total bang do you get for every dollar? And that's why it's so- this war spending is so bad. There's another point I wanted to make- why this particular war has been bad for the economy; and that it because it has been associated with an increased price of oil. That higher price of oil means that we're spending more money on Saudi Arabia and Kuwait for oil, money that otherwise would have been spent largely on goods made in America. So again, it's taking away from the purchasing power out of America's hands and putting it in the hands of somebody abroad. And that's bad for the economy, as well. So, you know, no matter how you look at it, this particular war is not very good. It's interesting that people go back to World War II, because in the first Gulf War, you look at the testimony of Allen Greenspan at the time, um, and he was very clear that he thought that the uh, Gulf War was one of the factors contributing to the slow down the American

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economy was experiencing around that time. So he saw the first Gulf War as having a negative effect on the economy.

But, you mentioned oil a moment ago, and some of the criticisms I've read, after reading your book, that Paul Krugman and others have made- and the recent piece was just in the New York Times just last weekend, is that this war has very little to do with the rise in oil prices. That, in effect, it's really the competition we're having with China and India expanding that, and that's causing the oil prices to go up; and speculations by hedge funds and very little to do with the Iraq War.

Well, I just wish people would have read our book, because we anticipated that, just like we did with the other one. And what we first point out is to be conservative and to avoid that kind of quibble we assumed in our book only \$5-10 dollars of the \$75-90 dollar increase in oil- was attributed to the war. So in our \$3 trillion dollar estimate, we are, in a sense, agreeing with those who say it's relatively one part, but only relatively, a small part. In my heart of hearts, I really think it's much more important- and let me try to explain how we address that question in the book, we anticipated those questions.

Uh, huh.

Future's markets are the kind of markets where people who study demand and supply of oil try to figure out where the price is going to be. And not surprisingly, if you're betting your money on where the oil price- you look at sources of increasing demand. Future's markets in 2003 anticipated that the price of oil would remain around \$25 dollars a barrel for at least the next decade. They knew that China was going to be increasing its demand, they knew India had emerging markets that were increasing demand. You read the literature of the time, and there's no big surprises between what they anticipated and what has happened. You can see they've grown faster than they've anticipated

Uh hum.

But, you know, you'd have to have your head in the sand to think that China wasn't growing in 2003. You know, that's old news. What they anticipated- and again, you go back to 2003, what they anticipated was that there would be an increase in the supply of oil- keeping up with demand, from the low cost providers- the low cost providers are in the Middle East, and the War changed that equation.

How did it change that equation?

Well, the War- there was an immediate effect, of course, in the supply from Iraq. That was probably the most dramatic, but it introduced us to a huge new element of instability into the Middle East. And um, that meant that it became less attractive to invest more into this region, to increase the capacity of this region to supply oil to the rest of the world. There's another aspect to this issue, it's a little more complex, and I didn't get more into it in the book as much as perhaps, I should have. And that is that the dynamics of the oil market. This is not an ordinary competitive market. The oil fields are owned by governments. The governments have a certain amount of revenue that they need to conduct their operations. Um, but when the income goes up much faster, they have a problem with what to do with their extra money. Prices of oil have increased four folds. That's given them more than enough money to reach their budgetary needs, but it's given them a new problem: where to place their money? The problem of where to place their money has become particularly fraught with countries like the Middle East because the U.S. is not viewed as an attractive place. There's a lot of hostility, a lot of regulations, a lot of anxieties about whether if they put their money in the United States will they be able to take their money back again. The upshot of all this is that there is what economists call, a backward bending supply curve. If the price goes up, they actually increase the supply, they make- they're deciding increasingly that the best place to put their money is below the ground. In other words, keep the money below the ground, where it's secured in their own territory, they know where it is, they control it. Rather than invest in putting in above the ground; particularly with the way the Bush administration has been putting pressure on these countries like Saudi

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Arabia. In the past, Saudi Arabia kept an amount of excess capacity. It used that excess capacity as a way of- what you might call, disciplining of the market to make sure that Cartel acted as a Cartel. Like, if people started producing more, then there was a greater lot of more money, cause more money could flood some of the excess capacity, and that would depress the price and they would be taught a lesson. Now, if there is excess capacity, they are under enormous pressure to produce up to their capacity. How do they respond? Making sure they don't have any excess capacity. How do they make sure they don't have any excess capacity? Not investing very much.

So, you're saying that in fact, at this moment- in your book you don't go into that, but you do go into where the money for the Middle East is being invested, rather than being invested in the United States. But, are you saying that at this moment it is concrete fact that there is little investment of oil in the Middle East and that they actually are holding down the production from Middle Eastern countries? Is that happening now?

