A HUMAN CAPITAL APPROACH TO THE COST OF WAR: WHAT IS IT GOOD FOR?

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ABSTRACT

Nations often declare war against other nations for economic gains. Wars can increase gross domestic product (GDP) per capita through accelerated demand that leads to higher output and employment, result in the acquisition of other economies that expand economic growth, as well as other payoffs through capture or seizure – the "spoils of war." These economic gains are often justified by formula summing the direct costs of war expenditures (e.g. military personnel and fringe benefits, overhead, munitions, vehicles, energy costs, and interest from debt to finance conflicts). These calculations have produced estimates such as $186 billion for World War I, $4.1 trillion for World War II, $5 billion for the Korean War, and $1 billion for the Vietnam War. However, these calculations of direct costs grossly underestimate the true economic costs of war from a human capital approach, when taking into account fatalities caused by war both on the battlefield and in affected communities. This paper examines the differences in the calculated cost of wars when comparing a standard direct microcosting approach to an approach that assesses loss of life based on the value of statistical life (VSL). In this analysis, loss of life tabulated per war for each nation was weighted by expected remaining life expectancy. Life-years were then assessed a valuation at the VSL or willingness-to-pay (WTP) in U.S. dollars per equal value of life year gained of the nation in which fatality took place based on WTP estimates from the World Health Organization. We then used these data to project economic gains or losses for current wars (i.e. the Russian-Ukrainian and Israeli-Palestinian conflicts). The findings tell us that the value of life lost far offsets economic gains of war ranging from 10- to over 20-times the presumed cost. For instance, these costs combine direct costs and value of life lost for four recent wars involving the U.S.: World War I, $12.8 trillion; World War II, $87.8 trillion; Korean War, $3.5 trillion; Vietnam War, $4.1 trillion. This approach leads to lower-bound estimates of the cost of war based on a VSL application that does not account for reductions in productivity due to injury or permanent disability. Reductions in the reproductive population also offer additional potential losses in generational productivity. In conclusion, in none of these instances does the cumulative potential gains in GDP for nations involved in conflict equate to or exceed the total costs of the conflict from the human capital approach. Nations justifying the cost of war based on economic gains are unlikely to realize such gains in the short run of one to two decades.

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