Policy Analysis

Cato Institute Policy Analysis No. 90: Where Angels Fear to Tread: The United States and the Persian Gulf Conflict

September 9, 1987

Sheldon L. Richman

Sheldon L. Richman is director of public affairs at the Institute for Humane Studies at George Mason University and has written widely on Middle East issues.

Executive Summary

The Reagan administration's decision to reflag 11 Kuwaiti oil tankers and deploy a major force of warships in the Persian Gulf is merely the latest in a series of bizarre and blundering steps toward making the United States a full-fledged belligerent in the seven-year-old Iraq-Iran war. President Reagan says that increasing the American naval force and protecting the tankers are necessary to defend the principle of free navigation and to prevent the Soviet Union, which is leasing tankers to Kuwait, from establishing itself as a gulf power. Neither reason justifies the new measures or vindicates 40 years of U.S. military and diplomatic intervention in the Middle East. Iraq's presumably accidental air attack on USS Stark on May 17, which killed 37 sailors, and the mine incident with the reflagged Bridgeton are likely to be only the beginning of the direct danger to Americans in the region if the United States fails to reverse this foolish policy.

The American record in the Iraq-Iran war illustrates the meddlesome and often seemingly confused nature of U.S. foreign policy. Although publicly neutral since Iraq started the war by attacking Iran in 1980, the United States has quietly given help to Iraq by, among other methods, furnishing intelligence on Iranian troop concentrations and damage assessments of Iraqi attacks on Iran.[1] The Reagan administration has also given Iraq annual commodity credits of $500 million.[2]

Yet, as revealed in November 1986, the administration also has secretly sold TOW antitank missiles, Hawk surface-to-air missiles, and spare parts for F-4 aircraft to Iran in a bid to free American hostages being held in Lebanon. This equipment has been credited with giving new vigor to Iran's war effort. The Hawk missiles appear to have limited Iraq's air force, giving Iran more freedom of action on the ground.[3] Iran has regained nearly all the territory lost to Iraq when the war opened and now occupies some Iraqi territory. Although Iran is far from having a free hand, it has held on to 120 square miles around Iraq's gulf oil port of Fao[4] and has threatened Basra, Iraq's second-largest city.[5]

The second major result of the U.S.-Iran arms deal has been the straining of relations between the United States and Kuwait and Saudi Arabia. It was the news about the deal that prompted Kuwait, fearful of Iran and wishing to enlist the superpowers' help in ending the war, to ask the Soviet Union to protect its tankers from Iranian attack. The Kuwaiti government also asked the United States for the reflagging of tankers, but the Reagan administration gave the request minimal attention until the Stark tragedy occurred.

Although Stark was hit by Iraq, the administration used the attack as an occasion to step up help to that country and its ally Kuwait. Perhaps trying to make amends for its hypocritical policy toward Iran--as it was selling arms to Iran, it

was condemning others for doing the same--the administration branded Iran "the real villain." Yet it was Iraq that started the war and particularly the policy of attacking oil tankers of nonbelligerent countries. Since 1984, when the tanker war started, 250 ships have been hit--60 percent of them by Iraq.[6] Moreover, Iran's attacks on tankers have a distinctly retaliatory cast; whenever Iraq has curtailed its strikes on Iran's oil facilities, Iran has refrained from hitting ships. Since only Kuwaiti tankers will be reflagged and will qualify for U.S. naval escort, the U.S. proclamation of free navigation looks like a rationalization of its policy. To complicate matters, although the Reagan policy appears pro-Iraq at first glance, Iran stands to gain the most from keeping the gulf and the Strait of Hormuz open. Iran, as will be discussed later, sends its oil through the gulf and needs oil revenues to fight the war. Iraq does neither.

Should the United States protect the tankers of Iraq's benefactor Kuwait? More fundamentally, should the United States even have military forces in the region? Protection of the gulf is presumed to be part of the role the United States took on after World War II, a role in which the country was protector of the free world. Perhaps it is time to rethink this role.

The Middle East Cauldron

For decades, the Middle East has been a key region for the West because of its vast oil reserves. Keeping the Strait of Hormuz open, therefore, has been seen as an essential element in the defense of the Western world. Although Great Britain and, to a lesser extent, France were accorded the status of custodians of the Middle East immediately after World War II, U.S. policymakers soon began to assert that the United States had responsibilities in the region. U.S. aid to Greece in 1947, for example, was justified in part by its value in stopping communist expansion into the Middle East. By the mid-1950s, the United States had gained major concessions in the Middle East for its oil companies, at the expense of British interests. In 1956, it opposed what was to be Great Britain and France's final assertion of power in the area: their attack, with Israel, on Egypt in the Suez crisis.

With respect to the Middle East, the economic, strategic, and ideological threat to the West is said to have two sources, one internal, the other external. The prime internal threat is said to come from the Muslim fundamentalism epitomized by Iran's Ayatollah Ruholla Khomeini. Other internal threats are attributed to such ambitious rulers as Libya's Muammar Qaddafi and Syria's Hafez al-Assad. The external threat is said to come from the Soviet Union.

Which of these is the greater threat to the United States? As a congressional report put it in 1977, "The most serious threats may emanate from internal changes in the gulf states."[7] Consequently, although the Soviet threat is often portrayed as the major concern, there is reason to believe that since World War II, the primary target of U.S. involvement in the Persian Gulf has been internal upheavals that could jeopardize U.S. influence in this highly coveted area. The gulf has long been seen as "a stupendous source of strategic power, and one of the greatest material prizes in world history."[8]

The two perceived threats, of course, are linked. It is often held that the ultimate winner in any gulf upheaval will be the Soviet Union. Thus, the Soviets are believed to encourage many of the internal problems in the region. According to one analyst, "Moscow so far has pursued an indirect strategy in the gulf to avoid a direct confrontation with the United States. . . . Moscow seeks to 'subvert the center by radicalizing the periphery.'"[9] Added to the Soviets' indirect strategy, according to this view, is a new directness on the Soviets' part. The agreement to lease oil tankers to Kuwait and provide mine sweepers is seen as a bold Soviet step to establish itself as a major player in the Persian Gulf.[10] In this view, U.S. measures designed to stanch indigenous change would also help to counter Soviet moves, although additional measures may be needed to deter outright Soviet aggression.

One U.S. measure for countering the dual threat is the U.S. Central Command (formerly called the Rapid Deployment Force), created by President Carter after the Soviets sent troops into Afghanistan. Another measure is U.S. support for friendly regimes in the region, including those of Israel, Saudi Arabia, Oman, and, until the shah was overthrown by Khomeini's supporters in 1979, Iran.

The degree of dependence on these measures is a matter of debate both within and outside of the Reagan administration. Analyst James A. Phillips, for instance, would have the United States rely more on local governments, teaching them "techniques for reducing the success of coups." But he also has proposed a "fast reacting American commando force . . . for keeping U.S. friends in power."[ll]

Concerns about the Middle East have come to a head with the Iraq-Iran war and the ostensible threat it poses to the gulf. In September 1980, the long feud between Iraq and Iran finally broke out into open warfare. When the Iranian revolution occurred in 1979, the radical Shiite Muslims who ousted the shah vowed to spread their revolution throughout the gulf area. Iraq saw opportunities for influence by becoming the protector of the Arab gulf states, reclaiming sovereignty over the Shatt al-Arab River, and recovering disputed islands held by Iran but claimed by the Arabs. When Iran attempted to stir up the Iraqi Shiite majority, Iraq responded by trying to incite the Arabs in Iran's Khuzistan province (called Arabistan by the Iraqis), long an area of contention between the two nations. Harsh words turned into border skirmishes, and then Iraq invaded. After Iraq's early successes, it called for a cease-fire, which was--and continues to be--rejected by Iran.[12]

The war has been fought by both sides with all the fierceness of the "jihad," or holy war, that it is for Iran. Iran's mullahs have urged youngsters to hurl themselves in a human wave at Iraqi troops, promising them that dying in a jihad will bring immediate ascent to heaven. Iraq has responded with poison gas and attacks on Iran's oil-export facilities.

