CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

THE THREE TRILLION DOLLAR WAR: THE REAL COST OF THE IRAQ CONFLICT

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MARK MEDISH: Ladies and gentleman, if I could call our session to order, welcome to the Carnegie Endowment for International Peace. My name is Mark Medish and I’m a vice president for studies here. We have a great program for you this afternoon featuring Dr. Joseph Stiglitz of Columbia University and Steve Mufson of the Washington Post. Dr. Stiglitz is co-author with Linda Bilmes of “The Three Trillion Dollar War: the True Cost of the Iraq Conflict,” just published by Norton.

It’s an extremely timely and important book on the economics of this war. It tries to gauge the full costs to the U.S. of the prosecution of this war and goes well beyond the official statistics. It has a lot to say about magnitudes and methodologies. It tries to take account of macroeconomic costs, social costs, and even opportunity costs, which is particularly appropriate in the case of a war of choice.

On my way here, I saw a bumper sticker, Dr. Stiglitz, on a car that happened to be festooned with Obama stickers as well and it said, “War is Costly. Peace is Priceless.” And in many ways, your book aims to help us think through just how costly this war really is to the United States. I should note that the book is dedicated to the troops serving and the veterans who have served in Iraq and Afghanistan.

Dr. Stiglitz is one of those people who doesn’t need an introduction. The problem with being a person who doesn’t need an introduction is that you rarely get the kind of introduction you deserve. (Laughter.) But let me just say a few words.

He is a university professor at Columbia University and chair of the Committee on Global Thought. He served on the Council of Economic Advisors from 1993 to 1997, including as chairman for the last three years of that period. He was chief economist of the World Bank. He has had a very distinguished career in academia and in policy. By the way, he won the Nobel Prize in Economics in 2001. (Laughter.) And he won the John Bates Clark prize in 1979, which economists in the audience will understand the significance of as well.

We are also joined by Steve Mufson of the Washington Post. Steve is currently the energy correspondent for the Post. He has had a long and distinguished career there working at the Post since 1989. He was previously deputy editor of Outlook. He has been on the economics beat; he has been the Beijing correspondent; he has covered foreign policy and numerous other beats. He also wrote at the Wall Street Journal in the 1980s. So we’re delighted to have him here.

Our format today is that Dr. Stiglitz will give an opening presentation and this will be followed by a conversation up here among the armchairs guided by Steve Mufson. And then we’ll open it up to a broader conversation. So without further ado, let me give the podium to Dr. Joseph Stiglitz.

(Applause.)

JOSEPH STIGLITZ: Well, thank you very much for this opportunity to talk to you about what I view as obviously a very important issue. When the U.S. went to war – and this was, as Mark said, a war of choice – the one person in the administration, Larry Lindsey,
said the war might cost 100 to $200 billion dollars. And for that rare moment of honestly, he was rewarded with being fired.

The administration – Rumsfeld said, bologna, and the administration came back with the number 50 to $60 billion dollars. We are now spending that amount, up front, every three months. When I say upfront, what I want to emphasize is that the actual cost of the operations are just a fraction of the total cost and that’s what I’m going to be coming to, that as long as troops are there, there are going to be disabilities. When they’re disabled, we have to pay disability compensation and healthcare costs. And these overcosts can double the $12 billion a month that we are spending.

It’s hard to get your mind around, wrap your mind around, what is $3 trillion other than to say it’s a big number. But, in some ways, what we’ve said is that we’ve introduced a new metric, a new way of thinking. You can ask, what could you have solved with a day’s fighting, an hour’s fighting, a minute fighting: what a fraction of an Iraq war would have cost. Some of you may remember, at the beginning of President Bush’s second term, he talked about the country facing a major financial problem in the gap in our Social Security, the funding of our Social Security system and argued we had to privatize a dramatic – problems that we weren’t going to be able to live up to the commitments that we have made to our elderly.

Well, for roughly a sixth of the cost of an Iraq war, you could have put the Social Security system on firm financial footing for the next 50 to 75 years. To put another example, there’s a major problem of autism in the United States. One out of 150 kids are being born that are autistic. We don’t understand why. There’s a clear sense that we need to do more research on this topic. We could double the amount of research that we do on the subject for a few hours of fighting in Iraq.

So there’s the span, the kinds of numbers, of ways of trying to get a hold of what $3 trillion might mean. Economists use the concept of opportunity cost, what you could have done with that money. But there’s another opportunity cost, which is the security opportunity cost. One of the responses to some of what we – to our research has been, well, security – our security is priceless. But, in fact, we have a limited amount of resources and if you’re focusing on one problem, you’re not focusing on some other problem. So while we were focusing on weapons of mass destruction that did not exist in Iraq, another country, North Korea, became a nuclear power. While we were focusing on a country that had nothing to do with 9/11, the war in Afghanistan, which did have something to do with 9/11, has gone very badly.

And while there was no connection with al Qaeda in the beginning, now al Qaeda is active in Iraq. So there’s a sense in which our national security is actually worse. And a vast majority of the generals of the military have actually said, we are less prepared today to meet security threats than we were five years ago. So this is part of the cost of the war, but that’s a part of the cost of the war that we do not quantify.

What we try to do is to say, okay, we’re not going to look at all of the aspects of the decision of the war, but at least the American citizens ought to know what this war is costing the economy, what it’s costing them. And once you begin to look through the various
categories of cost, you realize that, in fact, $3 trillion is a vast underestimate of the true cost. In our book, we give a range of numbers, three to $5 trillion dollars and we actually, you know, think that the number is almost surely greater than $3 trillion.

Let me just very quickly go through on how you go from the numbers that the administration admits to these larger numbers. Well, as I say, first, there is the direct operation cost. Remember when the administration said it was going to cost 50 to $60 billion. Well, what we’ve already spent is in the order of magnitude of $600 billion, 10 times what they’ve said. And we’re spending $12 billion a month.

But the actual cost of operations almost surely goes beyond the amounts they are willing to admit to upfront. Since the war began, our cumulative expenditures in the Defense Department, beyond what is attributed to Afghanistan and Iraq, have gone up by – in excess of $500 billion. There’s no new enemies. The question is: Where is that money going? At least a part of that has to do with the Iraq war. I mean, an obvious example, but it’s only a little part of it is that because the war is so unpopular and because the way we’ve treated our veterans – something I’ll come to in a minute – the way we treat our veterans is so bad, it’s become difficult to recruit. And we’ve had to pay our soldiers more. We pay very large enlistment bonuses and re-enlistment bonuses. And those don’t show up, except for the soldiers actually fighting in Iraq, in the Iraq budget. But they are part of the cost of the war.

