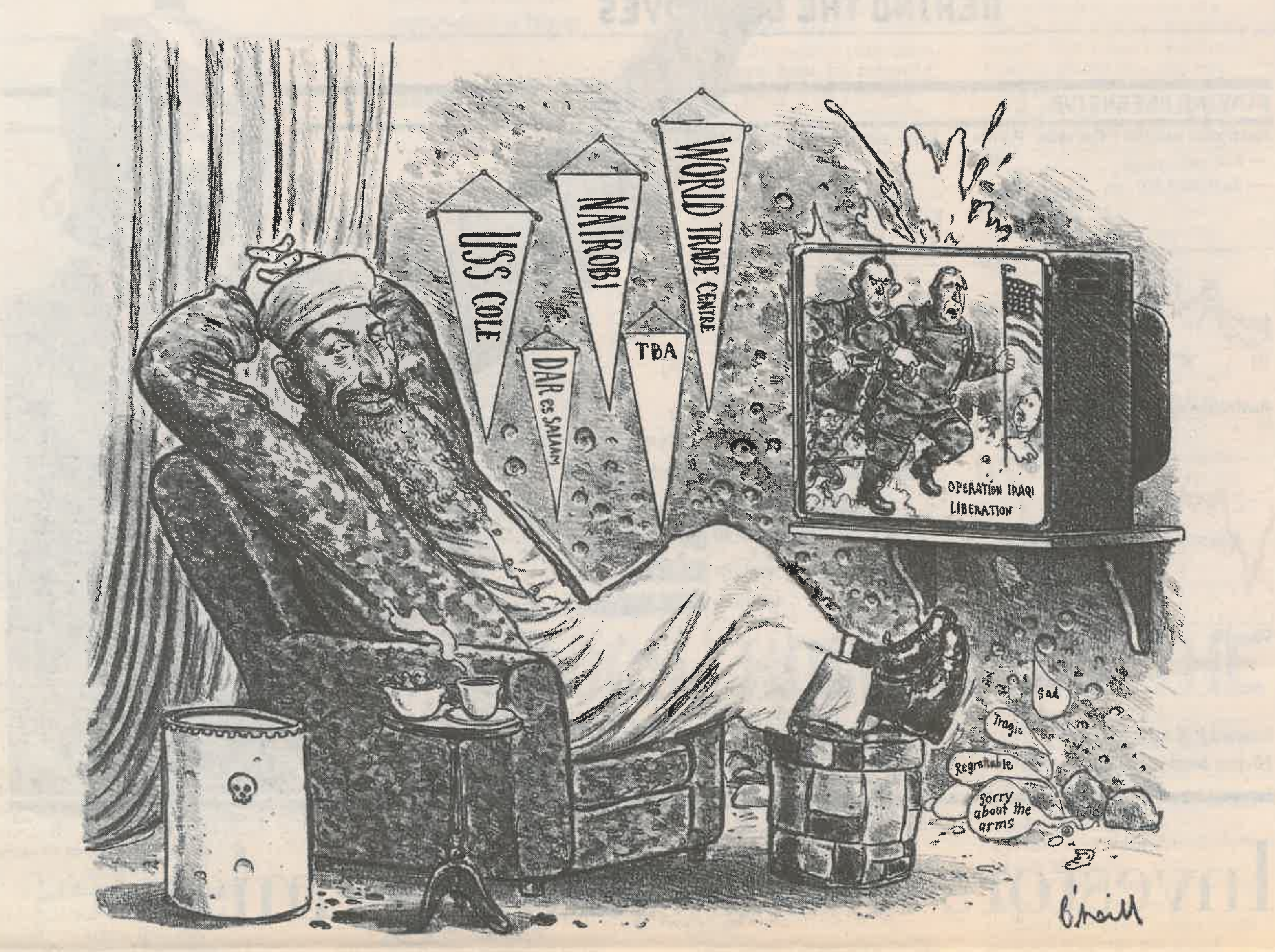
COMMENTARY

GALLERY
Ward O'Neill



CAPITAL IDEA
Brian Toohey

Back to stark reality: life in postwar US

Now that it's obvious Saddam Hussein must have hidden his weapons of mass destruction so well that he couldn't find them when he needed them, the markets have decided it's time to move on. They don't much like what they see back in the USA.

Jobs have fallen by 2.6 million since George Bush junior became President in early 2001. Consumer and business confidence is down. Both the current account and budget deficits are up. The financial markets couldn't even manage a relieved smile when a US soldier signalled the invasion was effectively over by wrapping an American flag around a large statue of Hussein in Baghdad.

The financial markets may be getting ahead of themselves – there is still some unfinished business in Iraq. The fractured country reportedly owes about $US200 billion ($330 billion) to foreign corporations and billions more to foreign governments.

Will a new government honour these obligations, or will US companies be given a rails run? Likewise, will oil exploration permits for French, Russian and Chinese companies be revoked, despite all the past sermons about the importance of contractual certainty to the efficient operation of global capital markets.

