The Stanley Foundation

policy analysis brief

Innovative approaches to peace and security from the Stanley Foundation

Oil and Security

January 2008

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Oil is a finite resource. As industrialized countries' economies become less oil intensive, it will eventually become clear that oil no longer has strategic importance. When and how this happens will have fundamental implications for political and military strategy.

Here we examine the current role of oil in military operations and overall economic activity. The time has already passed when oil was strategically important enough to require individual industrialized nations to be prepared to intervene militarily in oil-producing regions.[1] Nevertheless, there is a deep-seated perception that oil-producing regions retain a special strategic importance.[2] This ingrained idea heavily influences current strategic policy, particularly in the United States and Great Britain.[3] The questions addressed here are how military, political, and economic strategy can be reconfigured when the strategic role of oil becomes better understood.

To be sure, oil did once have a special strategic military significance. The decision just before World War I to convert the British Navy from coal to oil enhanced the naval superiority of the allied powers. Internal combustion engines also played an important role on land toward the end of World War I. In World War II, oil shortages led Germany to launch a three-pronged drive toward Caucasus oil fields. This drive was thwarted when the push toward Stalingrad used about twice as much fuel as expected, leaving Rommel's forces without enough fuel to get past El Alamein in Egypt. Japan preemptively tried to remove a potential US naval threat to takeover of oil production in the East Indies, but by the end of the war Japan was so short of oil that it was stripping pines from entire hillsides in an unsuccessful effort to extract enough fuel for one-way airplane attacks.[iv] That the tempo and thoroughness of the defeat of the Axis powers owed so much to the military importance of oil was an idea seared into the consciousness of everyone familiar with these events.

With the end of World War II, however, all of this changed. Never again would limits on oil supplies cripple an industrialized country's war effort. Indeed, by 2005 the US Department of Defense (DoD), which accounted for over 90 percent of government oil consumption, would nevertheless account for less than 2 percent of all US oil consumption.[v]

Even after oil lost its direct military significance, maintaining a flow of oil to its allies during their recovery from World War II was a primary concern of the United States. While oil imports were of minor significance to the US economy from the end of World War II through the 1950s, they were thought to be an important factor in the economic recovery and political stability of US allies. The uneasy Anglo-American cooperation born of the world war thus persisted. It lasted through the 1953 overthrow of an Iranian government seeking a greater share of oil revenues and the first and second Anglo-American-led wars against Iraq.[6]

The US economic recessions following the oil price shocks in 1973 and 1980 reinforced the idea that inexpensive oil is essential for economic growth. However, despite comparable inflation-adjusted oil price increases in 1998 and 2007, no dire effects on the US or global economy have yet been observed or are clearly in the offing, for reasons discussed below.

These observations open up three major policy opportunities for the United States, with profound implications for all developed and rapidly developing countries. These three "alternative world" opportunities deal with changes in political strategy, approaches to global energy markets, and reconfiguration of military forces:

- The United States does not undertake unilateral military intervention in international or internal conflict solely or primarily for the purpose of influencing who has control over energy resources.[7]

- Petroleum importers build up petroleum reserves when prices decline, and they gradually increase petroleum import tariffs until a mutually acceptable agreement on stabilizing petroleum prices is reached with OPEC.[8]

- The United States and its allies reconfigure their military forces and economic aid policies to prevail decisively in a carefully chosen and limited set of peacekeeping and counterinsurgency operations.

Carter-Clinton Doctrine

By 2007 enthusiasm for participation in the occupation of Iraq had waned successively in Spain, Italy, Poland, the US Congress, Britain's Labour Party leadership, and Australia. However, it would take more than a change in leadership or parties in power to escape from a recurring pattern of outside intervention in the Middle East, of which the occupation of Iraq was only the most recent manifestation. This is because of deeper systemic realities: European and US efforts to influence governance in the Middle East have much deeper roots. In the United States, this goes back to FDR's courting of Saudi Arabian King Ibn Saud in 1946,[9] and to President Carter's declaration in his 1980 State of the Union address:[10]

> An attempt by an outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force.

Although Carter refers to an "outside force" (i.e., the Soviet Union), the Carter and Reagan administrations were evidently also concerned that the ideas behind the Iranian revolution might lead to hostile forces from *inside* the region gaining dominance over Persian Gulf oil. When Ba'ath-controlled Iraq emerged defiant from the Iran-Iraq war, this concern shifted to the point where the 1996 Clinton administration's *National Security Strategy* included the following declaration that forces *internal* to the Persian Gulf region representing a threat to US vital national interests would be countered by force:

> There are three basic categories of national interests that can merit use of our armed forces. The first involves America's vital interests, that is, interests that are of broad, overriding importance to the survival and vitality of our national identity—the defense of US territory, citizens, and allies and our economic well-being. We will do whatever it takes to defend these interests, including—when necessary—the unilateral and decisive use of military power. This was demonstrated clearly in the Persian Gulf through Desert Storm and, more recently, Vigilant Warrior, when Iraq threatened aggression against Kuwait in October 1994.[11]

The United States did not have a formal alliance with Kuwait before Iraq attacked it in 1990, and the defense of US territory and citizens was not an issue. The justification cited in this quote for Operation Desert Storm is evidently related to economic well-being as a vital national interest (i.e., oil).[12] This is why US policy and associated military preparation for interventions in the Persian Gulf against either hostile external or internal forces is referred to here as the "Carter-Clinton doctrine."

