

PREFACE, INTRODUCTION, and CHAPTER ONE of

The Real Price of War:

How You Pay for the War on Terror

By Joshua S. Goldstein

New York University Press, 2004

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PREFACE

Although it focuses on the American economy in wartime, this is not an economics book. As a political scientist and interdisciplinary scholar of war, I see the economy as just one of various arenas in which the effects of war play out. In this book, I trace the costs and economic effects of the War on Terror, broadly defined. I sketch the big picture of war funding--the dollars that come from your pocket and ultimately pay for war-related needs. Then I show how the economic stresses of war play out far beyond government budgets, with the conclusion that being at war exacts a high economic cost--higher the longer the war goes on. Finally, I question whether we are spending enough on the War on Terror to have a reasonable chance to end it

quickly, which means that future costs will be higher and harder to meet. The book's three parts reflect three layers of war costs: first, the money we spend through our government; second, the private and indirect costs to our economy; and third, the additional costs we may need to pay in the coming years.

My aim is both to inform and to provoke debate. I hope to raise questions, to draw attention to underdiscussed issues, and to help roll back denial about the War on Terror and its costs. I doubt anyone will agree with all of this book, but I hope everyone finds some part of it thought-provoking.

I find fault with the administration and Congress during the first two years of the War on Terror for both conservative and liberal reasons. Liberal readers may welcome my criticisms of President Bush and my demonstration of how the high costs of being at war fall on Americans. But those readers may find less comfortable my argument that by spending even more on the War on Terror we could *win* the war sooner, avoiding a decades-long fight and perhaps saving our cities from destruction. President Bush has not adequately funded the war in all its dimensions--because war funding competes directly with tax cuts--nor has he mobilized and united the country for the effort. If we are to defeat global terrorism, I argue, we need to muster more resources on each of three fronts: the military, homeland security, and foreign aid/diplomacy. Ending the war--and what end can there be but winning?--would create conditions for a more stable and peaceful world order in which our economy could prosper again. I'm not *sure* that victory over all terrorist groups of global reach is possible, but it *might* be possible, and if so I'm pretty sure it will need more money. Our best strategy, in my view, is to spend what it takes now to get the job done. It won't be cheaper in future years. And the way to raise that money, clearly, is to increase wealthy Americans' taxes, among other less important

revenue sources.

The numbers in the book are rounded off and presented on the scale of a household's monthly expenditures rather than in the billions of dollars discussed in national policy debates. This helps create an understandable big picture of war's place in the federal government and the overall economy, although at the cost of economic precision.

In summarizing the federal government's finances, I put off to one side the retirement system, in which payroll taxes fund Social Security, Medicare, and the federal retirement system. This makes my analysis of the deficit more alarming than the official "unified" budget--alarming enough on its own--which counts \$200 billion a year in retirement surpluses as though they were reductions in current deficits.

In creating a mosaic of life in wartime America, I relied heavily on journalists' accounts in local newspapers across the country--accessible to all of us these days via Google News on the Internet. Where I have omitted page numbers it is generally because the story appeared on the publication's Web site without a page number. I draw especially on the *New York Times* as the nation's "newspaper of record" and the voice of New York City, which is the central front in the war at home.

A Web site about the book--www.realpriceofwar.com--includes further information and a discussion forum.

--Joshua S. Goldstein

Amherst, Massachusetts, February 2004

INTRODUCTION

The first ambulance that arrived at Overlake Hospital Medical Center in Bellevue, Washington, carried a young woman named Vivian Chamberlain, screaming in pain and bleeding from her punctured eardrums. When handheld radiation detectors went wild, she was stripped of her outer clothing, brushed down by four workers in protective suits, and hosed off with cold hydrant water. More ambulances followed, as waves of similar casualties hit Seattle-area hospitals. This was only a test, part of a simulation in 2003 to improve America's ability to respond to a terrorist "dirty bomb" or a biological weapon. But, as the volunteer-victim Chamberlain told the *Seattle Times*, "it was real-life scary."¹

Also real-life scary were the economic realities at the company where Chamberlain worked, Boeing. The War on Terror has cost Boeing, its workers, and its business partners dearly. The company laid off thousands of workers in 2003, pushing Boeing job losses since 9/11 above thirty-five thousand. Boeing's CEO Phil Condit called it "the worst downturn since airplanes existed." As an economist for the state Department of Employment Security put it, "Everybody knows somebody who's been laid off from Boeing."² With people traveling less since the 9/11 terrorist attacks, airlines going bankrupt, and a fleet of jets sitting idle in the California desert, there was little hope of a quick turnaround in Boeing's fortunes. The troubles of Boeing, long a mainstay of the Seattle economy and the aerospace industry, reverberated widely.

