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BOOK REVIEWS

THE MIRAGE OF OIL PROTECTION

ROBERT L. BRADLEY, JR.
Landham, MD: University Press of America, 1989.
Pp. 266. Soft cover.

The Mirage of Oil Protection by Robert L. Bradley, Jr. demolishes even the most sophisticated arguments in favor of oil protectionism. Mr. Bradley categorizes the various tariff fallacies into three groups—historical, institutional, and theoretical—and shows why they are fallacies by use of much empirical evidence and tight reasoning. For example, the historical fallacy is based on the belief that past oil crises were caused by exogeneous factors and that the crises could have been prevented or lessened by government intervention. This theory is demolished by a review of what actually happened. The various oil crises we have had are inextricably linked to government intervention rather than to the exogeneous variables that the protectionism was intended to neutralize.

The institutional fallacy is also exploded by an examination of the facts. Rather than blaming OPEC for our oil troubles, he shows that OPEC, various nation-to-nation embargoes, production cutbacks, and disruptions have little effect in a complex and interdependent world oil market that allows free trade and interfuel substitution. Entrepreneurship does a good job of neutralizing the effects of the oil cartel.

The theoretical fallacy is just another version of the market failure fallacy that has been demolished by Tyler Cowen and others.[1] Basically, the theory of market failure asserts that the market has somehow failed and that this failure justifies government intervention. Aside from the fact that this reasoning involves a non sequitur, Bradley shows that when this theory is matched with the facts, it just does not hold up. The alleged market failure of the price system to alleviate the alleged gap between market price and the "true" price of imported oil cannot be overcome by imposing a tariff, and Bradley points that out in no uncertain terms.

Bradley exposes the oil tariff for what it is—a massive wealth transfer from energy consumers to energy producers and the United States Treasury. Energy using companies must face higher costs, which makes them less competitive with foreign competitors who are not forced to pay the tariff. An oil tariff produces a dead-weight loss on the economy and spawns energy-user inequities that affect the poorest consumers the most. He concludes that oil tariffs and quotas cannot be justified on utilitarian grounds, and that such protectionist measures are merely an excuse that special interests use to feather their own nest at the expense of the rest

1. The Theory of Market Failure: A Critical Examination (T. Cowen ed. 1988).

of us. Placing a tariff or quota on oil will not lead to lower prices, energy security, or stability and prosperity. In fact, these measures will tend to have just the opposite effect.

A number of groups would be harmed by an oil import quota or tariff. A higher tariff would lead to higher fuel costs, which would lead to a decrease in driving. Auto workers in Detroit and elsewhere would be hurt because of the reduced demand for their product and that is a major reason why the United Auto Workers union has come out in opposition to an oil tariff. The transportation industry, which accounts for about 20 percent of GNP, would also be hurt since it consumes 62 percent of all petroleum used in the United States. The air-fare wars have been made possible, in part, because of lower petroleum prices, and placing a $10 per barrel tariff on oil, as some have advocated, would cost airlines $3 billion a year, which is four times their total 1985 profits and is more than the total net income of the 2,100 trucking companies that file reports with the Interstate Commerce Commission. The energy-intensive agriculture industry would also be hurt by a tariff and would not be able to pass on much of the added cost unless government offered protection to it as well. The domestic tire industry, which uses 7 gallons of oil for each tire it produces, came out against a tariff because it would place domestic tire producers at a competitive disadvantage over foreign producers. The homebuilding, road building, and plastic industries also oppose an oil tariff because it would increase their costs and make them less competitive. The only beneficiaries of an oil tariff are the oil producers, who would be shielded from foreign competition at the expense of everyone else.

The national defense argument is one that has been used ever since the time of Adam Smith as an excuse for protection of any number of industries. But, as Bradley points out, protecting the oil industry may actually weaken our defense posture. He quotes Clarence Randall, a former chairman of the Council on Foreign Economic Development, as follows:

> I think that the placing of any restrictions on oil imports is wrong. . . . Ostensibly, the program is based on national security, but if domestic petroleum reserves are required for our defense in war, or our recovery after war, I do not see how we advance toward that objective by using up our reserves. It seems to me that our policy should be to conserve that which we have, rather than to take measures which would cause our supplies to be exhausted more rapidly. (p. 204)

Bradley proposes a way out of this morass. Higher oil tariffs should be rejected as a solution because they are anti-consumer and are a dead-

weight cost to the economy. The domestic oil industry should be deregulated so that productive forces can be allowed to flow freely. Deregulation will also expand industry opportunities and reduce the cost of doing business, which adds to profitability. Reducing or eliminating some of the many federal, state, and local taxes will also increase productivity and profitability. Oil assets now in the public sector, such as crude oil production and storage facilities, should be privatized so that they can be used more efficiently.

This book provides a wealth of evidence to suggest that oil tariffs and quotas will do more harm than good. It should be read by anyone who has ever thought that government policy can be used as a tool to make the domestic oil industry stronger.

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