Well, it's very clear that they have not been expanding production as much as would be anticipated, as much as would be needed to keep the prices down. If they were investing more then the price would be lower. Now, we went through a very difficult period in the Middle East that was exacerbated by Iraq where a lot of people felt uneasy about putting their money in Iraq. So there were effects, both on the side of the countries that control these investments, but also investments that want to risk their money. There's one other factor that really makes things much more complex- or two other factors and that's um, one of the factors is that there has been, until rather recently, a worry that- what would happen if peace broke out? If peace broke out, the price would fall from \$80-90 dollars, back to the more normal \$25-30 dollars that people had expected.

Uh hum.

And that would mean that if you invested in shale, in coal sand, which can produce oil at about \$40-45 dollars, you would take a back, you would lose your money. So, you had this irony that while the price was above many of the sources for the cost of production and many of the alternative sources for the cost of supply, because there was no guarantee that there wasn't anything at this high level, it didn't make sense to them to see these long term investments- that are necessary.

Let me- um, go back to the kind of focus, or the thesis of the book, what the War costs the government, today; which is something that you lay out as kind of the centerpiece in many ways- that when you total up and describe- for people listening to this today, how we view \$3 trillion dollars. You have this really interesting chart on page 111, you kind of go through that, and I'd like you to just walk through it, so our listeners can understand how you came to this thesis- conclusion, I mean.

Sure, let me get to where you begin. First, you begin with a budgetary cost, and then you have the costs goes beyond the federal budget. And then the budgetary cost- you divide into 2 categories, we're spending \$2 billion dollars a month that we've already spent, we're spending \$12 billion dollars a month on operations. Uh, we're talking \$800 billion dollars that have already been appropriated and are quickly being spent for the operations. Then the next piece of money is money that has been spent on the operation, but not labeled Iraq. So, for instance, um, or more generally, increased costs to the military, for the War in Iraq. An example of this is that we have to pay a lot more to recruit our troops, we have to pay enlistment bonuses, reenlistment bonuses, we have to repair equipment that's used up that doesn't get repaired in the United States, most of it does not get repaired in the United States, but some of it comes back and gets repaired here. All these are costs that help explain why the defense budget in Iraq and Afghanistan has increased by half a trillion dollars in the last five years. So, we attribute one quarter of that to the Iraq War. Then the second piece is the future costs. Now the future costs consist of basically four categories: the first is the fact that the war is continuing to go on. We used conservative projections from the Defense Department CBO, basically we take a set of scenarios that has us having some presence until 2017, where there will be a disengagement in active fighting. Then there's the second cost of

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demobilization. When we leave- there's an enormous amount of equipment, we have to bring much of that back. Third is- old military leaders recognize that we have been using up, depleting our military equipment very fast, these are called reset costs; restoring the military to it's pre-war strength, that is going to be very expensive. But the biggest single cost on the budget is the veterans. And just to frame that- remember, we are spending- remember the 100 hour war? The first Gulf War? We are spending now \$4.3 billion dollars in disability compensation for the veterans of the Gulf War. Now, you imagine, if that's what disability compensation costs for that short war, when here's a war that's lasted five years, with much more intensive fighting, involving 1.65 million American troops already, imagine what that is going to cost. And we have a disability compensation, we have an obligation to pay them, and already, people are coming back with 5-8 disabilities, far more than in previous wars. The ratio to disabilities to injury is far more than in previous wars. The ratio of disability to injury is 15-1, the previous war was 2.5-1. We estimate the cost of disability compensation, plus the healthcare cost conservatively, will be in an excess of \$600 billion dollars. This is an unfunded entitlement, a huge unfunded entitlement, that is going to cost taxpayers for decades. World War II veteran's payment cost them peaks- 48 years after the end of hostilities. And so we can see these numbers going up for a half century or more.

So you can really see- one of the things that the book says very clearly, um, in the conversations we've had with other journalists before this- people like Joshua Kors and others from The Nation, they said you can see where the government is battling even paying veteran's benefits. They're saying that 20 odd thousand uh have pre-existing conditions, uh, coming out of L.A. news conference today, talking about how they're not getting proper benefits, and so that battle is beginning now.