The economic costs of this war are not incidental. Terrorists are targeting our economy and trying to make the war as expensive as possible. This is a war of attrition designed to

weaken America. Listen to Osama bin Laden, in a videotape three months after 9/11: America may not be beatable militarily, he said--Al Qaeda had just lost its last major Afghan sanctuary in Tora Bora--but “there is another way through hitting the economic structure. . . . It is very important to concentrate on hitting the U.S. economy through all possible means.”³ Al Qaeda and similar groups could inflict serious economic harm just by keeping the war going year after year, because it is both expensive and disruptive of economic life.

As Vivian Chamberlain returned to work at Boeing, the terror drill over for her, thousands of desperately ill patients flooded into hospitals in Chicago and were quickly diagnosed with pneumonic plague from a terrorist biological weapon. In the suburb of Skokie, triage tents were set up outside Rush North Shore Medical Center, just one of 157 hospitals responding. The hospital’s trauma coordinator, Barbara Croak, said, “We’re in full code triage, full disaster mode.”⁴ It was another phase of the exercise, of course. The majority of victims were just faxed in to local hospitals rather than showing up in person. In a real attack, they would need rides in the ambulances of the Skokie Fire Department, which would also provide paramedic and rescue services, hazardous materials response, and disaster management. But “first responders” like the Skokie Fire Department and similar agencies across the Chicago area depend on local funding, which has been tight. As the hospitals filled with fax-victims in 2003, the drug company Pfizer was closing up shop in Skokie for good, taking with it fifteen hundred Chicago-area jobs and \$5 million a year in property taxes that Pfizer used to pay. Those property taxes used to help fund, among other things, the Skokie Fire Department.

America’s challenges on two fronts--war and the economy--are intimately linked, just as Seattle and Chicago residents practice for civil defense while looking over their shoulders

nervously at layoffs and service cuts. Job losses in Seattle and Chicago reflected a broader malaise that settled across the American economy during the first two years of the War on Terror. The uncertainties of wartime deepened the economic slowdown of 2001 to early 2003. The worst job market in a generation--two million jobs lost in two years--accompanied a succession of corporate bankruptcies, from Enron to WorldCom to United Airlines. The dollar dropped in value. World oil prices, a key economic variable, whipped up and down with the shifting risks related to war and terror--an instability that undercut growth. Spiraling federal deficits also reduced confidence, and budget shortfalls forced cutbacks in safety-net programs. The increased military spending and the costs of homeland security have piled hundreds of billions of dollars onto the federal deficit. The war did not create the economic downswing in 2001-3, which began officially in the first quarter of 2001 after the dotcom collapse. But the war added to it.

Economic growth roared back in late 2003, heading into election year (that's how politicians plan it), but two huge problems remained. First, the rapidly escalating U.S. budget deficits--partly the result of war spending, partly of historically unprecedented wartime tax cuts, among other factors--could weaken the economy (by lowering the dollar's value and raising interest rates and prices). Second, another terrorist attack on U.S. soil could disrupt economic life in ways yet unknown. Historically, in wartime, people consume less and businesses hold off on investment because of risks and anxieties. Future terrorist attacks could create a chronic anxiety that would unsettle the economy, the equivalent of a low-grade fever. Worse still, our enemies seek nuclear weapons to destroy our cities. The economic effects of such future terrorist attacks could be catastrophic. Meanwhile, international trade--an engine of prosperity in the 1990s--would suffer if America closed its borders in a prolonged period of danger.

Letting the War on Terror drag on for decades would be the most costly option. Yet that's just where we seem to be heading. In its early years, the war consumed enough money to drive up the federal deficit to breathtaking heights, yet--as I show in the later chapters of this book--not enough money to really get the job done on any of several "fronts." I conclude that our best chance for peace and prosperity requires more economic sacrifices in the short term as we pursue the war in all its aspects with greater vigor. Because of his commitment to tax cuts, President George W. Bush shortchanged the war effort, especially its nonmilitary components, and failed to mobilize the country behind it.

