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The Costs of War: Expensive defence, even more expensive war (PART 2)

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War rarely ends where the shelling ends. War has its most obvious price: tanks, missiles, soldiers, and billions spent on defence. But this is only the first item on the bill. Its costs quickly leave the battlefield and enter government budgets, businesses, households, and energy markets.

Much larger costs often emerge outside the budget – in destroyed capital, lost production, emigration, demographic change, debt, investments that were never undertaken, and energy prices paid by economies thousands of miles away from the front. Ukraine, Israel, and Iran demonstrate three different ways in which war can affect an economy. For Poland, these lessons are particularly important. The question of how much security costs only makes sense when it is considered alongside the cost of its absence.

War has a price, except that the invoice is issued before it, during it, and long after it is over.

First part is available HERE

Ukraine: War as a Systemic Shock

Ukraine shows how different the fiscal cost of war can be from its actual economic cost. The 2022 invasion meant not only a dramatic increase in defence spending, but also the destruction of infrastructure, workplaces, and homes, the interruption of business activity, and population loss.

The outflow of people is particularly painful (and we must not forget the abduction of Ukrainian children by Russia!). Emigration means not only fewer future taxpayers and workers, but also the loss of part of the human capital in which Ukraine had previously invested. The state therefore finances its creation, while other economies may benefit from that

investment in the future.

The full cost of war therefore extends far beyond the „defence" line in the budget. It includes destroyed capital, lost production, emigration, and unrealized growth potential. War simultaneously strikes at two foundations of the economy – capital and people – weakening not only production today, but also growth tomorrow.

Ukraine therefore shows that the most expensive part of war is often the least visible. It is not only the billions spent on the conflict, but also the capital, production, and people that the economy loses, as well as the growth it will be unable to achieve for a long time.

Gaza and Israel: War as a Fiscal and Structural Shock

In the case of Israel and the war in Gaza, the mechanism is somewhat different. Here, the cost of the conflict passes particularly quickly through public finances and the structure of the economy. Wartime expenditures are measured in tens of billions of dollars, while declining economic activity, a rising deficit, and mounting debt show that war is not merely an extraordinary expense for the state. It becomes a lasting fiscal burden.

The problem is that resources have to be shifted: from investment to defence, from the civilian sector to the military, and from current consumption to security needs. Tourism, technology, the labour market, and private investment feel the effects of this shift, even if they are not directly located in the war zone.

The result is a feedback loop. War increases spending, higher spending increases the deficit, the deficit increases debt, and debt limits future fiscal space. War therefore does not merely cost money. It changes the way the economy functions. This is an example of a structural cost that may remain long after the fighting has stopped.

Iran: War as a Global Shock

The case of Iran extends much further, as its economic significance is not limited either to the country's borders or even to its immediate region. Energy is the key transmission channel. Any serious disruption to oil and gas supplies in the region can raise commodity prices, increase transportation and production costs, and reignite inflationary pressure in economies that are formally not involved in the conflict.

In this case, part of the cost of war is therefore transferred to external actors: energy importers, businesses, consumers, and central banks. The global economy pays for a conflict it is not waging. Rising energy prices reduce households« real incomes, increase business costs, and make it more difficult for central banks to fight inflation. A local conflict thus becomes a global macroeconomic shock.

This is particularly important from the perspective of analysing hidden costs. Not all the costs of war are borne by the aggressor, the victim, or the direct participants. Some are dispersed throughout the global economy. The cost of war is paid not only by those who fight.

Three Wars, Three Cost Profiles

Ukraine, Gaza and Israel, and Iran demonstrate three different mechanisms through which war affects the economy. In Ukraine, the dominant factors are the loss of capital, demographics, and lost growth. In the conflict between Israel and Hamas, fiscal and structural costs are particularly visible, associated with the reallocation of resources and mounting debt. In the case of Iran, energy, inflation, and global economic slowdown become the most important factors.

This does not mean that the other costs disappear in every individual case. On the contrary! Each of these categories overlaps with the others. For example, the costs of Russian aggression, including aid to Ukraine, are borne by many countries around the world. The difference lies in which mechanism becomes dominant and how far its effects spread.

Modern war therefore cannot be measured solely by the sum of military expenditures or the value of destroyed infrastructure. Its real cost also includes production that was never created, capital that was never rebuilt, people who left, investments that were never undertaken, and price shocks ultimately paid for by consumers on the other side of the world. The greatest costs of modern wars are therefore not created on the battlefield. They emerge from the dynamics of economic systems destabilized by war and often remain there long after silence falls on the battlefield.

Implications for Poland

For Poland, these issues are particularly significant, because security is no longer an abstract concept from strategic textbooks. Our state must plan for defence under conditions in which a large-scale conventional conflict has become a realistic scenario.

The biggest mistake, however, would be to reduce the debate to the question: „What percentage of GDP should be spent on defence?" This is an important question, but by itself it is decidedly insufficient. If our state wants to plan for security rationally, it should also calculate the costs of being unprepared. And these costs are much harder to identify and even harder to present, at least politically.

Spending additional billions on defence is visible. You can see the budget, the contract, the factory, the equipment, the personnel, and even the invoice. The benefit of this expenditure, however, consists of something that cannot be directly photographed. A war may not happen, or it may be smaller in scale, because a potential adversary decides that it would be too costly.

This creates a classic public policy problem. The success of deterrence looks like the absence of an event. If war does not occur thanks to defence spending, critics may say, „But there was no war, so the money was wasted." This is roughly as logical as saying that because a car did not have an accident, seat belts were unnecessary equipment.

