

Amb. Chas Freeman: The \$1 Trillion Shadow War: When the Petrodollar Cracks

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#Nima

What happened two days ago was that the Pentagon was asked how much they had spent so far on the war with Iran. And here was the response from the Pentagon.

#Guest

Conversation here. We have not yet received from the Pentagon the costs of the war. So just for the record, we'd like to get that as soon as possible. Certainly the munitions expended, but also underreported is that we've had a fair amount of equipment destroyed, including two C-130s with the rescue of our downed airmen. So do you have either A, a cost estimate coming to us anytime soon, or B, a specific supplemental request?

#Speaker 03

Thank you for that question. So approximately, as of this day, we're spending about \$25 billion on Operation Epic Fury. Most of that is munitions. Part of that is obviously O&M and equipment replacement. We will formulate a supplemental through the White House that will come to Congress once we have a full assessment of the cost of the conflict.

#Guest

So you're saying the full cost at this point is \$25 billion?

#Speaker 03

Yeah, that's our estimate of the cost.

#Nima

Yeah, here is later on we had U.S. officials telling CBS that the cost of the war so far is close to \$50 billion. It's double the number the Pentagon gave us. What is your understanding of that? Which number is closer to reality?

#Chas

I think the higher number is closer, but even that is probably an underestimate because there are so many costs connected with war that don't become apparent until much later. For example, wounded people. There have been a lot of people wounded in this war. The cost of their medical care and eventually their treatment by the Veterans Administration, which has a separate budget from the Defense Department. So there are some estimates. I think Dr. Bilmes, who's at Harvard and who works with the Cost of War Project at Brown, she and Nobel Prize winner Stiglitz, an economist, have done various estimates of what other wars, for example, the Iraq War, the Afghan War, and so on, have cost.

And she's estimating that the ultimate cost of this war may be as high as a trillion dollars when you bring in all the additional costs. And this is very relevant, not because of Congress — Congress basically treats the defense budget like a jobs program. It's not derived from a threat analysis. More is always better. And of course, the Trump administration is asking for \$1.5 trillion, and probably \$200 billion for this war as a supplemental. We don't know the figures yet, but it's clearly a great deal more expensive than the Defense Department spokesperson, Mr. Hearst, mentioned.

#Nima

Do you think that they're considering the spending on the part of the Israelis as well, in terms of ammunition and the interceptors, cruise missiles that they've used?

#Chas

No, I suspect that is budgeted separately, not included. And, you know, I mean, essentially where we are now, Nima, if I may, is we're in a war of attrition, an economic war of attrition. You know, basically it's as though the United States and Iran were two wrestlers, each one trying to strangle the other. We have our hands around the throat of the other party. We don't know who is going to lose consciousness first. You know, somebody is going to drop out because they can't take it anymore. And there are lots of factors here. I mean, the administration, the Trump administration, clearly calculates that, I think, on the basis, I believe, of a wrong understanding of the petroleum industry. They calculate that Iran, you know, in three weeks or two months, depending on which expert you talk to, will begin to lose pressure and will run out of storage space for its current level of oil production.

And the reservoir pressures will begin to drop. And if they drop far enough, it's then very hard to restart the oil wells. I think that's a misunderstanding. First of all, of course, it is a geological reality that if the pressure drops in an oil reservoir underground, it is more difficult to recover oil in the future. It's not impossible. But I don't think this takes into account either the geology in Iran or the ability of the Iranian oil company to reduce production without destroying the reservoirs. In other words, they can produce less oil but still produce oil, and they can probably find storage for it somewhere.

We know that there is an effort being made now to use the rail connection to China to move oil out of Iran. Iran can also presumably draw on the Russians through the Caspian Sea connection. So I think that this estimate on the part of the administration is essentially unrealistic. On the other side, Iran calculates that the price of oil and gas internationally is going to go up very high. It's already close to \$130 a barrel for oil. I don't know what the price is today, but I think we're easily going to \$150 per barrel, maybe \$200. At \$150 per barrel, the price of gasoline in the United States would be four and a half to \$5 a gallon, one gallon having roughly four liters. So, I mean, you can figure that would be, you know, a dollar a liter or more if you were in Brazil. So if it goes to \$6, you know, if it goes to \$200 a barrel, then we're talking oil at the pump of \$6, \$6.50. Much higher in a place like California, where there are heavy taxes on fuel. California is already at \$6 a gallon at the pump. And the reactions from American consumers will be increasingly strong against the war. In fact, the latest polls show that this war is now less popular than the Vietnam War, when the Vietnam War was at its most unpopular. So the Iranian calculation is that the United States is politically unable, will prove unable, to sustain this counter-blockade. I think Iran also is looking very closely, as others are, at the situation on the U.S. Navy vessels that are conducting the American blockade. And that is not good. Apparently, the logistical support for them is inadequate.