So in our estimate, we take only 25 percent of this excess spending and attribute it to Iraq. Then, of course, there are the large categories of expenditures that we have not yet paid. And these fall into three major categories. The first is, the war is going on. We are continuing to spend $12 billion a month, upfront in operations. In fact, though, we are requiring our military to do longer deployments and shorter periods in between. They are becoming very depleted, as I mentioned before. And that means even to stay still, to continue the level of effort, it will cost us more per month. The per-monthly cost has gone up from $4 billion a month at the beginning of the war to $12 billion a month now.

So if we stay, the amounts are going to continue to go up. We haven’t built in our estimate the full increase of that. But we base it on a variety of CBO and Defense Department estimates that – we look at a range of disengagements; we don’t look at either the immediate disengagement scenario or the scenario that says we’re going to be there for 100 years. We look at scenarios that will involve disengagement between now and 2017, relatively fast or more moderate disengagement. So that’s the first: continuing operational cost.

The second is that when we leave, we not only have to pay the cost of demobilization, we will have to spend a considerable amount of money to restore the military to its pre-war strength. In spite of the fact that we are paying higher salaries and enlistment bonuses, the quality of our armed forces in most metrics has been going down. The fraction of high-school graduates has been going down; the fraction of convicted felons has been going up. And that will cost money to restore them to the kind of quality that we would like to have. But even more important, we have been depleting our military equipment faster than we have been repairing and replacing it and that, too, will cost money.
And then the final category is the category is veterans; 40 percent of our veterans, we estimate, will come back with some kind of disability. Just to put this in perspective remember the short war in – Gulf war, the first Gulf war, one month. We thought it was a war for free; we thought other people were going to pay for it. We are now spending $4.3 billion a year on disability pay. Now, just think about that for a short war. Now we have a war going on for five years and continuing, a war in which the people coming back with disabilities are coming back with many disabilities than in the previous war and many of them are much more severe; the psychological problems increase with each deployment and we are now asking the people to serve two, three, and four deployments.

The costs are likely to be very large. We estimate that the future cost of these disabilities, including the Social Security system, which is something that they get eligible for, Social Security, and the healthcare cost in excess of $600 billion. I'll come back to this, but this is an unfunded entitlement that we have created in the last five years: $600 billion.

So when you add us these, these are the budgetary costs that we can see easily, that we can calculate easily. And it's – you go from the $600 billion that we’ve already spent and very easily get to two to $3 trillion in budgetary cost.

But then we go beyond the budgetary cost. Let me look at both the micro and the macro cost. On the micro side, for instance, are the fact that the amount that the government pays for disability or for deaths is a fraction of the cost to our society and to the families. So, for instance, in one out of five families in which somebody has been serious disabled, somebody has to give up a job to take care of them. The disability pay does not measure the loss of income let alone the pain and suffering that they’ve suffered.

And then, finally, there are the macroeconomic costs. First, we dispel the view that unfortunately has been around for a long time that wars are good for the economy. That was a view that was generated by World War II, which was widely seen as helping the world get out of the Great Depression. But at least since Keynes, we know that there are better ways of stimulating aggregate demands, stimulating the economy. You don’t need to have wars to keep the economy at full employment. We can spend money in ways that lead to long-run productivity increasing standards of living.

The war is about the worst way of spending and this particular war is particularly bad. Money spent to hire a Nepalese contractor working in Iraq does not stimulate the economy in the same way that money spent on a hospital in the United States or a road in the United States or a school in the United States would have stimulated the economy. This war is also bad because it has been associated with an increase in the price of oil. It's hard to remember, but just five years ago, the price of oil was 23, $25 a barrel and futures markets
saw a forecast that the price of oil would remain at that level for the next decade or more. They understood that there was going to be an increase in demand from China and emerging markets, but they also believed that there would be an increase in the supply. The low-cost provider was the Middle East: large supplies of oil.

The war upset that equation and, while in our book we only attribute five to $10 of the increase of the 75 to $85 of the increase in the price of oil to the war, we actually think the number is much larger. And that’s why I say, you know, our numbers – we feel very convinced are very conservative.

The war – this war has also been different from any other war in a couple of other ways. One of the ways in which it’s different is that this is the first war in America’s history where at the time we went to war, we didn’t have a conversation about how we were going to finance it. There was not a discussion, as you send off your young men and women to fight, there’s not a discussion of shared sacrifice. And the way middle-aged people can share in that sacrifice is to have a tax increase to pay for at least part of the cost of the war.

This is the first time, as we went to war, we had a deficit and we responded by saying the shared sacrifice is the rest of America would have to consume more and spend more time in the shopping malls. We had a tax cut for upper-income Americans as we went to war. That means that every cent, in a sense, has been borrowed. This is the first war since the Revolutionary War that we’ve had to turn largely, to a significant extent, to foreigners to finance our war; 40 percent has been borrowed from abroad. That means, in turn, that our living standards in the future are going to be lower than they otherwise would have been. We will have to pay interest. Perhaps we will repay the debt. No matter what you’re doing, there is no free lunch, as economists put. Or, to put it in this context, there is no such thing as a free war.

The Bush administration was trying to persuade America that they could have a war for free. After all, it was just a volunteer army that was fighting it, not really quite volunteer because many of them were not doing it voluntarily; they were National guard that thought they had volunteered for things like Hurricane Katrina. They didn’t volunteer for extended duty in Iraq. And the stop-loss provisions; they thought they had signed up for three years, told, no, you didn’t read the fine print and you would have seen that you signed up for eight years. And we can tell you not – that you can’t leave.

So it’s not really quite the all-voluntary Army that people have suggested. But it is one in which most Americans have not had to give up, send their children, at large: the smallest percentage serving probably in our history or at least recent history. And, in terms of the cost, it’s all been pushed onto future generations. And so, in a sense, that – the notion that people would not feel the cost of war was part of the deliberate strategy.

Now, we ended the book by a discussion of a number of policies, recommendations, trying to think about how can we prevent or at least reduce the likelihood of the kind of problems that we’ve seen. And let me just very quickly mention three – two or three or four of these.
One of them is the appropriations process. This war has been funded by 24 separate appropriations bills. It’s been funded in dribs and drabs so nobody really saw the full—what was really going on, by emergency appropriations. Emergencies make sense, are appropriate, at the beginning of the war when you have a hurricane that you cannot anticipate. But five years into the war, you should not be funding a war with emergency appropriations that are not subject to the kind of scrutiny that ordinary appropriations are. And that’s why there’s been all of these problems with profiteering, problems with cost management. So one recommendation is that, at least after the first year or two, you should use regular appropriations. And if you say there’s an emergency, you have to go before Congress and say, things are not going the way we thought; we made a mistake; these are not anticipatable.

The second kind of recommendation has to do with our accounting procedures. We use cash accounting rather than accrual accounting. Countries that have really tried to get their accounts in order use accrual accounting. Every business uses accrual accounting, every major business beyond a corner grocery store uses accrual accounting. And the obvious reason—accounting systems are important because they are the way we think about information, the way we organize information. And if you use cash accounting, you focus on your cash expenditures and so you try to reduce your cash expenditures. But that means there are accrued expenditures going out that you’re not focusing on. And that leads to a systematic consequence of what you call penny-wise and pound-foolish.