The planners of the 2003 invasion of Iraq made the leap of deeming the *existing leadership* there to be a hostile force, not just some undesired change in the status quo. However, they had three decades of military preparation and more than 12 years of military operations against Iraq to draw upon to execute their plan. The underlying motivations for the invasion have been the subject of debate. Nevertheless, there is little doubt that concerns about who had control of Iraq's large oil revenue potential brought particular attention to that country. Iraq was singled out from other countries (such as Syria, North Korea, Pakistan, Sudan and other African countries, and Cuba) that had intervened in neighbors' affairs, built weapons of mass destruction, served as a source of nuclear proliferation, endured human rights abuses, or opposed US hegemony.

The primary original motivation for British policy on oil, as outlined by Winston Churchill as First Lord of the Admiralty in the House of Commons in 1913, was to build "reserves in Britain 'sufficient to make us safe in war and able to override price fluctuations in peace' by acquiring the power to deal in cheap crude oil and by controlling at the source at least a portion of the supply of natural oil which Britain required."[13]

From 1973 to 2007, however, important US interventions in Middle East conflicts had the opposite immediate effect on oil prices, and on longer-term stability of production as well. US emergency aid during the 1973 Yom Kippur War precipitated the first effective OPEC cartel action. It also helped give Israel the leverage needed to expand settlements deep in the West Bank area. These settlements were originally conceived from a military perspective as a bulwark against the advance of armored divisions from the East. They ended up becoming an impediment to the success of the peace process. When the peace process failed, some of the settlements became a costly distraction from establishing secure and defensible borders without permanently surrounding a large Palestinian population. Meanwhile, the United States' tilt toward Iraq during its 1980–86 war with Iran probably prolonged both the war and the high oil prices that accompanied it.

There was a less dramatic but still noticeable increase in oil prices during the Gulf War that started in 1990.[14] Iraqi oil production during the next Gulf War never attained the levels that would likely have been reached under the "smart sanctions" regime that Colin Powell had been tasked with negotiating before September 11, 2001. The events of that day made regime change the goal of US policy in Iraq. Moreover, the seesaw of US support, disengagement, opposition, support, and upcoming disengagement from the government in Iraq is very likely leading to less rather than greater longer-term security of Iraqi oil production. In short: US interventions have neither consistently produced lower oil prices nor led to US global leadership being viewed as desirable by generations of citizens and leaders of countries that supply the oil that the United States continues to consume.

The persistence of the misperception that the Persian Gulf's oil resources make the region especially strategically important courts the danger that counterproductive external attempts to influence the outcome of Middle East disputes will recur. Whether such political, economic, and perhaps military interventions will focus on Iran, Iraq, the Arabian Peninsula, or other countries in the region is hard to predict. However, history does suggest that outside attempts to intervene are likely to be useless at best and counterproductive at worst, both with respect to immediate and longer-term effects on oil prices. The logical conclusion is that the Carter-Clinton doctrine is misguided and should be abandoned.

Energy Security

While outside intervention in Mideast conflicts has not been effective in stabilizing oil prices, the question of what to do about oil price instability remains. One viable answer is: nothing. After all, prices for many raw materials fluctuate substantially, and life goes on. If oil is viewed not as a strategic commodity but rather just another commodity, then there is nothing special about it.[15]

From a global perspective, such price fluctuations do nothing except move money around. The foreign exchange that flows to oil producers has at some point to be reinvested or used for purchases that stimulate the economies in countries from which the purchases are made—i.e., windfall profits from oil-producing and exporting countries inevitably find their way into investments in oil-receiving or importing countries.[16] Oil price fluctuations themselves thus do not cause global economic recession.[17] Only when they trigger or coincide with other financial instabilities do such fluctuations cause or appear to cause global economic problems.

