

## The Economic Cost of War

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What is the true cost of war? As economists and government officials offer cost estimates of the current occupation of Iraq, others have begun to question the opportunity cost of forgone investment and development in American infrastructure and education. See [“Debate rages about impact of Iraq war on U.S. economy”](#) by Sue Kirchhoff in the April 10, 2008, *USA Today*.

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*“I have a yardstick by which I test every major problem—and that yardstick is: Is it good for America?”*  
—Dwight D. Eisenhower, 34th President of the United States

The Congressional Budget Office (CBO) estimates that the cost of U.S. operations in Iraq and Afghanistan, and of other activities related to the war on terrorism, has totaled \$651 billion from 2001 through the end of 2007. This estimate includes costs incurred through direct military operations and related expenses such as medical costs, disability compensation, and survivor benefits. However, the estimate does not include appropriations requested for 2008 and beyond. The CBO projects that the war on terrorism could require *additional* outlays of \$570 billion to \$1.2 trillion from 2008 to 2017.

One difficulty with such projections is that a lot can change over the next 10 years, such as the course of the war. Another difficulty is that this estimate fails to fully consider the opportunity cost of funding the war on terrorism, which is the cost incurred by not investing that same money in other projects. A number of economists have attempted to quantify these explicit economic costs, such as forgone investments in American infrastructure, government research, or government assistance programs. Among the most prominent of these are Linda Bilmes and Joseph Stiglitz, who claim in *The Three Trillion Dollar War* that the CBO is understating the budgetary costs of the war by about \$1 trillion—and by about \$2.3 trillion more when other economic costs are accounted for. In their estimate, they include debt payments on money borrowed to fund the war, a portion of the rise in the defense budget (which they attribute to Iraq), and a \$5-per-barrel increase in the price of oil, counted as a cost of the war. The CBO rightly points out that their own estimate focuses only on budgetary costs and not macroeconomic issues, such as oil prices. The CBO also disagrees with Stiglitz and Bilmes’ estimated costs to treat and care for soldiers with traumatic brain injuries, a significant focus of their work.

Either estimate, \$1 trillion or \$4 trillion, is best understood in relation to the size of the economy. The CBO is currently projecting that all final goods and services (nominal gross domestic product) that will be produced from 2008 to 2017 will total almost \$189 trillion. Using this benchmark, the CBO estimate is projected to be less than 1 percent of GDP for 2001 to 2017. The much larger estimate by Stiglitz and Bilmes is still only 2.2 percent of GDP over the same time period.

Another difficulty in assessing the costs of the Iraq war is trying to estimate the counterfactual, or the event that did not happen. Even in a non-war situation, the United States would face several costs in Iraq and Afghanistan, such as the continuation of the containment policy. The benefits of war are even harder to quantify in dollar terms, such as the removal of a military dictator to prevent future aggression. The true cost of war, then, is not just a budget number reported by Congress, but a complicated combination of direct costs, future debt payments, and opportunity costs.

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*The views expressed are those of the author and do not necessarily reflect the official positions of the Federal Reserve Bank of St. Louis, the Federal Reserve System, or the Board of Governors.*

## Recent Articles and Further Reading on the Cost of the Iraq War

[“What the Iraq War Will Cost the U.S.”](#) by Lawrence B. Lindsay, former White House economist, *Fortune*, January 11, 2008.

In 2002, Lawrence Lindsay, then head of the White House Economic Council, gave an estimate of the cost of the Iraq war. Six years later, he reflects on that estimate and the difficulties of cost accounting.

[“Eyeing the Wages of War,”](#) *The Economist*, March 13, 2008.

A book review of *The Three Trillion Dollar War*, which focuses on the opportunity costs of the Iraq war.

[“Putting War to the Cost/Benefit Test”](#) by William Poole, Federal Reserve Bank of St. Louis *The Regional Economist*, July 2003.

Former president of the Federal Reserve Bank of St. Louis looks at the cost of previous wars against a benchmark of U.S. GDP and discusses the “swords and plowshares” argument.

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### Free Data Sources and Reports

- Publication:** “The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11,” by Amy Belasco, CRS specialist in U.S. defense policy and budget
- Description:** Comprehensive review of current budgetary costs and projections through fiscal year 2008 for Congress, updated February 8, 2008
- Published by:** Congressional Research Service
- Location:** <http://www.fas.org/sgp/crs/natsec/RL33110.pdf>
- Publication:** “Estimated Costs of U.S. Operations in Iraq and Afghanistan and of Other Activities Related to the War on Terrorism,” by Peter Orszag, CBO director
- Description:** Estimate and data, including explanatory text, in testimony before the Committee on the Budget, U.S. House of Representatives, October 24, 2007
- Published by:** Congressional Budget Office
- Location:** [http://www.cbo.gov/ftpdocs/86xx/doc8690/10-24-CostOfWar\\_Testimony.pdf](http://www.cbo.gov/ftpdocs/86xx/doc8690/10-24-CostOfWar_Testimony.pdf)
- Publication:** Analyses of Operations in Iraq and Afghanistan
- Description:** A webpage containing links to reports dating back to 2002 related to the costs of operations in Iraq and Afghanistan
- Published by:** Congressional Budget Office
- Location:** <http://www.cbo.gov/publications/collections/collections.cfm?collect=4>
- Publication:** “The Economic Costs of the Iraq War: An Appraisal Three Years After the Beginning of the Conflict”
- Description:** Original working paper of Joseph Stiglitz and Linda Bilmes, January 2006
- Published by:** NBER Working Paper 12054
- Location:** <http://www.nber.org/papers/w12054>

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