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Paying for an Iraq war



A 'Marshall Plan' for Iraq could cost up to \$75bn

By Steve Schifferes

BBC News Online in Washington



The US will finance any war against Iraq by borrowing the money, adding to the \$300bn (£200bn) budget deficit.

Most experts believe that the initial costs of a short war - estimated at \$50bn to \$100bn - could easily be financed without a major economic impact.

More problematic would be the long-term costs of rebuilding Iraq, and a possible military occupation.

And the world economy would be most hard-hit if the war leads to higher oil prices.

A world economic slowdown would also worsen the US budget deficit, as tax revenues would decline.

A prolonged war, or extended occupation, would also raise questions over the Bush administration's plan for a \$692bn tax cut on dividends over the next ten years.

Costs of war

So far there are no official estimates of the costs of an Iraq War.

White House Budget director Mitch Daniels has indicated that if the president decides to go war, he will immediately submit a supplementary budget request to Congress.

Estimates of the cost of the war, prepared by the Congressional Budget Office in October, suggest that initial deployment is costing between \$9bn and \$13bn.



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"Prosecuting a war would cost between \$6bn and \$9bn a month, although how long such a war might last could not be estimated. After hostilities ended, the costs to return US forces to their home bases would range between \$5bn and \$7bn," the report said.

This suggests around \$30bn to \$40bn for a short war that lasted two months or less, but up to \$70bn to \$80bn for one lasting six months.

In real terms, that it broadly the cost of the 1991 Gulf war, which was fought with a larger force but lasted only a few days.

According to Sherman Katz of the Centre for Strategic and International Studies (CSIS), this is likely to be a relatively small cost for a \$10 trillion US economy.

He says that a successful conclusion of the war could actually boost the economy by lifting uncertainty and therefore encouraging consumer spending and investment.

Economic impact

But the CSIS points out that there is a great deal of uncertainty over the potential risks of a long war, including the possibility that Saddam Hussein will try to damage or destroy his own oil fields and those of his neighbours - or that popular opposition to the war in Arab countries would lead to another oil boycott.

A big hike in the oil price, and a long war which prolonged economic uncertainty, could have a big negative impact on the US economy.

Although it finds this worst case scenario unlikely, the CSIS suggests that if it occurred it could drive the US into a recession, increase unemployment and the budget deficit.

That would only occur if the oil price stayed substantially above its current level for at least one year.

Post war reconstruction

But after the hostilities cease, there could be many additional costs - although it is not clear whether US allies would bear some of them, as in Afghanistan.

According to Michael O'Hanlon of the Brookings Institution, the "costs of winning the peace... may actually turn out to be a greater concern than the one-time cost of winning the war".

POSSIBLE COST OF WAR

1991 Gulf War:

US: \$61bn

90% financed by Gulf states

2003 war estimates:

Initial war: \$50bn-\$100b

Occupation: \$15bn - \$45bn per year

Reconstruction: \$20bn - \$80bn

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“The costs of winning the peace may actually turn out to be a greater concern than the one time cost of winning the war

Michael O'Hanlon
Brookings Institution

There may be millions of refugees. If 10% of Iraq's population fled to other countries, it could cost \$1bn - \$2bn per year in humanitarian aid to help them.

A bigger expense could be the reconstruction of post-war Iraq, including physical rebuilding and the training of personnel to run the country.



An ambitious 'Marshall Plan' for the build-up of post-war Iraq could cost the US and its allies up to \$75bn (£45.8bn) for a six-year period, according to estimates by Yale University economics professor William Nordhaus.

Peacekeeping could cost up to \$50bn

A peacekeeping force ranging from 75,000 to 200,000 in Iraq could cost between \$15bn and \$45bn a year alone, according to the Congressional Budget Office.

These estimates are partly based on the costs of a peacekeeper in Bosnia.

A five-year presence by 100,000 troops in Iraq could add \$125bn to the bill.

Budget battle

It is these larger figures which could spell more trouble for the Bush economic plan.

Mr Bush wants additional tax cuts and spending commitments adding up to more than \$1 trillion over the next 10 years, including both tax cuts and a major reform of Medicare, the health care programme for the elderly.

These proposals are already in trouble in Congress, and a prolonged and costly occupation or a boost to oil prices could further undermine support for his plans.

That could force the US to decide between guns and butter after all.