

II. The economic cost of the Afghanistan and Iraq wars

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The rapid increases in military expenditure worldwide over the past decade have taken place in a global political and security environment shaped by the terrorist attacks on the United States of 11 September 2001. In particular, they have been shaped by the policy responses to these attacks chosen by the USA and its allies, under the rubric of the 'global war on terrorism'. The highly militarized US response included, most notably, major wars in Afghanistan and Iraq.¹

The two wars have involved—in addition to their great human costs—substantial and continuing economic costs both to Afghanistan and Iraq themselves and to the countries participating in the invasions and subsequent occupations of these countries. A number of studies have tried to establish the extent of these costs, using a range of estimation methods. This section discusses the issues involved in estimating the costs to Afghanistan and Iraq, and surveys available information on the costs to the USA and a number of allied countries.

There is expanding literature in the fields of conflict and development studies on the economic costs of conflict, which attempts to estimate either the cost of individual conflicts or the total cost of conflict worldwide. Methodologies include accounting approaches that attempt to identify all the potential causes of lost income and wealth, and econometric approaches that use statistical methods to estimate loss of gross domestic product (GDP). Such estimates are always subject to major uncertainties, due to the conceptual difficulties in identifying all the causes of costs, as well as the poor quality of data in many cases from countries in conflict and because all such estimates must be relative to a counterfactual of what would have happened in the absence of conflict. A 2010 study by researchers at the German Institute for Economic Research (DIW Berlin) surveyed much of the existing literature and produced an estimate for the total loss of global GDP resulting from all conflict since 1960. It estimated that, had there been no armed conflict since 1960, global GDP in 2007 would have been 14.3 per cent—or \$9.1 trillion—higher than it was.²

¹ The question of whether the war in Iraq should be considered a 'response' to the attacks is debatable, but it arguably could not have taken place were it not for the subsequent political climate.

² Bozzoli, C., Brück, T. and de Groot, O. J., 'The global economic costs of conflict', Global Economic Costs of Conflict (GECC) Project Paper, DIW Berlin, Mar. 2010, available on request from the GECC project, <http://www.diw.de/en/diw_01.c.338475.en>. Other papers surveying the cost of conflict literature and discussing the methodological issues involved include Sköns, E., 'The costs of armed conflict', *Peace and Security*, Expert Papers Series no. 5 (International Task Force on Global Public Goods: Stockholm, 2005); and Brauer, J. and Dunne, J. P., 'On the cost of violence and the benefits of peace', *Peace Economics, Peace Science and Public Policy*, vol. 16, no. 2 (2011).

The economic costs of a conflict can, conceptually, be divided into three categories. First is the additional resources directly required for a conflict. These include additional military spending by states and human and economic resources used by rebel groups (although the latter is not usually directly measurable). Second is the cumulative loss of national output (GDP) resulting from a conflict. This can be due to many causes, including loss of human capital due to death and disability; disruption of economic activity due to immediate danger from fighting, displacement of people, the laying of mines and other causes; destruction of physical capital and infrastructure; loss of domestic and foreign investment; and loss of revenue from tourism. Many of these effects may continue long after armed conflict ends, due to a continuing legacy of violence and criminality in post-conflict societies, as is the case in Iraq. Third is the cost of reconstruction and rehabilitation: rebuilding physical capital and infrastructure and medical care for victims of conflict. These activities contribute to GDP, but represent resources that could have been devoted to other activities rather than repairing the damage caused by the conflict.

In the cases of Afghanistan and Iraq, few attempts have been made to estimate the costs of the post-September 2001 conflicts. One problem is the lack of available data under the regimes of the Taliban in Afghanistan and Saddam Hussein in Iraq—for example, no military expenditure data is available in either case. Another problem is the choice of counterfactual as Afghanistan was already in conflict before the USA-led war and the Iraqi economy was subject to severe sanctions. One estimate for Iraq, made by Colin Rowat, is that its GDP would have been 40 per cent higher in 2005 were it not for the 2003 invasion.³

In both countries, there are many possible sources of economic cost and their full magnitude would be extremely difficult to estimate. Arguably, these are likely to have been especially high in Iraq, as it started from a higher developmental base. First, there is the loss of human capital due to death and disability. A 2008 study by the Iraq Family Health Survey Study Group estimated that there were 151 000 violent deaths in Iraq over the period March 2003–June 2006 alone.⁴ Second, there is the disruption of economic activity due to displacement. Over 3 million Iraqi people have been displaced since 2003, either as refugees or internally displaced persons (IDPs), and have not returned home.⁵ Third, the war involved

³ Rowat, C., 'Iraqi GDP since 2003: some simple calculations', *International Journal of Contemporary Iraqi Studies*, vol. 1, no. 2 (2003), pp. 233–45.

