



# *Policy Note*

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## THE REAL COST OF WAR

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The press is full of stories on the cost of President Trump’s war of choice against Iran—said to be running at \$2 billion a day. With an on-again, off-again ceasefire, that cost may have declined at least temporarily. However, many reports suggest that America’s inventory of firepower has been run down by the war in Ukraine plus this latest adventure. Each Tomahawk missile cost about \$2 million dollars to make, but at today’s costs, replenishing the stockpile could run closer to \$4–5 million for each missile. The Patriot missile systems used to shoot down Iranian drones cost about \$1 billion each. Typically two or more missiles are used to take out each drone, so it costs “anywhere from \$500,000 to \$4 million” to dispatch a drone that cost \$20,000 to \$35,000—a daunting ratio (Silver 2026; Pow 2025).

In the face of such costs, President Trump has requested a 50 percent boost to the military’s trillion-dollar budget, to \$1.5 trillion. The number of zeroes in a trillion is so large that few Americans can fathom what that means—so let’s just say that the boost alone amounts to about \$4,000 per household, putting the new total for national defense at \$12,000 per household.

Trump (2026) has suggested (on April Fool’s Day, no less) that—to make room in the budget for his Department of War’s next adventures—state governments will have to take on more responsibilities:

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The United States can't take care of day care. That has to be up to a state. We can't take care of day care. We're a big country. We have 50 states. We have all these other people. We're fighting wars. We can't take care of day care. You got to let a state take care of day care, and they should pay for it, too. They should pay. They have to raise their taxes, but they should pay for it. And we could lower our taxes a little bit to make up for it. They can do it on a state basis. You can't do it on a federal. We have to take care of one thing, military protection, we have to guard the country. But all these little things, all these little scams that have taken place, you have to let states take care of them . . .

(Some states and cities are, indeed, trying to raise taxes on those who can most afford it—the millionaires and billionaires—but Trump has lashed out at New York City and New York State leaders for trying to do so.)

### **The Monetary Cost of War**

It is common to size up the cost of war by dollars spent. When President Bush, Jr., waged the second war against Iraq (which spread to Afghanistan), Joe Stiglitz (Stiglitz and Bilmes 2010) warned that it would cost \$3 trillion. He was accused of wild exaggeration. At the war's start in 2008, Defense Secretary Donald Rumsfeld predicted that the war might take between six days and six weeks, but certainly not six months. It would cost maybe \$40 billion. It lasted until 2021. The costs ran to something more like \$8 trillion (Barghouty and Chakrabarti 2026). Whoops.

Much of the cost was run up long after the war ended due to disabilities suffered by American troops. More than half of the American troops who served in Iraq suffered from disabilities related to the war, many of them requiring life-long support. There are approximately 56,000 troops involved in the war on Iran and one projection estimates that perhaps a third of them will also suffer from disabilities (Barghouty and Chakrabarti 2026).

There are other costs of war, of course. As a result of the current adventure, there is little doubt that complete recovery of oil production and shipping will take time. Meanwhile, consumers and producers all over the world are facing higher energy prices. On a recent drive through California (happily, in my EV) I saw diesel prices at nearly \$8 per gallon and gasoline at \$6. Europe is planning to cancel flights due to the shortage of

jet fuel, and airlines have already added fuel surcharges. United and American Airlines are hoping to merge—and rising fuel prices will likely help them make the case for consolidation and reduction of competition, meaning that passengers are going to pay higher fares into perpetuity. In any event, prices that go up tend to stay there—as higher fuel costs now across all sorts of sectors of the economy will ratchet prices upward permanently.

Global farming will almost certainly take a big hit, not only because of transportation costs but also due to a lack of fertilizer. Given agriculture's reliance on artificial fertilizer to achieve high output, food will be scarce and costly—leading to starvation and death in the poorest nations.

Note that Trump hinted at federal tax reductions in the face of higher war spending—a typical stance of Republican presidents facing wars since the time of Reagan. This used to be sold as Supply Side Economics relying on a Laffer curve relationship: reduction of tax rates boosts production so much that more revenue flows into government coffers to “pay for” military adventures. In a very interesting post, Bruce Bartlett—a recovered Reaganite Republican—told the story of the Kemp-Roth-Reagan tax cut of 1981. He worked for Kemp, who, “as the ranking Republican on the defense appropriations subcommittee [...] was deeply involved in national security issues” (Bartlett 2026). Interestingly, he reports, until the mid-1970s, Congress took a very simplistic approach to budgeting: if you cut tax rates by 10 percent, revenue drops by 10 percent. The CBO was created in 1974 to create a more rigorous analysis using mathematical models. However, the supply siders working with Kemp dug up the supposed results of the Kennedy tax cuts that took effect in 1964: in spite of rate reductions, tax revenue increased. Of course, correlation does not mean causation—it was the “golden age” of American capitalism with rapid economic growth. But they seized on the “Kennedy tax cut” to sell the idea to Congress—leading to a bill that cut taxes for high income earners while increasing it for lower income households. That would balance the budget by unleashing the entrepreneurial spirit of America's richest.