We've seen what looked like acts of sabotage by sailors complaining about the fact that they've been at sea for almost a year with no rest, separated from their families and deprived of the amenities that they had earlier. But the other point here, I think, on the Iranian calculation is that, in effect, by blockading the Strait of Hormuz to the extent that blockade is effective—and it doesn't appear to be all that effective—the United States is basically blockading the world's oil supply, and it is hurting every country in the world by doing this. And therefore, the international opposition to what the United States is doing can only grow.

And the knock-on effects of the reduction in oil supply extend—I mean, there have been various things already mentioned. The blockade of the Gulf has curtailed fertilizer supplies globally. Aluminum, which is produced using gas in the Gulf, now can't get out. Sulfur, which is essential for all sorts of things, helium, which is important to the microchip industry, and so on. But in addition, oil and gas are part of the cost structure of virtually everything. Plastics—the price of plastics is going to go up. Transportation—trucks driving items to the supermarket are going to be more expensive. The items in the supermarket are going to be more expensive because there will be crop failures and reduced yields agriculturally.

Diesel, which powers the tractors and harvesters on large farms everywhere—in the United States and Brazil, in Russia and Ukraine—all this is going up in cost. So we're talking about significant inflation and a probable global recession. All of this is basically caused by a war that was unprovoked, a war by Israel and the United States. Of course, Israel would like to continue this war. The United States, I don't think, has much stomach for doing so. And Donald Trump has officially made a judgment that the best way to get out of this war is to conduct this blockade and break the Iranian economy, and thereby break the will of Iran.

I don't think that's going to work. But anyway, that's his judgment. In the meantime, he's also asked the military to devise various plans for short, sharp strikes on Iran that might influence Iranian decision-makers. Here, the record again is we've done all that. It has not really brought Iran to any favorable conclusion. And so it's very unlikely that it would work if done again. And this time we are on the Iranian side. Iran is fully prepared to retaliate massively to any resumption of attacks on it. And it will also, to the extent it is able, within a 300-kilometer, 200-mile radius, do what it can to sink the ships that are conducting the counter-blockade.

So we're in this moment, as I said, in which each side has its hands around the neck of the other, and each side is betting that it can strangle the other before it gets strangled itself. In this equation, I think Iran has the advantage, not simply because of the factors I mentioned, but because Iran seems to be prepared to take more punishment than the United States is prepared to take. We have also, I should add, the wild card, the element of Lebanon, where Israel is not respecting any of the ceasefire. And it has ceased bombing Beirut, but it is leveling all the structures south of the Litani River. It's blown up the bridges. It's trying to make it impossible for people to return. And Hezbollah is still resisting, still killing Israeli troops in Lebanon and firing missiles into Israel.

And the Israelis clearly are chafing under the requirement to pay attention to Donald Trump's ceasefire announcement, which they don't accept, but which they have to defer to some extent if they're not to be totally alienated from the Trump administration. So I think this is a kind of limbo, an uncertain period. We don't know what will happen. Each side is waiting for the other side to be exhausted. In a way, this is an extension of the original Iranian strategy—that is, let the United States and Israel exhaust themselves attacking Iran. Iran will wait for the right moment to act. And so there we are. I think this is unlikely to be... I think we're all going to experience a great deal more pain before this is over.

#Nima

I think many people would be surprised how much Iran is today concerned about the situation in Lebanon. They're more concerned about Lebanon than Iran itself. You look at the way they're talking about the situation in the southern part of Lebanon. But the reality is, Ambassador, the Israelis are leveling, just destroying everything in the southern part of Lebanon. But that doesn't mean they can stay there. That's the problem on their part.

#Chas

Right. No, they're trying to reduce southern Lebanon to the status of Gaza. The only difference is that in Gaza the people have nowhere to go, whereas in Lebanon they have gone north. But there are a million Lebanese who are displaced. And let me make a—you know, there's an issue here. Lebanese are present in every country in the world. There is a big Lebanese diaspora. A lot of Lebanese Christians left, but they're still Lebanese. A lot of Lebanese Sunni left, but they're still Lebanese. The Shia group in Lebanon, which is the base of support for Hezbollah, is very much in charge in Lebanon.

The Lebanese government cannot make the deal with Israel that it would like to make. The Lebanese government would like to disarm Hezbollah. Of course, any government wants to have a monopoly on the use of force, and the Lebanese government does not enjoy that monopoly. In fact, the only effective fighting force or resistance to Israel is Hezbollah. But the Lebanese government wants to work with Israel and the United States, which is backing Israel, to get rid of Hezbollah. But I don't think that's politically realistic. It hasn't happened, and I don't think it will happen.