⁴ Iraq Family Health Survey Study Group, 'Violence-related mortality in Iraq from 2002–2006', *New England Journal of Medicine*, no. 358 (Jan. 2008), pp. 484–93. An earlier study estimated that there had been an additional 655 000 deaths in Iraq during the period Mar. 2003–June 2006. Burnham, G. et al, 'Mortality after the 2003 invasion of Iraq', *The Lancet*, vol. 368, no. 9545 (21 Oct. 2006).

⁵ Office of the UN High Commissioner for Refugees (UNHCR), '2012 UNHCR country operations profile—Iraq', <<http://www.unhcr.org/pages/49e486426.html>>. See also Dewachi, O., 'Insecurity,

major destruction of Iraqi capital and infrastructure. Despite domestic and international reconstruction efforts, the country still experiences disruption to basic services such as electricity. Oil output took several years to return to its pre-war level. Public health, already facing severe difficulties due to sanctions, deteriorated further after the war.⁶ Unemployment levels remain high, estimated at 28 per cent in 2011 by the UN, which indicates continuing disruption to normal economic life.⁷ Overall, Iraq's GDP per capita has increased since 2003, but this is largely due to increased oil prices and masks poor performance in other sectors.⁸

For Afghanistan, no single total estimate for civilian casualties exists, but in early 2012 the UN Assistance Mission in Afghanistan (UNAMA) reported 11 864 deaths since 2007.⁹ In 2011 there were around 500 000 IDPs in Afghanistan. According to the Office of the UN High Commissioner for Refugees (UNHCR), 5.7 million refugees have returned to Afghanistan since 2002, increasing the population by 25 per cent. However, 40 per cent of these have not reintegrated into society.¹⁰ There seems to have been no attempt to estimate the net effect of the conflict on the Afghan economy.

One specific set of costs is that of reconstruction in Afghanistan and Iraq, including of their respective armed forces. These costs have been split between the countries themselves and external actors, especially the USA. According to the US Special Inspector General for Iraq Reconstruction, between 2003 and 2011, \$182 billion was made available for the relief and reconstruction of Iraq, comprising \$62 billion from the USA, \$107 billion of Iraqi funds and \$13 billion from other countries.¹¹ For Afghanistan, international donors provided \$8.1 billion in reconstruction aid between 2008 and 2011, including \$2.6 billion for the security forces.¹²

For the USA and its allies, the costs of war include budgetary costs to the governments involved and broader economic costs to society as a whole. Some official figures and independent estimates for these various cost elements are available for the countries with the largest involvement in Afghanistan: the USA, the UK, Germany, Canada and France (see table 4.4). Apart from the direct costs of military operations, however, the figures are

displacement and public health impacts of the American invasion of Iraq', *Costs of War*, 13 June 2011, <<http://costsofwar.org/article/refugees-and-health>>.

⁶ Dewachi (note 5).

⁷ Yousif, B., 'The economy of Iraq since 2003: an assessment', *Costs of War*, 13 June 2011, <<http://costsofwar.org/article/economy-iraq>>.

⁸ Yousif (note 7).

⁹ UN Assistance Mission in Afghanistan (UNAMA) and UN Office of the High Commissioner for Human Rights (OHCHR), *Afghanistan Annual Report 2011: Protection of Civilians in Armed Conflict* (UNAMA/OHCHR: Kabul, Feb. 2012).

¹⁰ UNHCR, '2012 UNHCR country operations profile—Afghanistan', <<http://www.unhcr.org/pages/49e486eb6.html>>.

¹¹ US Special Inspector General for Iraq Reconstruction (SIGIR), *Quarterly Report to the United States Congress* (SIGIR: Arlington, VA, 30 Oct. 2011), p. 18.

¹² Afghan Ministry of Finance (MOF), *1390 National Budget* (MOF: Kabul, 2011), pp. 17–19.

not directly comparable between countries, as either the figures are not available or they are based on a different definition. For example, the full long-term costs of veteran care and benefits have only been estimated for the USA and Germany.