It did not work. While I do not believe that Reagan's large budget deficits were wholly or even mostly due to the tax cuts, his administration's policies certainly contributed to rising inequality. Chairman Volcker's high-interest-rate policy probably deserves substantial blame for both the deficit (directly because government interest payments on the debt rose; indirectly because of the financial crisis caused by high rates)

and for the devastation of US industry because of a strong dollar. In any case, with the exception of President Clinton's surpluses (a topic we have explored in detail at Levy—and that helped to crash the Dot.com bubble and then the housing bubble, leading directly to the Global Financial Crisis) the budget has been in continuous deficit since Reagan.

And that leads us to the likely impact on the budget of Trump's huge increase of war spending. Like many economists, former Treasury Secretary Henry Paulson is warning of a government debt tsunami, as reported by *Bloomberg* (Anstey 2026):

Former Treasury Secretary Henry Paulson suggested the US government should prepare a backup plan in order to avert a potential collapse in demand for Treasuries—an event he warned would have “vicious” effects. “We need an emergency break-the-glass plan, which is targeted and short-term, on the shelf, so it's ready to go when we hit the wall,” Paulson said during an interview for Bloomberg Television's *Wall Street Week* with David Westin. With regard to any breakdown in the \$31 trillion market for US government debt, Paulson said that would pose a different case from the financial crisis two decades ago.

“As bad as it was,” the government had fiscal firepower to address the credit meltdown, he said. “You can come in and clean up the mess.” But in the event of a US public debt crisis, “you're trying to issue Treasuries and the Fed is the only buyer and the prices of the Treasuries are going down and interest rates are up, that's a dangerous thing.”

Can America avoid a catastrophic debt crisis? Can America afford Trump's extravagant spending on wars?

### **The Real Cost of War**

Everyone is aware of President Eisenhower's warning, detailing the danger of the “Military-Industrial Complex” that would push for war over the entire postwar period. On one hand, that spending provided a continuous “Keynesian stimulus” by raising demand that kept the nation's factories humming. (It probably helps to explain why Kennedy's tax cut did not reduce tax revenue.) However, as Minsky (1969a, b, c) used to argue, military Keynesianism funneled spending to the most advanced

sectors of the economy—that tended to have oligopoly pricing power as well as a highly unionized workforce, and so added inflation pressure.

But military service provided paid work for 3 million (mostly young men)—about 2 percent of the population—during the 1960s. At that time, it provided an alternative for entry-level workers. The standing force is now about half of that, well under 1 percent of the population, and standards for education, training, and what we might call character (criminal and drug use background) are higher than for the average workforce. It is no longer an “employer of last resort.” Trump has called for ramping up draft registration, presumably in anticipation of more boots on the ground to fight more wars of choice—this would resolve the typical problem faced by recruiters (the skills of the volunteers do not meet the military's needs). However, it will pull skilled workers out of the economy—increasing wage pressure in the private sector.

WBUR's broadcast *On Point* released an interesting episode on April 13 (Barghouthy and Chakrabarti 2026), presenting President Eisenhower's other statements that pointed to the *real* costs of war:

Balance between our essential requirements as a nation and the duties imposed by the nation upon the individual, balance between actions of the moment and the national welfare of the future.

We, you and I, and our government must avoid the impulse to live only for today. Plundering for our own ease and convenience, the precious resources of tomorrow. We cannot mortgage the material assets of our grandchildren without risking the loss also of their political and spiritual heritage.

It is fitting, I think that I speak to you, the editors of America, a life of perpetual fear and tension, a burden of arms draining the wealth and labor of all people. A wasting of strength that defies the American system or the Soviet system, or any system to achieve true abundance and happiness for the peoples of this earth.

In his 1953 speech, *The Chance for Peace*, Eisenhower got to the main point:

Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed. This world in arms is not spending money alone.

It is spending the sweat of its laborers, the genius of its scientists, the hopes of its children. The cost of one modern heavy bomber is this. A modern brick school in more than 30 cities. It is two electric power plants each serving a town of 60,000 populations. It is two fine, fully equipped hospitals. It is some 50 miles of concrete pavement.