In Iraq's secular society, President Saddam Hussein has managed to maintain support for the long war by, among other things, crushing dissent and persecuting men who try to avoid military service. At one point, he honored a man who killed his son for refusing to fight.[13] Hussein's measures reflect the fact that the war has turned in favor of Iran, although that country has been unable to deliver the killing blow. Iraq, having started the war, seized and held Iranian territory early on. It has lost nearly all its gains now, and some Iraqi territory has fallen to Iran. Hussein continues to say he is willing to negotiate an end to the war, but Khomeini insists he will not make peace until Hussein is toppled.

That this is a classic fight between two undesirables has not stopped the United States from finding ways to get involved. It has openly tilted toward Iraq, despite that country's brutal socialism and friendship with the Soviet Union. (The Soviets, after some wavering, have also favored Iraq but continue to court Iran.) Besides leading a worldwide arms embargo against Iran and providing Iraq with commodity credits, the United States has given Iraq almost $500 million in Export-Import Bank guarantees for an oil pipeline. Moreover, the United States supported a UN Security Council resolution that condemned Iran for attacks on ships in the gulf but did not name Iraq, which has acknowledged responsibility for most of the attacks.[14] And, as noted, the United States helped the Iranian war effort with its arms-for-hostages deal.

The Roots of the Iraq-Iran War

The roots of the present conflict actually go back to the 7th century, when Persia blocked complete Arab control of Mesopotamia. In 637, the Arabs defeated the Persians at Qadisiya, on the Euphrates River, and brought Islam to Persia. By the end of the 7th century, Islam had split because there was no agreement over who would succeed Muhammad, who had died in 632. The dispute turned bloody, and among those who died was Muhammad's son-in-law Ali, deposed from authority by the Umayyad dynasty, which ruled until 750. Ali's son Hussein led a rebellion that was unsuccessful, but out of his struggle came the offshoot of Islam known as Shiism, which today dominates Iran.[15] The ranks of Shiites swelled in the 8th century as resentment against the ruling Arabs grew among non-Arab Muslims, who were treated as second-class citizens. But through the centuries, Shiism, though the official religion of Iran since the 16th century, was always the minority sect in the Muslim world, which continued to be dominated by the Sunnis and their Arab leaders. Sunnism was the orthodoxy, whose content was supplied by its reactions to the early schisms, including Shiism. Whereas Shiism teaches that knowledge comes from the infallible imams, or leaders, Sunnism teaches that the source of knowledge is the majority of the community.

Iraq's modern-day problems with Iran did not begin with Khomeini. Iraqi president Saddam Hussein had his troubles with Shah Reza Pahlavi as well, mainly with regard to a river boundary, the Shatt al-Arab. The 120-mile river flows from the confluence of the Tigris and the Euphrates to the Persian Gulf. Both countries have long regarded it as important because of the access it provides to trade routes and defensive vantage points.

The Persians also vied with the Ottomans over the Shatt al-Arab. In 1847, the Treaty of Erzerum set the boundary on the Persian side, putting the shipping channel entirely in Ottoman territory. After World War I, Great Britain got control of Mesopotamia, and an independent Iraq was set up in 1932. Under a 1937 treaty, the river's Persian (east) bank was set as the boundary between Iraq and Persia, and Iraq was given exclusive navigational rights up to the Iranian shore, rather than to midstream as is customary. Persia, which had formally become Iran in 1935, was permitted to use the waterway near its three ports. Iraq, however, believed it was entitled to charge shipping royalties, board ships, and close the river.

Iran's rulers long objected to the treaty, charging that it had been imposed by Great Britain. In 1969, the shah unilaterally renounced the treaty, and Iran and Iraq almost went to war. But in 1975, Saddam Hussein (then Iraq's vice president) and the shah signed a new treaty, placing the boundary down the middle of the river. In return, the shah promised to stop aiding the revolt of the Kurds, an ethnic group in oil-rich northern Iraq that the Iraqis had long suspected of wanting to secede. Under the treaty, the border between the countries was shut and the shah stopped sending help to the Kurds, whose revolt subsequently collapsed. Despite the new treaty, neither country felt the other was an ally. When Iran fell into disarray during its revolution, Iraq abrogated the 1975 treaty.[16]

The Iraq-Iran friction is over more than just territory, however. The Iranians believe that Saddam Hussein, a Sunni, rules the Shiites in Iraq only because of Arab capitulation to the British after World War I. No Iranian ruler in the 20th century has regarded the Iraqi leadership as legitimate. This is one reason that the shah helped the Kurds.[17] For their part, the Iraqis resent the degree of influence the Iranians-- being Persians rather than Arabs--have had in the region. Iran has tried to use its religious identity to gain influence at the expense of Iraq's secular government, while Iraq has tried to use ethnicity--its Arab identity--to overshadow Iran and establish itself as the major power of the gulf area. In the words of one observer:

For Iraq, then, it is a war of survival: a military response to a political, psychological and sectarian challenge from a religious zealot who has always proclaimed a mass uprising against the "godless" rulers of Baghdad, pawns of the American "great Satan," as one of the first priorities of his Islamic Revolution. But it is a war which cannot be disassociated from broader geopolitical ambition.[18]

There is also a personal feud between Khomeini and Saddam Hussein. It was Hussein who, at the shah's urging in 1978, forced Khomeini from the Iraqi town of Najaf, where the ayatollah had spent 16 years in exile. When Khomeini finally triumphed, he tried to encourage the Iraqi Shiites to revolt against Hussein. He had not forgotten how he left Iraq.

The Gulf War and the Oil Supply

If Iraq and Iran were situated somewhere other than on the Persian Gulf, perhaps their nasty war would not command the attention that it does. That is where they are, however, and the attacks on oil tankers have renewed thoughts of U.S. military action in the gulf.[l9] Iraq started the tanker war by attacking the area around Kharg Island, Iran's main oil terminal. Iran responded, as it had promised, by striking at ships traveling to and from Iraq and Kuwait. Since early in the war, Iraq has been denied access to the Strait of Hormuz and has instead exported its oil through an overland pipeline. Iran continues to ship its exports through the strait.

The tanker war at first caused a temporary rise in the price of oil and insurance rates on tankers. But despite attacks on nearly 300 ships and various doomsday predictions, the consequences for the world petroleum market have been far from catastrophic. "The Arab states of the Gulf are easily filling their OPEC quotas," wrote the Economist after the May 1987 attack on USS Stark.[20] Even Iran has been able to fill its quota, though with more difficulty.[21] With the price of oil hovering at $20-$22 a barrel, there is little sign of a major threat to the world oil supply.[22]

Insurance rates, however, have gone up. Insurance for tankers calling on Kuwait has risen 50 percent, to 0.375 percent of a tanker's insured value. It was as high as 0.5 percent in February 1987. Moreover, some tanker crews are getting double and triple pay for hazardous duty. But these extra expenses are often paid by oil exporters, because of heavy competition during the continuing glut. For example, Iran has bought tankers and offers free shuttle service for oil from high-risk Kharg Island to the southern gulf at a cost of $20,000 a day per ship and $10,000 a day for storage.[23] Kuwait offered Japan free shuttle service after a Japanese ship was attacked.