Exactly, in fact, we describe very clearly how the- you know, after the soldiers come back from battle in Iraq, they have a battle with the bureaucracy; a backlog of over 400 thousand. I mean, that's not just a battle, they say you have to wait your turn. And uh, this is a real, I view it as morally- whether you're for or against the war, you shouldn't treat those who fought for your country- risked their life, in the way that we've been treating them. And it comes basically out of the fact, you know it's not about whether their legitimate or illegitimate claims. As late as 2005, 2006, the Bush administration's request for the Veteran's administration was based on numbers from 2002- before the war, as if not a single injury had occurred. So, the fact is, even in the Gulf War, we did challenge many of the people who had claims being made about being on a disability, and eventually we um,- disability was approved for 39 percent of the returning veterans. 39 percent had or have been on disability. I think that in this war the number will be larger, but the fact is, these are real disabilities. And the most costing ones, of course, you know if somebody loses a leg, or has PTSD, you just can't really challenge it. 52,000 of those who've already come back have been diagnosed with PTSD.

So when you look at this, you know, the war and the cost of this war at the moment- I mean, we are now at the middle of- we're in this recession, and the economy has been in trouble, we're in the middle of looking at what happened with the housing crisis which has affected financial markets, everywhere, and how it's affecting our economy. So if you look at what we're spending on the war now, and people are talking about how we need an economic stimulus of some kind, um, to fuel and push this economy to move forward, where they're building infrastructure to get people to move forward in America, but that can't happen, because of the war, and then the long term costs of the war, you know, getting out of Iraq; so talk a bit about how- what you see happening, what is this scenario that America may be facing, given the costs of this war, the way you've analyzed it.

Well, one of the distinctive features of this war, it's the first war in America's history that has been purchased totally on America's credit card. We were a country that was in debt when we went into the war, then President Bush asked for a tax cut for rich Americans, just months after the war started, and he got the tax cut. So, we borrowed uh, every cent, and it's the first war since the Revolutionary War that we've had to turn to foreigners for help financing it. About 40 percent is coming from abroad. Now that means, like it or not, our standards of living are gonna have to be lower, cause we will be paying one way

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of another, these debts. I think the President tried to convince America that they could have a war for free- economists say there's no such thing as a free lunch, and there's no such thing as a free war. Now the war it's impinging on the current macro economic problems- uh, there are several ways in which they're having impact, but the easiest way to see in which they're having impact is what President Bush's Chief Economic Advisor, who's now the head of the Fed has pointed out. In 2001 we had an economic downturn, then we had a 2 percent of GDP surplus, and that gave us room to deal with the problems. The deficit this year is likely to be the largest in America's history. It's likely to be \$400 or 500 billion dollars- that just means that we don't have the room to maneuver to do the things that we need. And that goes back to your first question- spending on Iraq doesn't stimulate the economy on the way that spending on infrastructure does, and it doesn't have the long term benefits. If we have spent some of the money that we had spent on Iraq, um building a New Orleans levy, we would have saved lives, we would have saved money, and it was known that there was a problem.

So let me ask you this before we have to part, what are the questions that the presidential candidates have to be asked, unless they answer it, that they're not being asked about the future of the American economy and what the future of Iraq should be, given all the things we went over, written about in your book?

Well the first thing is- let me link it with the war. One of the candidates is saying we need to stay the course, we're now spending \$12 billion dollars upfront. If you include the equipment that is being shipped for maintenance, we're talking about close to \$25 billion a month. Since the beginning of the war, that monthly charge has gone up from \$4 billion steadily- it's tripled. So the first question is, if we're going to stay the course, we're going to have to spend more money. So any candidate that says we're going to stay the course is really saying I want to be spending up front, not \$10 billion, but \$16 or \$20 billion, where are we gonna get the money from? What is gonna cut out? It's just gonna be more deficit spending, or does he believe in you know, money from heaven, and that the money is, you know, just gonna come out, some how. The second question is um, how is he going to deal with the problem of the millions of Americans that are about to lose their homes, and with them, their life savings. How is it conscionable for the federal government to bail out the share owners of Bear Sterns? They walk away with over a billion dollars of money leaving American tax payers at risk, without a dime of insurance premiums bearing that risk- how is it possible for that to occur and at the same time to say that there's no money to help those at the bottom who are losing their homes? -Not worrying about moral hazard at the bottom, not at the top? They have to come up with, I think, a coherent philosophy with how you deal with those prices. And third is- the economy needs a stimulus; absolutely no doubt about it. But when you think about a stimulus, where are you gonna have the biggest bank for the buck? Spending money on Iraq is not the biggest bank for the buck. Tax cuts are not the biggest bank for the buck, and as you think about a stimulus, think about what the long run needs for America are. Think about tax cuts that President Bush put in place are mostly designed to encourage consumption. American does not have a problem of an inadequacy of consumption.

[laughs]

Our savings rate went down to zero. In some quarters, it's negative. Anybody who is serious about the economy has to say how could we stimulate the economy today, and address some of the very serious long run needs that our society and economy faces.