#Nima

And the other point is, yesterday we learned that Israelis are withdrawing various brigades from the southern part of Lebanon because FPV drones are making a lot of problems for the Israelis. You know, this is the reality. We haven't seen that in Gaza because Hamas is not that much advanced when it comes to the weapons they possess. But Hezbollah is different from Hamas, and this is the reality in Lebanon.

#Chas

It's different in many ways. Hamas is an outgrowth of the Muslim Brotherhood, which is a democratic Islamist movement. They believe in elections. They believe in the power of the people at the ballot box. They believe in the alternation in and out of power of political movements and parties. They were in power in Egypt for a short time. They proved to be very incompetent as governors of Egypt. But anyway, this is a pan-Islamic movement. It's present everywhere in the 57 predominantly Muslim countries in the world. It is very influential in Turkey, which is a big factor in the region now. And so Hamas came to power in Palestine through an election. It was elected as the government. There was a coup d'état mounted against it in Gaza in particular by Israel and the United States, the CIA. But it never was dislodged from power.

And while I think many people in Gaza no doubt regret the fact that Hezbollah's retaliation against Israel on October 7, 2023, led to the genocide and the tremendous suffering that they've undergone, Hamas still is the effective authority in the Palestinian part of Gaza. Israel has, of course, taken 60% of Gaza behind its so-called yellow line. Anyway, that's Hamas. Hamas is an authentic democratic nationalist movement, and it was a political movement before it became a militia. If you

look at Hezbollah, that's different. Hezbollah was a militia fighting Israeli occupation of Lebanon from 1982 on, before it became the effective political movement that it became. And it became that political movement, which I think is essentially fascist.

I'm not using the term as an insult. I'm just saying this is a state within a state. If you go to Beirut, I was very struck when I've been in Beirut by, you know, if you get up in the middle of the night, say you have to go to the airport or something, and you go out, you see who's doing the street cleaning — not the government, Hezbollah. It is a popular movement with its own militia, a state within a state, and it doesn't really believe in elections. It does not have its roots, as Hamas does, in democracy. It has its roots in armed struggle. So, you know, you can't tell if you talk to Hezbollah, as I've talked to them, whether they believe, you know, in one man, one vote, one time, or whether they believe in elections as a source of authority for the government.

Of course, they are effectively a majority in the Lebanese parliament. And they would be the government in Lebanon if Lebanon did not have a French-designed constitution which reserved the presidency for a Maronite Christian. The Speaker of the House has to be Shia, and the Prime Minister has to be Sunni. And so this is an arrangement the French made, which to some extent reflected the distribution of power in Lebanese society in the colonial era. It does not reflect that balance of power anymore because Christian and Sunni groups have been relatively diminished, and the Shia are now the majority in Lebanon.

So there's a constitution that basically delegitimizes the Lebanese government and leaves Hezbollah political space in which to operate. And it does. And, you know, I don't think it's a... It is battle-hardened because it participated in the defense of the Assad government in Syria against the international effort to depose that government, which ultimately failed. So they're very different, Hamas and Hezbollah. And the only thing they have in common is that they are elements of resistance to Israeli domination and expansion. And they are fiercely committed to their cause, their separate causes. They have some common interests. They're prepared to cooperate, but they will not break and run.

They cannot be easily subdued because they are both authentic expressions of popular nationalism. So I think they're very different. Hezbollah, as you said, has the other advantage of having been technologically much more advanced. It had access through Syria and through the sea to Iranian technical support. It has developed its own missile production capabilities. It is fairly sophisticated in engineering terms, whereas Hamas was totally cut off from the beginning in Gaza and had only light weapons, and was no match for the Israelis. The Israelis, every time they have invaded Lebanon, have been defeated by Hezbollah. And your mention of the extension of drone warfare pioneered in the Ukraine war to Lebanon is very, very appropriate.

Neither the Israelis nor the United States Army or military are configured to deal with drone warfare at the level that it has developed. Iran has shown that in terms of its skillful use of drones, not only to take out radars and other targets, but to take out the defenses against missiles that are

accompanying their own attacks. And Israel and the United States are both configured for short, decisive wars, not wars of attrition. Whereas Iran, Hezbollah, and Hamas are all configured for attrition, a war of attrition. Now we have an economic war of attrition going on, and we will see whether the same factors operate. I suspect they will. I don't think Israel and the United States will prove to have the stamina that their opponents, our opponents, do.