The budgetary costs include the direct, additional military operational costs of fighting the wars. These are the most frequently quoted figures for the costs of the wars and are available from official sources in most of the countries concerned. In addition, there are direct costs to other government departments, such as to the US Department of State for aid to Afghanistan and Iraq to rebuild their armed forces, and expenditure by foreign governments on civilian reconstruction. These figures are also available from several governments.

The official figures, however, leave out many other costs to the government and society. For some countries, attempts have been made to estimate some elements of these costs. For the USA, the Costs of War website publishes the results of a series of studies by the Brown University Eisenhower Research Project.¹³ For Germany, a paper by researchers at DIW Berlin estimates the total cost of German participation in the Afghanistan War.¹⁴ For Canada, the Rideau Institute has produced a study of the costs of the Afghanistan War in 2008.¹⁵

The additional costs of the wars include a range of items in the short and long terms. First, there may be additional costs to the military itself. The official figures do not include the salaries of soldiers deployed. However, some analysts argue that these should also be counted, at least in cases where the demands of war have led to increases in the size of the armed forces or have prevented decreases. Another potential long-term cost to the military is that of 'resets' (i.e. readjustments) to equipment and force structure following the wars, or for equipment replacement. Both salaries and reset costs are included in the Canadian and German studies. The German study also estimates the future costs of demobilization.

Second, there is the long-term cost of medical treatment and disability benefits for veterans of the wars. In general, there are no official estimates for this cost, but independent estimates have been made for some countries. In particular, Linda Bilmes has estimated the future costs to the US Department of Veterans Affairs resulting from the wars.¹⁶ These figures are

¹³ Costs of War, <<http://www.costsofwar.org>>.

¹⁴ Brück, T., De Groot, O. J. and Schneider, F., 'The economic costs of the German participation in the Afghanistan war', Aug. 2010, *Journal of Peace Research*, vol. 48, no. 6 (Nov. 2011).

¹⁵ Macdonald, D. and Staples, S., 'The cost of the war and the end of peacekeeping: the impact of extending the Afghanistan mission', Rideau Institute, Oct. 2008, <<http://www.rideauinstitute.ca/2008/10/18/>>.

¹⁶ Bilmes, L. J., 'Current and projected future costs of caring for veterans of the Afghanistan and Iraq wars', Costs of War, 13 June 2011, <<http://costsofwar.org/article/caring-us-veterans>>.

Table 4.4. Estimates of the costs of the Afghanistan and Iraq wars to selected participating states

Figures are in US\$ billions.

	USA	UK	Germany	Canada	France
Cost of operations up to 2011 ^a	1 208	42	9.7	9	3.6
Estimated cost of future operations	627	13.2	4.2	0	..
Military and other aid ^b	95	..	2.2	2.6	..
Additional military costs ^c	15.8	8	..
Payments to veterans ^d	589–934	1.6	1.5	1.6	..
Financing costs ^e	1 000	..	10.4–15
Social costs to veterans ^f	295–400	..	1.9	7.6	..

^a These are official figures for sums appropriated or spent on military operations, generally referring only to direct, additional costs from the wars, not e.g. salaries of deployed troops.

^b This is aid for rebuilding the Afghan and Iraqi security forces and for civilian reconstruction. For the USA, figures are up to financial year 2013. For Canada, figures are up to 2011. For Germany, figures are estimated up to 2016.

^c The figure for Germany refers to the salaries of additional troops required by operations, the depreciation of equipment and demobilization.

^d For the USA, these are estimates for lifetime medical care and disability payments for disabled veterans, borne by the US Department of Veterans Affairs. For other countries, they refer only to estimates of direct compensation payments to veterans and, for Germany, also to widows or widowers.

^e These are additional interest payments on national debt due to war spending.

^f These refer to loss of wages and productivity, and medical care not covered directly by the military or the US Department of Veterans Affairs.