These truths should be self-evident: The nation is at war. The war is expensive. Someone has to pay for it. The sooner we honestly assess the costs and divide them fairly among ourselves, the sooner we can mobilize the country's full resources for the war. The price is not beyond reach; it will take a smaller fraction of the national economy than past wars have claimed. We will have to dig deep in our pockets, but in the end we can afford the price of this war. What we cannot afford is to stay in denial about the real price of war. You may disagree with the policies and methods by which the Bush administration has fought this war, such as its Iraq campaign, but we must fight the overall war. We are not going to solve the problem on the cheap, and we cannot afford to count on getting lucky.

In this war, not to win is to lose. The Bush administration compiled, in the first two years after 9/11, a perfect record of zero attacks against the U.S. homeland. The trouble is, there's zero--meaning the danger is gone, we have removed the threat--and then there's zero meaning it hasn't happened yet. We cannot be content with the second kind of zero. Even if we reduced the odds of a nuclear attack by chasing after terrorists, disrupting their finances, arresting some

leaders, and breaking up some cells, those odds might not be good enough. Imagine, for instance, that we reduced the chances of a catastrophic attack on any given day to one-hundredth of 1 percent. If rain had odds like that, you wouldn't take an umbrella. But those odds would look less appealing if the war drags on without end. The chance of a catastrophic attack within thirty years would be 80 percent. Nuclear terrorism is not like rain, something we learn to live with; nuclear terrorism is like rain to the Wicked Witch of the West, something that can melt us.

Preventing the destruction of our cities must be the central purpose of the War on Terror and, indeed, of the nation itself. In this sense, President Bush's rhetoric about the nature of the war is not too expansive. He thinks of the War on Terror as a unified effort that will continue for years and span many "fronts" and countries. Afghanistan and Iraq were just "battles," to use Bush's term. Worldwide in scope, open-ended in time, the War on Terror is at once a desperate struggle to save American cities from destruction and an ambitious mission extending to "every dark corner of the earth" (again Bush's phrase, in 2003).⁵ Bush may be wrong about the mix of military and nonmilitary means, about how and why he fights military campaigns, and about having God on his side in fighting "evil," but the war itself matters as much as he says it does. This expansive view of the scope of the war cannot, however, coexist with a long-duration war that lasts for generations. Rather, we must end the war in years, not decades.

Ending the war means winning the war. Given the nature of Al Qaeda and related groups, the only end for the war is to put out of business all such terrorist organizations of global reach. Is this a big job? Yes. Is it impossible? No. Few terrorists have global reach, and few of those have the resources and popular base of Al Qaeda and its network of affiliated groups worldwide. The Iraq war aside, the hunt for terrorists has the support of virtually all the world's

governments and the legitimacy of UN backing. The United States, most powerful country in the history of the world, the country that won World War II in less than four years, can defeat Al Qaeda and its affiliates.

As I discuss toward the end of the book, I think this effort will require much more than military means. In some ways, we need to remake the world and America's place in it. So when I speak of the "war," I do not mean only, or even primarily, military campaigns.

How to win the War on Terror is not the subject of this book. How to pay for it is. Both questions are politically contentious, but they are not the same question. Whatever disagreements about strategy Americans may have, any successful strategy will be expensive. The problem of paying for the war will be with us in the coming years, no matter who occupies the Oval Office. The president in 2005 will have on his plate an unfinished job in Afghanistan, ongoing attacks in Iraq, vast backlogged needs in homeland security, a tide of anti-Americanism worldwide, and U.S. conflicts with major allies who must help us if we are to defeat terrorism. None of it will be cheap to solve.

Raising needed resources for the War on Terror is politically problematic because it is a distributional issue on which the interests of Americans diverge. Seemingly, nobody wants to pay more than their share, and the politics of government spending dictate that an undue burden will fall on those either too weak to protect their interests or patriotic enough to shoulder a heavy load voluntarily. For instance, the National Guard and reservists discussed at the end of Chapter 7 sacrifice by risking harm and being separated from their families, but they also take huge financial losses in going from civilian to military pay for extended periods. Congress could more

equitably distribute the burden of war by making up these pay reductions and passing on the bill to all of us in the form of slightly higher taxes. Or it could force companies to make up their reservist employees' lost pay, as a few companies such as IBM already do. But raising taxes and loading regulations on companies are politically unpopular proposals, especially for Republicans.