Admittedly, some good things have already occurred. Despite pre-invasion assertions to the contrary, deterrence has worked. Assuming the Iraqi regime really possessed weapons of mass destruction, it did not dare to use them. The fact that Hussein's regime collapsed is also a plus. If all goes well, the liberation of the Iraqi people deserves better than the description of an "incidental benefit" given by the Defence Minister Robert Hill on Thursday. But there is still work to be done. The look of joy on the faces of some Iraqis in the last few days seems to have more to do with the fact they had just "liberated" someone else's property than anything else.

Presumably, looting will be brought under control in the next few days. Preventing revenge killings will be harder. A prosperous, market oriented society will probably take even longer to establish. Crucial economic and political institutions need to be built from the ground up. In this regard, the US Defence Secretary Donald Rumsfeld is well off-beam with his comparison between the toppling of Hussein's statue and the fall of the Berlin Wall. The wall did not fall because of an US-led invasion. It fell because of a peaceful insurrection in East Germany, which the reformist Soviet president at the time, Mikhail Gorbachev, refused to help put down.

Compared to Iraq, the East German economy was by no means a basket case. Yet West Germany has found that the task of incorporating the East over the last 13 years has proved an enormous strain. Even though the East Germans were generally happy to embrace the West's well established political and economic institutions, the reunified Germany has not gone from strength to strength. Another key difference between the fall of the Berlin Wall and the collapse of the Iraqi dictator is that the former marked the end of the Cold War while the latter appears to have opened up dangerous new fissures in the Islamic world's relationship with the West. It will take years to tell if all the concerns about new sources of instability are unfounded. But it is worth remembering that terrorism, for example, is not a labour intensive activity. It will only take a handful of angry young people to move beyond sloganeering about American "crusaders" for the world to experience serious new acts of violence.

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North Korea poses a separate problem as a country targeted by Bush as a member of the "axis of evil". Attempts to tighten sanctions – let alone a pre-emptive US invasion – could trigger a humanitarian crisis dwarfing anything occurring in Iraq. Already, North Korea is on the brink of collapse. If it topples over the edge, this would create a staggering burden for South Korea that would make West Germany's problems seem like a breeze. Nasty economic repercussions would also hit trading partners such as Australia.

Nonetheless, the financial markets may not be too far astray in deciding to focus on what's happening in the US.

At some stage, the rest of the world may refuse to keep carrying the risk of funding US deficits if the radical elements controlling the Bush administration look like indulging in imperial over-reach beyond Iraq.

Again, there is no way of knowing what global investors will decide. George Bush senior lost the presidency after the economy turned sour following an easy victory in the first Gulf War. Yet he never suffered from the false sense of invincibility now enveloping his son.

LIES AND STATISTICS

Mark Thomson says the doomsayers are confounded – Australia's war effort in Iraq will have a low price tag.

Not only has the coalition won the war, but for Australia the war was never going to cost more than a fraction of the projected $2.1 billion budget surplus.

Only 2000 personnel, or less than 4 per cent of the permanent Australian Defence Force, were involved. And in funding the operation it was only the net additional cost beyond that normally incurred by the ADF in peacetime that had to be found.

The easiest way to estimate the cost of the Iraq war is to compare it with recent experience. In the last year that figures are available for East Timor, the cost was $336 million to maintain 1500 peacekeepers there for a year, while our contribution to the war on terrorism was budgeted at $374 million for the deployment of 1100 troops over 12 months. Using the average of these two numbers, a deployment of 2000 troops for four months would cost about $190 million.

But the war on Iraq is of a higher intensity and our contribution included a range of high-tech assets. For example, there will be additional costs associated with operating the F-18 and P3 aircraft. However, past experience shows that very often operations replace, rather than augment, peacetime activities. In 1999-2000, during the East Timor operation, the RAAF's Caribou and C-130 transport aircraft and the Army's Blackhawk helicopters recorded rates of effort on average 16 per cent below budgeted peacetime levels. If anything, the disruption of peacetime activity delivered a saving on fuel, spares and maintenance.

Surprisingly, ammunition is not likely to be a cost driver either. The laser-guided bombs dropped by the F-18 only cost about $50,000 each and at the apparent rate of effort we only used several hundred – a net cost of $20 million at the outside. The allowances paid to personnel for Iraq are similar to previous operations and will only come to about $22 million per month, including forgone taxation. And while some new equipment may have been purchased for the Iraq operation, most of the obvious purchases occurred last year for the war on terrorism.

One area where costs will be greater is transport and resupply. In late 2001 it cost $44 million just to deploy and resupply the comparably smaller force in Afghanistan.

So what will it all cost? Even if we take our initial estimate and double it to account for combat intensity and tyranny of distance, and we assume some ongoing fighting and allow for a month at each end for deployment and return, we are still below $400 million for a four-month engagement – hardly a budget buster. Consequently, if the budget goes into deficit it will have much more to do with drought and slowing economic growth.

Mark Thomson is a program director at ASPI, the Australian Strategic Policy Institute. These are his own views.