I want to give you an example of something where we had to use the Freedom of Information Act to find out what was going on. You know, the president said he was giving the troops all, everything they needed. But what we discovered was that the commanders in Iraq had asked for the MRAPs, these vehicles, these specially designed vehicles designed to resist explosive devices as early as the beginning of 2005. And had they had these, a large number of deaths and disabilities would have been avoided. But buying them would have raised the upfront cost, the cash cost, those that showed on the accounts.

What doesn’t show in the accounts are the future disability payments that accrue because you did not protect our soldiers, our troops. So as long as Rumsfeld was there, we never ordered these MRAPs. It wasn’t until Gates became the secretary of Defense that these were ordered. So that’s an example of how focusing on the cash, we actually wound up increasing our total cost. So we really need to go to another accounting framework. In modern war, this is becoming more important.

And another way this war differs from previous wars is the ratio of disabilities to deaths is much higher. In previous wars, it has been 2.5 to one. This war it’s 15 to one. It’s a testimony to modern medicine, but it has economic implications and we have to prepare for those economic implications. And that’s the third kind of recommendation and it’s actually related to a whole set of recommendations.

The way we’ve been treating our returning veterans is disgraceful. The story that you saw at Walter Reed is just the tip of the iceberg. As late as 2005 and six, we were providing funds to the Veterans Administration on the basis of data from 2002 before the war as if there were no people disabled in this war. And so, obviously, the VA has been running out of money, had to go back again for emergency appropriations.
So what we argue is, there should not be unfunded entitlements like this. We should have put aside, we should finance. If we say the war is worth fighting, we should say, we will not only pay for it, we will put aside the money to pay for the disabled that the war generates. So these are some of the kinds of policy recommendations that we looked at.

Finally, let me just mention that while we began this book as, you might say, an exercise in boring economics and accounting, that we thought, you know, Americans ought to know what the war was costing. We thought this was something the government ought to be doing; we should not have written the book. This is information the government should have been providing, but it hadn’t done what it should have done. And there’s a certain irony here; we were talking about going – fighting for democracy, but democracy is more than periodic elections; democracy entails informed citizenry being involved in the decisions that affect their lives. And part of being informed is knowing the cost of what you’re doing, particularly when it’s a war of choice.

Well, one of the things that we came to understand as we wrote the book is how difficult it is to get the information. And we had to repeatedly work with veterans’ groups to use the Freedom of Information Act to find out what was going on. We wound up doing what you might call investigative reporting. What we – scandals of the kind that I would talk to Linda and say, are you sure? You know, we couldn’t believe what we saw and we’d check it and continually, you know, scandalized.

Let me just give you – one example I’ve already given you is the MRAPs. Another example is the number of people injured that appears on the Department of Defense website is roughly about half of the true number. And it was only through working with the veterans’ groups and the Freedom of Information Act that we found out the true number.

If you look at the number of fatalities, they list the fatalities whether they are fatalities associated with hostile action or non-hostile action. What they don’t tell you is that on the injuries, they only talk about combat-related injuries. And they get to decide what is a combat-related injury. If you’re flying a helicopter at night because it’s too dangerous to fly at day and it crashes, that’s non-combat. If you’re in a convoy and the first vehicles in the convoy explodes with an IED, that’s obviously hostile combat. But if the second one crashes into the first one because it has blown up, that’s just an automobile accident and it may not be listed in the “hostile action” category.

And these differences are large. As I say, it’s roughly 50 percent that are reported. But from the point of view of the taxpayer, from the point of view of our obligations to our troops that are fighting for us, there is no distinction made whether it was hostile or non-hostile. And that will be part of the cost of the war that we will be paying for decades to come.

Finally, the big issue of the day is where do we go from here. That’s a difficult issue and there’s obviously a lot of uncertainty. What we try to suggest is, there’s a way of thinking about this that our kind of analysis may help in. Most people, almost everybody, says we should withdraw at some point. It’s only a question of when: now, or within the next couple of years, or four or five years, stay the course.
Now, there is uncertainty about what will happen when we withdraw. Some people think that chaos will break out. Some people— and, actually, most Iraqis believe things will get better. But that’s not the issue, in a way. The question is, if we withdraw today, there may be chaos; if we withdraw in four years, there may be chaos. If we withdraw today, things may be better; if we withdraw in four years, it may be better.

The question is: What is the difference? What do we buy by staying there four more years? Is the chaos going to be reduced so much that it is worth spending another $1.2 trillion or more? Or are there ways of spending that $1.2 trillion that will be better for our economy, better for our security than this particular way of spending $1.2 trillion.

Economists are—you know, economics is called the dismal science. And the nature of the dismal science is that it reminds people that resources are limited and that we have to make choices. And these are the kinds of choices that are—that we, in the election, and our political leaders are going to have to make. And they simply cannot ignore the fact that our resources are limited and we have to ask the question: What is the best way of using those limited resources? Thank you.

(Applause.)

MR. MEDISH: Joe, thank you very much for that excellent summary of your findings and recommendations. I’m sure you’ve provoked a lot of questions in the audience, but we’re going to start with your neighbor Steve Mufson’s questions in just a second. So, Steve, let me turn it over to you to get the conversation going.

STEVEN MUFSON: Thanks, Mark. It’s—I feel in a bit of a funny position because three trillion is just such a huge number. I mean, even if I knock a trillion off of that, that’s still a pretty huge number and none of your points seem to really change with that. So, at the risk of quibbling, I’ll ask you a couple of questions about numbers and a couple of larger questions.

I thought I’d start with the larger question, which is really one about what the baseline is. You’re using—and I mean that in every sense of the word, right, both budgetary baseline, but also the baseline as connected to foreign policy and all sorts of others scenarios about what might have happened had we not invaded. And I’d just like to mention a few of them that maybe you want to take about.

One is, you know, did you really—could one really have expected that status quo with the Oil-for-Food program and the no-fly zone to have continued indefinitely? What kinds of costs? And I know in your book you subtract the cost of the no-fly zone program, which we discontinued, obviously. So I understand that, but, you know, it’s possible that those costs would have changed in some more disadvantageous way for the budget.

Or, alternately, you could have had a scenario—on the eve of the war, Jessica Matthews had written a piece about how we should use the military to enforce inspections, that would have created a whole different level of spending—even without war—and was the kind of thing that a lot of people were talking about as an alternative to war given where things were in this stalemate between the U.S. and Iraq.
And then there’s also other possible scenarios: I mean, how long would Saddam Hussein have gone on even without a war? And what kind of cost might there have been in terms of regime collapse or some other thing that might have happened? Presumably, he wouldn’t have gone on forever.