The political difficulties around paying for the War on Terror in its first few years left the fight against terrorism with inadequate resources on all its fronts--from distant regime change, to homeland security, to the battle for worldwide public opinion. Given the high price of war, the high price of failure, and the political difficulties of getting Americans to pay more taxes, one can understand why politicians would rather not face up. But denial is no substitute for policy.

The Real Price of War makes three central arguments. First, the war is more expensive than you thought, especially if you include hidden, indirect, and future costs. Second, we have little choice but to pay the price, and probably a rising price, in the coming years. Third, President Bush and the Congress have not been honest with the public about the real price of this war, which competes with tax cuts and other political priorities, so we still need a debate about how we split the bill for war. Liberal readers will need to consider the possibility that the war deserves even more money and attention than President Bush has given it; conservative readers will need to consider the possibility that we need to raise taxes to pay for the war.

Part I

GOVERNMENT SPENDING

War . . . has but one thing certain,
and that is to increase taxes.

--Thomas Paine, 1787

Chapter 1

WHAT DOES WAR COST?

Imagine the costs of war as a series of boxes nested inside each other (Box 1).

Box 1: Nested costs of war.

Iraq (liberation, occupation, reconstruction)

+ Afghanistan

CIA and other counterterrorism

Homeland security

Future wars?

= The War on Terror

+ “Peacetime” military forces, salaries, facilities

Training, equipment, supplies

Veterans’ benefits

Interest on past war debts

= U.S. Government War-Related Spending

+ Destruction of capital in war zones (e.g., New York)

Additional costs to business and local government in wartime

Effects of rising national debt

Compounding of budget shortfalls

War-induced inflation

= The Real Price of War

The innermost box is U.S. costs in Iraq, which received growing public attention in 2003 as postwar security and reconstruction costs mounted. But Iraq is just, as President Bush says, a “battle.” It is contained in a much larger box, the War on Terror, which also contains military operations in Afghanistan, worldwide counterterrorism efforts, CIA covert actions, homeland security, and possibly future wars in places like Syria, Iran, or North Korea. In turn, the War on Terror is nested in a much larger box that I call “U.S. government war-related spending.” In addition to the War on Terror, this war-related spending includes “peacetime” military forces--baseline costs to maintain standing military forces--as well as veterans’ benefits and the interest on past war debts.

The even larger box within which the government’s war-related spending is nested I call

the “real price of war.” It includes--in addition to the government’s war-related spending--the disruption and destruction caused by wartime, the growing national debt, indirect impacts on state and local governments, and inflation, the ultimate war tax throughout history. I turn to these indirect costs in Part 2 of the book.

The first chapters, however, focus on the government’s war-related spending. Among the many ways in which war and the economy affect each other, the most important is simply that being at war costs a lot of money--money that ultimately must come from the pocketbooks of Americans. War expenditures go far beyond the costs of fighting in particular places, such as Iraq. We have to pay for both active fighting and the broader maintenance of standing military forces. War is not an event that comes and goes but an ongoing process that ebbs and flows over the years. “Wartime” is a more active, and more expensive, phase of that process.

The Parking Meter in Your Living Room

To see what the U.S. government’s war-related spending costs your household, let’s install a parking meter in your living room. Put a quarter in the meter and you get twenty minutes of security against foreign threats to our country; six quarters gets you two hours. Keep feeding the meter around the clock, 24/7, year-round. That’s what war spending costs the average U.S. household.

The quarters that go into the parking meter probably will not bankrupt your household. And military spending does not dominate the economy either. But it’s not trivial. The quarters add up to about \$500 per month. That puts military spending up there with the big monthly bills-

-less than the mortgage, more than the phone bill. If you saved this amount every month for eighteen years, you could send your kid to a good private college.

We can compute the bill for *your* household rather than the *average* U.S. household. The \$500-a-month bill is for a household income on the order of \$50,000 to \$100,000 (depending on household size and circumstances). If your household income is somewhat above \$100,000, you pay double the average (and more for still higher incomes), so your household bill for war-related spending is \$1,000 a month or more. If your income is just below \$50,000, you pay about half (and less still for lower incomes), so your household bill is \$250 a month or less. Obviously, individual cases vary, but these are the magnitudes of money the government raises for war. (About half comes from income taxes, and most of the rest is borrowed.)

Thinking about Large Numbers

I express money in terms of costs per average household because of the problem of scale in thinking about military spending and other costs of war. We are not used to thinking about very large numbers--millions, billions, trillions. Johnny Carson made fun of the late astronomer Carl Sagan, describing the number of stars in the universe as “billions and billions,” but the actual number is on the order of magnitude of ten *trillion* billions. It is hard to get our minds around numbers on these large scales. And so it is with military budgets and budget deficits, each of which total hundreds of billions of dollars a year. If you are an American citizen who understands where these vast sums come from and go to, you are the exception.