This continues a pattern of service that began several years ago. Iran, for example, offered a discount of up to $3 a barrel, more than offsetting the $2.33 a barrel hike in insurance rates. Moreover, the discount continued even when insurance rates fell.[24] Members of the Gulf Cooperation Council have offered to compensate shippers for oil lost to bombing attacks. Bahrain, Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, and Oman announced they would replace any lost oil to prevent insurance premium increases.[25]

The key questions are: Does the war present a threat to the United States? Should the United States regard intervention as its duty if such action is deemed necessary to keep the Strait of Hormuz clear? Finally, is there a critical threat from the Soviets?

There is little reason to fear major interference with oil traffic in the gulf. Until now, only 1 percent of all tanker traffic has been attacked.[26] Moreover, much less oil passes through the gulf and the Strait of Hormuz than when the tanker war began in 1984. In 1975, about 17.5 million barrels of oil passed through the strait each day. In 1980, the amount dropped to 16.2 million barrels a day. In 1986, only 6.5 million barrels a day took that route.[27] Today, the daily total is much less than 4 million barrels.[28] Between 1976 and 1986, the percentage of the noncommunist world's oil using the strait dropped from 41 percent to less than 15 percent.[29]

How does the oil get out? Through a network of overland pipelines to the Red and Mediterranean seas. The capacity of the pipelines has grown steadily since 1980 and is expected to reach 7 million barrels a day in 1987.[30] The ease with which the oil traffic has avoided the strait has surprised most observers. "What I think we've learned," said William Quandt of the Brookings Institution, "is that oil systems and even social systems are more resilient to local disturbances than we thought."[31]

Even were more oil passing through the strait, Iran would have no interest in closing it. All of Iran's oil exports take that route, which has been forbidden to Iraq for some time. Iraq, on the other hand, would hurt its own allies, Saudi Arabia and Kuwait, which still use the strait to some extent, if it made the strait impassable. If the strait was closed, the West would suffer only a slight rise in the price of oil, and there would be no calamity.

Iran reportedly said at the beginning of the war that it would not block the Strait of Hormuz.[32] Later, however, Iran did interfere with Iraq's ability to use the strait. In response, Iraq made military strikes in the vicinity of Kharg Island. This prompted Iran to declare that if Kharg was damaged, Iran would close the strait. But Iran clearly would not welcome such a circumstance. In fact, a Western oil analyst has attributed the lack of disruption in the gulf to Iran's "underresponse" to Iraq's attacks: "They don't want to bring the gulf to the flash point."[33] The strait has not been closed, noted another observer, because "a large part of the cost of closing the strait would have been borne by Iran and Iraq themselves."[34]

It is unlikely that Iran could close the strait even if it wanted to. Milton R. Copulos, a senior policy analyst at the conservative Heritage Foundation, has likened those who warn of such a threat to Chicken Little. He has noted that since the strait is 30 miles wide at its narrowest point, blocking it by sinking a tanker there is "simple fantasy." Nor could Iran effectively mine the strait; it has neither the mines nor the minelayers. Finally, the threat of Iranian navy interdiction of tanker traffic is grossly overstated. As Copulos has noted, "According to U.S. naval officers . . . the Iranian fleet, such as it is, is in such a state of disrepair that none of its ships can stay on patrol for more than a few days at a time without breaking down and having to be towed back to port."[35]

What would happen if the war substantially interfered with the flow of Persian Gulf oil? The results would be far less noticeable than those of the oil shocks of the 1970s because the international oil market is far different from what it was then. In 1977, U.S. imports from Persian Gulf countries averaged 28 percent of total U.S. imports. Today, these imports are no more than 13 percent.[36] (See Table 1.) Most U.S. imported crude oil and oil products come from, in order of volume, Venezuela, Canada, Mexico, Indonesia, Algeria, Virgin Islands, Nigeria, Great Britain, and Angola.[37]

The U.S. domestic production picture has changed too. Domestically produced oil now accounts for 68 percent of total U.S. consumption, a significant increase over the 1970s.[38]

The United States, of course, does not exist in isolation. The oil market is a world market with one price. Although the United States uses less Persian Gulf oil than Japan and Western Europe, it would not be insulated from the loss of that source. A sudden disruption would prompt Japan and Western Europe to bid up the price of the remaining oil, and that price would be paid by Americans.

Japan imports about 70 percent of its oil from the Middle East.[39] Western Europe's imports from the region total 27 percent.[40] But neither is as vulnerable as it appears to be. In the first quarter of 1987, oil from the gulf accounted for only 18.7 percent of world oil output, according to the Department of Energy. "With about one-eighth of Free World oil in gulf tanker traffic," wrote energy analyst S. Fred Singer, "as much as one-half of that traffic would have to be interrupted on a steady basis to make a strong impact on price. That translates to about 20 supertanker sinkings a week! . . . The combined reserves of OECD [Organization for Economic Cooperation and Development] nations now amount to nearly half a year's worth of gulf tanker traffic."[41] Japan was said to have had 510 million barrels of oil in storage in 1986; that's 116

Table 1
U.S. Oil Imports: Average Volume per Day (1,000 Barrels)

Category	1977	1986	1987*
Saudi Arabia	1,380	681	688
United Arab Emirates	335	42	22
Iran	535	16	34
Iraq, Qatar, Kuwait	188	54	34
Total gulf	2,348	793	778
Total OPEC	6,193	2,768	2,557
Total non-OPEC	2,614	3,293	3,328
Total U.S. imports	8,807	6,061	5,885

Source: Energy Information Administration, Petroleum Supply Monthly, March 1987. *First three months of the year.

days' worth.[42] The United States had 528 million barrels in its strategic petroleum reserve as of July 1987.[43]

Despite Japan's heavy dependence on oil from the gulf region, the Japanese remain calm. This has less to do with its reliance on the United States than with its good relations with Iran and Iraq. According to the Energy Information Administration, "The balance of power has significantly changed between Japan and the oil-producing nations. . . . Japanese complacency . . . is rooted in the success of a sophisticated, 13-year strategy that began after the first oil shock of 1973, a strategy designed to blend diplomacy, economic aid and private business dealings into better relations in the Middle East and a more secure oil supply from the Persian Gulf."[44]

And if this international bet-hedging is not adequate, the Saudis have some 60 million barrels of oil in berths outside the gulf.[45] Furthermore, other producers could make up at least half of any cutoff from the gulf.[46]

The reluctance of Japan and Western Europe to contribute to protection of the Persian Gulf seems more a result of their realistic evaluation of the circumstances than an attempt to be free riders.

The United States and 20 allies also have an oil-sharing agreement, dating back to 1974, requiring member countries to provide oil to hard-pressed fellow members in emergencies. The agreement may give some people a sense of security, but it is in fact superfluous and academic. Oil is fungible and will be allocated in the world market by supply and demand. Nations hard hit by a disruption will bid oil away from those that are less hard hit. In addition, to invoke the agreement, according to a spokesman for the Department of Energy, not only must a nation anticipate a supply shortfall of at least 7 percent, but it must cut consumption by 7 percent. Unsurprisingly, the agreement has never been invoked.

David Henderson, associate professor at the Naval Postgraduate School and former senior economist with the Council of Economic Advisers, estimates that if the 4 million barrels a day that go through the Strait of Hormuz were lost, the price of oil would rise to no more than $28. This is under pessimistic assumptions about elasticity and the inability to replace the oil with new oil from other sources.[47] The increase would be an inconvenience but not a catastrophe. "The bottom line on the benefits of avoiding modest oil-supply dislocations: hardly any for the U.S. or its allies," wrote S. Fred Sinqer.[48]

It is hard to see how U.S. military intervention in the gulf would alleviate a disruption there. The notion of a quick, clean surgical strike by U.S. Central Command forces seems simplistic. The entry of U.S. forces would likely cause a backlash of resistance fired by bitter resentment at what would be seen as imperialism. Guerrilla warfare could destroy vital oil-export facilities, hampering oil flow more severely than before. Rather than restore the oil traffic, U.S. intervention might so increase uncertainty about the flow of oil that tanker insurance rates would climb prohibitively.

