



4-2003

The Economic Effects of a War with Iraq

George Coontz '04

Illinois Wesleyan University

Follow this and additional works at: <https://digitalcommons.iwu.edu/parkplace>

Recommended Citation

Coontz '04, George (2003) "The Economic Effects of a War with Iraq," *The Park Place Economist*: Vol. 11

Available at: <https://digitalcommons.iwu.edu/parkplace/vol11/iss1/7>

This News and Commentary is protected by copyright and/or related rights. It has been brought to you by Digital Commons @ IWU with permission from the rights-holder(s). You are free to use this material in any way that is permitted by the copyright and related rights legislation that applies to your use. For other uses you need to obtain permission from the rights-holder(s) directly, unless additional rights are indicated by a Creative Commons license in the record and/ or on the work itself. This material has been accepted for inclusion by faculty at Illinois Wesleyan University. For more information, please contact digitalcommons@iwu.edu.

©Copyright is owned by the author of this document.

The Economic Effects of a War with Iraq

The Economic Effects of a War with Iraq

George Coontz

This war / conflict or whatever it may be called is under heated debate by critics and proponents all around the world. Most people are arguing that it is not just to invade because there is no apparent authority to do so. We as economists have a different take on the issue, we assess the issue using purely economic terms and reasoning. I have my own opinion of the war, but I will try to be as unbiased as possible and present both sides of the arguments so you can make your own judgment.

First of all, a major concern is oil. People all over the world are stating that oil prices will rise during a war. This is true. As we have seen over the last few month's oil prices are at some of their all time highs. As a nation prepares to go to war, prices will slowly creep up and consumers will not see huge increases at the pump as the war commences. The closer we get to war, the bigger the jumps will be, most will be caused by worries that a war will not be avoided. If a war were to begin, oil prices would remain high during the war and reduce the conflict and reduce drastically at its conclusion. For example, in the Gulf War, prices went up during the conflict but moved downward after its end. Even since we don't import much oil from Iraq, still there would be a world shock on supply causing these factors. Everything is up for debate on the oil concern, but I think we all can agree that oil prices will go up in the short run and lower in the long run.

With economics, we have to look at the overall effect of the economy. For the United States, the economic effect would be minimal. The White House predicts the cost of war to be one percent of GDP for the year. This is a low cost compared to WWII which was around 120 percent of GDP, and Viet Nam which was around 12 percent of GDP per year. That cost would have to be made up by the government somehow. This would have to come from lower spending somewhere else or an increased revenue source. That would be the direct cost to the government. Another factor you have to consider during war time with an increased defense budget, jobs are created, in par-

ticular in defense industries. Granted, these jobs are not a long term shock, it is a short term plus for the job seekers and unemployed. Since people would be employed, they would have income to spend as well as be able to pay taxes. With an increase in people spending and paying taxes, the government will get more revenue. An indirect cost would be the effect war would have on consumers. Consumer confidence is relatively low right now keeping people from buying luxury goods. The effect of war on the stock market has already taken form. The markets continually adjust to world events. As we get closer to war, the markets predict and adjust to world events. That means that if we were to go to war today, the market would be affected but not as much as a surprise event because of the compensation daily. It is obvious a short war would affect us less than a long

drawn out war and the plans presented show that the United States will have a short war. In the long run, a war of this little cost will not affect the deficit in huge ways like WWII or Viet Nam.

“We as economists have a different take on the issue, we assess the issue using purely economic terms and reasoning.”

A subject few people are addressing is what will be the effect on the country of Iraq as well as the region's economies. A war would cost Iraq as well. They by no means have the comparable technology like the United States. Iraq's economy would be hurt because they as well would have loss of wages from workers that would go to fight. But if you think of the big picture, if a war would happen, the Iraq economy would be totally gone. From my observation, a war would totally mean a new government for Iraq. This would have to be set up from scratch with all the hardships of a new government and economic system. It is hard for me to predict what will happen in Iraq because I am unfamiliar with their economic system as a whole. What I can assume though is that their economy will be hurt far greater than ours.

As a good economist would argue, economies are not all just money. There are social economic issues at the forefront of this possible war. With a conflict, there will be refugees that will flee the country. They will have to travel somewhere at a cost to

that country. That is a social cost to society of the war country as well as the country where people are fleeing. Another social cost would be aid to countries affected by war. This aid would have to come from a large country like the United States or organizations such as the United Nations. In either case, money would have to come from the United States which would have a cost to US citizens. This is a social cost because it has to be done in order to get the country back on its feet after a devastating war. Social costs can not be ignored when figuring the cost of war and its impact on the economies of participating nations.

I barely touched the surface of the economic situation that war brings about. I hope I have left you

with a greater understanding of what has to be looked at before war is decided upon as an option. War affects everyone in some way or another, how it affects them is determined by their standing in society (i.e. their job level (management or labor)) and your ability to buy goods. The short term effects of a war are up for grabs but most likely, price levels will raise. In the long run, the economy will work itself back to equilibrium. The long run costs of this war, if short, will not be great. The economy is already at a slow point and it seems to me that it has good potential no matter what happens just as long as it happens before too long. War is not a good thing, but uncertainty is much worse, and that is all we have now.

The Uncertainties and Other Costs of a War with Iraq

Matthew D. Melick, et al

While I can agree with Mr. Coontz on the points that he raises (oil prices will go up during war times and decrease once the United States, or a U.S. friendly regime, has control of Iraqi oil; a short war would be relatively inexpensive to the U.S. and much more costly to Iraq; and, there are some social costs), he does not mention many other costs that the United States will most likely face as a result of an Iraqi war. There are also numerous uncertainties that come with any war, not to mention one that has a protracted objective like regime change. These costs and uncertainties will not only affect the United States but the entire international community. Most importantly though is the fact that going to war should never be decided solely on economic grounds, human life is always the most important consideration.

The United States is currently facing a situation that could alienate it from its closest allies if diplomacy is not handled with the utmost care. By going ahead with a war against Iraq, against the will of the majority of the international community, especially France and Germany, the United States is taking a large risk. While the United States is certainly a hegemonic power and therefore other countries are forced to bow to its authority, going against the United Nations may cause great political and thus economic instability. In terms of trade relations this could be a

signal to other countries that the United States does not feel the need to respect international treaties and pacts if they do not coincide with the "American Agenda," creating much uncertainty. While this unilateral (or bilateral really, with British support) move may not pose any direct economic costs, other than the fact that the cost will fall only on these two countries instead of a coalition of nations, it is a possibility that it could affect economic relations in the future.

"Even as economists we must occasionally come to the realization that not everything in life should be dictated by the strict laws of supply and demand or economic costs and benefits"

It is important to remember that war is always an uncertain endeavor; therefore, there is no guarantee on the timeframe of the operation. Just as the present administration believes that

this will be a short operation, the Kennedy/Johnson administration thought Vietnam would be a quick operation as well and almost a decade, and too many lives, later they were proven wrong. While I hope that the present operation will have very few similarities to the Vietnam conflict the point is clear that war is always uncertain and therefore it is fruitless to give it a price tag until after the objective has been accomplished.

Another uncertainty that faces the world is will a post-Saddam Iraq prosper economically. While no one will argue the fact that Saddam Hussein is a horrible despot, he does rule Iraq with a stable hand. In a post-Saddam Iraq there will sure be great uncer-