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Iraq War "Caused Slowdown in the US"

By Peter Wilson
The Australian

Thursday 28 February 2008

i
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The Iraq war has cost the US 50-60 times more than the Bush administration predicted and was a crisis threatening the world economy, according to Nobel Prize-winning economist Paul Krugman.

The former World Bank vice-president yesterday said the war had, so far, cost the US something like \$500 billion (or \$500 billion compared with the \$US 50-\$US 60 billion predicted in 2003).

Australia also faced a real bill much greater than the \$2.2 billion in military spending reported last week, Defence Force chief Angus Houston, Professor Stiglitz said, pointing to higher oil prices and other indirect costs.

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Professor Stiglitz told the Chatham House think tank in London that the Bush White House was cut off from the cost of the war at about \$US 500 billion, but that figure massively understated things such as the medical costs for US military servicemen.

The war was now the second-most expensive in US history after World War II and the second-longest, he said.

The spending on Iraq was a hidden cause of the current credit crunch because the US central bank had been financing the massive financial drain of the war by flooding the American economy with cheap credit.

"The regulators were looking the other way and money was being lent to anybody this side of a life support machine," he said.

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That led to a housing bubble and a consumption boom, and the fallout was plunging the US economy into a recession saddling the next US president with the biggest budget deficit in history, he said.

Professor Stiglitz, an academic at the Columbia Business School and a former economic adviser to the Bush administration, said a further \$US 500 billion was going to be spent on the fighting in the next two years and that could be effectively to improve the security and quality of life of Americans and the rest of the world.

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The money being spent on the war each week would be enough to wipe out illiteracy around the world.

Just a few days' funding would be enough to provide health insurance for US children who were not insured.

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The public had been encouraged by the White House to ignore the costs of the war because of the fear that it would somehow pay for itself or be paid for by Iraqi oil or US allies.

"When the Bush administration went to war in Iraq it obviously didn't focus very much on the cost," said the economic adviser, said the cost was going to be between \$US 100 billion and \$US 200 billion - and for his quasi-honesty he was fired.

"(Then defence secretary Donald) Rumsfeld responded and said 'baloney', and the number the administration gave was \$US 50 to \$US 60 billion. We have calculated that the cost was more like \$US 3 trillion.

"Three trillion is a very conservative number, the true costs are likely to be much larger than that."

Five years after the war, the US was still spending about \$US 50 billion every three months on direct military costs.

Professor Stiglitz and another Clinton administration economist, Linda Bilmes, have produced a book titled "The Dollar War", pulling together their research on the true cost of the war, which does not include the cost of lives.

One of the greatest discrepancies is that the official figures do not include the long-term healthcare costs for injured servicemen, who are surviving previously fatal attacks because of improved body armour.

"The ratio of injuries to fatalities in a normal war is 2:1. In this war they admitted to 7:1 but a true ratio is 15:1."

Some 100,000 servicemen have been diagnosed with serious psychological problems and the soldiers who have not yet returned.

Professor Stiglitz attributed to the Iraq war \$5-\$10 of the almost \$80-a-barrel increase in the price of oil, adding that it would have been reasonable to attribute more than \$35 of that rise to the war.

He said the British bill for its role in the war was about 20 times the pound sterling. 1 billion (\$2.1 billion) which the British minister Tony Blair estimated before the war.

The British Government was yesterday ordered to release details of its planning for the war, when the Information Commissioner backed a Freedom of Information request for the minutes of two cabinet meetings in the run-up to the war.

Commissioner Richard Thomas said that because of the importance of the decision to go to war, the public interest in disclosing the minutes outweighed the public interest in withholding the information.

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