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# THE THREE TRILLION DOLLAR WAR

**THE TRUE COST OF THE IRAQ CONFLICT**

Joseph E. Stiglitz

and

Linda J. Bilmes



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**THREE**  
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*It is also dedicated to the returning veterans,  
especially those who have become disabled.*

*We are thankful for their sacrifices;  
they deserve all the care we can give.*

## Preface

BY NOW IT is clear that the U.S. invasion of Iraq was a terrible mistake. Nearly 4,000 U.S. troops have been killed, and more than 58,000 have been wounded, injured, or fallen seriously ill. A further 7,300 troops have been wounded or injured or fallen seriously ill in Afghanistan.<sup>1</sup> One hundred thousand U.S. soldiers have returned from the war suffering from serious mental health disorders, a significant fraction of which will be chronic afflictions.<sup>2</sup> Miserable though Saddam Hussein's regime was, life is actually worse for the Iraqi people now. The country's roads, schools, hospitals, homes, and museums have been destroyed and its citizens have less access to electricity and water than before the war.<sup>3</sup> Sectarian violence is rife. Iraq's chaos has made the country a magnet for terrorists of all stripes. The notion that invading Iraq would bring democracy and catalyze change in the Middle East now seems like a fantasy. When the full price of the war has been paid, trillions of dollars will have been added to our national debt. Invading Iraq has also driven up oil prices. In these and other ways, the war has weakened our economy.

Given the human suffering the war in Iraq has caused, it may seem callous to even think about the financial cost. Dry numbers will never capture the pain of those killed or maimed and scarred for life. But we believe that understanding the cost of war is essential.

The decision to go to war was based on a number of false premises. One asserted a link between Saddam Hussein and the terrible attacks of 9/11 on the World Trade Center and the Pentagon. Faulty intelligence led to claims that Iraq had weapons of mass destruction even though the inspectors of the International Atomic Energy Agency (IAEA) said there were none. Many argued that the war would be over quickly and that democracy would somehow bloom in Iraq. And, finally, there was the notion that the war would cost little and pay for itself.

In fact, the war has turned out to be hugely costly in both blood and treasure. We estimate that the total budgetary and economic cost to the United States will turn out to be around \$3 trillion, with the cost to the rest of the world perhaps doubling that number again. In one sense, this book is about that \$3 trillion—how America will be paying the bill for this war for decades to come, and why it is that the true costs are so much larger than the cost estimates originally provided by the Bush administration. But the book is also about much more than a single number. By examining the costs, we come to understand better the implications of the war, and perhaps learn how we can extricate ourselves from Iraq with the least amount of damage.

AMERICA HAS ALREADY paid a steep price for invading Iraq. The most visible burden is the toll on our fighting men and women. The economic burden is less readily apparent. Current expenditures, largely financed by borrowing, have been grossly underesti-



mated, although even the vast sums we have spent have not been sufficient to achieve our objectives or protect our troops. Future costs, which will continue to escalate after we finally leave Iraq, have been deliberately glossed over.

These costs are certain to be huge and will continue for generations. That is the lesson of the 1991 Gulf War, a conflict that lasted for less than two months, with little ground fighting and 694,550 troops deployed to the Gulf. One hundred forty-eight U.S. soldiers were killed, and 467 injured in direct combat.<sup>4</sup> America's allies (primarily Saudi Arabia and Kuwait) paid for most of the combat operations of the first Gulf War. If you stop counting there, it seems the Gulf War was almost free.<sup>5</sup> But that fails to take into account the large number of veterans suffering from some form of disability from the war, so that today—more than sixteen years later—the United States still spends over \$4.3 billion *each year* paying compensation, pension, and disability benefits to more than 200,000 veterans of the Gulf War.<sup>6</sup> We have already spent over \$50 billion in Gulf War disability benefits. Even that number does not include the costs of ongoing veterans' medical care, of keeping U.S. forces stationed in Kuwait, of medical research into "Gulf War syndrome" illnesses,<sup>7</sup> and of all the government workers necessary to run these programs. Nor does it even scratch the surface of the broader economic consequences, for instance, from the loss of income for up to 100,000 soldiers exposed to chemicals associated with so-called Gulf War syndrome, 40,000 of whom have long-term disabilities.<sup>8</sup>

