

THE COST OF WAR

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Economists debate how much a war with Iraq might cost the United States.

PAUL KENNEDY, Historian: One of the key elements as you know in any grand strategy is the economics of war. What will it cost you in the short-term and in the long-term?

PAUL SOLMAN: The exclusive grand strategy course at Yale. Last week, in a debate between those who teach it, historian Paul Kennedy anguished over the cost of war. Political scientists Charles Hill's position: Not to worry.

CHARLES HILL, Political Scientist: The U.S. has the power to do this operation swiftly, and it will be a war that will not do great damage to Iraq, to its installations, to its infrastructure, or to its people.

PAUL SOLMAN: In short, a war with great benefits, Hill insisted, and modest costs.

Now, Yale's military history harks back to Nathan Hale, class of 1773. Executed by the British three years later, his parting words engraved him in memory: "I only regret that I have but one life to lose for my country." Over the centuries, however, Yale, the almost fortress-like center of New Haven, Connecticut, has become more of a training ground for politicians than soldiers. Our last three presidents were schooled here, in classes like Grand Strategy.

Paul Kennedy, like Charles Hill, imagines a quick victory in Iraq, but he says unlike the Gulf War, where our allies paid most of the freight:

PAUL KENNEDY: When we try to put Humpty Dumpty together again, if we've done this in disregard of world opinion and United Nations Security Council, we will, unlike 1991, we will be paying the bill.

Estimating the price of a U.S. war with Iraq

PAUL SOLMAN: But what is the bill? President Bush hasn't yet put any numbers into next year's official budget or budget projections for the future, though the administration has mentioned costs for war and reconstruction of \$60-95 billion in the first year.

But beyond that, Secretary of Defense Donald Rumsfeld, for example, won't go.

DEFENSE SECRETARY DONALD RUMSFELD: What we have done is we have taken estimates looking different variables and said, if this were the case, on this variable and then on this variable. But there are so many variables that the numbers of possible point answers create a range that simply isn't useful.

PAUL SOLMAN: There is, however, a noted Yale economist who's tried to reckon the cost of an Iraq war. William Nordhaus, an economic advisor in the Carter administration, has become known for pricing non-market activities like leisure, global warming.

In a study that's gotten lots of notice, he's costed out the war, starting with the "incremental" costs of actually fighting it, costs beyond soldiers' normal pay, weapons already bought, like the costs of moving troops halfway across the globe.

WILLIAM NORDHAUS, Economist: The main incremental costs are fuel costs. They're the costs of pulling up the reserves, the combat pay, the missiles, all the smart weapons that we're going to use.

PAUL SOLMAN: Weapons we've already paid for, but will have to replace. Total fighting cost?

WILLIAM NORDHAUS: At the low end, about \$50 billion, if things go smoothly. At the high end for the military, maybe \$150 billion, if things are protracted and go on a while.

PAUL SOLMAN: Thus, Nordhaus has priced two war scenarios: Best-case -- victory within hours or days -- worst-case -- with oil fields destroyed, cities under siege, years of occupation.

But the worst-case entails a lot more cost categories than just fighting.

WILLIAM NORDHAUS: There are going to be internally displaced refugees, we need humanitarian assistance. Then there's going to be the actual occupation/peacekeeping cost. Then there's going to be reconstruction of whatever is destroyed in the last few wars in that area. All of those are going to be pretty big ticket items.

PAUL SOLMAN: Well, what's your low-end and high-end estimates there?

WILLIAM NORDHAUS: Low-end, in the order of \$100 billion over the next ten years. High-end, \$500 billion maybe \$600 billion over the next decade.

PAUL SOLMAN: So, Nordhaus figures we'll be spending some \$150 billion on the low-end; as much as \$750 billion on the high-end for military-related costs.

But, says Nordhaus, there's also the overall impact on the economy, especially of the price of oil.

The economic aftershocks of a war

WILLIAM NORDHAUS: The biggest risk here is that there'll be destruction of the oil wells, perhaps either in Iraq or maybe in some of the neighboring countries -- maybe some boycotts, and oil prices shoot up. The numbers I looked at were up to \$75 a barrel from a normal price of \$20-\$25 a barrel.

PAUL SOLMAN: Seventy-five dollars a barrel means roughly \$3 a gallon for gas -- a shock to drivers, perhaps, but a bigger shock to the economy as a whole.

WILLIAM NORDHAUS: It's a kind of in-your-face price increase here at the pump, but there are other subtle increases as it ripples through the economy.

You'll see it in home heating, you'll see it in electricity, you'll see it in the products you buy, you'll see it in the price of your airline ticket, and it's going to be like a big tax increase -- a \$100 billion tax increase facing the American people if we see those big oil price increases.

PAUL SOLMAN: And what happens when you have a \$100 billion tax increase or something like that?

WILLIAM NORDHAUS: Well, when you have something like that, consumers spend less, businesses invest less, and I think there's a good chance you trigger a recession.

PAUL SOLMAN: Combine the cost of higher energy prices with the cost of the recession they'd likely trigger, and Nordhaus adds another \$1.2 trillion to the cost of war, worse-case.

On the other hand, best-case could mean lower oil prices -- 25 cents or more down, and a benefit to the economy.

