

## THE LESSONS OF HISTORY

*by Craufurd D. Goodwin*

The United States emerged from World War II with a new appreciation of the importance of energy to the nation's survival. It had participated in the first fully mechanized war in history. In the view of the State Department's Charles B. Rayner, testifying before the Senate in 1945, the Allies won because the United States had oil in abundance; Germany and Japan fought for it in Baku and Kirkuk, in Burma and Indonesia, and they lost because they were unable to capture it, or to capture it in time. Rayner's version of history was highly simplistic, but his implicit warning was sound.

America's reserves of oil and gas were limited, as Rayner noted. Future generations would perceive the nation's heavy dependence on these fuels to have been transient, like its earlier dependence on whale oil or wax candles. New energy sources would be needed: synthetic liquid fuels; gas made from coal; atomic and solar power. This much was clear from the start of the Truman administration.

During the next 30 years, what to do about future energy supplies remained the nation's most important piece of unfinished business, variously languishing from neglect or overwhelmed by a brief rush of attention. Successive Presidents worried about fuel prices and shortages, about imports, about competition among coal, oil, and natural gas. But a truly broad, painful White House attack on the problem, it seemed, was always deferrable as wars, recessions, or political conflicts intervened.

The inventory of energy policies adopted by Washington before and after the Arab embargo in 1973-74 is long and intricate. Stripped of embellishments, however, two themes stand out: the unwillingness, despite all their rhetoric, of energy producers, consumers, and the federal government to allow a genuinely free market in energy to develop; and the inability to create a system of central planning—the obvious alternative—to take the place of the marketplace.

The hybrid and piecemeal approach to energy policy that evolved instead puzzled everyone who bothered to study it. Events may prove that it was a tragedy for the nation.

The oil industry's chaotic early history, of course, did not

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constitute overwhelming evidence in favor of a laissez-faire approach. During the 1930s, Congress took steps to supplant the free market in petroleum. Oil was treated like some other commodities—wheat, for example—and its price was stabilized, as wheat's was stabilized, by taking fields out of production.

### The Failure of Planning

Under the slogan "Democracy on the March," Washington also intervened during the New Deal with vast public power programs and construction subsidies to keep electricity prices low. After World War II, when natural gas became important, it too was regulated, and its price held down. During the 1950s, the White House added restrictions on imported oil. After that, federal regulation, like Topsy, just "grow'd." Only the coal industry was left unfettered. Mine owners and workers did not fail to note the correspondence between the freedom of the market for their product and the coal industry's economic decline.

Washington's tinkering with the marketplace may have been justified, temporarily, at particular times. The result, all the same, was gradual erosion of public confidence in the market as an allocator of energy resources. When the energy crisis struck during the 1970s, most of the proposals to deal with it, including the comprehensive schemes of Presidents Ford and Carter, ultimately counted on "market solutions"—i.e., allowing prices to rise to curb demand or stimulate production. But, by then, the notion of free markets in the energy field had been abandoned by almost everyone involved. The market could not be put back to work anew at the stroke of a pen.

Ironically, as postwar history demonstrated, only market forces, when unleashed, seemed to have any impact on energy shortages.\* Every President since Truman "jawboned" producers and consumers or presided over some awkward, short-term

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\*It is interesting to note how quickly oil-well drilling responded to the gradual decontrol of domestic oil prices beginning in 1979. The "rig count" grew by 34 percent in 1980.

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*"It's a myth to raise prices," asserted consumer advocate Ralph Nader in this 1974 cartoon. "Who do you believe, that lousy stick or me?" Yet only higher prices seemed to have any effect on energy demand.*



*Courtesy of Charles Brooks,  
the Birmingham (Ala.) News.*

administrative strategy in order to ease the nation painlessly out of a fuel crunch. Invariably, price adjustments, had they been politically palatable, would have done the job more quickly, more easily, and, in many cases, more fairly.

If, after World War II, the energy markets were no longer free, and so no longer efficient, what could be put in their place? Some kind of national planning was clearly an alternative. Yet, except during wartime or deep economic trouble, Americans have had a strong ideological aversion to planning.

Even during emergencies, Americans were less interested in serious long-range planning than in "stopgap" solutions. Crises were the bane of effective energy policy, drawing attention to a problem while diverting the means to deal with it. Never was the urgency of "synfuel" development perceived as clearly as at the outset of the Korean War; never was it less likely that Congress and the White House would embark on a multibillion dollar scheme that wouldn't pay off for at least a decade.

