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High cost of war will have telling effect on economy

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THE talk in the cocktail corridor is that the US has agreed to give Turkey US\$30 billion (RM114 billion) in cash and loans.

Upon hearing this, French President Jacques Chirac said France would, for US\$30 billion, also give full support to the US in its attack on Iraq.

He said: "We have no quarrels with Iraq but these days US\$30 billion is a lot of money."

Iraqi President Saddam Hussein was quick to respond: "For US\$30 billion, I will personally attack Iraq myself."

The present Iraqi war has brought into sharp focus the game of "money politics" on the international stage.

Politicians in Malaysia are very familiar with the "money politics". But Bush has taken it to a higher level in a more "transparent" way, and in accordance to the rules of "corporate governance".

While money politics is played behind the scenes in Malaysia and difficult to detect, Bush conducts his negotiations in the open.

Understandably, the American people, especially the urban poor, must be very critical of Bush for wanting to give billions of dollars of their money to buy support for a war that the majority of the Americans do not want.

This does not include the billions of dollars being sought for the war to get going, and the billions of dollars for post-war Iraq, reconstructing what had been destroyed in the war.

To a level-headed person, these billions being spent makes no sense. The money also does not include the billions of dollars already spent in the Afghan war last year to get rid of one man - Osama bin Laden.

In essence the US is doing in Iraq now what it did in Afghanistan - try to get rid of one man. In Afghanistan, the man was Osama, in Iraq, the target is Saddam.

Of course, the neo-conservatives at the US policy decision making level would also be thinking of getting rid of other individuals - the Ayatollah in Iran and Kim in North Korea.

The calls for "regime change", "fighting against terrorism", "bringing democracy back to the axis of evil countries", or "destroying weapons of mass destruction" are mere smokescreens.

On another plane, Bush and his war team are also practising cronyism in business - something the Americans had all along condemned the Asians, especially Malaysia, for practising it.

Last week, a report criticised the US Army for granting an oil well fire fighting contract to a subsidiary of Haliburton Company, a company that was once run by US Vice-President Dick Cheney.

The contract, to extinguish oil well fires in Iraq, had "no time limit and no dollar limit".

This and, presumably, other contracts were awarded even before the war had ended, raising the suspicions that by the time the war is over most American companies would have received "handout contracts".

Meanwhile, how astronomical is the Iraq war bill? No one really knows at this stage. But from figures released, one can get a fairly good idea.

Bush is asking Congress to approve US\$74.7 billion for the war and many are saying that this amount could just be the first of many "instalments".

Indeed, the Pentagon had originally sought US\$95 billion as the first instalment, but the administration sliced that to US\$32.5 billion. Now it

is seeking US\$74.5 billion.

This US\$74.7 billion request is reportedly based on the assumption that the war would last no more than one month.

Today the war is already a week and half old, and there are no clear signs that it would end soon.

In fact, Bush is using US\$63 billion of the US\$74.7 billion for replenishing armed supplies and flying extra troops, reported to number 120,000, suggesting that the war would be longer than expected. Even Bush issued a warning when he visited US Central Command in Florida two weeks ago that the Iraq war could be "a potentially long conflict". And last week, US commanders in the field and Pentagon officials in Washington were talking of a "longer, harder war than had been expected".

US Defence Secretary Donald Rumsfeld said last week, "We're still, needless to say, much closer to the beginning than the end."

If the war lasts more than a month, than the cost of the war and rebuilding Iraq would escalate.

One conservative estimate has put the figure at twice the US\$95 billion that the Pentagon had earlier planned to seek.

Earlier, a study by William Nordhaus (Yale University economist) had projected for the American Academy of Arts and Sciences a bill of between US\$99 billion and more than US\$1.9 trillion over 10 years.

Direct military spending could range from US\$60 billion for a short war to US\$140 billion for a long war.

Occupation and peacekeeping costs range from US\$75 billion for short stay to US\$500 billion for over-staying.

