NATURAL RESOURCES JOURNAL

Volume 18
Issue 2 *Spring 1978*

Spring 1978

Regulating Competition: Government Intervention in the U.S. Refining Industry, 1948-1975, by Anthony E. Copp and The Brotherhood of Oil: Energy Policy and the Public Interest, by Robert Engler

Stephen L. McDonald

REGULATING COMPETITION: GOVERNMENT INTERVENTION IN THE U.S. REFINING INDUSTRY, 1948-1975

by
ANTHONY E. COPP
College Station and London, Texas A&M University Press, 1976.
Pp. 280+xxiv, $14.50.

THE BROTHERHOOD OF OIL: ENERGY POLICY AND THE PUBLIC INTEREST

by
ROBERT ENGLER
Chicago and London, The University of Chicago Press, 1977.
Pp. 337+xi, $12.50.

These two books represent contrasting approaches to the problem of past, present, and future energy policy. The first is written by an economist who ascribes the failures of past policy to misconceptions and contradictions which can be explained in analytical terms. The other is written by a political scientist who, obviously concerned with the applications of power, condemns past policy as the work of an unholy alliance of business and government. Copp calls for a more rational approach to future policy; Engler for a broader public participation in the policy planning process.

Copp's *Regulating Competition in Oil* primarily deals with oil import controls and related refinery regulations, 1954-1973. He interprets the program as based on considerations of national security and competition in the domestic refining industry. Specifically, greater national security was the aim of import limitations, while the tool selected (import quotas, as distinguished from a tariff) and the allocation system (weighted to favor smaller refineries) were designed to preserve or enhance refiner competition. Copp traces the history of the program and describes its workings in detail. This in itself is a significant contribution to the literature.

However, of more interest for the future is Copp's analysis of the reasons for the failure and abandonment of the import control program on the eve of OPEC's four-fold increase in the world price of crude oil and the creation of a new set of policy problems for the United States. He argues at page 104 that the program was based on five assumptions "that either were basically false or became false during the period 1948-1975." These assumptions were that the U.S. had and would keep a cushion of spare producing capacity, that the supply of foreign oil was perfectly elastic, that the joint-product nature of oil and gas could be ignored, that a "healthy" oil industry required the survival of small refiners, and that regulation could supplant the market system.

The immediate cause of the abandonment of the import control system was, of course, the exhaustion of spare domestic crude oil capacity (which had loomed so large when the program was aborning), so that the import quota plus domestic supply could no longer satisfy domestic demand at prices that were politically acceptable. Why did that spare capacity disappear? It is in answering this question that, in the opinion of this reviewer, Copp's analysis is weakest. He surely is right in pointing to such factors as the regulation of natural gas prices (the joint product effect) and the reduction of tax incentives (after 1969), but he could have made his analysis more complete and more satisfying if he had addressed himself directly to the problem of how the domestic crude oil price was determined when the prorationing authorities adjusted supply to demand at whatever price prevailed. Why did not the domestic price of crude oil rise sufficiently to maintain the profitability of domestic exploration as demand grew relative to existing capacity?

It is not enough to say that there was no reason for the price to rise so long as there was spare capacity and the state prorationing authorities allowed supply to increase in step with demand. For if quantity supplied is equated with quantity demanded at whatever price prevails, then the price is indeterminate in terms of the usual market analysis. Either the prorationing authorities had a price objective (but why would they wish to hold down prices?) or the price is administered by the major refiner-buyers in the industry on the basis of considerations that neither Copp nor anyone else has made clear. This is the issue that needs attention, and it is too bad that Copp, with his technical skill and wealth of knowledge about the industry, does not address himself directly to it.

But where do we go from here? Copp accepts the national security argument as a premise of future policy. He advocates greater private and public effort in the area of research and development, looking to a "breakthrough" that will allow more thorough exploitation of the nation's remaining oil and gas resources, creation of an emergency reserve of producing and refining capacity, and deregulation of natural gas prices. He notes a number of other measures to "be considered," ranging from mandatory development of light cars to relaxation of air standards that limit the substitution of coal for oil and gas. And in general he would rely more on the market system to guide consumption and the allocation of productive resources.

The primary theme of Engler's *The Brotherhood of Oil* is that a monopolistic oil and gas industry and government in the United States have been and are in league to protect prices and profits, and that the nation's (and world's) energy problems, some artificially contrived by the corporate giants, can be solved only by broadly participatory public planning and control. Thus:

> The giants continue to share a community of interest which is guarded through patents, banking ties, common capital underwriters and accounting services, interlocking directorships through a third firm, bidding understandings in relation to public lands, recognized territorial prerogatives, crude oil and product exchange arrangements, and price fixing (p. 22).
>
> * * *
>
> [T]he free market in energy remains a myth (p. 48).
>
> * * *
>
> Public government's role has remained consistent over the years: to support the oil industry's management of production, that is, to help keep prices up and profits secure (p. 84).
>
> * * *
>
> Congress and the president should create a temporary national energy committee with the specific mandate to develop alternative approaches for public control and for the transition requirements for phasing out private control (p. 214).

Engler's method of argument is to make a statement, such as the first quotation above, and to cite a presumably authoritative source. One finds neither an independent analysis of factual data by Engler nor a discussion of the analysis that leads to his source's conclusions. One cannot determine how the conclusions were reached, or how they may have been qualified in the original source. One ignorant of the issues and literature would gain the impression that Engler's views are contested by no one, that there are no equally authoritative sources to site in support of different conclusions—for he supplies none. He frequently cites Congressional hearings and newspapers, but one finds no references to professional scientific literature.

This is not to say that there is no truth in what Engler has to say. It is indeed arguable, for instance, that governments, state as well as federal, have used their powers to protect and assist the oil industry on many occasions. Special tax incentives, market-demand prorationing and import controls may be interpreted in this light, although usually it was the independent sector of the industry that benefited most and a legitimate public purpose—conservation, national security—may have been involved. On the other hand, much regulation of the industry and other acts of government, such as regulation of natural gas prices and elimination of percentage depletion for major companies in 1975, can hardly be regarded as supportive or "friendly." The fact is that democratic governments are pushed and pulled by many conflicting interests, by shifting public opinion and unfolding events, and what they do seldom consistently favors one group or unqualifiedly promotes the public interest. A more rounded study by Engler would have made this clear.

Quite aside from the imbalance of his argument, Engler's proposals for reform strike this reviewer as naive. He seems to believe that participatory public planning, including end-use planning, will solve our energy problems. Exactly how, by what mechanism, using what criteria, he does not say. Broad participation in a democracy is desirable, but it does not in itself assure good results. Much depends on factual knowledge and analytical ability in the participants. Regrettably, Engler's book contributes little in the way of facts or analysis to guide the ultimate decision-makers in the United States.

STEPHEN L. McDONALD*

*Professor of Economics, University of Texas at Austin.