

The Economics of the UK-Iraq Conflict

Keith Hartley

Centre for Defence Economics
University of York

Introduction: the role of economics

Economists are not usually associated with debates about wars. Such debates are usually dominated by moral, ethical, political, legal and military-strategic issues. However, economists can make an important contribution by stressing the costs of wars and conflict. Wars can be costly: they require scarce resources which have alternative uses (eg. for hospitals; schools; care for the elderly; roads). World War II was a classic example of the magnitude of the resources involved. The UK, for example, devoted a substantial part of its GDP to fighting the war over the period 1939-45 and further resources were required for the post-1945 reconstruction and recovery.

The UK conflict with Iraq illustrates both the magnitude and uncertainty associated with estimating the costs of war. It also highlights how little information on the costs of conflict has been provided by the Government to UK voters and taxpayers. Cost information is also needed to reach a decision about whether the conflict can be regarded as 'worthwhile.' Critics might regard such an approach to assessing wars and conflict as deeply offensive and immoral. Nonetheless, it has to be recognised that all aspects of human behaviour involve choices under uncertainty, where choices can be viewed as an assessment of likely costs and benefits of actions by individuals, groups and society.

An economic framework for assessing conflict

Once the preserve of political scientists, the study of wars and conflict has now attracted the interest of economists. Conflict involves strategic interactions between adversaries so providing opportunities for applying game theory with conflicts viewed as games of bluff, chicken and tit for tat (eg threats; deterrence; retaliation; mutually assured destruction). More recently, economists have analysed terrorism. Using choice models, they have shown that government policies which make some methods of terrorist attack more costly will lead terrorists to search for cheaper alternatives. For example, making skyjacking more difficult and hence costlier might lead to more terrorist assassination or bombing attacks.

Cost-benefit analysis provides a starting point for the economic assessment of conflict. From a UK perspective, a conflict involves direct military costs as well as any costs imposed on its civilian economy. Such costs will be short and long-term, depending on the duration of the conflict and of the post-conflict situation. They will also be characterised by uncertainty, depending on the outcome of the war and of the post-war commitments. The UK conflict with Iraq illustrates these uncertainties. The military conflict was probably ended sooner than originally expected; but the post-war recovery looks like being much costlier than anticipated and there is further uncertainty as to whether there will be increased or reduced future terrorist threats.

Costs are only part of any economic evaluation of UK involvement in the conflict with Iraq. Government has to make judgements about the likely benefits to the UK and the valuation to be placed on such benefits. For example, it might be argued that a successful military conflict leading to the destruction of Iraq's weapons of mass destruction and a 'desirable' regime change will lead to peace and stability in the Middle East and the world and that such benefits to the UK citizens will extend over a number of years. Alternatively, the estimated costs to the UK of the conflict provide an indication of the minimum valuation which must be placed on the likely benefits to the UK. For example, if it is expected to cost the UK, say, £3 billion, then the UK Government must value the benefits from the war at £3 billion or more to make it a 'worthwhile' action (cf. an investment decision which compares costs and returns).

It needs to be recognised that this cost-benefit framework can be applied as both a planning and evaluation technique. As a planning technique, all the cost and benefit calculations are estimates made prior to the conflict and these estimates provide the basis for choices and decision-making (ie. whether or not to go to war). A post-conflict evaluation will assess the outcome and compare actual realised costs with benefits achieved. This planning-evaluation distinction is important and one which has been lost in much of the post-conflict criticism. Hindsight has been used to assess actual costs and benefits as incurred; but prior to the conflict, decision-making was made under uncertainty with only limited information and knowledge to inform policy choices (based on judgement).

There is a further aspect of the cost-benefit framework which needs to be recognised. The initial focus is on the costs and benefits to the UK. There are also similar costs and benefits to be assessed by the UK's allies and by Iraq. For Iraq, the likely costs include deaths and injury to its armed forces and civilian population and destruction of its physical capital (eg. buildings; bridges; communications; power supplies).

What do we know about the costs of the conflict?

For the UK, the answer is very little. In October 2002, I estimated that if a UK-Iraq conflict resembled the 1991 Gulf War, its military costs to the UK might be in the region of £3.5 billion. In fact, cash contributions from other governments accounted for over 80% of the UK's military costs of the 1991 Gulf War. In November 2002, the Chancellor announced a £1 billion special reserve for overseas and defence needs in the UK's fight against global terrorism. In March 2003, the Chancellor increased this figure to £3 billion for the military campaign and the need for immediate humanitarian assistance to Iraq. The conflict started on 20 March, 2003 and no breakdown was provided of the distribution of the £3 billion budget between the military campaign and humanitarian assistance (MoD, 2003, p37). These military costs are quite correctly additional costs, excluding costs that would have been incurred in the annual defence budget (eg. salary costs of Service personnel). However, there is no mention of the human capital costs in the form of deaths, injuries and disability for UK Service personnel.

