

## **WHY WAR WITH IRAQ IS NOT ABOUT THE OIL**

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A number of leaders of the antiwar movement have been loudly proclaiming that a war with Iraq would be all about America's desire to gain control of oil supplies there and elsewhere in the Middle East. In a recent BusinessWeek story, a German Green Party opponent of war was quoted as saying: "Saddam is no saint, but to me the whole thing smells of...oil." This economic argument, popular in Europe, makes little sense. If oil were the driving force behind the Bush Administration's hard line on Iraq, avoiding war would be the most appropriate policy.

Iraq, along with other important producers, must export its oil to gain the resources to buy goods, including weapons. Since oil is sold in a fluid world market, any nation, including the U.S., can get pretty much all the oil it wants by paying world prices. So the U.S. would be better off if it encouraged Iraq to export more, not less, oil because that would lower oil prices. Yet America has not done this. Since the Persian Gulf War, it has led the international community in restricting Iraqi production as a means of pressuring Saddam Hussein to dismantle his weapons of mass destruction.

Outbreak of a war in Iraq would cost the U.S., not save it, large sums of money. Already the runup to war has sent oil prices spiraling upward, imposing, in effect, a large tax on all energy consumers. War would initially cause prices to escalate further, as happened in the early days of the Gulf War. The largest estimates of the cost of a conflict with Iraq--estimates above \$150 billion, or 1 1/2% of U.S. gross domestic product--are based on the assumption that oil production facilities in Iraq, and possibly elsewhere in the Middle East, would be destroyed or put out of commission for a considerable period of time.

Even if all Iraqi production capacity were to be destroyed, world oil output for a year would fall by less than 4%. Such a cutback in supply for that year, it is estimated, could raise oil prices by as much as 40%. That would mean a jump in price from about \$35 a barrel now to a little less than \$50 a barrel--a significant increase but still far smaller than the tripling of prices after the first oil shock in 1973. Oil might spike temporarily to \$50 a barrel. I should add, however, that a price very far above \$50 a barrel is highly unlikely.

Moreover, in the event of a war, oil is likely to remain below \$50 a barrel since much of the war premium has already been priced in. Also, other producers could be expected to expand output to take advantage of the higher prices, and America should use some of its strategic oil reserves to get more oil into the marketplace.

The developed economies are also considerably less dependent on oil today than after previous oil price shocks—when OPEC was formed in the 1970s and when Iraq attacked Iran in the 1980s. These economies have learned to economize on oil and other fossil fuels by developing new technologies, including more efficient automobiles and airplanes. As a result, the share of income spent on oil has declined by more than half in the U.S. and other rich economies. So an upward boost of oil prices of even 50% would

have a significantly less disastrous effect on the U.S., Europe, and Japan than similar price jumps have had in previous decades.

Today, Middle Eastern nations are far less important to world oil production than they were immediately after the formation of OPEC. Their share of world oil production has fallen from almost 40% then to less than 30% now. In order to raise the global price of oil, the OPEC cartel, led by Saudi Arabia, had to restrict its members' production. This raised prices, encouraging non-OPEC nations, including Russia, to expand production. Also, oil companies have made greater efforts to find new deposits deep in ocean waters, in the frozen tundra of Siberia, and in China and elsewhere.

Saudi Arabia tries to create the impression that it produces more oil than it would like in order to keep world prices from rising further, and in this way, it curries favor with America and Europe. Indeed, there may be an element of political accommodation. But mainly the Saudis are helping themselves. They know that forcing prices still higher with additional cuts in their production and that of neighboring Persian Gulf states would accelerate the erosion of demand for Mideast oil as other producers expand output and industrial nations further economize on the use of oil.

Consequently, if the major driver of American policy toward Iraq were concern about oil and its cost, it would be best to avoid a Middle East conflict and the risk of much higher prices. A war with Iraq is not about oil. It is about Saddam Hussein and the threat he poses to his neighbors, his people, and to nations around the world. Critics might argue against that position, but they only confuse the issue by once again trotting out the oil card.