Sources: USA: Belasco, A., *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations since 9/11*, Congressional Research Service (CRS) Report for Congress RL33110 (US Congress, CRS: Washington, DC, 29 Mar. 2011); US Government budget for financial year 2013; Bilmes, L. J., 'Current and projected future costs of caring for veterans of the Afghanistan and Iraq wars', *Costs of War*, 13 June 2011, <<http://costsofwar.org/article/caring-us-veterans>>; and Edwards, R., 'Post-9/11 war spending, debt, and the macroeconomy', *Costs of War*, 22 June 2011, <<http://costsofwar.org/article/macroeconomic-impact-military-spending>>. UK: Berman, G., 'The cost of international military operations', *British House of Commons, Standard Note SN/SG/3139*, 26 Sep. 2011, <<http://www.parliament.uk/briefing-papers/SN03139>>; British House of Commons, Defence Committee, *Ministry of Defence Main Estimates 2011–12*, Fifth Report of Session 2010–12 (The Stationery Office: London, 19 July 2011); and Docksey, L., 'Lest we forget the true cost of war: the plight of Britain's war veterans', *Global Research*, 9 Nov. 2011, <<http://www.globalresearch.ca/index.php?context=va&aid=27554>>. Canada: Canadian Government, 'Cost of the Afghanistan mission 2001–2011', *Canada's Engagement in Afghanistan*, 27 June 2011, <http://www.afghanistan.gc.ca/canada-afghanistan/news-nouvelles/2010/2010_07_09.aspx>; and Macdonald, D. and Staples, S., 'The cost of the war and the end of peacekeeping: the impact of extending the Afghanistan mission', *Rideau Institute*, Oct. 2008, <<http://www.rideauinstitute.ca/2008/10/18/>>. Germany: Brück, T., De Groot, O. J. and Schneider, F., 'The economic costs of the German participation in the Afghanistan war', Aug. 2010, *Journal of Peace Research*, vol. 48, no. 6 (Nov. 2011). France: Hébert, J. P., 'Le coup des OPEX Françaises' [The cost of French OPEX], *Arès XXIII-2*, no. 60 (Dec. 2008); and French Senate, Finance Committee, *Rapport Général sur le projet de loi de finances pour 2012*, vol. 3, annex 8, *Défense* [General report on the Finance Bill for 2012, vol. 3, annex 8, defence] (French Senate: Paris, 6 Feb. 2012), pp. 33–38.

uncertain since they depend on future rates of benefits, inflation, the rate of deterioration of disabled veterans and—most uncertain of all—how many more veterans will be disabled in the future. The high projected costs of veterans' care is due to the high proportion of soldiers returning from the wars with mental and physical disabilities, which is partly the result of higher levels of survival from injuries than in previous wars and of higher levels of diagnosis of psychological damage.¹⁷ For other countries, most available estimates relate primarily to direct compensation payments to the more severely wounded soldiers. In European countries, the cost of long-term medical care of veterans will be borne by universal public health care systems, rather than the dedicated veterans' provision in the USA.

Third, there are the additional interest payments on government debt created by war spending. The size of these depends on future interest rates and is thus somewhat uncertain. For the USA, the wars in Afghanistan and Iraq have been unusual compared to previous wars in that they have been financed entirely through borrowing, rather than a mixture of borrowing and additional taxation.¹⁸

The broader economic costs of the wars—borne by individuals and businesses rather than the government—are even harder to assess and are open to dispute. Most obvious is the loss of earnings and productivity due to the death or injury of soldiers in the wars. In 2008 Joseph Stiglitz and Linda Bilmes suggested that there would also be substantial economic costs due to the Iraq War as a result of higher oil prices.¹⁹ However, in 2011 Ryan Edwards found that there was little evidence of anything but a short-term spike in global oil prices as a result of the war. Edwards also found a mixed result for the macroeconomic effect of the wars on overall GDP levels, where a fiscal stimulus effect is counteracted by higher interest rates (due to higher government debt) reducing the funds available for capital investment. Based on this view, the net macroeconomic impact of the wars on the USA may be small.²⁰

¹⁷ Bilmes (note 16), p. 5.

¹⁸ Perlo-Freeman, S. et al., 'Military expenditure', *SIPRI Yearbook 2009*, pp. 184–90.

¹⁹ Stiglitz, J. E. and Bilmes, L. J., *The Three Trillion Dollar War* (W.W. Norton & Company: New York, 2008).

²⁰ Edwards, R., 'Post-9/11 war spending, debt, and the macroeconomy', *Costs of War*, 22 June 2011, <<http://costsofwar.org/article/macro-economic-impact-military-spending>>.