Barsky and Kilian attribute the US stagflations of 1973-1975 and 1979-1982 primarily to a response to money supply overexpansion, with oil price shocks only accounting for part of the accompanying recessions.[18] The subsequent economic malaise of the early 1980s was further compounded by problems resulting from inadequate regulation of US savings and loan institutions.[19] In 2007 an oil price spike coincided with exposure of overreach in the subprime mortgage market. However, in the 1970s the US economy was twice as oil-intensive as it had been when the occupation of Iraq started in 2003;[20] and in 2007 the Federal Reserve responded to the downturn in the housing market with a measured reduction of interest rates in a much less difficult monetary policy environment than it had faced during the stagflations in the previous effective oil cartel period.[21] There was no guarantee that monetary policy would continue to be exercised in a way that would avoid recession, but with the target for federal funds rates still at 4.5 percent in the final quarter of 2007 there remained ample room for doing so.

While large oil price fluctuations are not necessarily a major problem in a global economic sense, they are both a nuisance for major oil importers and a source of inefficiency in the energy sector. In the longer run, the availability of large unconventional oil resources like tar sands and shale limits oil prices to less than the nearly $100/barrel that the US economy managed to deal with in 2007.[22] This, in turn, limits the impact on the US economy to less than one year's worth of growth in gross domestic product. Spread over several years, the impact is small compared to other influences on economic growth, but coming mostly in a single year such a price increase can produce some economic disruption. Moreover, high oil prices have the greatest impact on modest-income segments of the population, which are heavily invested in energy-inefficient vehicles, are hard pressed to reduce essential travel like commuting to work, and are largely unable to cut far back on use of home heating oil.

A longer-term problem with large fluctuations in oil prices is that their existence and unpredictability discourages investments in more efficient utilization of energy and in alternative energy resources. To address these problems it is important to distinguish short-, intermediate-, and long-term elasticity of demand. It is the short-term rigidity of demand that allows oil prices to more than double when the ratio of global oil production to GDP falls by 6–9 percent.[23]

Back in 1913, Churchill promoted a principal solution to the problem of short-term inelasticity: the use of petroleum reserves. The United States has such reserves. However, with the idea that oil is a strategic commodity, it treats them as strategic petroleum reserves. This means that the reserves are increased in times of strategic uncertainty, when prices are high. Setting them aside for military emergencies means they are essentially never used, since with DoD using less than 2 percent of US oil consumption, the need does not arise. In contrast to the common business adage, "buy low, sell high," the policy for US petroleum reserves has recently been "buy high, never sell." This leads to the following conclusion:

> Petroleum reserves are only useful to the United States with a policy of "buy low, sell high" in order to dampen short-term market price fluctuations.

A bigger problem with oil prices is that their unpredictability on five-to-fifteen year time scales interferes with the private sector developing higher intermediate-term elasticity of demand. If the private sector can rely on an increase in the price of imported oil being durable, then consumers will respond with higher efficiency of oil use. Also, producers will respond with more alternative fuel sources up to costs that match the price of imported oil.

The primary response so far in the United States has been to subsidize alternative production technologies when prices are high, and then lose interest when prices fall. This helps lay down the technology groundwork for addressing the problem, but it does not create the economic framework for making use of the solutions. There is one and only one solution to this problem:

> Petroleum and petroleum product import tariffs must be imposed to dampen fluctuations in prices paid by US consumers, if investments in efficiency and production of alternatives to oil imports are to be effective.

A situation where domestic markets have accommodated oil prices of over $70/barrel is an ideal time for imposing a gradually rising oil import tariff. For oil prices cannot stay near $100/barrel over the long term when decades' worth of alternatives to oil imports at lower prices are technologically feasible.[24] That is, there is enough long-term elasticity of demand for imported oil that such prices are not indefinitely supportable in the early 21st century. If an oil import tariff is set to gradually rise as the international market price falls, then the result will be more predictable price signals to encourage both efficient use of fuel and alternatives to imported oil.

If oil tariffs were subject to the strictures of the World Trade Organization (WTO), then the strategy outlined here would be problematic. However, oil lacks the kind of sorely needed consumer-producer negotiating mechanism that the WTO provides for other kinds of trade. For oil, OPEC members cooperate to raise prices by restricting production. Consumer cooperation, in contrast, has been limited to OECD cooperation on redistributing stocks across OECD members under crisis conditions. To be effective in dealing with the oil producers' cartel, OECD countries in addition need to join with emerging major oil importers like China and India to use the same kind of import tariffs allowed under WTO rules to counter restraint of trade by producers.[25] Because the United States imports so much oil, an essential prerequisite for such cooperation is that the United States itself adopts a policy of using rising import tariffs unless and until OPEC agrees to negotiate production levels that will help stabilize prices at mutually acceptable levels.

Interactions between oil importers and OPEC on production levels need not be confrontational. There is a mutual interest in oil price stability, since massive and unpredictable fluctuations in oil revenues are also difficult for exporters to manage. There is also a mutual interest in limiting the rapid depletion of inexpensively extracted oil. Pacing the rate of oil extraction conserves resources for future use by importers and stretches out the revenue stream for those producing countries that have limited conventional oil resources and little or no unconventional resources as backup. An agreement on mutually advantageous production levels should thus lead to near-term prices that are intermediate between those of a fully competitive free market and those that would be determined by a completely unfettered producer cartel.

