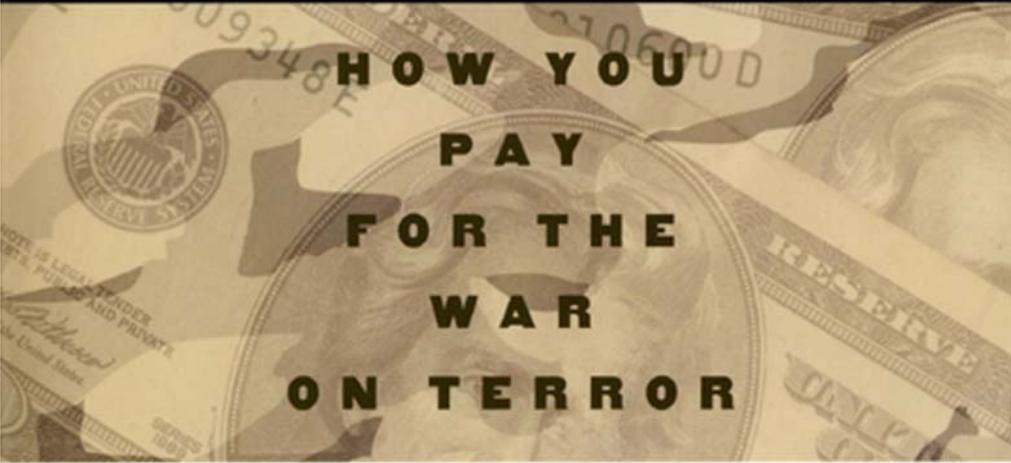




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HOW YOU
PAY
FOR THE
WAR
ON TERROR

THE REAL
PRICE OF
WAR

JOSHUA S. GOLDSTEIN

The Real Price of War



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THE REAL PRICE OF WAR

How You Pay for the War on Terror

Joshua S. Goldstein



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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.