In 1979, a Congressional Research Service (CRS) study of the feasibility of U.S. military occupation of the gulf oil fields concluded that such a large-scale operation would be immensely difficult.[49] Although a full-scale occupation is different from an operation limited to keeping the Strait of Hormuz open, some of the CRS findings are relevant:

Successful saboteurs could impede, or perhaps even stop, the flow of oil at its source in the field, at pipeline checkpoints, at terminal facilities, or after products have been pumped aboard tankers. . . . Restoration requirements would exceed U.S. capabilities, unless damage was quite restricted. . . . Constant security against skull-duggery would still remain a challenge. . . . Onshore wells, for example, are easy to incapacitate. One well-known pumping station can shut down a pipeline for 90 days. . . . Fire in an oilfield, tank-farm, or refinery can be fearsome.[50]

The attack on USS Stark, the taking of American hostages, and the earlier suicide bombings of the U.S. embassy and Marine Corps barracks in Beirut portend the dangers ahead. The Iranians, who have threatened to continue striking at Kuwait's tankers despite the U.S. flags, have several methods at their disposal. These include Chinese Silkworm missiles, armed speedboats manned by the Revolutionary Guard, and mines. Iran's ability to place mines, though inadequate to block the strait, is, as we've seen with the reflagged tanker Bridqeton, sufficient to damage ships. Stepped-up terrorism against Americans is also probable, according to U.S. intelligence sources.[51] Although the CRS report was written before the establishment of the U.S. Central Command, it is hard to see how the command could make any difference. The command is intended to serve as a tripwire to greater U.S. involvement and a deterrent to Soviet moves in the Middle East. But a tripwire and at best a "tenuous network of bases" do not address the reservations of the CRS.[52] As the CRS warned, "Conflict conceivably could escalate beyond U.S. control."[53]

Those concerned with the threat of even a minimal disruption of the oil market could do better than propose U.S. readiness to enter the gulf militarily. Measures designed to protect, and thus encourage, entrepreneurs in private planning for oil emergencies would mean far more than a threat to go to war.

Stockpiling oil for future disruptions seems an obvious expedient, but much of what has happened to date discourages such activity by the oil industry. There is little incentive to stockpile large amounts of oil at relatively low prices during a glut if one does not expect to be free to charge the higher market price during a disruption. Nevertheless, it is likely that during the next oil crisis, the "profiteers and speculators" will be denounced and price and allocation controls will be proposed. A major reason that private stocks of oil are probably now too small, according to two observers,

is that [speculators] anticipate the possibility that government will not allow them to sell accumulated stocks at market prices during severe supply disruptions. Even with the elimination of price controls on crude oil and petroleum products in January 1981, firms will include in their calculations the probability that controls will be reinstituted during future oil price shocks. As a result, firms will hold lower levels of speculative stocks than they otherwise would.[54]

Even though the 1980s oil glut was induced by the 1981 scrapping of price controls, the politicians have not given up their belief in regulation. In 1984, Republicans and Democrats on the House and Senate energy committees drafted legislation for standby oil price controls. And President Reagan's veto of the standby Petroleum Allocation Act of 1982 was nearly overridden.[55] It is ominous that President Reagan, who presumably knows the damage caused by price controls, has raised the specter of gas lines in defending his Persian Gulf policy.

This sort of activity can only undercut private emergency planning. The best thing the U.S. government could do to ease any disruption would be to create, in advance of a crisis, an atmosphere of entrepreneurial confidence, specifically the certainty that those who put oil away for an emergency will not be punished in effect for doing so. Such a proposal is bound to be criticized as favoring speculation, but the repression of speculation is based on ignorance.

The process of speculation is critical to mitigating the uncertainty of everyday life. Speculators stockpile when supplies are plentiful and (relatively) cheap, and they sell when supplies are scarce and expensive. Their activities tend to even out supplies and prices over time. In times of plentiful and secure supplies, for example, entrepreneurs may buy up inexpensive oil and hold it off the market in anticipation of higher prices in the future. Should a major oil region come under threat, the price of oil from that region would tend to rise in response to the increased danger. The higher price, in turn, encourages stockpilers to bring their supplies to market. This has the effect of putting a lid on price increases and channeling oil buyers away from the less secure source of supply.

If the speculators' guesses about the future are accurate, they of course profit. Their profits, however, are rewards for the valuable services they render. Squelching speculation to deprive someone of profits is a clear case of cutting off one's nose to spite one's face; if the rewards are outlawed, the services will not be rendered. Who gets hurt?

Aside from planning for--and thus helping to prevent--future emergencies, a free energy market would provide the best price warning of potential supply interruptions. Suspicion that one source of supply is precarious would send signals through the system, inducing producers, traders, and consumers to act accordingly. The absence of trade restrictions (such as those on the export of Alaskan oil) would maximize the entrepreneurs' ability to adjust to new conditions and to maintain the flow of oil, regardless of its source, to the American people.

Would the market stockpile enough oil? Some analysts, including some who otherwise favor the free market, believe it would not, on the grounds that the incentives are not great enough.[56] Such arguments, however, seem founded on the dubious notion of "social costs" and posit some objective test of what a sufficient stockpile would be; they neglect the principle that to the individual decision maker, the costs are subjective rather than objective and "social." The decision to stockpile entails forgoing present sales and consumption in favor of expected future opportunities. There is no objective or "social" way to decide how much should be consumed today and how much saved for later. That can be decided only by individuals, whose decisions are affected by current prices and estimates of future prices and whose actions in turn affect those prices.

Of course, governments also try to estimate future conditions. The estimates of private investors and entrepreneurs are inherently more credible, however, in that their personal wealth rides on their decisions. This puts them under a strong incentive to forecast reasonably, in contrast to government forecasters, who do not face the profit-and-loss test. The incentives of bureaucracy make it probable that government forecasters will shape their predictions in ways that will yield them more Power and influence.

Some people argue that government stockpiling is good politically because its visibility may prevent panic buying at the beginning of a crisis and perhaps even eliminate the belief that controls are needed.[57] The problem with this argument is that a government stockpiling program would likely change the calculations of private stockpilers; they would anticipate different future price changes owing to an expectation that the government would draw down its reserves.

There is also the problem of how much the government would stockpile--that is, withdraw from current consumption. Because the government's cost constraints are different from those of market participants, there is likely to be a difference between the amount the market would withdraw from consumption and the amount the government would withdraw. Regardless of whether the government stockpiled more or less than the market, a cost would be imposed on most people.

The Iraq-Iran war, even if it was to markedly intensify and interfere with oil traffic, has little capacity to harm the American people, apart from causing a rise in the price of oil and gasoline. There is simply no good economic reason for the U.S. government to be the policeman of the gulf. It seems especially presumptuous for the United States to stifle change in Iran and the Arab countries to keep U.S. gasoline and oil prices from rising. This would hold true even if the change was repugnant, stemming, as it has before, from barbarous and intolerant practices carried out in the name of religion.

The costs of U.S. military intervention would be high not only in war casualties but also in resentment directed at the United States. A strong part of the fundamentalist Muslim reawakening is anger at Western interference in Muslim countries, epitomized by U.S. conduct in Iran. U.S. military intervention in the gulf would confirm the fears of anti-American factions and launch a campaign of violence against Americans.

The effects of a supply disruption can be best minimized by freeing--and keeping free--the U.S. domestic energy market, which includes oil and any substitutes, so that it can provide maximum service to American consumers.

The Soviet Threat

The foregoing analysis could be readily accepted were it not for what is regarded as the looming threat to the Middle East that exists in the form of the Soviet Union. It is often argued that however incapable a chaotic Middle East is of disrupting the West, such chaos nevertheless furthers Soviet designs on this long-coveted region. Thus, the United States has an interest in Keeping order in the Middle East.

