

# What is the economic impact of the war in iraq on the us

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What is the Economic Impact of the War in Iraq on the US The war in Iraq has a great influence on all spheres of economic activities of the US, its domestic and international trade. In spite of the US hegemonic position on the world's market and its great influence on the international economy, the country has faced with great problems caused by the war in Iraq.

The war negatively influenced investment outlook as one of the main economic indicators. Also, the beginning of war coincided with recovering of the US economy and unstable economic situation inside the country. For instance, economic indicators show that: " In the fourth quarter of 2002, the US economy increased at an annual rate of 1. 4 per cent, much slower than the 4 per cent of the [last] quarter" (Will Iraq War Give a Push to US Economy, 2003). As a result of the imbalance in the trading system, the US continues to post massive trade deficits. At the same time, American public interest would be better served if government policy shifted away from supporting and underwriting the interests of global companies and focused instead on jobs and wages.

Oil prices and market fluctuations have an extremely negative impact on the US trade and current prices. These tendencies resulted in slow growth and economic uncertainty on the energy market. For instance, " The soaring energy prices [in 2003] not only rapidly pushed up inflation, but also resulted in a sharp reduction in consumer spending on other goods" (Will Iraq War Give a Push to US Economy, 2003). It also represents a drain on a government's funds through the payment of unemployment and social benefits. If there is unemployment in an economy there is, consequently, a lower aggregate disposable income with which to purchase goods and

services and markets will be consequently smaller.

U. S. trade and fiscal deficits have weakened national currency. The dollar has weakened relatively to the euro which increases prices and trade deficit. So, currency fluctuations negatively affect sales on the continent and on the domestic arena increasing trade deficit. Whilst macroeconomic policy is controlled domestically it is inevitable that differences will exist as some countries' economic policies will be more successful than others. In addition, the use of tariffs to reduce the trade deficit will not help to overcome current " crisis" in a short period of time.

Market stagnation is another problem faced by the US. These adjustments are necessitated by rising costs that must be covered by increased selling prices. An essential requirement for pricing in an inflationary environment is the maintenance of operating profit margins. The main assumption is that new forms of organization are required as a strategic response to the combined effects of market stagnation, job losses, technological change and increased uncertainty. The latter represents the sphere of competition, dynamism and freedom of choice, economic stagnation and compulsion. Another important detail is that the war in Iraq costs much more than advertised. Stiglitz estimated that the war in Iraq costs between \$1 trillion and \$2 trillion. In this situation, increased federal budget and increased spending runs into fiscal deficits. In future it will require additional resources to cover social provision for veterans and their families. Stiglitz comments that " In using the limited resources that we have for fighting this war, we have less resources to do other things" (Stiglitz, 2006).

Economists suggest that increased spending will not allow the country to

overcome trade deficit and economic stagnation in the three years. Equally, in dealing with exchange rate policy and interest rates governments should have a currency policy which is directed at inflation rather than a policy influenced by the special pleadings of exporters or importers. Following Stiglitz it is possible to say that " crowding out other investments, weakening the economy in the future, that's not a crisis yet. But it's an erosion" (Stiglitz, 2006).

To implement structural economic changes, the US government needs to find additional source of money supply: increased taxation. For instance, even now U. S. taxpayers has to cover " spending of \$658 million to construct an embassy in Baghdad, which, with initial operating costs, could bring the expense of this super-secure facility to nearly \$1. 3 billion by the time it opens in several years" (Sterngold, 2005).

In sum, the war in Iraq destabilizes the US economy creating long-term problems for future generations of taxpayers. Recent economic stagnation, slow growth and international economic instability require especial government regulations and economic programs to diminish the impact of negative economic conditions on entire population. Enormous debt burden, fiscal and trade deficit, increased oil prices are the main negative consequences experienced by the US today.

#### References

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