Crises also prompted Presidents to assign energy matters to various short-lived emergency bureaus, such as Truman's National Security Resources Board and Eisenhower's Office of Emergency Preparedness. What little official thinking on energy issues occurred was thus repeatedly interrupted as the bureaucratic structures devoted to it were dismantled or reshaped.

### HOW OTHER COUNTRIES COPE

In September 1979, the Gallup Poll reported that 45 percent of Americans surveyed did not know the United States imported *any* oil. The citizens of other industrialized nations, however, have long been aware of their dependence on foreign petroleum. (West Germany, France, and Japan, for example, import almost 100 percent of their oil.) In the wake of the 1973 OPEC price increases, Western governments began to reassess their various energy strategies.

Most Europeans have tried to couple substantial conservation with conversion to new sources of energy. Banking on the success of their Superphénix breeder reactor, the French hope to satisfy 20 percent of their energy needs through nuclear power by 1985. The Germans are stepping up coal production and also pushing forward with nuclear power, despite domestic opposition. The Netherlands, by contrast, has opted to *increase* its reliance on OPEC oil in the short run, conserving its own vast Groningen gas field. Norway and Great Britain began pumping North Sea oil during the 1970s; both countries are self-sufficient in petroleum. Over all, the "energy crisis" has not yet been a calamity for the industrialized West.

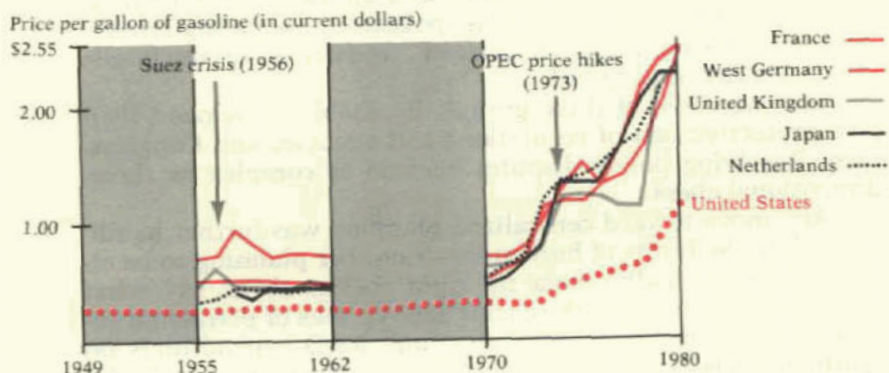
The rise in crude oil prices has crippled the economies of many Third World nations in Asia, Africa, and Latin America. To pay for OPEC oil, most of them have gone heavily into debt (outstanding Third World loans now total \$385 billion). OPEC officials claim that, through higher oil prices, they rob the rich West to give to the world's poor. But so far, OPEC's aid to its less fortunate brethren has not come close to compensating for their higher oil costs.

President Nixon had three successive energy "czars" heading up two successive energy offices in 1973 alone.

If there was to be planning, whose job would it be? The great virtue of competitive markets is that they permit prices and the allocation of resources to be determined by the interplay of impersonal forces—Adam Smith's "invisible hand." When free markets in energy were supplanted, the hand became visible. Individuals had to be designated to make decisions. The questions then became who and on what criteria.

For some federal policies, the first question was relatively easy to answer. For antitrust work, for example, there was a cadre of lawyers and economists in the mold of Thurman Arnold and Louis Brandeis, who saw themselves as guardians of competitive free enterprise. But energy policy lacked a comparable group. The Interior Department came closest during the early Truman years, but its controversial ties to the oil and gas industries, and the jealousy of bureaucratic rivals, soon stunted its

In the view of some governments, the United States (which consumes 20 percent of OPEC exports) poses as much a problem as OPEC. The "sheer weight" of U.S. demand for oil, as German Chancellor Helmut Schmidt has noted, helps to keep crude prices high everywhere. European nations have far outpaced America in conservation, even as U.S. imports have leveled off.



Source: American Petroleum Institute; U.S. Bureau of Mines; U.S. Central Intelligence Agency; U.S. Department of Energy.

*Americans continue to pay less for gasoline than do citizens of other Western nations, where high gas taxes promote conservation and energy R&D. (Foreign data for 1949-55 and 1962-70 are not available.) In constant dollars, U.S. gasoline cost less in 1979 than it did in 1922.*

leadership potential.