And, finally, there’s the other issue, which is, had we not gone to war with Iraq, would we have gone to war somewhere else? I mean, it’s hard to think that American – (laughter) – you know, it’s hard to think of an administration that hasn’t chosen to go to war somewhere, actually, at some point, for better or for worse. And you know, maybe it would have been North Korea or Iran or something like that. But it doesn’t seem likely, given our nation’s history, that we would have gone on without something happening. So maybe you could just talk about this baseline, because aside from subtracting the no-fly costs, you were pretty much assuming a status quo.

MR. STIGLITZ: Yeah, that’s a very good question and something that we struggled with. The way economists use – just the vocabulary; we talk about the counterfactual: What would have happened but for the war? And there’s no way to be really sure what those alternatives are. And there are a million different scenarios that you can conjure up. And in a sense, we felt convinced that the baseline, the counterfactual that we used was probably the best one. But there are these alternatives that you have to think about.

One example of this is this issue of what would have happened to Saddam Hussein? And it reminds me a little bit about the discussion in Indonesia just a decade ago where people talked about the role of the financial collapse. One of the benefits of the financial collapse in Indonesia was that Suharto was removed. Well, we now know that Suharto was very sick. He would not have been able to stay in. Somehow, even though he was a very strong president, he had allowed civil society to flourish. And as he left, there has been a flourishing of civil society. It probably would have happened when he left.

MR. MURSON: This is justifying the World Bank program there, right?

MR. STIGLITZ: And so the argument was the justification of the disaster of the IMF and the World Bank program was it got rid of Suharto. So what if the 40 percent – the unemployment rate got up to 40 percent? My view was that was not – it was not really something that we ought to include in the benefit because he would have gone anyway. And the same thing in the case of Saddam. We don’t know if when he died the same conflict that we now see could have emerged and all we did is accelerate it. And so, you shouldn’t be blaming all this conflict on us. The real point is we just accelerated it.

On the other hand, what is clear is that the way we came into Iraq, mismanaged the whole process from the beginning, didn’t engage in reconstruction, allowed the arms to get around to everybody, unemployment soared to 60 percent. Unemployed young men with guns are an explosive mixture; it predictably exploded. You can say, well, it could have happened otherwise but you couldn’t have done anything more to make it more likely that the thing exploded. So you have to say, well, we have to have some culpability for that in terms of that kind of a baseline.
I would like to think – and certainly many people in the military believe – that they are a peacekeeping organization, not a war. And you might have hoped that if we were going to war – were going to use them – we would find places like Panama where the resistance is relatively low and fewer people, Americans get killed and fewer Panamanians got killed. So if you’re going to pick up what Mark said, if you’re going to have a war of choice, you ought to choose it a little bit more carefully. And you know, people say, well, we got rid of a dictator. I often think, let’s make a list of all the bad dictators in the world and let’s put a price tag – how much would it cost to get rid of each of them. And for three trillion (dollars) I think we could have gotten a lot more dictators.

MR. MURSON: What is the going rate?

(Laughter.)

MR. STIGLITZ: So no matter how you look at it, it’s a lot of money and, yes, some of these alternatives mean that the incremental cost may have been a little bit higher. The baseline would have been higher, but as you say, it might have been 2.8 trillion (dollars). But remember, our estimate is 3 to 5 trillion (dollars), so in talking about 3 trillion (dollars) we’re trying to be deliberately conservative.

MR. MURSON: Well, and in a similar kind of question, looking forward instead of backward, is the issue of the cost of withdrawal because you are thinking about this – again, in budgetary terms – which is the whole point, of course. But I wonder, you know, if you were an incoming administration trying to decide – let’s say even a Democratic administration on the off-chance that might happen – then you’re trying to think about what those costs of withdrawal are. And they go beyond the budgetary ones too. And there may be – or they may include budgetary costs if there is some sort of increase in terrorist threat and that sort of thing.

MR. STIGLITZ: No, I agree completely. But that’s why I emphasized the way we ought to be thinking about it. If there are costs to, say, increased chaos and we withdraw in four years, we pay that cost. The question is, we’re going to be paying the cost either today or in four years’ time.

MR. MURSON: You’re assuming chaos no matter when we leave?

MR. STIGLITZ: Well, but that’s the way the question is. You have to be persuaded that spending $1.2 trillion extra between now and four years is going to have a significant reduction in the probability of chaos. Now, we’ve been told the turning point is just around the corner. This surge and then the surge is going to give room for a political agreement, and then we can withdraw.

Well, we’ve had the surge, no political agreement, and we see the violence levels going up and down and Petraeus saying, we don’t know. Now, we may be saying that in a year, in another year, in another year, and another year. And so, at the end, these decisions are never to be done with uncertainty. I don’t want to underestimate that.
But if we spend another $1.2 dollars, that’s a lot of money. But the other point is that even focusing on two critical issues – our credibility and our security. Our credibility, the respect with which we are held that you can say, look, now we have a war that we have mismanaged for five years. In four years, we will have a war that we will have mismanaged for nine years. Do we think our credibility was enhanced in Vietnam by staying an extra five years, or was it actually decreased because we refused to face reality and we just stayed on?

MR. MURSON: Well, there is a difference of opinion about that actually. I mean, there are some people who think that we did somehow enhance our credibility there. But that’s not what I wanted to focus on. But actually, as long we’re talking about economic costs, in the totally crass way, if you thought that $1.2 trillion would buy you stability, $1.2 trillion - $100 barrel oil, maybe 12 billion barrel reserves. Iraq has got more than that. On a per barrel cost, if you really thought you’d buy stability, you could think of worse investments than that.

MR. STIGLITZ: Well, first of all, I didn’t – and that $1.2 trillion include the macroeconomic costs of the chance of more instability from our protracted engagement, or the fact that because the war is going on, many investors are reluctant to go to the Middle East, so it’s actually decreasing potential supply because of our presence there. When I say 1.2 trillion, I didn’t include those macroeconomic costs. If you include those, the numbers get much, much larger.

It seems to me that the second question you have to ask, even if you believe that you got more security there, is will the problems show up elsewhere? Al Qaeda has moved from Afghanistan to Afghanistan and Iraq. Okay, so we persuaded al Qaeda to move out of Iraq. Do we really believe it’s going to disappear? Maybe it will go to Pakistan. Some evidence that things arc – so one of the ways I think we can try to visualize this is to think about a big map of the world and realize that Iraq is a small little dot in that big map. And we are trying to put our finger in a dyke. We’re focusing on one little piece of territory. And while we’re focusing on this, problems are burbling up all over the world.

And one of the reasons they’re burbling up is because we’re not focusing on them because all of our attention is being focused on this particular problem, which we aren’t solving. In fact, I heard one security expert put it very graphically. He said, if you were al Qaeda and you were trying to think about what would be in your interest. And you described – well, the thing that would be most in your interest would be a war in Iraq. And that in fact, we fell into the trap.

