Effects of Iraq and Afghanistan Wars on U.S. Economy

Even though opinions may differ on whether the wars in Iraq and Afghanistan are justified from moral, political, or environmental viewpoints, the economic impact of the two conflicts is undeniably significant. This fact is hardly surprising: a $2.4-trillion dollar war would impact many economies. The American economy has been suffering from effects of the wars, and there is tremendous concern arising from the huge sums of money spent every month financing the wars. Conflict in Iraq and Afghanistan has also sparked debate on how wartime spending really affects national economic prospects—does it help the economy, in the way that World War II arguably ended the Great Depression? Or does it hurt the economy through wasteful spending, as has been said of the first Gulf War? Here, I assert that financing the wars in Iraq and Afghanistan has negatively impacted the U.S. economy, which can be seen by examining its effects on individual elements of the economy.

One reason the wars in Iraq and Afghanistan have negatively affected the U.S. economy is because of their significant impact on the federal budget. When the wars began, the Bush administration severely underestimated the enormous amount that would be spent toward the war effort. White House economic advisor Lawrence B. Lindsey predicted that “invading Iraq could amount to between $100 billion and $200 billion” (Teslik). It is now known that Lindsey grossly underestimated the cost. In 2002, other government officials, like Mitch Daniels (who then headed the White House budget office), scoffed that Lindsey’s estimate was “too high” (Teslik). The original Bush administration outlook on the Iraq/Afghan conflicts was that they would prove to be short and relatively inexpensive. The Bush administration believed the end results would be a model of democracy in the Middle East and controlled oil prices. Administration officials displayed a “cavalier attitude” toward wartime spending, “as if the dollars involved were minimal” (Stiglitz and Bilmes).

The outcome of this mistaken assessment is a combined expenditure exceeding $2 trillion dollars. Departments of Defense and Homeland Security funding total $696 billion for 23 percent of the 2009 fiscal year budget (Guell, 168). However, the “emergency appropriations” used to finance the wars are not accounted for in this total. The full effects of the wars on the federal budget are unknown because of the procedure by which the government has reported its war related expenditures. Only operating costs per month are reported, which are generally funded through “emergency appropriations.” Operating costs per month for Iraq and Afghanistan are $12.5 billion and $16 billion, respectfully. These funds, however, do not include

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1 This is the scholarship-winning essay of the Enterprise College 2010 essay contest.
the additional $500 billion per year spent by the Department of Defense, or the hidden expenditures on intelligence gathering (Stiglitz and Bilmes). These gigantic expenses have had a negative impact on the federal budget because the money could have been used to solve a wide range of economic problems, such as education, health-care, infrastructure, and job creation. The opportunity costs of funding the wars are just staggering. For example, the Iraq war budget of $138 billion in 2007 would have provided 45 million Americans with Medicaid, hired 30,000 teachers, built 400 schools, or provided weatherization for 1.6 million homes (Pollin and Garret-Peltier). Money that could be used to solve domestic economic problems is being spent on the wars instead. As a result, the American people and economy are hurting.

Conflicts in Iraq and Afghanistan are not only hurting the economy by way of the federal budget deficit, but through decreased household spending as well. “The Joint Economic Committee, which estimated a $3.5-trillion cost through 2017, indicated that the wars would cost the average American family $46,400 [in increased taxes]” (Teslik). Increased taxes to pay for war expenditures inevitably mean households would have less money to spend on other goods and services. According to basic economic principles, an increase in future taxes (to pay current war costs) would cause that Aggregate Demand to fall. As the Aggregate Demand falls, there will be lower prices and reduced output. Therefore, the Iraq/Afghan conflicts exert a negative impact on household spending and economic growth.

Warfare in Iraq and Afghanistan is taking a toll on imported crude oil prices, which has a negative impact on the economy. Crude oil prices have spiked since the beginning of the conflicts. The Bush administration mistakenly assumed that war in Iraq would bring stable, lowered oil prices. “Iraqi oil production currently accounts for 3 percent of global oil production, and thus turmoil in Iraq can have a substantial effect on oil prices. This bears heavily on the U.S. economy” (Teslik). This statement means that the conflicts in Iraq and Afghanistan (along with increased world demand) have actually caused oil prices to rise and made them less stable. “Since governments then have to spend more [because of the wars] on importing oil and on interest payments on outstanding national debt, it has become harder to balance budgets. Higher interest rates also lead to reduced business investment and consumer spending, declines in share prices, and a slowing of the economy” (Salameh 42).

In addition, the spiking oil prices cause inflation, which could become a major problem in the future as oil prices continue to rise. “Before the 2003 invasion [of Iraq], oil cost less than $25 a barrel ... the war changed that equation, and oil prices recently topped $100 a barrel” (Stiglitz and Bilmes). Evidently, the Iraq war is indeed forcing oil prices upward, decreasing the ability and willingness of consumers to spend money on other items, and negatively affecting the American economy as a whole.

Another negative economic impact of the wars is evident in the accumulation of national debt. Conflicts in Iraq and Afghanistan have taken a sizable toll on the national debt. Both wars are financed almost entirely through borrowing, thus accumulating the national debt since the inception of the wars. The Congressional Budget Office has estimated the direct cost of the wars through 2017 to be more than $1 trillion. Combined with an extra $705 billion in interest
payments on this spending, the total cost of the Iraq/Afghan wars together could reach $2.4 trillion (Teslik). Since the wars are being financed primarily though borrowing, the added $2.4 trillion would worsen an already staggeringly $13.5 trillion national debt. This massive national debt increases interest rates on loans as the federal government competes against private-sector borrowers in the financial market. This increase in the demand for credit would enlarge the “crowding-out effect,” where more government borrowing leaves little money for households and businesses to borrow.

The Iraq/Afghan conflicts are “harming U.S. taxpayers by saddling them with an enormous debt burden, since the wars are being financed with deficit spending” (Sterngold). Americans may not necessarily feel this tax burden now, but eventually the government will need to raise taxes to pay off the increasing interest on national debt. U.S. fiscal priorities are being thrown out of balance due to the irresponsible war-related spending on the wars. “The federal fiscal deficit in 2007 was $244 billion. Shutting down the Iraq war and using the fiscal savings to cut the deficit would mean a 57 percent deficit reduction” (Pollin and Garret-Peltier). Obviously, from a purely economic standpoint, it would be in the country’s best interest to bring these conflicts to satisfactory conclusions.

The American economy continues to suffer from financing the “war on terror.” Many aspects of the economy have been negatively affected, including the government budget, household spending, oil prices, and national debt. Left unchecked, the enormous spending on the war effort will create a monstrous national debt that will have to be paid off by future generations. Conflicts in Iraq and Afghanistan are quickly becoming economic disasters that need to be addressed immediately, before more serious damages are done.
Works Cited