So how do you do that? I mean, what I'm really curious about here, in the conclusion of this conversation is your thoughts on how- on what America is gonna have to wrestle with in the next four to eight years; with a war that's gonna cost us w whole lot of money, with a half a billion dollars in debt rising every year in America from the federal government, with foreign investment rising- owed to- to other countries, and the infrastructure needs, how do you put your hands around that? How do you create a stimulus? How do you create a tax structure in

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this country that answers the needs that we have? I mean, most presidential candidates or politicians in general loath to deal with this because the answers are not sweet.

No, the answers are not sweet. It's going to take a long time and a lot of changes. First, we have to withdraw as rapidly and responsibly as we can in Iraq. It is a drain on our economy that can't stimulate our economy. It is a drain on our budget with very little benefits neither in the short run or the long run. Second thing, we have to restructure uh, our tax system. In 2001 and 2003, we gave very big tax cuts to the rich and we did nothing- very little for the average and poor American. If we raise taxes on the rich and adjust the taxes on the middle, maybe even lower some of the taxes in the middle, we can actually lower our deficit and stimulate the economy more. Uh, thirdly, an example of where our tax structure is so unfair, and where our public policy is so unfair, you know- we- poor Americans are having a hard time staying in their homes. A factor of Americans that will be the homeowners will be lower by 2008 than it was when President Bush became President. Everybody says it's good for a lot reasons for people to own their homes. It's good for- for a whole variety of reasons. Well, the tax system basically gives a huge tax subsidy to upper American income- upper Americans to own their homes. About 50 percent of the cost interest is tax deductible, property tax is tax deductible. It doesn't help the people at the bottom at all. We need to have uh, a system that treats the rich and the poor at least equally. And that means if we're gonna help the rich people own their homes, we're oughta help the poor people own their homes. -We do that, we won't have as many foreclosures and it'll help the economy in the short run, even as it springs into the fabric of our society.

But, as we conclude, if you put into that, some people say, we have to have a universal healthcare system, you have to invest billions and billions of dollars into infrastructure, whether it's the infrastructure for cyberspace, or rail, or for bridges, as well as schools, housing in the cities- I mean that- the cost of that alone, um is um, is I don't know what the final cost would be, but it's huge for America, so where does that come from? How do you reinvest in America that way? Uh given-

-You're absolutely right, we have to reinvest in American. I mean 42 percent- more than 42 percent of your tax dollar is in one way or another related to national defense. Much of that is going down the drain in Iraq. But even the part that isn't going down the drain in Iraq is going for weapon systems against enemies that don't exist. We're- the Cold War is-was over in 1989, and yet, the way we spend defense dollars is very much the same. We have the same kinds of missile systems that we were worried about- if there was an attack from Russia. But Russia is not able, at this juncture, to maintain that attack. If we spend- if we continue to act aggressively to Russia, they may actually- we may stimulate them. But at this juncture, they don't have the capabilities. So, we really need to be - you know, we're spending half a trillion dollars a year on defense systems that clearly- we could get more security- more security for a lot less money. Uh, they've been given almost a blank check and we've seen that in Halliburton, uh, the profiteering that's been going on in this war that's made apparent a much deeper problem in that defense department budget. So yes, I care about security as much as every other American does, but that's not a reason for a blank check. Uh, when we were fighting World War II, there was a Truman commission that went around and said if America is- if Americans are gonna sacrifice our lives, at least we want to make sure that every dollar we spend is going to be spent well. Uh, we haven't been doing that. We've basically allowed- turned a blind eye to profiteering. And the result of that is we are getting less security for a lot more money. Um, it as you look at it, that is the single piece of change that we need to look at, and look at very carefully. That, combined with- um the huge tax cute for upper income Americans given in 2001 and 2003- that did not lead to more investment in America. That was the whole theory behind it, it didn't work, um the supply side reactions did not occur. Uh, labor force participation is now lower than it was eight years ago, saving rates have plummeted to zero. I don't see how anybody who says, you know, this is gonna lead to a supply side response, you look at the numbers -didn't happen.

Joseph Stiglitz, I appreciate you taking time for us today and it's been a pleasure to talk to you. I hope that we can do it again some time.

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It's been a pleasure for me and I hope that we can do it again sometime, too.

Thank you so much.

Sure, bye.

You've been listening to a production from the Center for Emerging Media. This podcast was produced by Jessica Philips and Justin Levy and engineered by Andrew Epigg. Thanks to Clean Cuts Music and Sound Design for studio space and from the Center for Emerging Media, I'm Marc Steiner. Take care.

-transcript by Amy Hecht-Zizes