MR. MURSON: Let me ask you one counting question and then maybe open it up for some other questions. And that is, one person who wrote about some of your calculations said that counting the costs of the war and the interest in the war was a little bit like counting the price of the house plus all the mortgage payments together, sort of double counting. Do you want to talk about that?

MR. STIGLITZ: Yeah, well, we were very careful. This was an issue that came up in our earlier paper that we wrote in January 2006. So in this book, we are very careful when we add on the total, we don’t add on the interest.
MR. MURSON: So you changed that.

MR. STIGLITZ: In our $3 trillion number. But it is still the case that if you ask a family how much they're paying for their mortgage, they include the interest. That's part of the budgetary cost that they face. And so, the interest is part of the budgetary cost that our taxpayers are going to have to face.

So if you ask what would we – what do we have to raise taxes to pay for? Let's say that we want to undo the deficits that we've created because of the war. How much do we have to raise the taxes? Well, the fact that we financed the war totally by deficits means that when 10 years from now we decide we want to repay that, which I don’t know if we will, the amount that we will have to raise our taxes will be that much larger because the debt will be that much larger.

MR. MURSON: but presuming the money you didn’t pay in taxes, you put to some possibly productive purpose?

MR. STIGLITZ: The productive purpose was the war. I’m not sure that we are seeing –

MR. MURSON But I think you can – for the war spending, then the money you would have spent on the war is –

MR. STIGLITZ: Well, and the answer is, basically, to keep the economy going – and this is actually an important question I was hoping get to – is the link between our current economic problems and the war. You know, I described before how the war was exerting this very negative effect on the economy – the higher oil prices, spending that was not stimulative of the economy, deficits.

And then, one of the questions was why didn’t we feel it more? And the answer is pretty obvious. The Fed let loose a flood of liquidity and the regulators looked the other way with lax regulation when we were really bad mortgages that were being given out. And this enabled – the result of this was we had a housing bubble and a consumption boom. Savings went down to zero, down to zero. So it was very clear that we’ve been living on borrowed money and borrowed time, and it was just a matter of time before a day of reckoning came.

So your answer is, what did we do with the money? In effect, we had a consumption binge. And there was a consumption binge, particularly for upper-income Americans. But it was a consumption binge that was shared about with all Americans in some sense. And the fact is that we will have to pay the price. We are paying the price for that consumption binge now.

And in a way, how much do you blame the Fed? My feeling is the Fed was acting in a shortsighted way. But he said, our task is to keep the economy going for as long as we can. Now remember, Ben Bernanke was President Bush’s chairman of his council of economic advisors. He had every interest in making sure that the day of reckoning didn’t come until
after November 2008. Well, you can’t always manage these things perfectly. And it started to unravel in August 2007.

By the way, I and a number of other people just saw it coming. It was very clear. This is not Monday morning quarterbacking. We pointed out that this was going to happen.

MR. MURSON: All right. Well, let’s –

MR. MEDISH: May I be recognized for the first question? Joe, I wonder if you could just say a few more words about what I call the comparative economics of war, or the economics of comparative wars. You mentioned the Vietnam War. Could you try to put your cost assessment of Iraq in relative terms compared with Vietnam, compared with Korean war, compared with World War II, when you add in all the costs of those operations, including the Marshall plan – by the way – because World War II was not just the prosecution of the war but also the reconstruction effort during the occupation of Japan and Germany and the rest of work in Eastern Europe. Can you give us a sense of –

MR. STIGLITZ: Yeah, a little bit. This is, in terms of the operations, the upfront costs, the second-longest war in America’s history and the second-most expensive war. The only war more expensive, adjusting for inflation, is World War II. So this is a very expensive war. The cost per troop is about eight times the cost in previous wars. So this has been a very expensive war.

One of the questions we asked is why is this war so expensive? We think part of the reason has to do with this is the first war that has been as privatized, where you provide as much on contractors. And part of that has to do is that we have this all-volunteer army, very hard to recruit more people. And so, we had to go to contractors to do things that normally would have been provided by armed forces. But contractors are very, very expensive. They are expensive in many different ways.

They were made more expensive by – you might call it – the corruption that is associated with the way – single-source contracting – (inaudible) – reducing the number of auditors, the way it’s been managed has helped increase it. But one of the ironies of it is, the contractors are providing competition for the military. So the people who have been fighting in Iraq say, if I quit and when my term is over, I work for the contractor providing security, my salary would double. Why not? And so, that forces the armed forces to increase their pay, their enlistment bonuses.

And one of the things that we emphasize in the book is, you know, there are some things were privatization makes sense. But there are some things where privatization doesn’t make sense. Running prisons, it doesn’t make sense. And mercenary armies have always had a bad reputation. And there is good reason. National interests do not coincide with profit maximizing behavior.

Just to give an example related to something I was talking about before, at the beginning of the war, unemployment reached 60 percent. It was in our interest, in terms of winning the hearts and minds, to get that unemployment rate down. But what were the contractors’ interests – minimizing costs. So they minimized costs by bringing in –
(inaudible) – worker to work in Iraq. It saved them money, increased their profit, but undermined our mission, generate hostility, resentment to the United States. What were we doing, especially when we were using Iraqi oil sometimes to pay for these?

MR. MURSON: I would think part of the increased costs would be the high level of technology involved today. It’s not quite the Civil War where you tossed a guy out with boots and a gun.

MR. STIGLITZ: But no, that was the beginning part. But now we’re not using that. Now, it’s a modern version of insurgency. But it’s not cruise missiles that we’re using.

MR. MURSON: But the average soldier is equipped with all sorts of stuff.

MR. STIGLITZ: But it’s still very, very expensive – eight times what it had cost in previous wars.

MR. MEDISH: If you could ask them to identify themselves?

MR. MURSON: If you could please identify yourself before you ask your question?

Q: Sure, thanks. Gary Mitchell from the Mitchell Report. And I want to ask a quick two-part question, part of which goes to the question Mark asked. And that is, as you know, Robert Hormats’ book, he puts this in terms of percent of GDP. And I wonder if you could talk about that. I’ve heard your coauthor, Linda, talk about why that’s a more difficult task to assess. But could you put the cost of this war in the context of it as a percent of GDP?

MR. STIGLITZ: Yeah. The reason why it’s difficult because – when we talk about $3 trillion, we’re talking about costs that would be borne over half a century. The fact is that the veterans’ cost from World War II peaked in 1993, 48 years after – did I get the arithmetic right – 48 years after the end of hostility. And life expectancy is increasing. And so, we can expect the veterans’ costs – if we honor our obligations; and I do hope we do – will continue for half a century or more.

So that means what you’re comparing is the cost is going to be paid over a half a century. In those terms, it’s not a big number. And that’s why when you – people think, can we afford it? Yes, we can afford it. It still has a high opportunity cost, an economic opportunity cost and a security opportunity cost and I would emphasize it feeds into this economic downturn that we are experiencing today. That’s a real cost.