To arrive at the \$3 trillion figure, we had to look beyond the government's bad budgeting and misleading accounting. It may sound strange to say it, but going to war is a big business. No modern firm would attempt to run its business without timely, accurate information provided by good accounting systems. Yet the accounting

practices used by the government are so shoddy that they would land any public firm before the Securities and Exchange Commission for engaging in deceptive practices.

Just as bad accounting in the private sector misleads investors, so bad accounting in the government misleads ordinary citizens and contributes to major mistakes in the allocation of resources. When Army Spc. Thomas Wilson of the 278th Regimental Combat Team (a Tennessee National Guard unit then stationed in Kuwait) famously asked Defense Secretary Donald Rumsfeld, “Why do we soldiers have to dig through local landfills for pieces of scrap metal and compromised ballistic glass to up armor our vehicles?” Rumsfeld replied, “You go to war with the Army you have, not the Army you might want or wish to have at a later time.”<sup>9</sup> In March 2003, “the Army we had” was desperately short of the resources—such as body armor and reinforced vehicles—necessary to fight a war of this kind and long on submarines and other heavy equipment designed to confront a Cold War-style enemy. At the very same time, officials of the International Atomic Energy Agency (the international agency charged with ensuring that Iraq did not have weapons of mass destruction) begged us to grant them another six months to complete their inspections work. Nevertheless, we were in such a hurry to invade Iraq that we ignored the IAEA and sent our young men and women to fight without even shielding them in proper body armor. Government accounting shows that we spent relatively little during the initial invasion of Iraq—but we are now faced with the long-term costs of caring for soldiers who were wounded during this period.<sup>10</sup>

Five years later, the United States is engaged in a national debate about how to exit the war. Few voices have openly supported the notion of a permanent occupation. The question appears to be not

whether we leave, but when. This issue—which economists refer to as *intertemporal decision making*—is one which modern decision theories have a great deal to contribute. Although President George W. Bush has dismissed our earlier cost-of-war analysis, arguing that military policy would not be determined by accountants in green eyeshades, making informed choices about real-world options should clearly include cost as *one* of the factors to be taken into account. Our resources are not infinite. We must face the reality not only of how much we have already spent and committed to date, but also the implications of future choices. Decisions are always made with imperfect information, but modern economic techniques can help clarify the available information and enable us to make better decisions in these adverse circumstances.

Whether one thinks it was right or wrong to have gone to war, whether one thinks the war was conducted poorly or well, most Americans agree that it is our moral duty to provide adequate health care and disability payments for those who risk their lives for their country. Doing so will be costly, and the government must provide adequate funds.

Thus far, the administration has failed to plan adequately for returning Iraq war veterans and the scale of their injuries. There is insufficient funding for veterans' hospitals, a shortage of medical care in many cities—and long, tortuous delays in processing disability claims. Many of these claims are mishandled and our soldiers have to file appeals and fight yet another war when they come home—this time with the bureaucracy. In 2005, even as the war was in full swing, the Department of Veterans Affairs (VA) budget request for veterans' medical care was still based on projections done before the war had begun. In 2006, as the insurgency expanded, the VA's budget request was based on data from 2003. Not surpris-

ingly, the VA ran out of money—forcing Congress to appropriate \$3 billion in emergency funds just to keep the programs running for those two years.<sup>11</sup> In 2007, the president again asked for billions more in “emergency supplemental” funding so that military and veterans’ hospitals would be able to handle the surge of returning troops with injuries.