Cart and Horses

In broader perspective, the course of action outlined here proceeds in three steps:

1. From a security perspective, the United States adopts a policy that it will not undertake unilateral military intervention in international or internal conflict solely or primarily for the purpose of influencing who has control over energy resources.
2. The United States adopts a policy of gradually increasing oil import tariffs unless and until an acceptable agreement on production levels is negotiated with OPEC.
3. The United States adopts policies on domestic energy production and use designed to smooth adaptation of the domestic economy to the resulting price of petroleum products.

In this chain the horses that pull the cart are security and trade policy. What is in the cart is a set of policies aimed at helping the domestic economy adapt to the effects of global depletion of inexpensively extracted oil resources.

Current US energy policy is struggling with a cart of subsidies and tax breaks, regulatory mandates, and end-product taxation levels aimed at first reducing the fraction of oil that comes from imports. The hope is that a resulting higher degree of energy independence will then give the United States more freedom of action in dealing politically with Saudi Arabia and other major oil exporters.

For more than three decades, this approach has failed to produce the desired result. This is because it has four fundamental flaws. It is piecemeal and therefore leaky. Its most economically effective components are domestically and politically unpalatable. It ducks the need for international cooperation in dealing with OPEC. It is too little, too late, to avoid another round of US involvement in violent conflict in the Middle East. Each of these problems are addressed here in turn.

Without a comprehensive set of tariffs on imported oil and petroleum products, no combination of subsidies and tax breaks, regulatory mandates, and end-product taxation policies will succeed in reducing imports. Effective subsidies and tax breaks for alternatives to oil imports have the one predictable effect of *increasing* vehicle ton-mileage compared to what would occur without them. This applies to subsidizing research and development, exempting ethanol from motor fuel taxes, domestic oil depletion allowances, etc. Regulatory mandates like corporate average fuel economy (CAFE) standards for automobiles and light trucks and minimum ethanol content in gasoline may reduce oil use in one part of the economy. However, without higher petroleum prices, this will encourage the use of more petroleum for economic sectors that escape regulation, such as heavy trucking, aviation, heating, and petrochemical feedstock. Taxing particular petroleum industry end products like gasoline has a similar effect.

Subsidies for alternatives to imported oil are politically palatable when oil prices are high but can become unsustainable when oil prices temporarily decrease. This was the experience with making synthetic transportation fuels from coal after the 1973–1986 oil cartel period. Expanded ethanol production in the United States may meet a similar fate after a new peak in oil prices. Conversely, tax breaks for domestic oil exploration and production have been popular when oil prices are low but come under political attack when prices rise. For reducing overall oil consumption rates, the most effective of the piecemeal approaches are the broadest possible taxes on petroleum end products, but these are also the most politically unpalatable.

Another problem with piecemeal approaches to reducing petroleum imports is that they do not lend themselves well to international cooperation amongst oil importing countries. In the European Union there are widespread policies aimed in part at reducing petroleum consumption, but these have not provided the foundation for an effective global cooperative mechanism for dealing with OPEC.

One of the shortcomings of piecemeal attempts to reduce oil imports is that they are promoted as a way of increasing national security but have manifestly failed at doing so. This makes the general public wary of agreeing to the resulting individual sacrifice, whether this be in the form of higher gasoline taxes or the higher cost of a light truck that becomes subject to more stringent CAFE standards. This is a central reason for instead starting with security and trade policy and then adopting domestic energy policies that facilitate the adaptation to a more predictable oil price environment. The outcome of the occupation of Iraq has been traumatic both overseas and in its perceived impact on domestic fuel prices. It thus should not be hard to explain why the United States would want to adopt a policy of trying to avoid essentially unilateral future military actions against oil producing states. Moreover, taxing foreign oil producers through tariffs is not only a more effective way of reducing oil imports; when properly framed, this approach should be more politically palatable than directly taxing consumers' use of petroleum end products, even if the net effect on the cost of living is similar.

None of this is to imply that all other approaches than raising oil import tariffs are useless. Public investment in research and development can be very cost effective in situations where the benefits are too broadly spread for the private sector to make the needed investment. More comprehensive urban and regional planning can reduce both time and energy used for transportation. Properly handled, shifting the base costs of quality education away from local funding sources could over time both improve the economic competitiveness of the US labor force and reduce incentives for long commutes between affluent residential areas and jobs. Taxing petroleum end products can both reduce local and global environmental loads and provide revenue streams for necessary public infrastructure improvements in a way that limits demand for building infrastructure. Each of these approaches has potential dual benefits for the domestic economy and national security, but *none of them is an adequate substitute for appropriate international security and trade policies*.