The prima facie case for this argument is perhaps strong: The Soviet Union is a totalitarian superstate that shows no regard for individual rights. It borders the oil-rich Middle East and historically has been interested in the region for, among other things, the warm-water ports it would provide. In spite of this, the Soviet Union took no overt military action in the Middle East from 1944 to 1979. Its invasion of Afghanistan in 1979 was a departure, but it signaled neither the will nor the ability of the Soviets to move into the Middle East in a major or permanent way. Considering the Soviets' failure to subdue the Afghan resistance, there is scant reason to think the Soviets want a greater role under current conditions. Even if they sought such a role, this would not warrant a U.S. military response and the accompanying risk of global nuclear war.

A thorough look at the record of Western and Soviet conduct in the Middle East leads to other conclusions. It would be foolish, of course, to deny that the Soviets would like to have a major influence in, or even dominate, the Middle East-- if it could be done at low cost. But such a bargain is not available to the Soviets. Further, they apparently have long been aware of the high cost such dominance would demand, in that their conduct in the Middle East has arguably been restrained. As Jonathan Steele of the Guardian has written in his book on Soviet powers, With few exceptions, the Soviet Union has not tried to stir up local tensions. In the wars between Ethiopia and Somalia or Iran and Iraq it either sought to prevent them by finding a diplomatic settlement or adopted a hands-off policy. The Soviet Union discouraged the three most recent Arab-Israeli wars and has imposed limits on its arms deliveries, often at the risk--as in the case of Egypt--of incurring Arab displeasure. On the central aspect of the Arab-Israeli dispute, the existence of Israel, Moscow has consistently urged the Arabs to recognize the Jewish state. Most important of all, it frequently put its hopes for detente with the United States above the chance of local advantage in the Middle East. . . . [It] supplied the Arabs with aircraft and weapons but never seemed able to use this as leverage in the vital decisions about going to war. The Arabs mainly ignored their advice. . . . Soviet policy, and indeed the whole Soviet strategy, in the Middle East began and continued as damage-limitation. The primary goal was to prevent the region from becoming a safe asset for the West in its policy of encircling the Soviet Union. That meant that Western political and economic influence should be challenged where feasible.[58]

The history of Soviet involvement in the Middle East bears out these observations. In 1944, Soviet leader Joseph Stalin proposed that the Iranian railroads and a free port on the Persian Gulf be operated under an international trusteeship. The United States rejected that plan, a State Department paper stating that

British policy for more than a hundred years has been pointed towards preventing any other great power, and especially Russia, from gaining a foothold on the Persian Gulf. . . . If we proceed on the assumption that the continuance of the British empire in some reasonable strength is in the strategic interest of the United States, it might be considered wise, in protection of vital British communications in this important area, to discourage such a trusteeship.[59]

Apparently, U.S. opposition to Soviet influence in the Middle East was not prompted by concern for local self-determination.

Soviet troops entered northern Iran in World War II but left shortly afterward under pressure from the United States and because of opposition from internal Iranian forces (including future prime minister Muhammad Mossedegh, whom the United States branded as a communist and helped to overthrow in favor of the shah in 1954). While in Iran, the Soviets sought oil rights in the north, but to no avail. They withdrew after Iran agreed to give them a share in a special Soviet-Iranian oil company, an agreement annulled by Iran soon after the withdrawal. Tempting as it may be to conclude that only U.S. resistance kept the Soviets from staying in Iran and expanding further in the region, George Kennan, a former U.S. ambassador to Moscow, has written that what motivated the Soviets was not oil as much as "apprehension of potential foreign penetration in that area."[60] If this interpretation of Soviet conduct as defensive is correct, one cannot argue that the Soviets would have moved in had the United States practiced nonintervention. Their own postwar conservatism and Iranian resistance, such as Mossedegh's, might have been a sufficient barrier.

The Soviet attempt to gain influence in Turkey foundered just as badly. Both Iran and Turkey (the latter joining NATO) tilted toward the West after vigorous courting and dollar diplomacy, confirming Soviet suspicions that the United States had designs on the territory along the Soviet Union's southern borders.

One of the Soviet Union's major bids for influence in the Middle East was its courtship of Egypt under Gamal Abdul Nasser. Before Nasser came to power in 1954, the Soviets had shown little interest in Egypt; they had even voted in the United Nations for the establishment of the state of Israel. Nasser looked to the United States for arms but hesitated when Secretary of State John Foster Dulles conditioned the arms agreement on Egypt's acceptance of U.S. advisers. The United States then withdrew the offer (under British influence), and Nasser turned to the Soviet Union instead; Moscow responded by sending arms but sent them through Czechoslovakia to avoid upsetting Washington. According to a friend of Nasser's, author Mohamed Heikal, the Russians "were sucked into the Middle East by events. It was not they who started the great offensive, but Egypt who had forced it upon them."[61]

This did not make Egypt a reliable Soviet ally. Nasser failed to consult the Soviets before nationalizing the Suez Canal. When Israel, Great Britain, and France attacked Egypt in 1956, the Soviets proposed to President Eisenhower that the United States and the Soviet Union intervene jointly to stop the fighting and submitted a cease-fire draft resolution to the United Nations.

Eleven years later, after the Six-Day War, the Arabs accused the Soviets of sitting on the sidelines while Israel dealt them a major blow. The president of Algeria, Houari Boumedienne, went to Moscow to complain, according to Heikal. Boumedienne reportedly told the Russians, "The worldwide national revolution is receiving successive blows from American neo-colonialism, and your friends feel that the slogan of peaceful coexistence has turned into fetters restricting your movements. We sincerely wish to know where your dividing line is." The Soviets promptly replied, "What is your view of nuclear war?"[62] This friction led eventually to the biggest blow against Soviet pretensions in the region: the expulsion of thousands of Soviet personnel from Egypt by President Anwar Sadat in 1972.

In general, the Middle East has not been hospitable to communists, including homegrown communists. Iraq, for example, has suppressed its Communist party.[63] In 1978, 21 members of the Iraqi Communist party were executed after allegations of infiltration into the army. Continued persecution of the communists drove them underground, and, in 1980, Iraqi president Saddam Hussein called them "a rotten, atheistic, yellow storm, which has plagued Iraq." Moreover, Iraq's formerly close friendship with the Soviet Union has been badly strained by the Iraq-Iran war. When Iraq went to war with Iran, the Soviet Union, which opposed the invasion, tilted toward Iran and refused an Iraqi arms request. At around the same time, the Soviets entered into a new relationship with Hussein's chief Arab rival, President Hafez al-Assad of Syria.[64] The Soviets shifted again in 1982, tilting back toward Iraq.

But Iran too has antagonized domestic communists. In February 1983, for example, the Iranian government under Khomeini arrested Tudeh (Communist) party leaders, banned the Tudeh party, and expelled 18 Soviet diplomats. According to Christopher Van Hollen, former deputy assistant secretary of state for Near Eastern and South Asian affairs, Khomeini renounced a 1921 treaty with the Soviet Union shortly after taking power and "must have infuriated the Soviets at the Second Islamic Conference in Islamabad when [he] included Afghan nationalists in the Iranian delegation. . . . They probably felt much more comfortable with the shah than they do with the Khomeini regime."[65]

David Newsom, former U.S. undersecretary of state, aptly summed up the Soviets' position in the Middle East:

Except in Afghanistan, the Soviets have not made a substantial gain in the Middle East since their departure from Egypt. Sometimes, in our occasional facile discussion of this issue, we give the impression that the Soviets are very much on the march in an area where, for some strange reason, they may even be showing some restraint. Certainly in Iran they do not seem to be making great headway. . . . The leftists there seem to be getting their heads cut off.[66]

But what about Afghanistan? Surely the Soviet invasion and attempted occupation of that country must be interpreted as a Soviet bid for territory and an approach toward Iran. But this is mistaken: First, the Soviets already share a border with Iran and do not need Afghanistan for that purpose. Second, as Jonathan Steele has written, "The evidence that the Soviet Union is eager to have access to a large part of the region's oil is shaky."[67] The Central Intelligence Agency was wrong when it predicted in 1977 that Soviet oil production would peak and then decline in the early 1980s. In fact, the Soviet Union continues to be the world's largest oil producer, according to the CIA and the Energy Information Administration. It exports over 20 percent of its oil, making oil the Soviets' largest source of hard currency after gold.

