Financial Times
January 24, 2013
Pg. 11

There Will Be No Peace Dividend After Afghanistan

By Joseph Stiglitz and Linda Bilmes

Nearly 12 years after the US-led invasion of Afghanistan began, a war-weary America is getting ready to leave. But there will be little in the way of a peace dividend for the US economy once the fighting stops.

The direct costs of the war are already $700bn. The original mission was to root out al-Qaeda and the Taliban. But in 2003, the US shifted nearly all of its attention and resources to Iraq. The Taliban regrouped and strengthened in Afghanistan, making the conflict far more expensive. Meanwhile, al-Qaeda shifted operations into Pakistan, Yemen and Mali, where France this month sent troops.

US forces have struggled in Afghanistan's mountainous terrain, where getting supplies and munitions has been a complex logistical exercise. Then came the ill-fated "surge" strategy, which put 30,000 more US troops on the ground with little if any military gain. There were 3,000 attacks on US and allied forces in 2012 – a figure little changed from 2009, when President Barack Obama's administration decided on the change in strategy.

The surge itself was expensive. But the way we conducted the war unnecessarily increased its costs. For instance, the closure of the land route through Pakistan for eight months in reprisal for a US drone attack in November 2011 that inadvertently killed 24 Pakistani soldiers added billions to the transport bill. Another $90bn has been devoted to "reconstruction" aid in Afghanistan – the largest amount spent by the US since the Marshall plan, with little to show for it. Endemic corruption among local contractors and officials has drained money from the budget.

Much of this red ink will dry up once Nato troops withdraw. But the true cost of the war is only just beginning. Indeed, the costs after withdrawal may exceed those during the war. Choices made in the past decade mean high costs for years to come – and will constrain other national security spending.

In 2008, when we wrote The Three Trillion Dollar War, our book on the costs of the Iraq war, we predicted that costs of disability and healthcare benefits for recent war veterans would grow enormously. With nearly one in two returning troops suffering some form of disability – ranging from depression to multiple amputation – the reality far exceeds our estimates. The number of Iraq and Afghanistan veterans receiving government medical care has grown to more than 800,000, and most have applied for permanent disability benefits. Yielding to political pressure, the White House and Congress have boosted veteran's benefits, invested in additional staff and technology, expanded mental health treatments and made it easier to qualify for disability pay. But the number of claims keeps climbing. The Department of Veterans' Affairs struggles to cope with its backlog.

The VA's budget is likely to hit $140bn this year from $50bn in 2001. In previous wars, the bill for benefits came due decades later – the peak year for paying second world war benefits was 1969. Now, with much higher survival rates, more generous benefits, and new, expensive treatments, the eventual costs of caring for veterans of the Afghanistan war will exceed $1tn. To put these numbers into perspective, the debate surrounding the fiscal cliff has centred on expenditure cuts over 10 years of $1tn-$2tn.

There are other costly legacies. To recruit volunteers to fight in highly unpopular wars, the military adopted higher pay scales and enhanced healthcare benefits both for those serving and their families and for those who retired. Even though the Pentagon – watching its personnel costs soar – is asking Congress to roll back some of these benefits, they are politically untouchable. The result is that total personnel costs will soon reach one-third of the total defence budget. Spending on Tricare, the healthcare programme for the US military and their families, is likely to reach $56bn this year. Tricare is growing even faster than Medicare or Medicaid, and will soon consume 10 per cent of the defence budget.

Meanwhile, there is a huge price tag for replacing ordinary equipment that has been consumed during the wars – not least because of our policy of outsourcing maintenance to sometimes dodgy local contractors. There is also the US pledge to help prop up the Afghan police and army for the next decade – expected to run to $5bn-$8bn a year. The legacy of expensive commitments will force the Pentagon to make difficult choices – for example, reducing the size of the army and investing in more unmanned robotic weapons.

The US has already borrowed $2tn to finance the Afghanistan and Iraq wars – a major component of the $9tn debt accrued since 2001, along with those arising from the financial crisis and the tax cuts implemented by President George W. Bush. Today, as the country considers how to improve its balance sheet, it could have been hoped that the ending of the wars would provide a large peace dividend, such as the one resulting from the end of the cold war that helped us to invest more in butter and less in guns. Instead, the legacy of poor decision-making from the expensive wars in Afghanistan and Iraq will live on in a continued drain on our economy – long after the last troop returns to American soil.

The writers are respectively a recipient of the 2001 Nobel Prize in economics, and a professor at the Harvard Kennedy School.