

The Iraq money pit

The war in Iraq is costing the U.S. \$12 billion a month, and no one can say when the spending will stop. What has all that money bought for the U.S.—and the Iraqis?

How much has the war cost so far?

About \$600 billion since 2003, and the total is rising fast. Because of soaring fuel costs and the high price of repairing or replacing damaged equipment, the U.S. is spending about \$12 billion a month this year, up from \$4 billion a month in 2003. About \$1.5 billion of the monthly total covers reconstruction, and perhaps an additional \$4.5 billion flows to private contractors doing everything from serving food to guarding diplomats. The remainder covers fuel, ammunition, and equipment, as well as the cost of paying, feeding, housing, and providing medical care to more than 150,000 U.S. military personnel. The \$600 billion figure does not include such costly consequences as higher oil prices, the interest on the billions borrowed to pay for the war (see box), and the burden of long-term care and benefits for Iraq war veterans.

So what's a more realistic figure?

Anywhere from \$1 trillion to \$5 trillion. The nonpartisan Congressional Budget Office recently said that the war's cost would amount to \$1.2 trillion to \$1.7 trillion by 2017.

Harvard researcher Linda Bilmes and Nobel Prize-winning economist Joseph Stiglitz, in their book *The \$3 Trillion War*, say that the war's long-term cost will range from \$2 trillion to \$5 trillion. Iraq is already the second most expensive war in U.S. history. Only World War II cost more, about \$5 trillion, adjusted for inflation. As a point of perspective, consider what the \$600 billion we've spent already could have purchased, says Bilmes. "The money spent on the war could have fixed Social Security for 75 years or provided health insurance to all American children," she says.

Has the money been well spent?

In many cases, no. Audits and oversight groups have found that tens of billions have been squandered in waste, fraud, and corruption.

Contractors hired to rebuild the country's infrastructure or provide security have overcharged the U.S. for everything from soft drinks—\$45 a can—to gasoline. Millions of dollars in no-bid reconstruction contracts were diverted to things such as Super Bowl tickets, prostitutes, watches, and jewelry. And much of the reconstruction work has been substandard. The U.S., for example, paid \$72 million to Parsons, a U.S. contractor, to build a police academy in Baghdad. But the building was so badly put together that raw sewage seeps from its walls and ceilings. "This became the lens through which Iraqis now see America—incompetence, profiteering, arrogance," said House Democrat Henry Waxman of California, a vocal critic of the war.

Are the Iraqis chipping in for reconstruction?

Barely, and that's a sore point with Congress. With oil nearing \$120 a barrel,



Rebuilding in a war zone is expensive.

the Iraqi government is looking at a \$70 billion windfall in oil revenues this year—twice what it expected when it drew up its \$48 billion budget for 2008. But instead of financing the reconstruction of Iraq's decrepit electrical grid, sewer systems, roads, and public buildings, most of the money is going unspent. "The Iraqis have translated their oil revenues into budget surpluses rather than effective services," said Missouri Democratic Rep. Ike Skelton. Congress has cut off further funds for reconstruction and is looking into ways to prod the Iraqi government into shouldering more of the load.

Why is reconstruction going so slowly?

In part because it's hard to work in a combat zone, where unguarded workers can be killed by snipers and bombs. The largest share of any reconstruction contract in Iraq goes to security. But corruption plays a large role, too. The former head of Iraq's anti-corruption commission recently told Congress that at least \$18 billion of Iraq's own funds has been lost to corruption, with much of the money

ending up in the hands of Shiite militias and Sunni insurgent groups. That total doesn't include the losses from oil smuggling and theft. When the U.S. renovated Iraq's oil pipelines, it failed to install meters to monitor the flow of oil. So no one can say how much oil has been siphoned off illegally.

Is life at least better for the Iraqi people?

By some measures, unquestionably. Recent polls show that 45 percent of Iraqis expect conditions to improve over the next 12 months, up from 29 percent in 2007. Unlike in the Saddam Hussein era, when political opponents were killed or tortured and only state-sponsored media were permitted, Iraq now has 268 privately owned newspapers and 54 commercial TV stations.

Thanks to the surge of 28,000 additional U.S. forces and peacekeeping deals with "Sunni awakening" groups, war-related deaths among Iraqi civilians have dropped to fewer than 600 a month, compared to almost 1,800 a month in 2006. But more than 60,000 Iraqis have died in the sectarian violence thus far, and many portions of the country remain dangerous. In Baghdad, electricity is available less than 12 hours a day, and many areas have no running water or sewer systems. Unemployment stands at around 33 percent, and inflation is soaring. About 2 million Iraqis have fled Iraq, mostly to Syria and Jordan, and many vow not to go back. Meanwhile, the political impasse between the government and Sunnis and insurgent Shiite groups keeps the country stuck in a primitive, largely dysfunctional state. Americans "are the best in destroying things," said 26-year-old Zaid Saleem, who mans a stall in a Baghdad market. "But they are the worst in rebuilding."

The credit card war

The Iraq war, says economist Joseph Stiglitz, is "the first U.S. war financed entirely on credit." When the war started, the Bush administration said it would cost no more than \$60 billion. But the U.S. budget was already in deficit, so the administration had to borrow money to finance the invasion. About 40 percent of the money was borrowed from China and other international investors—the first time since the Revolutionary War that foreigners financed a U.S. war. At the same time, the administration and Congress lowered taxes instead of raising them, as is customary in wartime. The Federal Reserve kept interest rates low, which encouraged middle-class Americans to go on a consumption binge financed by credit cards and home equity loans. Today, say Stiglitz and other economists, the bills for the country's spending spree are starting to come due, in the form of higher prices, a weakened dollar, and lower living standards. "There's no such thing as a free war," Stiglitz said. "The U.S.—and the world—will be paying the price for decades to come."