The real cost of imported oil

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War critics have made much of Defense Secretary Donald Rumsfeld's recent upward revision of the price tag for maintaining 150,000 U.S. troops in Iraq to around $1 billion a week. That sounds like a lot, but if it results in a more stable region and a reduction in the continuing need to defend Persian Gulf oil, it could prove to be quite a bargain indeed.

As the 30th anniversary of the 1973 Arab oil embargo approaches, the United States finds itself even more vulnerable than it was three decades ago. In 1972, the year before the embargo, U.S. oil imports were 27.6 percent of consumption. Last month, they stood at 56.8 percent, more than twice the 1972 level.

As long as there is no shortage and prices are within reason, most Americans are indifferent to the level of imports. They may understand on an intellectual level that a high level of imports of crude oil and refined petroleum products is not a good thing. As long as they do not feel personally affected, however, they remain complacent. What they do not understand is that the flood of foreign crude imposes an economic penalty of enormous proportions that is not reflected in the price they pay at the gasoline pump. It is a penalty that costs jobs, drains investment capital and inflates the nation's defense burden. It is a cost we cannot pay forever.

For the past year, the National Defense Council Foundation has been engaged in a detailed analysis of the "hidden" cost of imported oil. The analysis looked at three elements: military expenditures specifically tied to defending Persian Gulf oil, the cost of lost employment and investment resulting from the diversion of financial resources and the cost of the periodic "oil shocks" the nation has experienced.

When these three elements are combined, they total $304.9 billion annually, nearly six times what we are spending in Iraq.

The breakdown of these elements is instructive.

The most obvious import-related cost are the expenditures associated with defending the flow of Persian Gulf oil. The logical place to begin is with the U.S. Central Command.

Its area of responsibility encompasses 6.5 million square miles that hold 25 countries with populations totaling 522 million people. Its mission, according to the Department of Defense, however, is focused "primarily on the Middle East." Indeed, it grew out of the Rapid Deployment Force created in 1979 in response to the Iranian Revolution and general tensions in the Middle East.

Still, Central Command is not exclusively tied to the Persian Gulf. It was responsible for conducting the operations against al Qaeda and the Taliban in Afghanistan as well as Operation Restore Hope in Somalia where the "Blackhawk Down" incident occurred. Allowing for this, roughly $42.8 billion of Central Command's budget goes to defending Persian Gulf oil. When special one-time costs and contingency funds are included, the total rises to $49.1 billion - an amount equal to adding $1.17 to the cost of a gallon of gasoline.

But that's just the tip of the iceberg.

The loss of economic activity resulting from the diversion of financial resources is even larger. Direct economic losses come to $36.7 billion annually, and indirect losses to $123.2 billion for a whopping total of $159.9 billion - each and every year. To put these figures in human terms, this loss of economic activity results in a loss of 828,400 jobs in the U.S. economy and a loss of $13.4 billion in tax revenues and royalty payments that state and federal treasuries do not receive.

But there is one other element that must be included: the cost of the periodic "oil shocks" to the U.S. economy. The NDCF analysis puts the combined cost of the 1973-74, 1978-80 and 1991 "oil shocks" at between $2.3 trillion and $2.5 trillion. Lest you think the figure is inflated, Oak Ridge National Laboratories places the figure at $4 trillion. Amortizing these costs over the past three decades still yields an annual penalty of from $74.8 billion to $82.5 billion.

When all of the elements are taken together, they demonstrate just how expensive imported oil really is. When added to the most recent nominal price for a barrel of imported oil, they raise its "real" price to between $101.40 per barrel and $103.24 per barrel. This translates into a pump price for gasoline of between $5.01 and $5.19, or from $90.18 to $93.42 to fill an average gas tank.

The economic toll that oil imports take on the U.S. economy can only be eliminated if the need to import oil itself disappears. The time to get serious about achieving this goal is now. Otherwise, all the future holds is greater peril in both economic and military terms and a further drain on the U.S. economy.

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