Why, then, did the Soviets invade Afghanistan? It is reasonable to believe that the pro-Soviet ruler there, Hafizullah Amin, had become too disruptive of Afghan society, igniting massive resistance that perhaps could have spread to adjacent Muslim areas in the Soviet Union. According to Selig Harrison, "Amin attempted to replace the tribal power-structure with a communist administrative network, arousing armed resistance that helped set the stage for Soviet occupation."[68] Edward R. Girardet of the Christian Science Monitor corroborated this view in his book on Afghanistan:

Misguidedly, they [the Afghan radicals] believed that by destroying the feudal and landowner classes, they could gain the support of the peasantry, the masses. What they were in fact doing was attacking traditional village spokesmen. . . . The militants denigrated social and religious customs by burning religious books, tearing the veils off women and mocking villagers at prayer.[69]

Going back to the period before the 1978 communist coup in Afghanistan, one finds indications that the Soviets and their clients did not make the first move against Afghanistan's tradition of neutrality. Harrison has written that Iran under the shah tried, with U.S. encouragement, to bring Afghanistan into something of an anti-Soviet alliance before 1978. A $2 billion aid program was to be traded for Iranian influence over the Afghan government. Under Iranian influence, Prime Minister Muhammad Daud ended his formerly good relations with local communists and started eliminating them from government and military posts. The result was apparently Soviet alarm that anotherneighboring country was being taken into the hostile camp.[70]

The Soviet government, no less than the U.S. government, is concerned with rising Shiite Muslim fundamentalism. There are five Muslim "republics" in the Soviet Union. Soviet concern helps explain not only its policy toward Afghanistan but also its aid to Iraq--and to Kuwait, with which it has had cordial relations for some time. Both regimes are seen as moderate, secular counters to the fundamentalist faction in the Islamic world.

The record of the Soviets in the Middle East exists, of course, in the context of substantial U.S. intervention. If the Soviets have exercised moderation in this context, one cannot say with certainty what they would have done in another context--say, under a policy of U.S. nonintervention. It is conceivable that they would have moved to dominate the area; the value of U.S. nonintervention does not rely on a Polly- annaish view of Soviet intent.

However, even in the worst imaginable case--that the Soviets have designs on Middle East oil and can get it at low cost--the United States cannot conclude that stopping them is worth the cost of war. The Soviets have little choice but to export part of any oil they control. They could not resist selling oil to the West even during the 1973 Arab oil boycott; in fact, Dina and Martin Spechler have written that there is evidence the Soviet Union increased its sales to the United States and the Netherlands during that period.[71] Moreover, the Soviets have long sold the United States such strategic materials as titanium and chromium, continuing to do so even when the United States was embargoing grain and equipment for building the Soviet natural gas pipeline to Western Europe.

A major move by the Soviets is highly unlikely because it would violate their own self-interest. Their trouble with Afghanistan would pale beside the resistance the Iranians could be expected to mount. "Iran's rugged terrain, impassable mountains and deserts, and difficult climatic conditions are as forbidding as Afghanistan's," wrote Professor Shahrough Akhavi of the University of South Carolina. "Moreover, the country is far larger and, presumably, that much more difficult to control. . . . Iranian civilians would sooner fight in an underground resistance than support a Soviet invasion."[72]

The Soviets have said that despite their fears about the U.S. buildup, they have no plans for a larger force in the gulf (there are three small warships there now) or to intrude on what they see as an American sphere of influence.[73] They also have suggested consultation with the United States, and on July 20, 1987, they joined in voting in favor of a UN resolution calling for an end to the war.

The United States in the Gulf

Now let us contrast the Soviet record with that of the United States. It is worth noting at the outset that the United States has had significantly more opportunity to exert its will in the Middle East since the end of World War I.[74] Before the war, the Middle East was the stronghold of the Ottoman Turks, but when the war ended, Great Britain and France assumed control of the region. The two European powers, which were sometimes in conflict with each other, partitioned the area, creating new countries and naming their local proxies as rulers. In 1919, they signed an agreement dividing the Ottoman Empire between them, with the north to be controlled by France and the south by Great Britain. (Palestine was originally to be international territory.)

That was about the time when the United States staked its claim to oil and influence in the region. Two American firms, Standard Oil of New York and Standard Oil of New Jersey, jointly won a quarter-share of the Iraqi oil-exploration company under the 1928 Red Line agreement. The conference leading to the agreement, arranged by the British Royal Dutch-Shell Company, was called to settle conflicts between American and British oil companies over oil fields in various parts of the world. Under the Red Line agreement, competition and production were to be tightly controlled to avert falling prices and shrinking profits.

It is worth noting that the U.S. government and especially Commerce Secretary Herbert Hoover encouraged U.S. firms to develop overseas petroleum resources. To help them, the government in various ways restricted competition among U.S. firms so as to "stabilize" prices. An array of state and federal energy regulations and restrictions was imposed during this period to conserve domestic oil reserves. The major impetus for this action came from the U.S. Navy, which wished to ensure ample domestic supplies for emergencies.

World War II was not just a conflict between the Allies and the Axis powers; in large measure, it was a conflict between the United States, Great Britain, and the Soviet Union. The issue was oil in the Middle East. In 1944, Secretary of the Navy James Forrestal summed up the official U.S. view in a letter to the secretary of state:

The prestige and hence the influence of the United States is in part related to the wealth of the government and its nation in terms of oil resources, foreign as well as domestic. It is assumed, therefore, that the bargaining power of the United States in international conferences involving vital materials like oil and such problems as aviation, shipping, island bases, and international security agreements relating to the disposition of armed forces and facilities, will depend in some degree upon the retention by the United States of such oil resources.[75]

This concern for foreign oil was manifest in the close relationship between the State Department and the Aramco Company, the American-Arabian oil company formed for Saudi Arabia by major U.S. oil firms.

During the war, the center of world oil production shifted to the Middle East. British-owned companies accounted for four- fifths of that output. By 1953, however, the British share had dropped to 31 percent and the U.S. share had jumped to 60 percent. This dramatic change is attributable to President Harry Truman's determination to thrust the United States into world leadership. To this end, he created a committee of bankers and businessmen, led by Chase National Bank president Winthrop Aldrich (brother-in-law of John D. Rockefeller), to, among other things, enlarge the U.S. share of oil production.