Besides, many of the department's own officials in the various bureaus and fuel offices were skeptical of comprehensive planning. Rather, they believed, through "consensus and accommodation," real people—not eggheads "schooled in the academic disciplines" but people who knew their own small piece of the energy business down to the last Hughes drilling bit and Louisiana salt dome—should continue to set policies for individual fuels according to their best lights.

It is obvious in retrospect that an elite corps of energy advisers, and long-term federal energy planning, could have thrived in Washington only with the support of a strong national constituency. Before energy problems were perceived by Americans as vital and permanent, this constituency did not exist in the White House or Congress, or, for that matter, in industry, or in the universities, foundations, and "public-interest" groups. (It is questionable whether it exists even now.) Broad energy propos-

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als, in consequence, shared the fate of Jean-Paul Sartre, who once complained that he had many readers "but no public."

By default, the Washington representatives of special interests evolved into the dominant intellectual forces in energy policy: the suppliers of oil, coal, natural gas, and electrical power; the advocates of atomic energy; the environmentalists; and the "consumers," who comprised an awkward mix of regional, ideological, and business spokesmen, including refiners who were as sensitive to the price of "feedstocks" as any family to its monthly heating bill.

In time, most of these groups, inevitably, developed their own protective belt of regulations and agencies and Congressmen. Resolving policy disputes became as complex as three-dimensional chess.

Any move toward centralized planning was further handicapped by the limits of human intuition. For planning to be effective, experts had to make the right guesses about, say, what was going to happen with reactor safety, rates of petroleum recovery and natural gas discovery, and R&D expenditures on synthetic fuels. "Safe" assumptions could be made, but the future was obdurately capricious. As the authors of the Paley Commission report observed, trying to *plan* energy was like trying to plan "the fingerprints of one's great-grandchildren."

It is sobering to recall that, in 1970, a Nixon task force assumed in its projections that imported crude would continue to be less expensive than domestic crude, that the risk of an Arab embargo was slight, and that oil from Alaska's new North Slope fields would reach the Lower 48 by 1973. By the end of 1973, all of these suppositions were shown to have been in error.

### Repairing the Damage

Thus, it is not at all clear, even with the benefit of hindsight, exactly what the nation ought to have done at a given moment to prepare for the energy transitions that all the data indicated lay down the road. It was never possible to say precisely *what* the future would bring, exactly *when* synthetic fuels would be needed or *where* new oil would be found or *who* would throw down the gauntlet to oppose one proposal or another. Such uncertainties would have plagued any concerted effort by a President and Congress to deal with the problem. But no concerted effort was ever made.

What is striking is that those involved in the various debates over energy policy seldom had any but parochial concerns in mind. An issue such as increased imports of residual fuel oil

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galvanized Northeastern Congressmen (whose constituents depended on imported heating oil), the leaders of the United Mine Workers (who feared that competition with "resid" would cost jobs in the mines), and officials in the State Department (who worried that curbing imports would antagonize Venezuela, the main supplier). There was no one to represent the long-term *national* interest, except possibly a President who was preoccupied with difficulties elsewhere.

When it came to "doing something" about energy, the cards were therefore stacked heavily in favor of the status quo. The public (and media) memory was short, the tyranny of the immediate decisive. Energy was so broad a subject that politicians, buffeted by lobbyists, inevitably broke it down into "manageable" components—imports, production, pricing, research, conservation, environmental issues—and found that, even so, the sheer pain of reaching agreement on any single item dampened desires to address the subject ever again. A costly by-product of this was an official reluctance to dismantle emergency measures, such as President Nixon's jerrybuilt allocations program, once the emergency had passed.

And energy questions were continually submerged by other disputes. Exploitation of offshore oil and gas reserves was ensnared in court battles over states' rights. Increased use of coal conflicted with environmental statutes. Energy plans also had to be weighed against other objectives: promoting economic growth; controlling inflation; maintaining national security. Historically, even totalitarian regimes have found it difficult to reconcile such major goals.

The United States was no totalitarian regime. Indeed, since the early 19th century, even foreign visitors had held up the "American model" of decentralized democracy and competitive free enterprise as uniquely efficient, politically and economically. Yet, over a period of 50 years, as the nation's energy problems grew in magnitude and complexity, the system failed to respond in timely fashion. Energy policy was continually torn between two extremes of economic theory: free markets and central planning. Repairing the damage is a challenge awaiting us in the 1980s.

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