So in terms of as a percentage, it’s probably lower than some of our other ventures. And that’s why people can have a feeling that we can, you know, it’s war for free. But I want to argue is, it’s not a war for free and we have lots of needs that we are not able to meet because of the war.

One of them – just one other thing, I just want mention that even Bernanke mentioned in contrasting this situation, this economic downturn, recession, with 2001. He pointed out that a big difference is that in 2001, we got a 2 percent of GDP surplus. Now we have a deficit that reduces our room for maneuver. That reduced room for maneuver
almost surely will mean our downturn will be longer and more serious than it otherwise would have been.

How do we calculate that cost? Those are going to be big numbers.

MR. MUFSON: Yes, right there –

Q: I'm Ali Amar from USIP. Sir, did you look at how much funding is going to support Iraq’s civil society?

MR. STIGLITZ: No. I don’t know how much was going to support civil society. What we do look at, we do have one chapter where we look at the cost to the rest of the world. When we say $3 trillion, we’re talking costs to America. And we argue that the cost to the rest of the world is probably at least double that. The cost to Iraq has been very serious; you know, four million, more than four million displaced people, two million refugees. The numbers of people, the increase in the death rate is huge in various estimates based in different epidemiological studies.

But no matter what the numbers are, they are very, very large and we can talk about that more if we want. But the economy has not been able to be reconstructed. You were mentioning the Marshall Plan; if we had spent the $18 billion that we said we were going to spend on reconstruction, it would have meant, per Iraqi, a number larger than the Marshall Plan. We didn’t get around, actually, to spending most of the money and one of the stories that we tell – you know, we talk about here is why that turned out to be the case.

And it’s an interesting story, that there was – Congress insists that the bidding be competitive bidding. Rumsfeld insisted that it be sole source; I can understand why. Congress said that if you’re going to make it sole source, you have to sign saying that, you know, it has to be sole source for the following reason. You know, well, and he refused to sign that letter, presumably because he couldn’t. And in that dispute, the money was not spent: a critical time when the insurgency began and where we played a critical role in losing the hearts and minds of the people in Iraq.

MR. MUFSON: In that corner and then we’ll go on that side.

Q: Thank you. I’m Radish Kadian (ph). Sir, would you also comment on the impact of Iraq on the relative decline of the U.S. dollar vis-à-vis other currencies?

MR. STIGLITZ: (Chuckles.) Well, that’s a hard question: many factors going into the decline of the U.S. dollar. But clearly one of the factors is an overall loss of confidence, loss of confidence particularly in the future economic situation. And part of that loss of confidence in the future economic situation is the increase in the national debt. And an increase in the national debt is associated with the Iraq war.

It’s also related to the burgeoning trade deficit, which is related, in turn, to the increasing oil prices. And that has related also to the Iraq war. So there are at least two or three channels through which this war and our inability to manage both the war and the economy well have led to this erosion of confidence leading to the weaker dollar.
MR. MUFSON: Joe, maybe you could say something more about that oil crisis. That five or $10, just kind of a guess? I mean, I do this for the Post trying to figure out how to quantify certain political risks and other things that are happening, very difficult I think.

MR. STIGLITZ: Yeah, you’re right.

MR. MUFSON: Did you pull that number out of the air or is that actually based on something? (Chuckles.)

MR. STIGLITZ: It’s not pulled out of the air. It was based on a discussion with lots of people who are experts in this –

MR. MUFSON: And their guesses.

MR. STIGLITZ: All of whom said that – and it’s there guess. Yes, it is. (Laughter.) And some of this may be consensus, but let me tell you what my own – one way of thinking about it. My own belief is that most of the increase has to do with the price, with the war. And the reason that I believe that is, as I said before, futures markets understood the increase in demand. You know, if you look at where they thought the supply was going to come and they thought it was going to come from the Middle East and –

MR. MUFSON: Don’t futures markets always predict the same price going on out forever? I mean, right now, they’re predicting $100 oil for the next 10 years.

MR. STIGLITZ: Yeah, but you have to look at then where did their equations go wrong, okay? Did they misestimate demand? And the answer is a little bit, a little bit, a little bit. And that was a little bit – that was part of our reason why we didn’t attribute 100 percent. But the big story is on the supply side, big story is on the supply side of the Middle East. Now, one of the factors that makes the analysis more complicated is there are some peculiarities of the oil market that make – it is not an ordinary competitive demand and supply situation. And in particular – you might call it the supply response from the oil producers have this characteristic, almost like a backward bending supply curve.

What happens is that when the price starts to go up, they realize that they need to sell less oil to meet their budget needs. And in fact, when the price goes up as much as it has gone up, they face the following problem. What are we going to do with all of the money? Where are we going to put it? And they start running into problems that the sovereign wealth funds are running into in placing their money. And that leads them to say, in effect, the best way of putting our money is leave it below the ground, i.e., leave it in oil below the ground. Rather than pump it all out now, let’s pump it out more slowly when we need it. So as the price goes up, they are actually investing less in expanding capacity, particularly because they know if they expand capacity, pressure will be put on them to use the expanded capacity.

Say, well, how can you act as a cartel? Aren’t you our friend? If they don’t have the capacity, they are going to say, I’m sorry. We are your friend, but we just can’t produce any more. So there is a certain supply side dynamic that comes once prices start to go up. And
the war is what set off that upward movement in the price that led to this kind of dynamic. So if you ask me, I think –

MR. MUFSON: I am just trying to think of the idea that high prices somehow result in fewer supplies, right?

MR. STIGLITZ: Yeah. It is a perversity. It is called a backward bending supply curve. And there are a few, you know, markets in which this kind of thing happens, and this happens to be one of them. You can understand the rationale, the reason for that. The bottom line out of this is I think a very large fraction of the increase can directly and indirectly be attributable to the war. But if you ask anybody, is 5 or $10 an overestimate? Everybody will say, no, that is an underestimate. We are not sure what the number is, but 5 or $10 is the minimum.

MR. MUFSON: This sounds frighteningly like my technique. (Laughter.) Yes? Right there.

Q: Darren Gersh with the PBS Nightly Business Report. Thank you. How much of the 3 to $5 trillion is opportunity cost in your estimate? And couldn’t you apply opportunity cost to any government program, any government spending?

MR. STIGLITZ: Of the three to five – let me try to make it clear. The direct budgetary cost, you know, the money that we are spending coming out of the budget, not including interest, is around 2 trillion. And then there is the interest, okay? So just that side gets you close to three trillion, but not all the way there. Then are the costs that go beyond the budget, and those are real economic costs. The people who have to give up the job to care for somebody who is disabled, that is a real economic cost. There is economic loss from somebody who dies at the age of 20. There is an economic cost for somebody who is disabled at the age of 20. So those are real economic costs, and we use the standard procedures for estimating those real economic costs.

