ECONOMICS, LABOR & BUSINESS

Don't Break Up the Oil Companies

"Vertical Divestiture of U.S. Oil Firms: The Impact On The World Oil Market" by William A. Johnson and Richard E. Messick, in *Law and Policy in International Business* (vol. 8, no. 4, 1976), Georgetown University Law Center, 600 New Jersey Ave., N.W., Washington, D.C. 20001.

Legislation that would force the breakup of the major oil companies into separate producing, transporting, and refining-marketing firms would make the United States far more vulnerable to another Arab oil embargo, say George Washington University economist Johnson and co-author Messick, a research associate at Indiana University.

One of the principal arguments made for divestiture legislation is that it would weaken the OPEC oil cartel. Congressional proponents maintain that divestiture would shatter the old system under which the oil companies help sustain high prices for crude oil by guaranteeing a market and by allocating production among OPEC members so as to maintain a balance between world supply and demand.

The authors dispute this, arguing that there is a market for OPEC oil, regardless of the major oil companies, and that OPEC alone is now setting production levels. Divestiture would not weaken OPEC. Instead, it would most likely result in a proliferation of crude-short refining companies that could be expected to engage in panic bidding for oil supplies, as occurred during the 1973–74 Arab oil embargo. Moreover, some of the big integrated companies might move their headquarters abroad to escape U.S. curbs and focus on foreign operations in competition with weaker, nonintegrated U.S. companies.

For the United States to abandon its special relationship with the international oil companies would make oil sharing among Western nations (quietly arranged by the companies in 1973–74) less likely in the event of another embargo. Without this allocation system, the United States would be subject to the full force of Arab pressure.

Fish Story

"The Economics of a 200-Mile Fisheries Zone" by Robert J. Slye, in *Naval Institute Proceedings* (Feb. 1977), U.S. Naval Institute, Annapolis, Md. 21402.

A 200-mile "economic zone," unilaterally imposed by Washington, went into effect off U.S. coasts March 1. It was designed to end the influx of Soviet and Japanese fishing vessels and help U.S. fishermen, whose share of the annual catch in Atlantic waters alone has declined from 93 to 50 percent since 1960.

But Slye, a Coast Guard ensign with experience in Alaskan waters, observes that the establishment of the 200-mile economic zone does not mean that the United States is either "ready or willing" to match the foreigners' fishing efforts. "We do not want foreign vessels taking