Volume 18
Issue 4 *Fall 1978*

Fall 1978

The Political Economy of the Oil Import Quota

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THE POLITICAL ECONOMY OF THE OIL IMPORT QUOTA

YORAM BARZEL and CHRISTOPHER D. HALL
Stanford, California, Hoover Institution
Press, 1977. Pp. 96, $8.95.

This book is the first of a series of studies of public issues sponsored by the Domestic Studies Program of the Hoover Institution. It comes well recommended; the praises for the book from a list of distinguished scholars (Cootner, Dam, Tullock, Stigler) quoted on the dust jacket and in the Preface are almost intimidating to the reviewer. It must be admitted, however, that their evaluations are justified by the text, which sets a high standard for future volumes in the series.

The subject is not an unfamiliar one. The oil import quota system has been studied before, and it is the subject of a recently published treatise from Resources for the Future.[1] Those interested in energy policy will find the Barzel and Hall volume to be a useful compendium of facts, including some that have not been noticed in other studies. Its chief contribution, however, is its analysis of the interaction of government regulation and the private economy. The analysis is set in the context of the particular policy of import control, but it uses analytical economics and some emerging theoretical insights of political economy.

Of course, in some respects oil import control policy is a sitting duck. Like the more recent incarnation of energy policy, the quota system of 1959 to 1973 was a notable example of inept administration, confused objectives, inappropriate instruments, unanticipated effects, and general policy disintegration. Barzel and Hall point out, often with wry humor, the manifestations of those problems. Their analysis of these aspects (such as the effects of the overland restriction, the special treatment of the West Coast, and the special treatment of Puerto Rico and the Virgin Islands) is sharp and incisive. Their discussion of the petrochemical problem and their analysis of the brokerage and distribution of the rents that import restrictions generated are especially good.

This reviewer's only complaint, apart from a few instances of careless editing and proofreading, is that the authors' introduction gives a somewhat misleading impression of the thrust of the book. The introduction concentrates almost entirely on a single point: that oil

1. DOUGLAS R. BOHI & MILTON RUSSELL, LIMITING OIL IMPORTS: AN ECONOMIC HISTORY AND ANALYSIS (1978).

is not a homogeneous commodity, and a regulatory system which assumes that it is homogeneous (as the Mandatory Oil Import Program did, in effect) will create difficulties and distortions in its pricing and allocation. The remainder of the book does indeed address that problem, and shows that the program produced a bias toward high-priced, high-value imports which affected the whole subsequent product structure. But this problem is one among many elements of the program that the book discusses.

What the book shows is that the regulations did not and probably could not integrate this highly complex market into a system of control consistent with the ostensible ends of the program. They did not anticipate or direct the reactions of the multitude of firms and other interested parties to the control system. They could not withstand counter-pressures. Regulations and allocations not only failed to solve any problems, they also made two or three new ones grow from the stalk of every old one. Barzel and Hall obviously intended to develop a rich and animated picture of the interactions between public regulation and private enterprise in a dynamic mode, accenting the object lessons for those who would make elementary static economic models the basis for a simply conceived and statically oriented regulatory policy. In this aim they have succeeded brilliantly.

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