To help translate the blur of large-scale budgets into the language of everyday life, take a

\$10 bill out of your wallet. That \$10 bill is to your household what \$1 billion is to the whole country. (There are about one hundred million households in the country; \$10 for each household makes \$1 billion.) So, for example, when Congress approved a nearly \$80 billion supplemental appropriation in March 2003 to pay for the war in Iraq and related costs, your household's share of that was eighty \$10 bills, or \$800. And your share of the next such appropriation in October 2003, \$87 billion, was about \$870 more. (Again, if your household income is somewhat above \$100,000, pay double; if slightly below \$50,000, pay half.)

As the economist John Maynard Keynes said, it is better to be “vaguely right than precisely wrong.”¹ To get the big picture of war and the economy, we need to think in orders of magnitude--powers of ten--and be only “vaguely right” about the specific numbers. Throughout this book I round off numbers to try to make the big picture understandable.

Where the Money Goes

Using the \$10 bill trick, you can see that the \$500 a month the average household pays for external security is fifty \$10 bills, which translates to \$50 billion a month for the whole country. That's \$600 billion per year. This is an approximation, and in fact there is no exact total because it depends on definitions and judgments. But the overview is in Box 2.² The regular defense budget itself, since a sharp post-9/11 increase, stands at \$400 billion a year, or more than \$300 a month per household. Of this, 95 percent is for the Department of Defense, with 5 percent for the nuclear weapons responsibilities of the Department of Energy. “The Pentagon,” then, is the main claim on your household's contributions to the national defense.

Box 2: The bill for war-related spending per average household monthly.

Amount due for war-related services rendered this month.

Your contract plan includes the following services:

Defense Department	\$300 per month
Energy Department for nuclear weapons	15
Homeland Security	25
Other agencies	10
Veterans Affairs	50
Servicing Past Military Debt	40
Iraq War	60
Total	\$500

Note: Half of this total has been deducted from your paycheck this month. Currently your plan calls for borrowing most of the rest through the National Debt Credit Card Company. Please let us know if you wish to change plans in the future.

Pentagon expenses are themselves multilayered. Specific campaigns such as Iraq and Afghanistan--and potentially others--come and go side by side with an ongoing, worldwide effort to destroy Al Qaeda and other nonstate terrorist groups. All these and other military operations are overlaid on the routine maintenance of the world's preeminent military forces--costs like

salaries, training, and weapons procurement. These “peacetime” costs are a necessary price of admission--our forces must be trained, weapons developed, and bases maintained--before military operations can occur. New types of spending in the post-9/11 wartime period add on more costs.

But the Pentagon is only two-thirds of the government’s military-related spending. For one thing, the costs of homeland security outside the Defense Department add to the costs of wartime since 9/11. They come to more than \$30 billion annually--\$25 a month per household. Of that, more than two-thirds goes to the new Department of Homeland Security, with the rest spread throughout the federal government, especially the Departments of Health and Human Services, Justice, and Energy. Furthermore, various government agencies also perform national security functions that are not included in the Pentagon or Homeland Security Department budgets. For instance, the CIA plays a key role in the War on Terror and is not part of the Pentagon budget. And NASA provides infrastructure used extensively by military satellites. These agencies’ contributions to national security cost on the order of \$10 a month per household.

The salaries of the soldiers fighting our wars are included in the Pentagon budget. But veterans’ benefits are not. Those benefits supplement the fairly low salaries of soldiers and are an inducement for enlistment in the all-volunteer military. They are a cost of war, even though payment is delayed. So add them to the tab: \$50 per month per household.

Now comes money we are paying out currently as interest on past military debts. We have sharply increased the national debt to fund military spending on various historical

occasions, most recently during the Reagan-era military buildup of the 1980s, in the last decade of the Cold War. We are doing it again, spectacularly, in the current war. It is hard to estimate how much of the accumulated debt is due to military spending. (Borrowed money goes into a big pot with other government funds and is spent for a range of government activities.) Antiwar organizations give various estimates, finding from one hundred billion to several hundred billion dollars a year in interest payments to be due to earlier military spending.³ To be conservative about this controversial item, let's put it at half of the low end of this range: \$50 billion per year. That works out for the average household to \$40 per month. It is a number that will increase dramatically in the next few years of ballooning federal deficits.

