

# MIT economist analyzes troop surge in Iraq

November 5 2007

---



Michael Greenstone

Michael Greenstone, 3M Professor of Economics, has applied statistical techniques he uses in measuring the economic impact of climate change to conduct the first quantitative analysis of the U.S. troop surge in Iraq.

Greenstone's paper, "Is the Surge Working? Some New Facts," credits the troop surge with an immediate reduction in violence and casualties in Baghdad but shows that world financial markets doubt Iraq's future stability, based on Iraqi government bond prices.

"Is the Surge Working?" was discussed in the Oct. 11, 2007, edition of *The Wall Street Journal*. Greenstone recently spoke with MIT's News Office about his paper and what inspired him to veer from environmental economics to study of U.S. military strategy in Iraq.

Q: What is your usual focus, and what inspired you to turn your attention to the war in Iraq?

A: Most of my work is in measuring the costs and benefits of a clean environment. More broadly, I am interested in empirically determining the proper role for government in our society.

This paper on the surge stems from that broader interest. It shows that even in unconventional wars, it is feasible to measure and analyze important outcomes to learn about the war's success. In wars, the stakes for society are so great that it is crucial that as much information as possible (without sacrificing military strategy) be available to those inside and outside the military so that society can make informed decisions.

Q: What inspired you to focus particularly on the 30,000-person U.S. troop surge?

A: As an economist, I found the evidence used by supporters and opponents of the surge less than convincing. An egregious example was Sen. John McCain's announcing on TV news that things in Iraq were improving--as he walked through a Baghdad market, surrounded by armed guards and camera crews.

The fact is that the war is terribly costly both in human and financial terms: Nearly 80 people (Iraqis plus coalition troops) are dying per day, and the U.S. cost of the war may exceed \$1.2 trillion. When the stakes are so high, we must have reliable information to make decisions with.

Q: Do the same tools apply for analyzing the economics of environmental and military 'health'?

A: Yes. The most important message in the paper is that the same

empirical tools that we use in economics can be used to assess how the surge is going. We can use empirical evidence to supplement the qualitative impressions that have largely guided assessments of the Surge. The key thing is that the assumptions be transparent.

Q: Are your data sources available to any citizen?

A: Anyone can access the sources I used. Civilian fatality numbers came from IraqBodyCount.org; troop fatalities, from iCasualties.org, and various series came from the U.S. State Department's Iraq Weekly Status Report. Bond prices were obtained from a financial data vendor. All of the data are on my website.

Q: What were the short-term effects of the Surge?

A: The security situation has improved insofar as violent civilian fatalities have declined without any concurrent increase in casualties among coalition and Iraqi troops. However, other areas, such as oil production and the number of trained Iraqi Security Forces, have either shown no improvement or declined.

Overall, these results suggest that the security situation is improved, but the evidence on the functioning of the Iraqi state is less clear. It is difficult to know what this mixed pictures means in terms of the Surge achieving its goal of laying the foundation for a stable Iraq.

Q: How did you gauge the long-term effects of the Surge?

A: I looked at the prices of Iraqi government bonds that trade on world financial markets. Bond prices give a good idea of how traders view the chance that the institution or government offering the bond will be around when the bond comes due. Unlike the other measures, they provide a direct estimate of whether there will be a stable Iraq in the

future.

My analysis found that the price of the Iraqi bonds never increased after the Surge, indicating that traders did not foresee the Iraqi government would last long enough to pay its debts. In fact, there is some evidence that the Iraqi bonds declined relative to comparison bonds. This finding suggests that, to date, the Surge is failing to pave the way toward a stable Iraq.

The appeal of using financial markets is that traders' only concern is to make profitable decisions. There is no room for politics or justifying previous decisions in these markets.

Q: Iraq issued bonds in 2006, to mature in 2028, as part of a post-Gulf War debt relief plan with the U.S. and others. What happened?

A: Prior to Iraq's invasion of Kuwait in 1990, Iraq issued about \$130 billion in debt. After the Gulf war, the country defaulted on this debt. When the U.S.-led coalition invaded Iraq in 2003, the holders of this debt were spread around the world. The Paris Club held claims of approximately \$40 billion; Persian Gulf creditors had another \$65 billion; and the remainder was in the hands of commercial creditors.

After the end of combat operations in May 2003, the U.S. government brokered a deal to exchange \$1,000 in the existing bonds for \$200 worth of new bonds for those creditors who held at least \$35 million in Iraqi bonds so that the new Iraqi government would not be hamstrung by this debt. As a result of this debt relief agreement, the Iraqi government issued roughly \$2.66 billion in U.S. dollar-denominated notes in January 2006. These new bonds pay fixed coupons of 2.9 percent twice a year and have a maturity of Jan. 15, 2028.

Q: What is your response to critics interviewed by The Wall Street

Journal who say your analysis did not account for the recent credit market crisis?

A: The Journal noted that the decline in the price of Iraqi bonds largely coincided with this summer's credit crisis. But the price of Iraqi bonds did not increase from February through June, a period when the Surge was in force but the credit market crisis hadn't hit yet. The point is that the bond market has never been convinced that the Surge would help Iraq's long-term future.

Further, the finding of a decline in Iraqi bonds remains even when their prices are compared to the price of bonds from other emerging markets.

Q: What might our government do to widen debate on the war?

A: They should set in place a rigorous data collection system and then make these data public, so independent researchers can analyze them. The federal government hasn't made the collection and distribution of data from Iraq a priority, so it is very difficult to get reliable indicators of the functioning of the Iraqi state.

Q: What should voters listen for in discussions of U.S.-Iraq relations?

A: We should listen for verifiable and robust facts. The stakes are too high to base decisions on anything else.

Source: MIT

Citation: MIT economist analyzes troop surge in Iraq (2007, November 5) retrieved 6 May 2024 from <https://phys.org/news/2007-11-mit-economist-troop-surge-iraq.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.