Reconstruction costs are put at US\$30 billion to US\$50 billion, and humanitarian aid from US\$1 billion to US\$10 billion.

The figure of US\$1.9 trillion would be closer to Nordhaus' estimates of the World War II bill of US\$2.896 trillion (in 2002 dollars), which was the most expensive war in world history.

It is generally believed the final cost of the Iraqi war would not be what had been requested from Congress. History is littered with examples of wars that the US undertook where there had been "cost over-runs".

The final bill for the Vietnam War was US\$111 billion - 90 per cent higher than what the Pentagon had estimated.

The Civil War cost the North 13 times more than what the Abraham Lincoln's administration had estimated.

As the Singapore Straits Times commented last week, "A billion here, a billion there, and soon it will add up to big money."

The US\$74.7 billion will now bring the overall US Budget deficit for fiscal year (the financial year of the US Government begins in October) to about US\$400 billion, from the original estimate of US\$300-plus billion announced earlier this year.

The newspaper added that in just two years, Bush had managed to "transform a structural surplus as far as the eye could see into a structural deficit as far as the eye can see".

Former President Bill Clinton had during his term managed to turn the Budget into a surplus.

The figures for the cost of war being bandied about boggle the mind. To the ordinary man in the street, it is excusable if he fails to grasp the number of zero digits in a billion or a trillion.

The Christian Science Monitor provided a simple, clearer understanding of the figures:

"One Tomahawk cruise missile (those fired from the aircraft carriers) costs US\$1 million.

"One aircraft carrier costs US\$3 million a day to be deployed. One "ready-to-eat" meal for soldiers on the field costs US\$6.77. One bomber

plane run costs US\$10,000 to US\$15,000."

The immediate concern, not just to the US but also to most other nations, is how will the US finance the war in Iraq?

In the previous Iraqi war, Germany, Japan, Saudi Arabia and Kuwait paid about 89 per cent of the estimated total of US\$61 billion, leaving the US to pay only US\$7 billion.

And as one report said, by some accounting methods, the US could even end up with a tidy profit.

But in the present war, the US is going at it only with Britain, and that the US has difficulties rounding up even its former and closest allies for financial help.

Even more alarming is the effect of the high costs of war on the US economy, which all nations look to as an economic locomotive engine that pulls all the other economies along.

Without the war, the US economy is already sputtering, with consumer spending and business investments at an all-time low, and government Budget deficit and bankruptcies at an all-time high.

With the war, the US economy is affected by two most important factors - the rising price of oil, which last week had climbed back to US\$30 a barrel, and the disruption in oil supplies, which could put the US in a fix as its oil stocks are running low. According to Nordhaus, a prolonged disruption of oil supplies could cost the US US\$778 billion. But if the US were to control Iraqi oil, the huge reserves could last the US a century, saving up to US\$40 billion.

Even Federal Reserve chairman Alan Greenspan was more "cautious than optimistic" when he kept interest rates in the US unchanged at the last meeting.

He blamed the Iraq factor as being the "biggest barrier" to greater optimism among consumers and businesses.

Indeed, Asian countries, including Malaysia, have accepted that a prolonged war would curtail the region's growth.

Prime Minister Datuk Seri Dr Mahathir Mohamad had warned last month that Malaysians should prepare for the worst if the war were to be prolonged.

GK Goh Securities economist Song Seng Wun said "I suppose we would have to be worried as the US household sector may not hold up the US economy and Asian exports depend on US consumers".

And as the American Army Times newspaper quoted an American soldier last week as describing the fighting in one of the heaviest battles as so intense that "it looks like Apocalypse Now".

("Apocalypse Now" is a blockbuster movie based on Joseph Conrad's novel "The Heart of Darkness" set in the Vietnam war where a young American captain is given the assignment to hunt down and kill one of his own, a colonel, who has apparently gone insane.)

Hopefully, the US economy, and the world economy, would not be faced with an Apocalypse.

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