# Economy a Likely Casualty of War

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Washington - New Yorkers who heat their homes with oil will likely be hit hard financially if the country goes to war with Iraq. So will consumers, investors and just about anyone who works for or flies on one of the nation's airlines.

For, even under the best-case scenarios, U.S. military action against Saddam Hussein's regime would cause additional instability in the fragile local, national and international economies, analysts say.

The price tag of the conflict to U.S. taxpayers - estimated by the Congressional Budget Office as ranging from $21 billion to more than 10 times that amount - would be modest relative to gross domestic product.

But with every added day of warfare, the costs to the economy would mount in terms of slowing business activity, higher gasoline prices, increased deficit spending and borrowing by governments, declining confidence and spending among consumers, an even softer stock market and losses in specific industries, especially the struggling aviation industry, as jet fuel prices rise and passenger traffic falls.

Locally, homeowners are already paying a 6 percent "war premium" on heating oil due to price hikes associated with late-summer saber rattling, said Kevin Rooney, executive director of the Long Island Oil Heat Institute.

Internationally, geopolitical instability poses "a very big hurdle," said Federal Reserve Chairman Alan Greenspan.

In case of war, the United States would fare better economically and rebound faster than other countries, some defense companies would benefit, and in the short term, U.S. capital markets might attract more money as foreigners seek safe haven in U.S. securities. Some economists say increased defense spending would have a stimulative effect, and a post-war oil production increase could drive energy costs lower.

Yet overall, the experts interviewed agreed, war with Iraq would pose added costs and generate more instability for a nation whose economy is still struggling to recover from recession.

"The choices are between very, very bad and uncomfortable," said Deutsche Bank director Adam Sieminski. "The worst scenario is a global recession."

At this point, military scenarios range from a negotiated resolution with no hostilities to a prolonged conflict with heavy resistance, heavy casualties and conflagration spreading throughout the Mideast.

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Similarly, the economic consequences follow divergent paths. The status quo would extend the current uncertainty among consumers and investors and keep a lid on capital spending. But an extended war that spreads beyond Iraq's borders would wreak havoc on the global economy.

"Even if we win the battle quickly," said Larry Goldstein, president of the Petroleum Industry Research Foundation, "the impact could be bigger than we expect."

Oil Is The Key

For economists, virtually all assessments of the current situation start with a review of the 1991 Persian Gulf War. Central to their analysis is the impact a war would have on the price of oil, the lifeblood of the U.S. economy.

By the models they run, economists forecast that prices could jump from their current $25-a-barrel to $50 and possibly even $80 in case of an extended conflict, sending gasoline prices soaring.

Between the Iraq invasion of Kuwait on Aug. 2, 1990, and the first allied attacks on Iraq on Jan. 16, 1991, oil prices nearly doubled to more than $40-a-barrel amid fears that Iraq might respond by attacking Saudi Arabian oil fields.

But the war lasted only six weeks, and within a week of the first attacks, prices had dropped to $27, even as 500 wells were set afire by retreating Iraqi troops.

Without oil from Iraq and Kuwait, OPEC oil production fell by 4.5 million barrels a day. Yet two-thirds of that was restored by other OPEC nations, and prices stabilized although the U.S. economy continued to deteriorate, falling into a recession.

This time around, OPEC nations have stepped up production even before the outbreak of major hostilities. Saudi Arabia, in particular, has increased its output by 1 million barrels a day, "cheating" on the target it had agreed to at the September meeting of the Organization of Petroleum Exporting Countries. The resulting surplus has forced the per-barrel price down to about $25 from $31 in September.

Nonetheless, the analysts and economists said, future energy price trends are extremely hard to predict, especially given increased conservation efforts or a move by the Bush administration to tap the Strategic Petroleum Reserve, the underground storage facilities that hold 592 billion barrels, which the current president's father refused to do in 1991.

"This war is not about oil," Goldstein said. "But from 'Day Two,' it's all about oil."

Airlines Face Another Risk

The greater short-term risk, Goldstein said, is the shortage of distilled fuel, especially jet fuel. "I don't think the airlines can weather another increase in fuel costs," he said.

The post-Sept. 11 shutdown and the 15 percent drop in passenger traffic over the past year have already depressed the industry, leaving US Airways in bankruptcy and American and United Airlines in perilous condition. Some 267 aircraft have been idled since Sept. 11, and officials are fearful of the impact on air travel of the potential terrorist threats that Mideast hostilities might provoke.

"We haven't focused on Iraq," said American chief executive Donald J. Carty. "It's a concern, but it pales to insignificance compared to the situation we're in."

Still, Rooney asked, "Who in their right mind is going to fly if there's a war going on?"

Calculating the Military Costs

President George W. Bush's chief economic adviser, Lawrence Lindsey, estimates that the cost of an Iraq war at 1 to 2 percent of the gross domestic product - roughly $100 billion to $200 billion.

The Congressional Budget Office's total cost estimate ranges from $21.2 billion for a one-month air war with no post-war occupation, to $272 billion for a three-month, heavy ground war and troops deployed in Iraq for five years.

Yet, unlike the 1991 Gulf War, when expenses were shared by more than a dozen countries, including Saudi Arabia, Kuwait and Japan, the United States now expects to assume the bulk of the costs.

That will add to the burden Bush and Congress face in trying to control a growing budget deficit. After four straight years of surpluses, the fiscal outlook soured last year, producing a $157-billion deficit that is expected to grow next year.

"Any scenario," said Robert Ebel of the Washington-based Center for Strategic and International Studies, "yields instability."

Where the Oil Comes From

Five of the top 13 producers are in the Middle East. A look at daily production in millions of barrels:

Saudi Arabia - 7.9

United States - 7.7

Russia - 7.1

Mexico - 3.6

Iran - 3.5

China - 3.1

Venezuela - 2.9

NIgeria - 2.1

United Arab Emirates - 2.0

Kuwait - 1.9

Iraq - 1.7

Indonesia - 1.5

Libya - 1.3

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