But even with these emergency appropriations, we have not done right by our veterans. Returning servicemen and women have had to pay the price for the lack of preparedness, as evidenced by the scandal surrounding the Walter Reed Army Medical Center in Washington, D.C.<sup>12</sup> As we will see in chapter 3, Walter Reed is the tip of an iceberg of national disgrace. Wounded troops returning home are caught in a crossfire of bureaucratic confusion between the Defense Department and the Department of Veterans Affairs—resulting in shoddy outpatient facilities, endless red tape, and long delays in getting basic financial compensation. With almost 900,000 Americans still deployed to Iraq and Afghanistan operations,<sup>13</sup> it is important to rectify these mistakes so that veterans’ future health and benefit programs are not hostages to political fortune—as they have been for the past five years.

What is true for our soldiers is also true of our military more generally: restoring it to health will be costly. There is widespread agreement that we should restore the U.S. military to its prewar strength and rebuild institutions such as the National Guard. The military has also announced plans to expand the size of the all-volunteer force by 2012. These projects will be expensive. The full costs are not being fully estimated thus far, let alone provided for in the defense budget.

The issue is not whether America can afford three trillion dollars. We can. With a typical American household income in 2006

just short of \$70,000, we have far more than we need to get by.<sup>14</sup> Even if we threw 10 percent of that away, we would still be no worse off than we were in 1995—when we were a prosperous and well-off country. There is no risk that a trillion dollars or two or three will bankrupt the country. The relevant question is a rather different one: What could we have done with a trillion dollars or two or three? What have we had to sacrifice? What is, to use the economists' jargon, the opportunity cost?

At the beginning of the second Bush administration, the president talked about the seriousness of the country's Social Security crisis. But instead of paying for the war in Iraq, we could have fixed the Social Security problem for the next half century.<sup>15</sup>

Today, a Web site run by the National Priorities Project describes the current and direct military costs of the war.<sup>16</sup> A trillion dollars could have built 8 million additional housing units, could have hired some 15 million additional public school teachers for one year; could have paid for 120 million children to attend a year of Head Start; or insured 530 million children for health care for one year; or provided 43 million students with four-year scholarships at public universities. Now multiply those numbers by three.

There is also little doubt that had we spent one to two trillion dollars differently, we would actually be more secure. As we will explain in chapter 5, had we spent the money in investments in education, technology, and research, growth would have been higher, and we would have been in a far stronger position to meet future challenges. If some of the money spent on research were devoted to alternative energy technologies, or to providing further incentives for conservation, we would be less dependent on oil. The resultant lower oil prices would have obvious implications for the financing of some of the current threats to America's security.

For sums less than the direct expenditures on the war, we could have fulfilled our commitment to provide 0.7 percent of our gross domestic product to help developing countries—money that could have made an enormous difference to the well-being of billions today living in poverty. The United States gives some \$5 billion a year to Africa, the poorest continent in the world: that amounts to less than ten days' fighting. Two trillion dollars would enable us to meet our commitments to the poorest countries for the next third of a century.

We could have had a Marshall Plan for the Middle East, or the developing countries, that might actually have succeeded in winning the hearts and minds of the people there. Even more modest ambitions could have been achieved for a fraction of what has already been spent on Iraq. The world has committed itself to eradicating illiteracy by 2015. Fully funding that campaign would cost some \$8 billion a year—roughly two weeks of fighting the war.<sup>17</sup> We have even bungled our efforts to help Iraqis with reconstruction. In 2003, Congress approved \$18.4 billion in reconstruction aid for the country—a sum that is three times per Iraqi what we spent for each European during the Marshall Plan. But instead of spending the money immediately to help fix the electricity, oil refineries, and schools of Iraq, the United States tied up most of the funds in endless bureaucratic squabbling between the Pentagon procurement office and Congress. A full year later, the security situation in Iraq had deteriorated and we had lost the hearts and minds of the people. Much of the money was refunneled into military activities or not spent at all.