Finally, the war in Iraq was not included in the regular budget just discussed. Congress appropriated nearly \$80 billion extra, mostly for Iraq-related operations, in the last half of the 2003 fiscal year, and \$87 billion more for fiscal year 2004. (The government's fiscal year starts in October of the previous year.) In mid-2003, the Pentagon estimated that ongoing postwar operations in Iraq, narrowly defined, were costing \$5 billion per month--nearly \$50 per household. But with attacks on U.S. forces in Iraq increasing in late 2003, this number appeared likely to grow. The \$87 billion supplemental appropriation for fiscal 2004, which included some non-Iraq expenses, came to nearly \$70 per household per month. So we can take \$60 per month per household as a pretty good approximation of the ongoing costs of U.S. activities in Iraq. Whether you think invading Iraq was a necessary part of the War on Terror or a mistake, we are there now and can't quickly cut these costs.

That's how your household's \$500 monthly bill for government war-related spending adds up. Now you'd better take that billion-dollar \$10 bill out of your wallet again, to feed

tonight's parking meter. Park yourself on the couch, and don't get too far from the meter. It will need another billion-dollar bill in about fourteen hours.

Costs of Terrorist Attacks

A new kind of cost in this war is the damage to U.S. lives and property from terrorist attacks. The government will pay at least some of these costs. The damage to property and the economic losses from deaths and injuries in the 9/11 attack are hard to estimate in dollar terms. Most estimates range from tens of billions of dollars to more than \$100 billion all told, depending on assumptions and methods.

The U.S. government has gotten into some trouble trying to estimate the value of lives lost on 9/11. It started with what seemed like a simple political idea, passed into law by Congress--that families of 9/11 victims would be compensated financially by the government. This would spread some of the burden of that trauma across all taxpayers instead of it being borne solely by bereaved families of those unlucky enough--or in some cases heroic enough--to have died in the attacks that day. But the hastily passed legislation specified not just a payment for each victim but payments designed to compensate for families' financial losses from a death. The fund's administrator, Kenneth Feinberg, had to develop complex formulas to determine what each person's earning power was and the number of years left in their working life, then deduct life insurance benefits and so forth. It turned out that rich families got much higher payments--multimillion-dollar payments in quite a few cases--than did poor families. "If somebody is earning \$1 million a year," Feinberg asks, and the formulas dictate a payment of \$10 million, "should the taxpayer and this program subsidize a \$10 million lifestyle and a \$10

million tax-free award? Should 15 percent of the people get 85 percent of the money? That isn't what Congress intended. If Congress had thought this through for more than a few hours, I don't believe that's what they would have said."⁴

An additional problem was that some families of victims of earlier Al Qaeda attacks-- notably the bombing of the U.S. embassies in Kenya and Tanzania and the USS *Cole*--as well as victims of the Oklahoma City bombing, felt that the government seemed to downgrade the value of their loved ones' lives by compensating only the 9/11 victims while leaving them on their own.

There were also some hard feelings among spouses of soldiers killed in Iraq and Afghanistan, who received a \$6,000 "death gratuity" plus about \$1,000 to \$1,500 a month until remarriage, and usually life insurance payments. Kelly Gibbons, whose husband died in Afghanistan early in 2003, told *Newsweek* she completely sympathized with 9/11 victims' families, but "these people who never even thought to put their lives on the line for anybody else are getting millions of dollars." Gibbons's own survivor benefits, \$1,422 a month, barely covered the mortgage.⁵ In mid-2003, Congress passed legislation to increase a range of military benefits, and to extend others where they were scheduled to expire. These include doubling the death gratuity to \$12,000 retroactively, extending "hostile fire/imminent danger" pay and family separation allowances, and making more pay and benefits tax-free. But society still doesn't compensate financially for soldiers' sacrifices.

The 9/11 victim compensation fund illustrates both the high economic costs incurred by the deaths of Americans and the rarity of anyone compensating those costs. Usually they are

borne primarily by the survivors, the children, the companies where people had worked, and the communities where they lived. The deaths of Americans in the course of this war—at home and abroad, civilian and military—are economic costs, although of course much more than that. The economic costs generally are not counted, not charged to the government, and not included in what you pay for war at the parking meter in your living room. In the rare case, 9/11, in which government has tried to estimate and compensate for the economic losses, they turned out to be quite large indeed.

