

THE Iraq war has cost the US 50-60 times more than the Bush administration predicted and was a central cause of the sub-prime banking crisis threatening the world economy, according to Nobel Prize-winning economist Joseph Stiglitz.

Professor Stiglitz told the Chatham House think tank in London that the Bush White House was currently estimating the cost of the war at about \$US500 billion, but that figure massively understated things such as the medical and welfare costs of US military servicemen.

The spending on Iraq was a hidden cause of the current credit crunch because the US central bank responded to the massive financial drain of the war by flooding the American economy with cheap credit.

"The regulators were looking the other way and money was being lent to anybody this side of a life-support system," he said.

That led to a housing bubble and a consumption boom, and the fallout was plunging the US economy into recession and saddling the next US president with the biggest budget deficit in history, he said.

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