The Truman Doctrine and the Marshall Plan can also be seen as parts of this overall strategy. While the Truman Doctrine (in which aid was sought to protect the regimes in Greece and Turkey from alleged Soviet-backed communist subversion) was being debated, Time magazine commented, "The loud talk was all of Greece and Turkey . . . but the whispers behind the talk were of the ocean of oil to the south."[76]

More than 10 percent of U.S. aid to Europe between 1948 and 1952 under the Marshall Plan was spent on oil products, and this percentage does not include assistance for the building of refineries. Under the Marshall Plan, Standard Oil of New York and Standard Oil of New Jersey built major British refineries, thereby undercutting independent U.S. refineries in the European market. Additionally, the U.S. government bought Middle East oil, which then cost 50 cents a barrel to produce, from U.S. firms at the Texas gulf coast price of $2.65. Most revealing is this comment by Walter Levy, who left Standard Oil of New York to head the Marshall Plan's oil division:

Without the Marshall Plan, the American oil business in Europe would already have been shot to pieces. . . . Without [Marshall Plan] aid, Europe would have not been able to afford during the last year, and could not afford during the next three years, to import large quantities of American oil--from either domestic or foreign sources controlled by American companies. . . . [The plan] does not believe that Europe should save dollars or earn foreign exchange by driving American oil from the European market.[77]

American noninterventionists charged during the Marshall Plan period that the Aramco oil destined for Europe was priced at the inflated Texas price, with the difference being absorbed by the U.S. taxpayers. The Texas Independent Producers and Royalty Owners Association spoke prophetically in 1953 when it put the subject of Middle East oil in its full context:

Although Middle East oil is so abundant that it can be developed at a fraction of the cost of our own, it is far from "cheap." On the contrary, Middle East oil may already be the most expensive in the world market today when consideration is given to the fact that vast amounts of public funds are spent on the defense mechanism which is intended largely to protect American interests in Middle Eastern oil fields. Moreover, in these troublesome times that oil could become costly in American lives as well.[78]

The Soviet Union, of course, did not miss the significance of U.S. obtrusion so close to its own borders. Nor did it fail to appreciate the efforts of the United States to make strong allies out of Israel, Saudi Arabia, and Iran. Within a few years of the Soviets' being pressured to leave northern Iran, the CIA overthrew the centrist, anticommunist Mossedegh and restored the autocratic shah to his throne. The United States then proceeded to pour billions of dollars in arms into Iran over the next 25 years.[79] However, the eventual permanent overthrow of the shah, accompanied by violence directed at the U.S. government, did not redound to the Soviets.

The Nixon Doctrine, which made explicit the U.S. dependence on regional powers in the post-Vietnam era, had aspects that nearly defy credulity. The most significant was the encouragement of high oil prices in the early 1970s. In 1976 Forbes magazine made the case that U.S. policy was responsible for the oil price shock. "Why did the U.S. so readily surrender to OPEC?" asked Forbes, and it made the following observation:

It is hard to avoid the conclusion that the State Department was, in effect, sacrificing economics to politics. . . . They [the policymakers] were quite prepared to have U.S. motorists and businessmen--and those of the rest of the world--pay a bit more for oil in order to help the shah of Iran and the Saudis. . . . The State Department realized full well that they could not persuade Congress to tax Americans for that purpose. So they did it by the back door.[80]

Jonathan Kwitny has noted that higher oil prices enabled our Persian Gulf allies to increase their military spending from under $800 million a year to more than $4 billion a year by 1975.[81]

In sum, U.S. policy toward the Middle East is characterized by an intention to ultimately control the oil; to strengthen, where possible, key allies to do the United States' bidding; and to keep other powers--not just the Soviet Union but also Great Britain and France--away, if not dependent on the United States. This was the essence of the Carter Doctrine of 1980, when Jimmy Carter declared that he would use "any means necessary" to protect the Persian Gulf after the Soviet invasion of Afghanistan. The results of this line of policy, which took up where earlier French and British policy left off, have been the prolonged Arab-Israeli conflict, the fundamentalist uprising in Iran, and other strife, including the Iraq-Iran war.

Conclusion

In Ronald Reagan's view, however, these are the results of too little intervention. In his 1980 campaign against

President Carter, he attributed the war to the "policies this administration has followed during the last 3 1/2 years--a vacillating foreign policy and weakened defense capability are largely to blame."[82] Unsurprisingly, President Reagan today believes military force is the way to bring things under control in the Persian Gulf.

In reality, his policies bait the Iranians by hanging American flags on and escorting tankers belonging to one of Iran's enemies. If Iran should respond by hitting an American naval ship, we shall certainly hear sanctimonious presidential declarations about America's innocence, honor, credibility, and resolve not to be driven from its responsibilities in the region. Then, if President Reagan should "defend America's honor," as he implies he would, there could be war. More blood will flow, more tearful pep talks will be televised from memorial services, and another kind of reflagging will occur, the kind that takes place at military funerals.

The United States faces the choice of minding its own business or plunging more deeply into the quicksands of the Middle East. The American people sensibly do not wish to take the risks the Reagan administration is forcing on them. They are treated shabbily when the administration says the risks of intervention are smaller than those of nonintervention. As we have seen, they most certainly are not.

The benefits of the Reagan policy are indeed chimerical and the costs grossly understated. America's activist foreign policy, particularly in the Middle East, has exacted an intolerably large price fiscally, politically, economically, and in American lives.[83] Until the policy is reversed, it will continue to do so.

FOOTNOTES

[1] "Iraq Gets Reports from U.S. for Use in War with Iran," New York Times, December 16, 1986, p. 1.

[2] Daniel Pipes and Laurie Mylroie, "Back Iraq," New Republic, April 27, 1987, p. 14.

[3] "An Even More Engulfing War," Economist, May 23, 1987, p. 33.

[4] "Iran Secures Its Foothold in Iraq, but Stalemate in War Continues," Wall Street Journal, February 28, 1986.

[5] "Gulf War: Well, Apart from That," Economist, May 30, 1987, p. 38.

[6] Lee H. Hamilton, "Kuwaiti Tankers, U.S. Flags," Washington Post, May 27, 1987, p. 21.

[7] Access to Oil: The United States' Relationships with Saudi Arabia and Iran (Washington: Government Printing Office, 1977). Robert W. Tucker, in his famous article advocating U.S. seizure of the oil fields--"Oil: The Issue of American Intervention," Commentary (January 1975)--wrote that "more likely" than a Soviet move on the Persian Gulf is "a threat to access [that] will arise primarily from developments indigenous to the Gulf."

[8] Foreign Relations of the United States, vol. 8 (Washington: Government Printing Office, 1945), p. 45.

[9] Alvin Rubinstein, "The Evolution of Soviet Strategy in the Middle East," Orbis (Summer 1980): 330. See also James A. Phillips, "Moscow Stalks the Persian Gulf," Heritage Foundation Backgrounder no. 333 (February 27, 1984), p. 4.

[10] Zbigniew Brzezinski, "We Need More Muscle in the Gulf, Less in NATO," Washinqton Post, June 7, 1987, p. Bl.

[11] Phillips, p. 14.

[12] Adeed I. Dawisha, "Iraq: The West's Opportunity," Foreiqn Policy 41 (Winter 1980-81): 138; "Iraq Ready to Accept Cease-Fire Call," Los Anqeles Times, September 30, 1980; "Iraq Planning 4-Day Halt in War with Iran," Los Anaeles Times, October 2, 1980.

[13] "Lashing Iraq's Fighting Spirit," U.S. News & World Report, February 24, 1986, p. 42.

[14] "Military Balance in Gulf War Now with Iraq, Study Finds," Washington Post, August 28, 1984, pp. 1, 10.

[15] A. O. Sulzberger, Jr., "Roots of War in the Gulf: Mesopotamia and Persia," New York Times, September 24, 1980, p. 4. See also T. Walter Wallbank, Alastair M. Taylor, and Nels M. Bailkey, Civilization Past and Present (Glenview, Ill.: Scott, Foresman and Co., 1975), pp. 158-59.

[16] "Shatt al-Arab: Where Water and Oil Mix," Los Angeles Times, October 3, 1980, p. 14; William O. Beeman, "Iran Has Iraq's Number," New York Times, October 2, 1984, p. 21; "Iran and Iraq Test Mettle," New York Times, September 23, 1980, p. 4; and Daniel Pipes, "Mideast River War," Wall Street Journal, September 25, 1980.