Now, the macroeconomic costs are, again, real economic costs. We are going through this what economists call it, counterfactual. What would have been the output of the economy were we not spending the money that we are spending on Iraq, on the higher price of oil? Now, that is where there are – I mean, when you do an analysis like this, there are assumptions. And here our assumption was five to $10 of the increase in the price of oil was due to the war, that you can go through and say, if the price is five or $10 higher, how much money does that mean we are sending to Saudi Arabia and Kuwait? What does that do to the macro-economy? And so you go through that full calculation.

And then you ask, if we weren’t borrowing all this money from abroad, 40 percent. If we borrowed that extra money, that is money that we have to pay interest on that lowers our standard of living in the future. What is the cost of that? So those are real calculations. Those are not opportunity costs. I was using the opportunity cost as a way of trying to explain what does $3 trillion mean? You know, if somebody says, what is $3 trillion? The only way I can explain $3 trillion is to say what you could have bought with it. And a lot.

MR. MUFSON: Way in the back, and then we are going to come up here.
Q: My name is Kern Shim (ph). I have two little questions. I hope they are little. One, you mentioned that the actual death toll is much higher than the figures that we see. And I am wondering –

MR. STIGLITZ: Injury toll.

Q: Injury toll. I think you said death toll as well.

MR. STIGLITZ: What I meant to say was injuries.

Q: Injuries? Okay. Then that kills the first question. Okay. I come from a refugee background, and I am wondering when the eventual withdrawal occurs, now or in four years, have you made any estimate as to the cost of absorbing, for lack of a better word, collaborators who are going to have to come to the United States for safety?

MR. STIGLITZ: No. That is an important cost that we will need to deal with. One of the reasons, of course, one has to ask what kind of peace will they have in Iraq if they get peace when we leave. It may be the country will divide into three parts, in which they divide themselves into three different places. And so we don’t know the answer of what that political – I don’t want to say agreement – outcome that will emerge when we leave. But I do think that we do have a moral obligation to accept the people who have worked with us. And one of the points that we make in the book is that we have been much less – we have not accepted refugees anywhere near to the extent, even in absolute numbers that Sweden, for instance, has. And relative to our population, it is really, you can say it is an outrage that we have contributed, we have caused the problem, but we have not – these two million refugees that have left the country, we have not lived up to our obligations. We haven’t even brought in the number that we said we would bring in to the United States.

MR. MUFSON: Although this isn’t necessarily a cost, right? Immigrants can be an economic positive for the country.

MR. STIGLITZ: In the long run. But the cost of absorbing them – there is still a cost of absorbing them in the beginning.

MR. MUFSON: Let’s come here, and then we will go over here.

Q: My name is Barbara Wean (ph), and I represent grassroots peace movements. I am on the board of National Peace Action and a variety of other peace education foundations. And I guess I am also here as a mother and as a citizen. I wanted to change the nature of the conversation a little bit. First of all, thank you for the book. Thank you for this tremendous contribution to a real security debate in our country, which should have taken place before the war. And I hope that you will work to popularize the book with groups like the American Friends Service Committee and the American Friends Service Committee, who have websites on the cost of the war. And I believe they are already using some of your research, but I hope you will work closely with grassroots citizens’ groups across the country to really look at a real debate around this war.
One of the major problems that have been going on during the war is global climate change. And I have felt so much that there has been a huge opportunity cost lost there. Had we not gone to this war, what would we be doing to try and stop the planet from melting down and global planetary crisis at this point? Maybe that is for your next book.

MR. STIGLITZ: (Chuckles.)

Q: And also in the next version of this book, I would love you to look at what the opportunity losses were for Iraqi youth, the loss of education, the loss of human potential of the next generation of Iraqi children. It just breaks my heart. I want to ask you how did we let this happen. How could we have prevented this war from happening? So many of us marched and protested and got arrested, and here I am asking you to take off your hat as an economist. What could the peace movement have done differently to prevent this war? There were tens of millions of us marching all over the world before the war even started. Give me your advice. What could we have done? You are a Nobel Prize winner. (Laughter.)

MR. STIGLITZ: I wish – economics is easy. Economics is easy relative to these questions that you are asking, let me say. Let me just say two things. One of them is the recommendations that we talk about at the end of the book in terms of accounting procedures, appropriations procedures, budgeting procedures, we think our design to make Americans feel more starkly the cost of going to war.

You know, one of the problems is that war has become too easy. And our confidence in winning the first part of the war, that is to say, the shock and awe part. We spend 49 percent of all the military expenditures in the world. And so there is no question about our being able to win that first part of the war. And that confidence that comes from being able to win the first part of the war may make it too easy for us to invade another country. And so one of the things as I have thought about this issue, is to realize that the kinds of checks and balances that we think of as extraordinarily important in democratic processes are not adequate. They haven’t been working well.

In a way, the Constitution in the area of foreign policy was not well-designed because we didn’t have to worry about checking America. It was not a significant power. U.K. and France were our checks and balances. They could not have envisaged U.S. of being a superpower. Now, the U.N. is supposed to be part of the check and balance. And one of the interesting thing is the U.N. deliberated, and people have not emphasized the role that the success of the U.N. It deliberated and came out with the right decision, except there are not grounds for a preemptive war or for a preventive war. You know, they were right. There was not compelling evidence of weapons of mass destruction. But they didn’t have the ability to enforce it.

So I think that as we think about that, we have to think about how do we put checks and balances? And one was is to strengthen international organizations. The second way and most important is to strengthen our democracy. And that means to try to figure out how do we have more accountability? And that is what these kinds of reforms that we talk about are designed to do, to make it so that no future president says you can have a war for free. We are going to say, no, we can’t have a war for free.
And finally, I think there are a large number of issues that are presented by the media and a failure of the media.

MR. MUFSON: Hey! (Laughter.)

MR. STIGLITZ: No, I think the fact was – there were these mass marches, and they were covered in Europe on the front page and in America, they would be buried on page 11. The New York Times wouldn’t even report – there would be a mass march in New York. You’d be there, and you wouldn’t know it.

MR. MEDISH: Steve, that means you have contributed to the rise on the price of oil as well. (Laughter.)

MR. MUFSON: That is right. That is right. (Chuckles.) Happily I am not making story placement decisions. Yes?

Q: I’m Pete Chutley (ph) from Brookings. And this isn’t a direct financial cost of the war question, but a question if you have come across an answer to my question in your research. I am assuming that the administration when Larry Lindsey gave its cost, and he was fired. And Wolfowitz said, the occupation will be free because Iraqi oil revenues will pay for everything. I’m assuming that they thought if the price tag were high, the American public wouldn’t support going to war. Maybe that was behind their thinking, I don’t know.

But my question to you is as you did your research, did you get a feeling for the willingness of the American public to bear burdens, pay costs for whatever – not just Iraq War, but for other things – comparing this to past generations, et cetera. Have we gone soft? We are just not willing to pay costs for wars anymore? Or what did you come across as you did your research?