Conventional Military Force Restructuring

Although this is not yet fully appreciated, the outcome of the occupation of Iraq will mark the beginning of the end of an era in military history—for we are not far from the point when "major powers" will no longer occupy other countries in order to influence who controls their resources.[26] This will truly be a turning point, since for millennia stronger powers have done just this in order to loot, enslave, control agricultural production, or control resources such as gold and other minerals. Except primarily for energy resources, the WTO mechanism now provides an alternative to violence. Several mechanisms also exist for international negotiation over use of major watersheds, and in any case international disputes over water resources do not directly affect the security interests of the United States and most other major industrial powers.[27] Oil is the last great resource that still attracts military intervention by industrial states. Natural gas is more widely distributed[28] and is more easily replaced by coal or uranium. If the policy changes described above are adopted with respect to oil, then similar policies to deal with any emerging natural gas cartel should more easily follow.

If oil consumers do not voluntarily change their policies on military intervention, then the increasing availability of nuclear technology to oil producers will soon force such a change. Being within only a few years of developing at least a recessed nuclear deterrent, Iran is a case in point. Plans by the Gulf Cooperation Council to develop nuclear reactors indicate that the Arabian Peninsula will not be far behind.[29] Currently, much of the US security establishment holds that it would be unacceptable to have Iran actually develop nuclear weapons. However, the domestic will and international cooperation needed to launch a successful occupation of Iran is clearly lacking, and it is generally understood that military action short of this is likely to be both ineffective and counterproductive. The same will be the case if Saudi Arabia or other of the larger Arab states develop nuclear weapons capabilities, either on their own or as part of a consortium. Given Israel's presumably substantial nuclear deterrent, another insertion of US conventional forces in one of Israel's neighbors would not help Israel deal with this potential challenge but could easily be counterproductive. With considerable diplomatic skill and a bit of luck, nuclear deterrence in the Persian Gulf region will remain at the level of capabilities to build nuclear explosives rapidly rather than actually deploying them.

Either way, *the evolution of some form of indigenous Persian Gulf region nuclear deterrence seems unavoidable unless the countries capable of it become convinced that outside powers have given up on the possibility of attacking them with conventional forces to influence who has control over their oil production*. This means that the United States is facing the same situation in the Middle East that has already led it to reduce its troop deployments aimed at fighting a conventional war in East Asia.

As a result, US and other NATO military forces have two major problems. These were outlined in 2004, and remain unsolved.[30] One is that parts of these forces are still geared toward fighting wars between major powers, but new relationships between these powers make such wars even more unlikely than they were before. The other is that these forces, particularly those of the United States, have been well configured to prevail in the initial stages of combat against medium-size states, but not in the aftermath of an initially successful occupation.

A policy of being prepared to intervene unilaterally in the large oil-producing states to influence who has control of production dictates that the United States maintain sufficient conventional military forces to attack, occupy, and then stabilize the succeeding government. Moreover, those military forces must conduct such operations in a country that had substantial oil revenues to build up its military and whose population may harbor violent opposition to outside forces bent on determining who controls the country's oil. An operation on this scale requires forward basing of air power and heavily armored ground force divisions, as well as the naval and air transport support and protection needed to supply these forces deep in enemy territory. It also requires substantial occupation forces trained in the local languages and customs and suitable intelligence and reconstruction support capable of succeeding while pursuing an intensive counterinsurgency campaign. According to the Powell Doctrine, such a military operation should be undertaken with a clearly defined and understood objective that can be achieved with application of adequate military force.[31]

The recent occupation of Iraq illustrates the difficulties of applying the Powell Doctrine to establish a stable government that is acceptable to the United States and its allies. Whatever the ultimate outcome in Iraq, the marked differences between the pre-attack planning and the realities of the occupation make it clear that applying the Powell Doctrine to a future similar conflict would require the restructuring of US military capabilities, especially if no major NATO allies are willing to support such a campaign. Indeed, to maintain both the Carter-Clinton and Powell Doctrines, the United States would have to restructure its military and intelligence capabilities. It is far from clear that the country can, will, or even should undertake this challenge.

One way or another, it will become clear that the United States will no longer undertake a unilateral military intervention solely for the purpose of determining who has control over oil resources and production. The United States will likely retain the ability to intervene for other purposes, such as helping to repel a detested invader, dealing with egregious human rights violations, or suppressing an unacceptable level of state support for international violence by intelligence units or non-state actors. In these and similar situations requiring large-scale intervention forces, the United States could expect to operate with broad multilateral support. It is possible that smaller-scale peacekeeping challenges might arise where the United States finds it necessary to intervene but the international community is too overburdened with other challenges to provide any support. Still, appropriately configured US forces should be able to handle such situations on their own.