The latest official estimates suggest that the costs of equipping and deploying UK forces to the Gulf *up to the point of starting the conflict* will be some £700 million. After this point, the official position is that *"The costs of the actual conflict are more difficult to quantify since these will have to take account of the large quantity of equipment and stores deployed to..."* and from the Gulf as well as battlefield losses and damage to equipment and the costs of force recuperation (MoD, 2003, p37). The UK allocated £30 million for immediate humanitarian aid but the Ministry of Defence maintains that *"It is...to early to estimate post-conflict costs at this stage"* (MoD, 2003, p37).

In the absence of any official UK estimate of the post-conflict occupation costs, it is possible to offer some broad orders of magnitude for these costs. In July 2003, there were about 11,000 UK Service personnel in Iraq and the Gulf region. In September 2003, a further force of over 1,000 personnel was deployed to Iraq and there have been estimates of an eventual UK commitment totalling some 15,000 Service personnel. Such a commitment would be similar to that for Northern Ireland during the peak of the 'troubles' and this can be used to estimate the possible military costs of UK occupation forces in Iraq.

In 2002, there were 7,100 Service personnel in Northern Ireland at an annual cost of £526 million. The UK's military fixed assets in Northern Ireland were valued at £805 million (eg. land, buildings, fighting equipment). On this basis, a UK occupation force of some 15,000 Service personnel in Iraq will cost over £1 billion per annum and these will be

continuing costs determined by the size and duration of the occupation compared with the 'one-off' costs of the conflict. There is a further long-term aspect of a substantial and continuing UK Army presence in Iraq, namely the impact on manpower 'over-stretch' reflected in difficulties of recruitment and retention. The Army can probably cope with a substantial short-term Iraq deployment; but a sizeable continuing commitment might require a long-term increase in the size of the UK Army with an associated increase in the defence budget (at a further cost of social welfare spending).

The lack of UK cost data is in complete contrast to the position in the USA. The US administration has published details of its spending on Iraq in the form of two budgets. The first budget for the period March 2003 to September 2003 totalled \$79 billion, comprising \$30 billion for the military build-up, \$13 billion for the conflict and \$7 billion for reconstruction. The second budget for October 2003 to October 2004 allocated \$75 billion for Iraq (plus \$12 billion for Afghanistan) comprising \$51 billion for the US military in Iraq and \$15 billion for the reconstruction of Iraqi infrastructure. Monthly costs to keep a US military force of 140,000 soldiers in Iraq are estimated at \$4 billion and a long-term occupation force of 67,000 to 106,000 US military personnel would cost \$14 billion to \$19 billion a year (CBO, 2003).

Was there a better way: an economic alternative?

Can economists suggest an alternative solution to the Iraq conflict? Prior to the conflict, there was an economically attractive option. This would have involved paying Saddam to go and would have been a more attractive version of the Colin Powell/Jack Straw demand that he should leave the country (the bribery solution). To illustrate this proposal, let it be assumed that before the conflict, the USA was prepared to spend, say, \$100 billion on the war. Instead, it could have used this sum differently for a peaceful and economically attractive solution.

The \$100 billion could have been used as follows: pay, say, \$20 billion for Saddam and his family to leave Iraq (a compensation payment for his loss of power, including finding alternative exile accommodation); next offer the people of Iraq, say, \$50 billion for economic and social development (eg. for spending on schools, hospitals, infrastructure). This would leave the US better-off by \$30 billion. The war would have been avoided; no one would have died; everyone would be better-off and no one would be worse-off (the economists criterion for a socially-desirable change or improvement). In addition, the UK would have saved on its war costs.

Conclusion

Critics of this alternative economic solution will object that it is immoral to reward dictators; that dictators will remain fearful for their lives so will not accept a bribe to go; and that it sets unacceptable precedents. On the morality issue, the alternative is a conflict with all its moral aspects. Concerns of a threat to a dictator from assassination as he leaves his nation so that he cannot benefit from the bribe, can be met through appropriate UN guarantees of safe passage and agreement to deposit the bribe in the name of the wider family and friends. The unacceptable precedents point can be met by asking whether war is more acceptable than bribery and economic development and each case would be considered on its merits. War always remains an option but preferably one of last resort. Bribery, compensation and cash payments to the Iraqi people would have been an economically attractive alternative to the conflict.

References

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