https://www.wsj.com/articles/SB1032128134218066355

Bush Economic Aide Says the Cost Of Iraq War May Top $100 Billion

By Bob DavisStaff Reporter of The Wall Street Journal

Sept. 16, 2002 5:48 pm ET

WASHINGTON -- President Bush's chief economic adviser estimates that the U.S. may have to spend between $100 billion and $200 billion to wage a war in Iraq, but doubts that the hostilities would push the nation into recession or a sustained period of inflation.

Lawrence Lindsey, head of the White House's National Economic Council, projected the "upper bound" of war costs at between 1% and 2% of U.S. gross domestic product. With the U.S. GDP at about $10 trillion per year, that translates into a one-time cost of $100 billion to $200 billion. That is considerably higher than a preliminary, private Pentagon estimate of about $50 billion.

In an interview in his White House office, Mr. Lindsey dismissed the economic consequences of such spending, saying it wouldn't have an appreciable effect on interest rates or add much to the federal debt, which is already about $3.6 trillion. "One year" of additional spending? he said. "That's nothing."

At the same time, he doubted that the additional spending would give the economy much of a lift. "Government spending tends not to be that stimulative," he said. "Building weapons and expending them isn't the basis of sustained economic growth."

Administration officials have been unwilling to talk about the specific costs of a war, preferring to discuss the removal of Mr. Hussein in foreign-policy or even moral terms. Discussing the economics of the war could make it seem as if the U.S. were going to war over oil. That could sap support domestically and abroad, especially in the Mideast where critics suspect the U.S. of wanting to seize Arab oil fields.

Mr. Lindsey, who didn't provide a detailed analysis of the costs, drew an analogy between the potential war expenditures with an investment in the removal of a threat to the economy. "It's hard for me to see how we have sustained economic growth in a world where terrorists with weapons of mass destruction are running around," he said. If you weigh the cost of the war against the removal of a "huge drag on global economic growth for a foreseeable time in the future, there's no comparison."

Other administration economists say that their main fear is that an Iraq war could lead to a sustained spike in prices. The past four recessions have been preceded by the price of oil jumping to higher than $30 a barrel, according to BCA Research.com in Montreal. But the White House believes that removing Iraqi oil from production during a war -- which would likely lead to a short-term rise in prices -- would be insufficient to tip the economy into recession. What is worrisome, economists say, is if the war widens and another large Middle East supplier stops selling to the U.S., either because of an Iraqi attack or out of solidarity with Saddam Hussein's regime.

Mr. Lindsey said that Mr. Hussein's ouster could actually ease the oil problem by increasing supplies. Iraqi production has been constrained somewhat because of its limited investment and political factors. "When there is a regime change in Iraq, you could add three million to five million barrels of production to world supply" each day, Mr. Lindsey estimated. "The successful prosecution of the war would be good for the economy."

Currently, Iraq produces 1.7 million barrels of oil daily, according to OPEC figures. Before the Gulf War, Iraq produced around 3.5 million barrels a day.

Mr. Lindsey's cost estimate is higher than the $50 billion number offered privately by the Pentagon in its conversations with Congress. The difference shows the pitfalls of predicting the cost of a military conflict when nobody is sure how difficult or long it will be. Whatever the bottom line, the war's costs would be significant enough to make it harder for the Bush administration to climb out of the budget-deficit hole it faces because of the economic slowdown and expense of the war on terrorism.

Mr. Lindsey didn't spell out the specifics of the spending and didn't make clear whether he was including in his estimate the cost of rebuilding Iraq or installing a new regime. His estimate is roughly in line with the $58 billion cost of the Gulf War, which equaled about 1% of GDP in 1991. During that war, U.S. allies paid $48 billion of the cost, says William Hoagland, chief Republican staffer of the Senate Budget Committee.

This time it is far from clear how much of the cost -- if any -- America's allies would be willing to bear. Most European allies, apart from Britain, have been trying to dissuade Mr. Bush from launching an attack, at least without a United Nations resolution of approval. But if the U.S. decides to invade, it may be able to get the allies to pick up some of the tab if only to help their companies cash in on the bounty from a post-Saddam Iraq.

Toppling Mr. Hussein could be more expensive than the Persian Gulf War if the U.S. has to keep a large number of troops in the country to stabilize it once Mr. Hussein is removed from power. Despite the Bush administration's aversion to nation-building, Gen. Tommy Franks, commander of U.S. troops in the Middle East and Central Asia, recently said that the U.S. troops in Afghanistan likely would remain for years to come. The same is almost certain to be true in Iraq. Keeping the peace among Iraq's fractious ethnic groups almost certainly will require a long-term commitment of U.S. troops.

During the Gulf War, the U.S. fielded 500,000 troops. A far smaller force is anticipated in a new attack on Iraq. But the GOP's Mr. Hoagland said the costs could be higher because of the expense of a new generation of smart missiles and bombs. In addition, the nature of the assault this time is expected to be different. During the Gulf War, U.S. troops bombed from above and sent tank-led troops in for a lightning sweep through the Iraqi desert. A new Iraq war could involve prolonged fighting in Baghdad and other Iraqi cities -- even including house-to-house combat.

The Gulf War started with the Iraqi invasion of Kuwait in August 1990, which prompted a brief recession. The U.S. started bombing Iraq on Jan. 16, 1991, and called a halt to the ground offensive at the end of February.

With Iraq's invasion, oil prices spiked and consumer confidence in the U.S. plunged. But Mr. Lindsey said the chance of that happening again is "small." U.S. diplomats have been trying to get assurances from Saudi Arabia, Russia and other oil-producing states that they would make up for any lost Iraqi oil production. In addition, Mr. Lindsey said that the pumping equipment at the nation's Strategic Petroleum Reserve has been improved so oil is easier to tap, if necessary. Both the Bush and Clinton administrations, he said, wanted to "make sure you can pump oil out quickly."

On Thursday, Federal Reserve Chairman Alan Greenspan said he doubted a war would lead to recession because of the reduced dependence of the U.S. economy on oil. "I don't think that ... the effect of oil as it stands at this particular stage, is large enough to impact the economy unless the hostilities are prolonged," Mr. Greenspan told the House Budget Committee. "If we go through a time frame such as the Gulf War, it is unlikely to have a significant impact on us."

The U.S. economy also has become less dependent on oil than it was in 1990, said Mark Zandi, chief economist at Economy.com, an economic consulting group in West Chester, Pa. A larger percentage of economic activity comes from services, as compared with energy-intensive manufacturers, he said. Many of those manufacturers also use more energy-efficient machinery.

-- David Rogers contributed to this article.

Write to Bob Davis at bob.davis@wsj.com