New political realities will reduce the scale of operations for which US military planning is needed. "In particular, US forces need not equip and train for a large-scale, *unilateral* battle against substantial conventional forces, followed by a prolonged counterinsurgency campaign. Large-scale conventional *multilateral* operations such as the 1991 battle over Kuwait might still occur if the United States determined that the government of the attacked country was worth fighting for irrespective of its oil resources. However, US forces would not be expected to make a rapid transition from this kind of conventional battle to the very different training and equipment needed to succeed in a prolonged follow-up reconstruction and counterinsurgency campaign. Because the Iraqi military was built up with outside support during the Cold War, the war over Kuwait was a larger-scale conventional operation than is likely to be faced by NATO and any other coalition partners in the near future. Given the considerable technical improvements in firepower direction and application that have occurred since the first Persian Gulf War, it should be possible to remain prepared for such operations with NATO heavy forces smaller than those being maintained at the end of the Cold War."[32]

The basic tenets of the Powell Doctrine remain sound in the new international security environment facing the United States. When supporting prolonged security operations like that in Afghanistan, it is all the more important to have solid public support for the mission, a clear concept of the goal and the steps required to accomplish it, and commitment of adequate resources to be highly confident of success.

However, reorienting the US military and its civilian overseers to meet the training and operational requirements of such missions will require a wrenching transformation of the mindset built up over generations during the 20th century. The large-scale wars previously fought with draftees or with overwhelming firepower and minimal US casualties are a thing of the past. Attracting and retaining qualified military personnel willing to stay in theater long enough to build the kind of cultural understanding and local relationships needed for success will be difficult and expensive. Moreover, a panoply of Cold War weapons systems with strong supporters in many US congressional districts are very inefficient and overly expensive, and their continued maintenance and development is incompatible with allocating the resources needed to meet major new challenges.

Because the needed transformation will at best be slow and difficult, application of the Powell Doctrine in the new security involvement will require careful selection of which conflicts the United States is willing to join. Critical to the success of US involvement with the former Yugoslav republics was that NATO partners had a strong and persistent interest in an acceptable outcome. However, US involvement in the Horn of Africa has not produced a satisfactory outcome. The United States invaded Iraq without either a coherent follow-up plan or the national staying power sufficient to form one on the fly and stick to it. Nor is there a clear plan for success in Afghanistan. The NATO allies do not have a coherent plan to promote economic development and political stability in Afghanistan that could work even in the absence of cross-border infiltration. Even if they did, there would remain the choice between the enormous challenges of sealing the border with Pakistan or dealing with all of the repercussions of extending the intervention into that country's Northwest Frontier Province. If the NATO engagement in Afghanistan is to continue as the draw-down of forces in Iraq proceeds, the needed military transformation will be an immediate operational challenge, not just a leisurely exercise that can be spun out over more than one quadrennial defense review.

There remains a substantial body of opinion that the US military is simply not the appropriate type of organization to play the primary role in what is often referred to as "nation-building." In this view, the emphasis should be on augmenting the capabilities of the US State Department and other agencies and nongovernmental organizations to promote economic development and political stability abroad.xxxiii The goals of humanitarian assistance and preventing the evolution of new security problems may be best served by this approach in areas that are not currently problematic from a security perspective.

However, an adequate level of physical security is essential for development assistance to be effective in regions of the most immediate security interest, precisely because the needed security is lacking. Moreover, without a fundamental restructuring of US budget priorities, the Department of Defense is going to continue to have by far the great preponderance of resources needed to fill in the gaps left because other agencies and organizations have limited resources. Thus if the Powell Doctrine is going to be followed in interventions in which US military personnel are involved, the DoD will need to be prepared to fill in with infrastructure, medical, and other support for development efforts where these are needed for success but would otherwise fall between the cracks of what other organizations can deliver.

All of this implies that the United States is going to need to be very careful in choosing the conflicts it decides to enter, if it wants to be confident of success. Unless and until substantial changes in US political and military culture are well under way, the number and scale of conflicts that meet the criteria for such intervention will be quite limited. In particular, it is not clear that continued involvement in the civil conflict in Afghanistan fits the bill. Historically, from the incursions of Alexander the Great, no outside intervention in Afghanistan has succeeded, save for the Mongol tactic of surrounding cities and giving all of the occupants a choice between death and slavery. Historical analogy is hardly definitive, but the radical transformation of an economy with revenues and regional power structures so heavily dependent on cultivation and trade of illegal drug materials remains one of the most formidable challenges ever faced. Nor is it clear that something short of mastering this challenge will result in net security benefit to the NATO alliance partners.

The United States' body politic and its political and military institutions are a long way from coming to grips with the rapidly changing security environment of the 21st century. If the history of the first half of the 20th century is any guide, the lessons that need to be learned by the United States and its allies will be costly and painful ones. The sooner the situation is thought through carefully, the less painful this process may be.

