

Economic Scene

The Cost of Invading Iraq: Imponderables Meet Uncertainties

by Alan B. Krueger

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The question of whether it was worth invading Iraq is being asked with increasing frequency and fervency.

A Gallup poll this month found that 60 percent of Americans said they did not think it was worth going to war in Iraq, up from 29 percent at the start of the invasion in March 2003.

Fundamentally, deciding whether war is worth it involves weighing the benefits and costs, both tangible and intangible. The many estimates of the cost of the Iraq war that are available are uninformative absent a comparison with the likely benefits, or a comparison with the costs and benefits of the best alternative to invasion.

Unfortunately, cost-benefit comparisons of such weighty issues are more art than science. One problem is that the counterfactual situation — meaning the outcomes that would have occurred had another policy been pursued — cannot be known for sure. In addition, it is often unclear how to value the outcomes of the policy that is pursued.

One of the earliest cost-benefit comparisons was done by Steven J. Davis, Kevin M. Murphy and Robert H. Topel of the University of Chicago on the eve of the invasion in 2003. They explicitly considered a continued policy of containment — enforcing the no-fly zone and other operations to hem in [Saddam Hussein](#) — as an alternative to invasion and regime change. Assuming that containment and invasion would protect the United States equally well, the question of whether invasion is worth it turns on which policy is less costly, after discounting all likely future costs.

Allowing for a 3 percent chance that the Iraqi regime would evolve into a benign government in any future year and a 2 percent real interest rate, the economists reckoned that the cost of pursuing a containment strategy was \$258 billion to \$380 billion. "This dwarfs any reasonable estimate of U.S. war costs," they wrote at the time. Their anticipated price tag for the war, which they considered conservative, was \$125 billion.

Professors Davis, Murphy and Topel have revised their figures in a new National Bureau of Economic Research working paper, "War in Iraq Versus Containment." Their estimated war costs have increased to a range of \$410 billion to \$630 billion, reflecting reality there.

William D. Nordhaus, an economist at [Yale](#) who warned in 2002 that past war cost forecasts had turned out to be too low, said the updated work is "economics at its best and worst — quantifying the almost-unquantifiable."

In the fog of war accounting, one thing is clear: all costs and benefits can be contested as wildly inaccurate — in either direction.

Consider what the cost of containment would have been had the United States not gone to war. The University of Chicago study now says it is in "the range of \$350 billion to \$700 billion." This range is arguably grossly inflated because it counts virtually all of the American military forces in the Middle East as dedicated to containing Iraq.

While containing Iraq was a central focus, these troops also served many other purposes. They conducted rescue operations in Somalia; performed humanitarian missions in Nigeria, Ethiopia, Eritrea and Jordan; responded to terrorist bombings in Nairobi and Tanzania; and were responsible for military activities in the five Central Asian republics of the former Soviet Union.

Additionally, Iran was considered a greater potential long-term threat than Iraq, according to the official command history. It is hard to believe that the United States would not have a substantial military presence in the region even if Iraq was not regarded as a threat.

Ideally, only incremental costs would be counted in deciding whether something was worth it; that is, the extra costs of resources used to achieve an objective.

Another study of Iraq war costs, by Linda J. Bilmes of [Harvard](#) and Joseph E. Stiglitz of [Columbia](#), comes up with an eye-catching estimate of \$2.2 trillion, assuming the United States is no longer in Iraq in 2015. This is arguably too high for several reasons. First, it counts future interest payments on the debt created by military spending as well as the direct expenditures. (This is analogous to counting both the sale price of a house and the cost of future mortgage payments as the cost of buying the house.)

Second, it counts elevated military recruitment costs that incorporate a premium for higher risk of death or injury because of the war as well as the predicted direct cost of the deaths and injuries; this is double counting if the risk premium is adequate. Finally, it ascribes a big increase in the price of oil to the war, and, as a result, a loss to the American economy of almost half a trillion dollars.

A menu of cost estimates is thus available, depending on the counterfactual situation that one chooses.

"The question of whether the war was worth it hinges not on budget costs or economic costs," said Douglas Holtz-Eakin, who until recently was director of the Congressional Budget Office, "but on what do we gain in the way of genuine security and international standing." The costs, he said, were manageable.

The benefits, however, are much harder to quantify than the costs. To Zbigniew Brzezinski, President [Jimmy Carter's](#) national security adviser, "the benefits have been, in fact, very few, beyond the obvious one: the removal of Saddam Hussein." Offsetting that, he said the war "undermined our international legitimacy," "destroyed our credibility" and "tarnished our morality with Abu Ghraib and Guantánamo."

The Chicago economists argue that anticipated improvements in Iraq's living standard, once the country stabilizes, tip the balance in favor of invasion over containment, which in their view had costs that were "in the same ballpark." They also argue that the number of Iraqi fatalities since the invasion is probably no greater than would have been the case under Mr. Hussein.

But even if one accepts all of their estimates, their results implicitly raise another question: Why intervene in Iraq and not a country like Sudan, where genocide and oppression are at least as much an affront as they were in Iraq, and where the cost of intervention and prospects for improving lives may offer a better benefit-to-cost ratio than is likely in Iraq?

Credible estimation of counterfactual outcomes of alternative policies for cost-benefit comparisons has been a hallmark of modern economics. When it comes to judging whether war is worth it, however, cost-benefit analysis is little more than educated guessing by other means. But at least it provides a framework for where to put the guesses.

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