Poland's fiscal policy should therefore take into account not only the costs of defence procurement, but also the value of national resilience. Energy, infrastructure, digital, industrial, and demographic resilience are not additions to defence. Under conditions of preparation for war or prolonged conflict, they become an inherent part of it.

Our domestic production capacity is of particular importance. Does Poland have sufficient domestic production capacity to rapidly replenish its stocks in times of crisis and reduce its dependence on external suppliers? A

country that has the financial resources but lacks an industrial base capable of rapidly replenishing its stocks remains dependent on external suppliers. Do we have an industrial base that could scale up production quickly enough to meet defence needs?

Is simply possessing modern weapons systems enough if we lack the personnel capable of operating, maintaining, repairing, and further developing them? Does Poland have enough adequately trained specialists, engineers, and technicians who could keep these systems operational during a prolonged crisis?

And finally, are our strategic plans – even if they are already prepared and up to date – backed by an effective administration capable of operating efficiently in a crisis and carrying out mobilisation? Could we not discover that, while paper is remarkably resilient to shelling, it cannot mobilise a country on its own?

In this context, Polish defence spending should also be assessed in terms of how it increases the long-term resilience of the economy. This does not, of course, mean that every penny spent on defence is automatically a good investment. On the contrary. High spending can be wasted, poorly allocated, or subordinated to short-term procurement policy. An increase in the defence budget alone does not guarantee an increase in security.

Rational fiscal policy in our country should therefore ask not only „how much?", but above all „what are we buying, how long will it work, who will maintain it, can we produce it, can we repair it, and will the entire state be able to function under the pressure of conflict?" This is far less impressive than a press conference with a new weapons system in the background,

but economically far more useful.

Lessons for Defence Planning

The most important conclusion is simple. The state must stop treating the cost of war as the sum of military expenditures. War is a shock to the entire national economy. It destroys physical and human capital. It burdens public finances while simultaneously reducing future tax revenues. It requires increased spending while limiting the ability to finance that spending. It causes migration, demographic changes, interruptions in education, and the loss of skills. It weakens institutions, increases investment uncertainty, and shifts resources from development to survival.

Defence planning should therefore use a broader category of the total cost of security. This should include not only spending on the armed forces, but also the value of lost human capital, demographic costs, health consequences, lost economic growth, infrastructure destruction, production disruptions, and the degradation of institutional capacity.

Of course, not everything can be calculated down to the last penny. But the fact that something cannot be precisely valued does not mean that its value should be assumed to be zero. This is one of the most dangerous practices in public-sector management.

The state should invest in capabilities that limit not only the probability of war, but also its economic consequences if deterrence fails. This means maintaining adequate reserves, production capacity, critical infrastructure, civil protection systems, strategic stocks, administrative capabilities, and mechanisms for rapidly shifting the economy toward crisis needs.

The cheapest war is the one that never happens. What is crucial, however, is understanding why it does not happen. Not because too small an amount was entered into a spreadsheet, because the finance minister considered another expenditure unnecessary, or because history happened to be kind this time. War is expensive above all because it destroys resources whose value the state often cannot even properly assess.

The budget will show the cost of a missile, but it will not show the person who will no longer be there. It will show the cost of rebuilding a school. It will not show the generation of children whose education was interrupted. It will show the cost of repairing a bridge. It will not show the investments that were never made because entrepreneurs were afraid to invest for years. It will show benefits paid to families. It will not show the taxes that those families and their children will never pay if their lives have been permanently changed by war. It will show spending on administration. It will not show institutions that may function worse, more slowly, and less effectively for years. And this is precisely why a state budget can be formally balanced while the state itself becomes economically much poorer.

War is not simply a line item in a budget act. It is a process of transferring losses through time. Part of the bill is paid by the current generation, part by future generations, and part never appears in any official statement because it concerns opportunities that have ceased to exist.

The greatest mistake in defence planning is therefore to ask only how much preparing for war costs. The right question is: how much would the state pay for being unprepared for war, and how much of that bill can we see today? Because a state that saves money on security may indeed have a

lower defence budget, but only until war presents the bill. Then it will turn out that payment has been deferred, and the interest will also be paid by those who have not yet been born.

Security Costs Money. War Costs More

Ultimately, war is not a problem confined to a single line in the budget. It is a problem affecting the entire economic potential of the state – that is, what it possesses today, what it can produce tomorrow, and what it may irreversibly fail to recover along the way. Defence spending is therefore only the most visible part. The rest is hidden in demographics, productivity, investment, debt, infrastructure, and people's lives.

For Poland, this means the need to change the way we think about defence spending. It is not only about how much we spend, but what we buy with that spending: time, resilience, production capacity, infrastructure security, and, above all, a lower probability that we will ever have to pay the full bill. The cost of preparing for war can be calculated. The cost of being unprepared is much harder to calculate. That is why the cheapest war really is the one that never happens. Not because war disappears from the accounts, but because the bill for deterrence is ultimately far more predictable than the bill for rebuilding a state after war. We can't afford war. We can't afford to lose it either.

And if anyone still thinks that spending on security is too high, it is worth asking a simple question: **compared to what?**

Of course, common sense needs to be maintained here, because it would be good not only to defend the state effectively, but also to avoid

bankrupting it in the process of preparing for that defence. After all, apart from honour and tradition, there would be nothing left to defend.