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OPEC: Twenty Years and Beyond, Ragaei El Mallakh, Editor

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BOOK REVIEWS

OPEC: TWENTY YEARS AND BEYOND

RAGAEI EL MALLAKH, Ed.
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The rapidly growing literature of energy economics and policy includes a great many collections of multiple authorship, most of which originated in conferences. These books of contributed papers present a difficult task to reviewers. It is not possible to do full justice to each author's contribution—seventeen in the present instance—within the space usually allotted to a review. Nor is it usually necessary. Some of the papers in most collections are significant, while others were no doubt provocative of lively discussion at the conference itself but contain little that need to be called to the attention of subsequent readers. Still others may have been included for balance in controversial issues, rather than for their inherent interest. Editors are seldom able to bring all papers to a uniform professional standard.

Several of the essays in this volume will be valuable sources of information and insight for students and for energy specialists. John P. Powelson offers a polished and persuasive analysis of the relation between oil prices and the world balance of payments, which provides a very useful framework for discussion and simplifies some of the complexities inherent in the problem. However, his paper has one drawback which is shared by many others in this book: it was virtually complete before the price explosion of 1979–80, following the Iranian crisis, and does not adequately appraise the significance of those events. Some of the papers, indeed, are already obsolescent because of this omission.

Robert S. Pindyck contributes a paper on "Some Long-Term Problems in OPEC Oil Pricing"; his analysis is elegant and thoroughly professional, as always, but the calculation of optimal prices for OPEC illustrates once again the pitfalls of forecasting oil supply and demand. (The "base case" optimum price for 1980 is given as $9.88/bbl in 1975 dollars.)

Walter Mead's essay is an excellent economic analysis of crude oil price behavior in the 1970s; students in energy economics can use it as a guide to what "really" happened in the tumultuous oil markets of that decade. Mead acknowledges a debt to Ali D. Johany, also a contributor to this volume, who explains the huge price increases of the '70s in terms of capital theory—more exactly, the theory of scarcity rents. There is no need, say Johany and Mead, to revert to a theory of cartel pricing and control to explain what happened; when the producing countries got control of their own output of oil they were in a position to capture those scarcity rents at last, and to set prices for oil that reflected them. They would have done that even if OPEC had not existed. Neither author, however, explains what would keep the price from falling to short-run marginal cost in a condition of surplus supply, in the absence of either a cartel agreement or a supply adjustment by the balance-wheel countries—Saudi Arabia and the other desert-country "savers".

Concern with whether OPEC is or is not truly a cartel runs through many of the papers, especially those contributed by persons associated with OPEC or with the oil industries or governments of OPEC countries. There is a note of defensiveness in all this—"cartel" is a pejorative expression, at least to consumers. The authors of these papers (such as Rene G. Ortiz, Fadhil Al-Chalabi and Aduan Al-Janabi, Ali M. Jaidah, and Jawad Hashim) take pains to assure us that OPEC is *not* a cartel because it (at the time of writing) had no method for allocating production quotas nor for enforcing its edicts on member countries. They generally assure us further that OPEC and its members are motivated by high objectives of conservation and altruism, not to say world distributive justice, which the OECD countries should wholeheartedly support, and that most of the world's energy problems are caused by wasteful consumption in the United States (not all of the OPEC-based authors say so, but in any case this tone has become drearily familiar to U.S. readers). It is not easy to see what niceties of definition are to be served by these quibbles over the word, though of course there *is* a genuine economic distinction between merely collecting true scarcity rents and collecting monopoly profits. If Pindyck's analysis, for instance, established only the former, we would know how to measure the latter.

There is also the question of non-OPEC oil producers. What behavior is appropriate for them, and do they forestall cartel control? Oystein Noreng of Norway provides some answers. "The lesson is that the non-OPEC exporters and the OPEC countries have basically the same considerations in relation to their petroleum policy" (p. 203). This conclusion is hardly surprising. If you can sell all you want to produce at a monopoly price, it is rational to do so, and if the cartel (or whatever) maximizes its scarcity rents over time, it is rational to do that. It is also, apparently, necessary to adopt the same self-righteous language and to identify the "extravagant patterns of energy consumption" in the U.S. as the "world's number one energy problem" (p.205). As an energy exporter following OPEC policies, Norway does not find it in her self-interest to subscribe fully to the IEA; Noreng rationalizes this attitude in words that make one long for the straightforward candor of Uriah Heep.

Let us be fair: OPEC and its free riders may indeed have done the world a favor by incorporating the real long-run scarcity value of oil into the price, and may be doing no more than demonstrating to users what they must do, beginning now, to conserve energy and find substitutes. But that is not a new idea, and these essays for the most part do not enhance the informed readers' understanding of it nor provide demonstrations of its truth.

Readers are more likely to benefit from such papers as J. E. Hartshorn's on the two oil crises of 1973–74 and 1979–80, which argues persuasively that neither was initiated by OPEC and that OPEC may actually have stabilized contract prices during the crises; the volatility of spot prices was not due to cartel manipulation. Massood Sami and Mansoor Dailami present interesting (though mechanical) models of inflation in relation to oil revenues and OPEC's purchasing power. Unfortunately, the favorable impression of such essays is more or less dissipated by the final piece, by Herbert Hansen, which calls for a global energy and development conference in the belief that it can find mutually acceptable solutions if everyone is motivated by good will—essentially a denial of the existence of zero-sum elements in the world energy and development picture. For all that, however, students of OPEC and energy will find this symposium well worth reading.

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