MR. STIGLITZ: I’m not sure if I’m – speak directly to it. I can just reflect my own sort of views. I think that there is obviously a very big difference between World War II, where it was not a war of choice, and there was a sense – it was good and evil. There was a very clear picture. In a way, during the Cold War and Vietnam, had somewhat the same communism depriving people of freedom, but it wasn’t just the freedom in Vietnam, it was the domino. And so the view was it may have been a mistake in judgment, but it was a widespread feeling that there was a war, a Cold War going on, and that we had to do everything we could to maintain our side winning in that Cold War. And the opposition, much of the opposition in Vietnam was not a disagreement with that moral responsibility, but a statement that this particular place for fighting that battle is not going to work. So much of the opposition was not to the motive, but to the ability to win the battle there.

This war is, in that sense, fundamentally different. Yes, and again, different from Afghanistan. If you had gone to the American people and said, you know, if Afghanistan worth fighting? You’d say, well, we have been attacked, al Qaeda, we have to do something about it. Clinton had attacked al Qaeda. You can say there is a bipartisan view on that.
The view was there is no connection with 9/11 and Iraq. And the fact that there were such strains to try to create a connection that was not there, such strains to create a fear of weapons of mass destruction, plus such strains to hide the cost, I think – my interpretation was that if you had gone to the American people and said, is this a war worth fighting? They would have said no. There are lots of dictators in the world that are reprehensible. But by the way, they would have commented, you gave – you supported this particular reprehensible dictator for a decade. And now you tell us, oh, we shouldn’t have supported him. There is a little bit of a disjunction there. So I think they would have said, go down the list and let’s think of other dictators. If you want to use your military, let’s find one that is a little cheaper. I don’t think you could have sold it if you had been honest about the benefits and the costs.

MR. MUFSON: Yes?

Q: I’m Don Kirk with the Center for International Policy. Ah, thank you. I just wanted to ask you, sir, about the defense budget issue. I mean, you had said that we are now spending 52 percent of the world’s military –

MR. STIGLITZ: Forty-nine. I got it wrong.

Q: Whatever, 49. Well, it is the highest level in real terms since World War II. In fact, it is at a level comparable to World War II. And I noticed in calculating the costs of the war, one of the things you added in was the cost for restoring our military, replenishing worn equipment, and so on. And both of our presidential – well, all of our presidential candidates are now arguing for increased defense expenditures for precisely that reason. And I am just wondering where you come out on that. I think maybe it is time to start cutting back a little bit on our expenditures.

MR. STIGLITZ: I think that what you are raising is a fundamental issue. The Cold War ended 1989, but our military strategies haven’t adjusted to this new reality. And what we have been doing is spending huge amounts of money on weapons that don’t work against enemies that don’t exist. Now, the good thing is if you are going to spend money on weapons that don’t work, it is better to spend them on design for enemies that don’t exist than for enemies that do exist. So you can say that we are lucky that these enemies don’t exist.

But going back to the point I was making, resources are scarce, and America’s needs are great. And I actually think that we could buy more security with less money and that we really need to begin to rethink our defense budget. We need probably to spend more money on antiterrorism. We may want to need to have better ways of inspecting our ports that allow us to – you know, our goods are coming through without the kinds of security that we have to go through every day and every time we go to the airport. Well, if I were going to smuggle – if you are going to try to get things into the country, the obvious way to do it is go through the weakest link. You are not going to go through the airport.

So it is clear we haven’t thought through our security needs, I think, in a deep way. And I think we can get, as I say, more security for less money. I think it is really important because what we have done in the last eight years has let some of our basic needs go
unattended, infrastructure, you know, the Minnesota bridges, the hurricane – New Orleans levies. Not one of the top 10 airports in the world lies in America. So we do have lots of needs. Our healthcare system is not functioning as well as it should. Outcomes are not equal to that of other banks in industrial countries. So we have lots of needs and where they are going to come from.

MR. MUFSION: I’ll take one more question. Okay, go ahead.

Q: Eduardo Zepeda, Carnegie. I am going to follow up on the Marshall Plan. You sort of going into the cost of the war to other countries – the increase in the price of oil, of course, hit many countries, especially poor countries. Now, there is a coincidence between the causes of the war. The war was financed and recession. We are going to need some money going into areas and into countries that are going to go into a recession that might be worth otherwise. So what are your ideas about relating that cost and an eventual Marshall Plan that should follow the end of the war?

MR. STIGLITZ: Well – try to put this into little bit broader perspective. You are right that actually the world is going through some very difficult times right now. And it is, I think from an economic point of view, one of the hardest times to navigate because we are both facing the worst economic downturn since the Great Depression and inflation. Those are two, each by themselves, a difficult problem. Just very briefly, the reasons of the worst economic downturn – all other economic – and to which the war has contributed, but the previous economic downturns in the postwar period, particularly, have been attributed to either excess inventory accumulation, where you just let the inventory decumulate or worries about inflation. The Fed steps on the brake too hard, goes into a downturn. Everybody says, oh, you have stepped on the brake too hard, and the Fed steps off the brake, and the economy starts again.

We devastated a core part of our economic system, the financial system. And restructuring, reconstructing that is not going to be easy. It is going to take time. It will happen, but it will take time. Inflation – the problems of inflation are worse than normal because this is oil, now spread to food because of the biofuels brought these two together. Standard tools won’t work. China, for instance, is facing a problem of inflation. Vietnam is facing a problem of inflation. If they raise the interest rate, it is not going to do anything to global prices of food or fuel or not very much. So all the standard remedies that we have taught people are irrelevant to this kind of imported inflation, unless you are willing to have a real depression to get unemployment rates so high that wages start to fall. And I don’t think anybody – the cure would be worse than the disease.

Where this is really a problem is in developing countries because in developing countries, oil and food represent a very large part of their market basket. And they are seeing food costs going up. It is a real strain on food importing countries. Now, the other point I was going to make is that a lot of people think that we could fund a Marshall Plan out of the peace dividend. One of the points of our book is that the peace dividend is going to be less than many people think because we have these unfunded obligations for veterans. We are not going to be able to disengage right away. So that in fact we are not going to be sitting on a pool of money.
Quite the contrary – our point is that if we try to stay the course, we are going to have to spend more and more money. So the problem is that yes, I think we ought to have a Marshall Plan. I think particularly we have a moral obligation to help Iraq. I think we ought to be helping more – you know, we ought to be living up to our obligations that we have agreed to the developing countries. And this is a real time where they are going to need that help. But then you start looking at our budgetary situation, and that is where you come down to the hard reality that we have to do something about the defense budget.

MR. MUFSON: Good, Joe. Well, thanks very much.

MR. STIGLITZ: Thank you.

(Applause.)

MR. MEDISH: The book is “The Three Trillion Dollar War.” It is available in the back. Please go buy it. Thank you very much, Joe Stiglitz and Steve Mufson. Thank you.

(END)