We could even have spent the money on a tax cut for the average American. For middle-class Americans, recent years have not been

so good: median income (that is, the income of the household, such that half of the households have a higher income and half a lower income) today is less than it was in 1999.<sup>18</sup> For the typical American household, the money spent on Iraq was important: had the taxpayer's taxes been reduced commensurately, or if the money had been spent on providing health care, it would have made a difference to hard-pressed middle-class families. There was another opportunity cost, no less telling: if even a fraction of the scarce military resources devoted to Iraq had been spent in Afghanistan, we might have done more to accomplish the mission we had set out there. As it is, we now have two quagmires.

What is clear is that there were a myriad of ways in which we could have spent the money better—leaving the country more secure, and more prosperous, and so better prepared to face future threats.

THIS BOOK IS based on a paper that we presented in January 2006, in which we conservatively estimated that the cost of the war would be between \$1 and \$2 trillion. Our goal was simple: to determine the true cost of the war. Regardless of whether one supported or opposed U.S. actions in the region, we believed that voters had a right to know the real cost of our policies.

For many readers, our numbers rang true. Americans had sensed that the war was costing them a great deal. Nor did the administration and its supporters make any real effort to dispute the numbers. There were a few technical critiques and in this book we have worked hard to respond to them.<sup>19</sup> Our critics focused on the fact that we did not take into account the benefits of the war.

For example, one war proponent argued that “the war will lead to large improvements in the economic well-being of most Iraqis relative to their prospects under the policy of containment [the previous policy].”<sup>20</sup>

Our intent, both in the original paper and in this book, is to focus on costs, because they can be measured with some accuracy. Of course, there are many important costs that cannot be accurately measured, and while these costs may be large, we do not include them in our \$3 trillion tally. The benefits are more elusive, but it seems highly unlikely they will be significant. (Ridding the world of Saddam Hussein is undoubtedly a benefit, but it is impossible to quantify the value of his absence.) The quality of life in Iraq, measured by the lack of electricity, the high unemployment numbers, the mass exodus from the country, the huge numbers displaced within the country, the collapse of the middle class, and the soaring violence, suggests that, beyond the removal of Saddam Hussein, the Iraqi people have seen little good come of the war. Apart from America’s oil and defense industries, it is hard to find any real winners.

We are both ardently opposed to the war and were against it from the start. Most of the problems were clear even before the war began. We feel comfortable that we are not writing about the mistakes and failures from the perspective of 20/20 hindsight. What is so sad about the failures of the Iraq debacle is that almost all the problems were predictable—and predicted.

As social scientists, we have both been involved in the study of the economics of the public sector and have tried to understand how governments work, the systematic ways in which they often fail, and what can be done to help governments better meet the



needs of their citizens. We have both approached the problem not only from the perspective of academicians but also from the perspective of practitioners. For years, we served as political/technocratic appointments in the Clinton administration, trying to put into practice these ideas about how one can make government more efficient, more responsive, more accountable—and create better accounting systems to achieve those ends. We believe there is an important role for government in our society just as there is an important role for markets. Markets often fail to perform in the way desired; but the same is true for government. The failure in Iraq was not the result of a single mistake but the culmination of dozens of mistakes made over a period of years. Social scientists try to understand the systematic sources of these “failures” and look for reforms to reduce their likelihood and mitigate their consequences. For students of “government failure,” the Iraq war is a case study.

Our awareness of our potential bias has influenced this study. We have, we believe, been *excessively* conservative. Even employing these conservative methodologies, we arrive at numbers that are mind-boggling—and this despite the fact that our quantitative estimates omit huge costs that could not be accurately measured.

Some would argue that we have not included the benefits of the war. We plead guilty to that charge. There was ample evidence *before* the invasion that the primary alleged benefit associated with going to war—destroying weapons of mass destruction—had no validity<sup>21</sup> and our belief has since been vindicated. There was ample evidence *before* the invasion that there was no link between al Qaeda and Iraq, but that the invasion risked creating more terrorists. That belief, too, has since been vindicated. There was ample evidence