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Oil Dependency is America's Ruin

by Gal Luft, May 20, 2008

By now it is abundantly clear that the U.S. economy is in dire straits. What should also be clear is that the path to economic recovery will be compromised as long as America is dependent on imported oil to the degree that it is while oil continues to hover over $100 a barrel.

At current oil prices, this country sends overseas $460 billion per year to finance the daily buying of 12 million barrels of imported oil. This amount of money is about the size of our defense budget and three times the size of the "economic stimulus" package recently passed by Congress. But the real economic impact of oil dependence is hidden to most Americans. Energy economist Milton Copulos (who passed away this month) calculated last year that the grand total of all external costs associated with foreign oil dependence -- including the cost of oil-related defense expenditures, amortized cost of supply disruptions, and lost economic activity and tax revenues -- stands at $825 billion per year.

A double whammy

To put the figure in perspective, this is equivalent to adding $8.35 to the price of a gallon of gasoline refined from Persian Gulf oil, making the cost of filling the gasoline tank of a sedan $214, and of an SUV $321. At today's oil prices, these costs would be even higher.

For the U.S. economy, oil dependence is a double whammy. While it contributes to our economic decline, it allows OPEC governments, many of which do not have our best interests in mind, not only to laugh all the way to the bank but to literally own the bank. The recent buyout by foreign governments of chunks of America's prime symbols of economic prowess -- like Citigroup, Merrill Lynch, Morgan Stanley, Blackstone Group and Bear Stearns -- is only the preview to what is yet to come should the petrodollar fueled transfer of wealth continue.

To understand the forces at play it is instructive to visualize the scale of OPEC's potential wealth in comparison to that of the consuming countries. At $100 a barrel, OPEC's oil assets stand at roughly $92 trillion, equivalent to almost half of the world's total financial assets and nearly twice the market capitalization of all the companies traded in the world's 27 top stock markets. If one adds the worth of OPEC's huge gas reserves as well as additional oil reserves that have not yet been discovered, the wealth of OPEC more than doubles.

If oil prices climb to $200, as President Hugo Chávez of Venezuela recently warned, this wealth would double again. While the value of the dollar and the U.S. economy is shrinking, OPEC's monumental wealth enables its countries unprecedented buying power. As an illustration, at current oil prices it would take OPEC just six days to buy GM and three years to buy a 20 percent voting block in every S&P 500 company. It is hard to see how such buying power amassed by oil producers would not upset the West's economic and political sovereignty. At the current rate of investment, foreign governments are likely to be increasingly willing to translate their wealth into power, dictating business practices, vetoing deals, appointing officers sympathetic to their governments, dismissing those who are critical of them and imposing Islamic laws on Western corporations.

Since stopping foreign investors from providing cash infusions for big companies in distress is not an option, the only way to stop the bleeding is for the United States and other major consumers to break the strategic stronghold of oil over our transportation system. Congressional leaders can start doing so by mandating that every new car sold in the United States is capable of running on -- in addition to gasoline -- nonpetroleum fuels like alcohols, coal-based fuels and electricity made from domestic resources.

Terrible choice

To make a car flex-fuel so it can run on any combination of gasoline and alcohol would cost an automaker an extra $100 -- the cost of one barrel of oil. If each passenger car and truck sold in America were flex fuel, the cost to automakers would be less than the $30 billion the Fed forked over last weekend to salvage Bear Stearns' riskiest assets.

The United States is essentially facing a terrible choice between a financial meltdown and a metastasizing sovereignty loss, political decline and eventual enslavement to OPEC and its whims. It's past time for Congress to recognize that the solution to our economic predicament lies in our garage.