Endnotes

[1] Barbara Conry, *America's Misguided Policy of Dual Containment in the Persian Gulf*, (Cato Foreign Policy Briefing No. 33, November 10, 1994), *http://www.cato.org/pubs/fpbriefs/fpb-033.html*, contains this reminder that the time when oil was strategically important enough to require individual industrialized nations to be prepared to intervene military in oil-producing regions may have in fact long since passed: "Unhindered access to gulf oil is certainly desirable, but it is not so essential to the American economy that it rises to the level of a vital interest." She also refuted other arguments for the idea that the United States has vital interests in the Persian Gulf and supports economist Milton Friedman's assertion at the time of the Iraqi occupation of Kuwait that maintaining and executing the ability to intervene militarily there was economically counterproductive for the United States.

[2] Michael Kraig, "Forging a New Security Order for the Persian Gulf," *Middle East Policy Council Journal*, Vol. XIII, No. 1, Spring 2006, holds that "Oil and natural gas are the primary drivers of the entire global economy, both in the developing and developed worlds. Regional security in the Gulf is therefore inherently tied to socioeconomic development throughout the world."

[3] Frederick W. Kagan and Michael O'Hanlon, *The Case for Larger Ground Forces*, (Stanley Foundation, April 2007), take it as a given that the Persian Gulf is, along with East Asia, "one of the key strategic regions of the world." They infer a US strategic concern with the Persian Gulf from a bipartisan post-World War II consensus among American policymakers that the United States has a direct interest in such regions.

[4] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, & Power* (New York: Simon & Schuster, 1991), Chapters 17 and 18, describe the influence of access to oil on the course and outcome of World War II.

[5] Paul Dimotakis, Robert Grober, and Nate Lewis, "Reducing DoD Fossil-Fuel Dependence," JASON study group report JSR-06-135 (The MITRE Corporation, September 2006).

[6] Clifford Singer, *Energy and International War: From Babylon to Baghdad and Beyond*, manuscript in preparation for World Scientific Press, contains

an extensive description of the historical events referred in the present policy brief.

[7] Clifford Singer, James Walsh, and Dean Wilkening, rapporteurs, *Reinventing Multilateralism* (University of Illinois Program in Arms Control, Disarmament, and International Security and Institute for Government and Public Affairs), May 2004 workshop report, funded by the John D. and Catherine T. MacArthur Foundation, p. 28.

[8] SABC News, "Ecuador Rejoins OPEC, Bolsters Producer Power," November 17, 2007, *http://www.sabcnews.com/world/other/0,2172,159424,00.html*, notes that Ecuador and Gabon left the Organization of Petroleum Exporting Countries in 1992, in part as a result of a dispute over production quotas. This illustrates the potential fragility of the cartel at the margins following a period where high oil prices have suppressed demand. As of November 2007, the members of OPEC were Algeria, Angola, Ecuador, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

9 Yergin, *The Prize*, p. 403.

[10] Jimmy Carter, "State of the Union Address 1980," January 23, 1980, *http://www.jimmycarterlibrary.org/documents/speeches/su80jec.phtml*.

[11] The White House, "Deciding When and How to Employ US Forces," in *A National Security Strategy of Engagement and Enlargement,* February 1996, *http://www.globalsecurity.org/space/library/policy/national/1996stra.htm*.

[12] Singer et al., *Reinventing Multilateralism*, p. 29.

[13] Sara Reguer, "Persian Oil and the First Lord: A Chapter in the Career of Winston Churchill," *Military Affairs,* October 1982, Vol. 46, No. 3, pp. 134–138.

[14] British Petroleum's *Statistical Review 2007* Excel workbook of historical data lists the following changes in oil prices per barrel, inflation adjusted to US$2006: $15-$48 for 1973-1974 before and after the Yom Kippur War; $44, $88, $90, $80, $69, $60, $55, $52, $27 for 1979–1987 spanning the Iran-Iraq war, $30-$37 for 1989-1990 before and after the Iraqi occupation of Kuwait; and $28, $32, $41, $56, $65 for 2002–2006 before and into the occupation of Iraq.

[15] Raymond J. Learsy most clearly enunciated the idea the oil should be viewed as just another commodity, not a strategic commodity, in his Woodrow Wilson Center book launch of *Over a Barrel: Breaking Oil's Grip on our Future* (Nashville: Thomas Nelson, 2005) on October 17, 2005, in Washington, DC.

[16] Steven R. Weisman, "Oil Producers See the World and Buy It Up," *The New York Times,* November 28, 2007, quotes estimates "that oil-rich nations have a $4 trillion cache of petrodollar investments around the world." Of this the bulk of the petrodollar investments were in the United States and much of the rest in Europe, but with "at least 25 percent of foreign investments from the Persian Gulf are in Asia, the Middle East, and North Africa." Weisman also notes that "the petrodollar era has benefited the world economy, economists say, notably by enhancing liquidity…."