We pay for a single fighter plane with a half million bushels a week. We pay for a single destroyer with new homes that could have housed more than 8,000 people. This is, I repeat the best way of life to be found on the road the world has been taking. This is not a way of life at all in any true sense. (Barghouty and Chakrabarti 2026)

More recently, as *On Point* reported, several Democrats have made similar points:

SENATOR ELIZABETH WARREN (Tape): What could we do with the \$12 billion that the Trump administration spent on just the first week of the war with Iran? Well, we could have provided housing assistance for about a million Americans, or lowered prescription drug costs for millions of people or paid for the entire National Park Service for more than three years.

JON FAVREAU: It could restore Obamacare subsidies for 22 million people for six years, food stamps for 42 million Americans for two years, and school lunches, free school lunches for every kid in America for five years.

REP. ZOE LOFGREN: We could extend the ACA tax credits that they let expire for six years. We could quadruple the amount of funds we're putting into medical research and find cures for diseases that people are dying from. We could wipe out every American's medical debt. (Barghouty and Chakrabarti 2026)

It is not the dollar cost, it is the real resource cost that matters. While it is convenient to put everything into dollar costs, that puts the focus on monetary losses—rather than on what we give up that would improve the lives of Americans. This was well-recognized during World War II—when our government used rationing, patriot saving, and moral suasion to get Americans to consume less so that more resources would be available for the war effort. Of course, government could have just spent more money to outbid private demand, but this would have led to high inflation. World War II was the first major US war that did not generate high inflation—proving that the government's effort had worked.

The truth is that our government cannot run out of its own money. I will not go through the details that have been laid out by Modern Money Theory over the past three decades. But it is not necessary to do so in order to make the point that ramping up military use of our resources will generate inflation unless we reduce private use. We could reduce private use by raising taxes or by encouraging saving and postponed consumption.

Better, yet, scale back Trump's request.

To be clear, Hank Paulson is wrong, and it is downright embarrassing that a former head of our Treasury does not understand how his own Treasury spends. The Treasury cuts a check or has the Fed make a digital payment—in either case, the recipient's bank gets a credit of reserves at the Fed, and the bank credits the demand deposit of the recipient. When the Treasury taxes, this is reversed: a bank's reserves are debited by the Fed, and the bank debits the account of the taxpayer.

Paulson ought to know that the Treasury keeps a deposit account at the Fed that can be credited by the Fed when taxes are paid or when the Fed sells a bond on behalf of the Treasury. That account is debited when the Treasury spends—and the Fed and Treasury coordinate to ensure the Treasury does not run overdrafts (at least overnight). The proof that the Fed and Treasury understand what they are doing—even if Paulson does not—is that Treasury checks never bounce for lack of funds.

Paulson poses a silly doomsday scenario in which Treasury cannot find a buyer for its bonds. This cannot happen. A dozen dealer banks stand ready to place bids—they are required to do so. If they offer a price lower than what the Treasury is willing to accept (meaning the interest rate would be higher than what it wants to pay), the Treasury can reject the bids and try another day or a different maturity (i.e., offer bills rather than bonds).

If markets do go on strike, refusing to buy bonds that the dealer banks are intermediating, the Fed can buy them. Paulson does refer to the Fed as a buyer of last resort but wrongly claims that the Fed would lose control of interest rates—forcing the Treasury to pay high rates. No, the Fed can hold interest rates anywhere it wants—this is the fundamental power of central banks operating in their own currency. They set the rates. Anyone working in bond markets understands this—so well that betting against the central bank is known as the “widow-makers trade.” The central bank will bankrupt you.

Recall ECB President Mario Draghi’s “whatever it takes” promise when he broke the euro area’s rule *against* ECB intervention to rescue an individual member’s government bond market? He saved Greece by buying bonds at the interest rate he chose. He promised that the ECB would continue to stand behind member nations to keep interest rates on their bonds in line with the ECB’s target.

The US has no such nonintervention rule, and for good reason. Indeed, during World War II the Fed was put explicitly under the Treasury’s power to set interest rates. Record budget deficits equal to 25 percent of GDP were incurred with extremely low interest rates on the bonds because the Fed kept them low. I am not saying we need to put the Fed under Treasury control again, but we should expect the Fed to continue to help stabilize financial markets and, above all, to protect the US bond market. It would be crazy for the Fed to act against the national interest in a manner that Paulson believes to be inevitable.

In truth, we can afford anything we know how to do, and for which we have the resources. This is the lesson we learned from World War II, and which MMT and other proponents have been advocating ever since. That does not mean it is a good idea to ramp up spending for more wars of choice. But it does mean that we should carefully assess our nation’s real needs and prioritize resource use to meet them.

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