Future Attacks

An additional cost of this war--though impossible to measure ahead of time--is the damage that would be inflicted by future terrorist attacks on the United States. U.S. government policy is based on the assumption that future attacks probably will occur despite efforts being made to prevent them. Costs would depend on the type of attack. The effects of weapons of mass destruction would be far more expensive than, say, shooting down an airplane or bombing a resort. In the worst case, this war could see the destruction of one or more U.S. cities by nuclear bombs.

Insurance premiums reflect the best thinking by experts about the risks and costs of future events. Businesses facing possible losses from future terrorist attacks have turned to insurance companies for protection. But after 9/11, when direct losses were estimated around \$40 billion, insurance companies withdrew coverage for terrorist attacks. The companies that provided any terrorism insurance in 2002 did so at very high premiums. This put potential target cities, especially New York, at a disadvantage in terms of businesses locating there, as Senator

Charles Schumer explained: “Many in New York can’t get terrorism insurance and those who can have been put at an extreme disadvantage because it’s so expensive. This has basically hurt New York and other cities more than other places.” In late 2002, Congress stepped in to guarantee insurance against terrorist attacks. The new law requires all commercial insurers to offer terrorism coverage and, after a few years of phase-in, to pay up to 15 percent of their premiums toward damages. The government will pay 90 percent of damages above \$15 billion, up to \$100 billion a year for the first three years.⁶ So the bottom line is that future terrorist attacks will ultimately be added to your bill for government war-related spending.

Negative Economics

The entire cost-benefit analysis of the War on Terror, and of war in general, rests on a negative kind of economics. The “benefits” consist of a reduction in losses. We incur the costs of military forces and operations in order to reduce the losses from terrorist attacks or other external threats. The situation resembles the choice you face if an armed robber demands your wallet. Giving up the wallet to save your life is clearly preferable. But if there is no check on armed robbers, eventually you will be accosted by them daily. So you will either buy weapons to defend yourself, or pay taxes to support a police force to protect you, or both. Either could be a worthwhile expenditure, if used well to prevent even higher costs, but they are still costs. And the same is true of a national defense budget. Losing a wallet or a city, paying for a gun or an army, training police or testing homeland security capabilities, all incur costs without generating wealth. There are exceptions, but this is the rule: war is an economic negative.

To recap, about \$500 per month is what the government spends, per household, on war-

related budgets, including veterans' benefits and homeland security expenses. About a third of this is the increase since 9/11. It will not bankrupt us, but it is a substantial cost. The next three chapters consider where this money comes from.

Notes to Introduction

1. Christine Clarridge and Warren King, "Emergency Drill Called 'Real-Life Scary,'" *Seattle Times*, May 13, 2003. Philip Shenon, "Terrorism Drills Showed Lack of Preparedness, Report Says," *New York Times*, December 19, 2003.

2. *Seattle Post-Intelligencer* Staff and News Services, "Boeing Layoffs May Be Ending: Condit Says 'Not Many' More Are Planned," *Seattle Post-Intelligencer*, May 29, 2003. Bryan Corliss, "Stuck in Neutral," *Everett Daily Herald*, May 5, 2003.

3. Daniel Benjamin and Steven Simon, *The Age of Sacred Terror* (New York: Random House, 2002), p. 156.

4. Kathy Routliffe, "Local Hospitals Cope with 'Plague on Paper,'" *Lincolnwood Review* [Ill.], May 15, 2003.

5. Office of the Press Secretary, the White House, "President Delivers Commencement Address at Coast Guard," transcript, May 21, 2003.

Notes to Chapter 1

1. William D. Nordhaus, "Iraq: The Economic Consequences of the War," *New York Review of Books*, December 5, 2002.

2. Author's rounded estimates based on data from the U.S. federal budget, U.S. Census Bureau, Center for Defense Information, and Center for Strategic and Budgetary Assessments.

3. Friends Committee on National Legislation, War Resisters' League, Center for Defense Information.

4. U.S. Department of Justice (<http://usdoj.gov/victimcompensation>), "Explanation of Process for Computing Presumed Economic Loss," rev. August 27, 2002. Lisa Belkin, "Just Money," *New York Times Magazine*, December 8, 2002, pp. 92-150.

5. Daniel McGinn with Suzanne Smalley, "Now Families Face the Cost of War," *Newsweek*, April 21, 2003, p. 11.

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