17 Angus Maddison, *The World Economy: Historical Statistics* (Paris: OECD, 2003), and the link to "World Population, GDP and Per Capita GDP, 1-2003 AD" at *http://www.ggdc.net/maddison/*, provides annual estimates of GNP in terms of inflation-adjust purchasing power parity, which accounts for the different purchasing power of currencies in each country. Using this measure of GDP globally aggregated, there was continuing year-to-year economic growth in every year of the 1973–1986 first effective OPEC cartel period, with average growth over the previous year of 2.9 percent. There was contraction of this measure of per capita GDP by 0.3 and 0.4 percent in 1975 and 1982 respectively, but the average increase in global per capita GDP over the previous year from 1973 to 1986 was positive at 1.5 percent.

[18] Robert Barsky and Lutz Kilian, "Do We Really Know that Oil Caused the Great Stagflation? A Monetary Alternative," *NBER Macroeconmics Annual*, pp. 137-183. (Chicago: University of Chicago Press, 2001) present results of a model of stagflation periods where inflation continues to rise while output falls.

[19] Timothy Curry and Lynn Shibut, "The Cost of the Savings and Loan Crisis: Truth and Consequences," *FDIC Banking Review,* December 2000, *http://www.fdic.gov/bank/analytical/banking/2000dec/brv13n2_2.pdf*.

[20] British Petroleum's *Statistical Review* and Maddison's *The World Economy* provide data indicating that the ratio of US oil consumption to GDP was 2.0 times as large from 1969 to 1977 as it was in 2003.

[21] "Minutes of the Federal Open Market Committee, October 30–31, 2007," *http://www.federalreserve.gov/newsevents/press/monetary/20071120a.htm*.

[22] Clifford Singer, *Energy Systems* (Fall 2007), *http://acdisweb.acdis.uiuc.edu/GLBL201_2006/*

index.html, contains extensive information on energy production alternatives.

[23] British Petroleum's *Statistical Review* and Maddison's *The World Economy* provide data on the relationships between global oil production per unit GDP and oil prices.

[24] US Energy Information Agency, "Spot Prices," *http://tonto.eia.doe.gov/dnav/pet/pet_pri_spt_s1_d.htm*, listed a benchmark crude oil spot price of just over $99/barrel for November 21, 2007. The prices of $70/barrel and $100/barrel used above in the text refer to prices adjusted for inflation to year 2007 purchasing power.

[25] OECD/IEA, "IEA Co-operation with Asian Non-Member Countries: Oil Security and Emergency Preparedness," November 2006, *http://www.iea.org/textbase/work/2006/gb/regional_information/cooperation.pdf*, reports on cooperation on oil supply security between the Organization of Economic Cooperation and Development's International Energy Agency and China, India, and Association of Southeast Asian Nations members. This could provide a starting point for coordinated action on negotiating over tariffs and production levels with OPEC.

[26] Steven Metz and Frank G. Hoffman, *Restructuring America's Ground Forces: Better, Not Bigger* (Stanley Foundation Policy Analysis Brief series, September 2007), note concerning the US military that its "involvement in irregular warfare and stabilization operations in weak and failing states will be its most common activity—*perhaps its only major one*." [Emphasis added.]

[27] Nile Basin Initiative, "Features," 2003, *http://www.nilebasin.org/*, reports on one of the most interesting international initiatives aimed at peaceful resolution of questions concerning international watersheds.

[28] Daniel Yergin and Michael Stoppard, "The Next Prize," *Foreign Affairs,* November/December 2003.

[29] William Broad and David E. Sanger, "With Eye on Iran, Rivals Also Want Nuclear Power," *The New York Times,* April 15, 2007, note that, in addition to the Gulf Cooperation Council states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, also Egypt, Jordan, Syria, Turkey, and Yemen have recently and quite suddenly expressed interest in acquiring nuclear reactors.

[30] Singer et al., *Reinventing Multilateralism*, pp. 34–35.

[31] Colin L. Powell, "US Forces: Challenges Ahead," *Foreign Affairs,* Winter 1992/93. This reference has been added to the material quoted here, with deletion of a parenthetical note that the Powell Doctrine is "named for Gen. Colin L. Powell, chairman of the Joint Chiefs of Staff during the Persian Gulf War and secretary of state in the George W. Bush administration."

[32] Singer et al., *Reinventing Multilateralism*, p. 35.

[33] Cindy Williams, *Beyond Preemption and Preventative War: Increasing US Budget Emphasis on Conflict Prevention*, (Stanley Foundation Policy Analysis Brief series, February 2006).

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