WILLIAM NORDHAUS: You know, people breathe a sigh of relief.

Oil prices come back down a little, people stop getting nervous because it's over quickly. And so actually, the economy will probably do a little bit better if things really turn out well.

PAUL SOLMAN: So, bottom line, in Nordhaus' best-case scenario, cheap oil and lower prices at the pump cancel out some of the war costs, and you get a tab of about \$100 billion, some \$1,000 per U.S. household. The worse-case, higher prices at home, more spending abroad, a total of roughly \$2 trillion -- \$20,000 per U.S. household over a decade.

The politics of economic analysis

PAUL SOLMAN: But others argue this is too pessimistic, that the best case would revive consumer and business spending, jump-start the stock market. At a dinner with economists recently, Donald Kagan reports:

DONALD KAGAN, Historian: Their judgment was that if a war were fought against Saddam Hussein and if it were won and it were won relatively quickly and painlessly, the effect on the American economy would be a boost, a very significant boost.

PAUL SOLMAN: But Kagan, a Yale historian of ancient warfare, is skeptical of any economic analysis of war

DONALD KAGAN: It's remarkable to me how these very difficult and mathematical and very scientific observations and calculations almost always end up with a recommendation that accords with the political position that the economist had before he ever looked into the question. That strikes me as being worth noticing.

PAUL SOLMAN: Kagan favors the war. Nordhaus, who hasn't taken a position on it, bristles at the idea his results are political.

WILLIAM NORDHAUS: I'll just tell you my own experience with this was that I started on it because I was kind of curious. I said, "Well, nobody's done an analysis of this," so I figured, well, let's give it a shot. I actually was very surprised at the answer, and the thing that most surprised me about doing this work was that the non-military side, the collateral costs, if you like, were so much bigger than the military cost. I'd never conceived of that when I started out.

PAUL SOLMAN: Kagan's main problem, however, is not what Nordhaus does count, but what he doesn't; that economic analysis is simply too narrow to capture the larger costs and benefits of war. Kagan himself has costed out the Athens-Sparta conflict of Ancient Greece, but loves to cite Thucydides -- that war's great chronicler -- on the three reasons behind it.

DONALD KAGAN: Honor, fear and interest. Interest means, you know, economics, let's say. Honor can mean prestige, it can mean esteem, it can mean respect. The opposite of it is dishonor, and that's very important to remember -- humiliation, resentment.

To my mind, these are the major forces in bringing about wars forever, as I have studied them. And that I think is one of the things that is a problem when you try to bring cost-benefit analysis, if all you mean by that is economic costs and economic benefits, because that's not what's in the minds of the folks who are making these decisions most of the time.

PAUL SOLMAN: Back at the Grand Strategy class, student Sara Aviel had a response.

SARA AVIEL, Student: One of the benefits of doing an economic analysis with numbers is that it forces you to be more precise. Otherwise, you can talk about evil and you can talk about Saddam, and we can all agree with that, but until you actually put it into numbers, that's where the real debate happens.

Weighing the benefits against the costs of war

PAUL SOLMAN: In fact, when Professor Kennedy began this debate, he'd come up with costs beyond Professor Nordhaus' \$2 trillion worst case. For instance:

PAUL KENNEDY: The world economy is teetering. One Middle East war would be enough to tip it into depression.

PAUL SOLMAN: But when I asked him, Professor Hill offered the opposite analysis.

CHARLES HILL: We will see collateral benefits. The benefits will be the restoration of American credibility and decisiveness. We'll see an Iraq that is freed from oppression. This situation will also do a lot to transform the Israeli-Palestinian situation.

PAUL SOLMAN: Are those variables -- ballpark here, obviously -- on the order of magnitude of \$2 trillion, if I am asking you to price them?

CHARLES HILL: I think it's far beyond that.

PAUL SOLMAN: But \$2 trillion?

CHARLES HILL: I think that's nothing in terms of what we're going to see in 15 years, if we can transform the Middle East and turn it into a place of good governance and good economies.

PAUL SOLMAN: Professor Nordhaus, however, emphasizes that his was not a cost-benefit analysis.

WILLIAM NORDHAUS: What I did is primarily a cost study. So when you look at your automobile, you look at the sticker and you say, "This is what it's going to cost me."

PAUL SOLMAN: As to the uncounted benefits, well, sure Nordhaus acknowledges:

WILLIAM NORDHAUS: But there are also lots of really terrible things that can go wrong along the way.

PAUL SOLMAN: Moreover, in none of these analyses is there any reckoning of those who might die; the cost, that is, of lives lost, like those of Yale alumni killed in wars past. We price life for insurance purposes in court settlements. What would it add to the total cost of war in Iraq, much less a long war?

William Nordhaus has purposely avoided that calculation, but in pricing the conflict as narrowly as he has, he's opened himself to a familiar charge.

PAUL SOLMAN: Think of the old gag, "An economist is someone who knows the price of everything and the value of nothing."

WILLIAM NORDHAUS: The way I usually think of it is "an economist is a scoundrel who tells you the way things really are rather than the way you'd like them to be."

PAUL SOLMAN: A sober thought at a sober moment in American history.

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