[17] See Beeman.

[18] David Hirst, "Has Iraq Bitten Off Too Much?" Guardian, October 5, 1980, p. 7.

[19] The last time the idea of U.S. military action in the gulf was prominently entertained was in 1975 when OPEC was in the midst of a series of price increases. See Tucker and also a response, I. F. Stone, "War for Oil?" New York Review of Books, February 6, 1984, p. 7.

[20] "After the Stark," Economist, May 30, 1987, p. 13.

[21] "Iraqi Jets Strike Tanker, Iranian Oil Port," Washington Post, June 21, 1987, p. A27.

[22] "Demand for Oil Is Lower than Expected," Wall Street Journal, June 18, 1987, p. 6. In mid-July, the price went to $22, but it was expected to fall.

[23] "The Stakes in the Tanker War," Economist, May 30, 1987, p. 39. See also S. Fred Singer, "Insignificance of Gulf's Imperiled Oil," Wall Street Journal, June 10, 1987, p. 35.

[24] "OPEC Overproduction Aggravates World Oil Glut, Analysts Say," Washington Post, August 6, 1984, p. 4.

[25] Ibid. See also "Lost-Cargo Compensation and Discounts Help Ease Fears of Oil Shippers in Gulf," Wall Street Journal, June 14, 1984, p. 35.

[26] Jeffrey Record, "Big Risk, Little Payoff," Washinqton Post, June 9, 1987, p. A21.

[27] "Persian Gulf Declines as Vital Highway for Mideastern Oil," Wall Street Journal, January 24, 1986, p. 1.

[28] "Oil from Persian Gulf: Little Threat Seen Now," New York Times, May 28, 1987.

[29] "Persian Gulf Declines as Vital Highway for Mideastern Oil."

[30] Ibid.

[31] Quoted in ibid.

[32] "Will Not Block Oil Supplies through Strait, Iran Says," Los Angeles Times, October 2, 1980. This, however, was contradicted in "Continued War Has Arab, Big-Power Repercussions," Middle East Economic Survey 23, no. 52 (October 1980): 6. Iranian president Bani Sadr was said to have "warned that Iran would close the Hormuz Strait if any Gulf Arab state helped the Iraqis in any way."

[33] "Attacks on Tankers Fail to Slow Gulf Oil Exports," Washington Post, June 17, 1984, p. 1.

[34] James L. Johnston, "No Desperate Straits," Nomos (Winter 1983): 12.

[35] Milton R. Copulos, "Hearing It Straight about the Strait," Heritage Today (May/June 1984): 5.

[36] This figure was computed from statistics in Energy Information Administration, Petroleum Supply Monthly,

March 1987, p. 8. Others put the percentage at as low as 6 percent. See also Singer, which gives an estimate of 10 percent.

[37] "Oil from Persian Gulf: Little Threat Seen Now."

[38] Energy Information Administration, pp. 23, 24, 25.

[39] "How Japan Has Made Its Oil Suppliers Bow to Its Energy Needs," Wall Street Journal, June 2, 1987, p. 1. An estimate of 56 percent for 1986 is used in "Oil from Persian Gulf: Little Threat Seen Now."

[40] "Oil from Persian Gulf: Little Threat Seen Now."

[41] Singer.

[42] Energy Information Administration, International Petroleum Statistics Report, June 25, 1987, Table 4.

[43] Energy Information Administration, telephone interview.

[44] "How Japan Has Made Its Oil Suppliers Bow to Its Energy Needs."

[45] "Oil from Persian Gulf: Little Threat Seen Now."

[46] "Oil: An Attack of Nerve," Economist, May 19, 1984, p. 23.

[47] Personal interview, July 28, 1987.

[48] Singer.

[49] Congressional Research Service, "Petroleum Imports from the Persian Gulf: Use of U.S. Armed Force to Ensure Supplies," May 1, 1979.

[50] Ibid., pp. 14, 15.

[51] "U.S. Is Said to Detect Plans by Iran for Terrorist Attacks," New York Times, August 6, 1987, p. A10.

[52] See Robert A. Manning, "America's Newest Tripwire," Inquiry (January 1983): 22-25. Private analysts have estimated the full cost of the commitment at as much as $59 billion for FY 1985. See Earl C. Ravenal, Defininq Defense (Washington: Cato Institute, 1984), p. 17.

[53] Congressional Research Service, p. 16.

[54] George Horwich and David Leo Weimer, Oil Price Shocks Market Response. and Contingency Planninq (Washington: American Enterprise Institute, 1984), p. 113.

[55] Ibid., p. 6.

[56] Ibid.

[57] This argument has been made by an economist who generally advocates the free market. See Benjamin Zycher, "Emergency Management," in Free Market Energy, ed. S. Fred Singer (New York: Universe Books, 1984), p. 95.

[58] Jonathan Steele, Soviet Power (New York: Simon and Schuster, 1983), pp. 180-81.

[59] Quoted in ibid., p. 183.

[60] Quoted in ibid., p. 184.

[61] Quoted in ibid., p. 187.

[62] Al-Ahram, August 25, 1967; quoted in Steele, p. 191.

[63] Phillips.

[64] Dawisha. Pravda quoted the late Soviet leader Leonid Brezhnev as calling the war "absolutely senseless" in 1981 (see Steele, p. 199). One can find tension between the Soviets and the Iraqis back in 1973 when the Soviets quietly objected to Iraqi seizure of a narrow strip of Kuwaiti territory. During the period of close relations, Iraq never offered the Soviets base facilities in the Gulf of Umm Qasr (see Steele, p. 202).

[65] Conversations with Harold H. Saunders (Washington: American Enterprise Institute, 1982), p. 69. See also Shahrough Akhavi, "Let's Stop Worrying about the Soviet Threat to Iran," Washinqton Post, March 22, 1987, p. Cl.

[66] Quoted in Conversations with Harold H. Saunders, p. 67.

[67] Steele, p. 202.

[68] Selig S. Harrison, "The Soviets Are Winning in Afghanistan," Manchester Guardian Weekly, May 27, 1984, p. 17.

[69] Edward R. Girardet, Afqhanistan: The Soviet War (New York: St. Martin's Press, 1985), p. 111.

[70] See Jonathan Kwitny, Endless Enemies: The Making of an Unfriendly World (New York: Congdon & Weed, 1984), pp. 214-16. See also Girardet, PP. 101-2.

[71] Dina Spechler and Martin Spechler, "The Soviet Union and the Oil Weapon," in Limits of Power, ed. Yaacov Roi (London: Croom Helm, 1979), p. 98. Cited in Steele, p. 204.

[72] Akhavi.

[73] "Soviet Aide Says Navy Won't Add Warships in the Gulf," New York Times, June 7, 1987, p. 1.

[74] Much of this account draws on Leonard P. Liggio, "Oil and American Foreign Policy," Libertarian Review (July/August 1979): 62-69.

[75] Quoted in Liggio, p. 65.

[76] Ibid., p. 66. See also Theodore Draper, "American Hubris: From Truman to the Persian Gulf," New York Review of Books, July 16, 1987, pp. 40-48.

[77] Quoted in Liggio, p. 67.

[78] Quoted in Liggio, p. 69.

[79] For a detailed account of the overthrow, see Kwitny, pp. 152-78.

[80] "Don't Blame the Oil Companies; Blame the State Department: How the West Was Won," Forbes, April 15, 1976. Quoted in Kwitny, p. 194.

[81] Kwitny, p. 195.

[82] Quoted in "Iran-Iraq War Would Not Have Occurred if Carter Had Aided Shah, Reagan Says," Los Angeles Times, September 25, 1980 . 20.

[83] Sheldon L. Richman, "Noninterventionism," Nomos (forthcoming).