

# The Energy Crisis— Moral Equivalent of Civil War

Joseph P. Kalt  
and  
Peter Navarro

**T**HE OVERT SIGNS of the energy problem—gas lines, truckers' strikes, acquiescence to an international oil cartel—seem to suggest that the economic system of our society is shakable. The result has been a true crisis of confidence. Yet, almost without exception, the signs of the energy problem have been the direct or indirect result of official policy. In the face of the expressed desires of all parties to solve the problem, each new "solution" only seems to drive us further into difficulty. What guides the political process to such perverse outcomes? To answer this question, it is important to understand the *distributional* effects of U.S. petroleum policies and to understand, further, why members of Congress vote as they do and the role of Congress in promulgating them.

## Post-Embargo Policy—Winners and Losers

There are two major components of post-embargo petroleum policy, both of which have consistently acted to *increase* the importation

*Joseph P. Kalt and Peter Navarro are, respectively, instructor in economics and doctoral candidate in economics at Harvard University.*

of foreign oil. First, price controls on domestic crude oil have discouraged domestic production. According to Kenneth J. Arrow and Joseph P. Kalt, as of the middle of 1979, these controls were requiring the United States to import roughly 2 million more barrels of foreign crude a day than would have been required without controls. Second, the infamous "entitlements program" subsidizes the refining of foreign crude oil. This has led to a relative expansion of refinery output, a consequent decline in refined product prices, and an estimated increase in crude imports of another 1 million barrels a day. (See *Regulation*, September/October 1979.)

At the same time, refined product price controls and allocation rules have disrupted the complicated network through which oil products flow to ultimate consumers. When sharp increases in world oil prices have occurred, as they did in 1973-74 and the first half of 1979, these regulations have provided the fabric from which shortages are made—with long gas lines serving as an ad hoc rationing system.

What are the distributional effects of these policies? Arrow and Kalt estimate that crude oil price regulations deprive producers of about \$17 billion a year that they would otherwise gain by selling their oil at world prices. The entitlements program uses these billions, ostensibly in the interest of maintaining equity among refiners, to lower the costs of those refiners that are more heavily dependent on foreign crude. In the process of equalizing refiners' costs, the entitlements program pays part of the bill for imported oil. The result is a subsidy for imports. Refiners hang on to roughly 60 percent of this subsidy, while the marketplace forces them to pass the other 40 percent through to petroleum consumers in the form of lower prices.

The net result, then, of current federal petroleum policy is to enrich petroleum refiners and consumers at the expense of crude oil producers. These distributional gains are accomplished, moreover, with an efficiency loss to the U.S. economy of roughly \$3 billion a year. This loss in aggregate income arises because artificially low prices lead us to overconsume imported oil and hand over excessive amounts of our wealth to foreign producers. When account is also taken of the resources devoured

in administering and complying with current regulations, the total net loss to the economy, according to Arrow and Kalt, amounts to nearly \$4 billion a year. These net losses, as well as the stakes of winners and losers, are pushed up by rising world oil prices, such as we have seen in the last few months. The price increases widen the gap between domestic regulated and uncontrolled market prices. Of course, the President's planned gradual decontrol can offset this effect, but it remains to be seen whether the Congress will abort the plan.

The impact of price controls on producers, refiners, and consumers makes it clear that the political struggle over oil pricing cannot be naively represented as a simple struggle between "consumers" and "the oil companies." Such a caricature overlooks the fundamental divergence between those oil companies that are primarily crude oil producers and those that are primarily refiners. While the invocation of a monolithic oil lobby undoubtedly has value as a tactic of political debate, it obscures a more subtle reality.

### Why Congress Votes the Way It Does

Do the distributional results of federal energy policy reflect a failure on the part of U.S. leaders to arrive at "a comprehensive national energy policy"? In a recent study of voting behavior in the Senate, Kalt concludes that the answers to these questions are clearly *no* (Harvard Institute of Economic Research, December 1978). At least in the case of petroleum, the United States has a clearly defined, consciously derived policy of impeding the transfer of wealth from crude oil users (both refiners and ultimate consumers) to crude oil producers.

In Kalt's analysis, a sample of thirty-six Senate votes on petroleum policy during the post-embargo years (primarily 1975 and 1976) was used to examine the factors governing the likelihood that a senator would cast a vote in favor of crude oil producers and against the consumer-refiner coalition—for example, a vote for decontrol. Measures of producer, refiner, and consumer interests were constructed to reflect cross-state differences in the relative importance of each group within states. States like Alaska, with substantial crude oil production and comparatively less refining and con-

sumption, were expected to show up as favoring producer interests. Conversely, states like New Jersey or Washington, with no crude production, large refining operations, and substantial expenditures on energy consumption, were expected to support transfers away from producers towards refiners and consumers.

In a similar study but one that looked at votes on natural gas policy, Edward Mitchell found, somewhat unexpectedly, that the "money-grubbing" distributional interests of legislators' constituents had virtually no effect on voting patterns. His analysis of selected House votes in 1975 and 1976 showed that natural gas voting was almost totally determined (90 percent) by political ideology (*Texas Law Review*, March 1979). Specifically, measuring the ideology of each member of the House by the Americans for Democratic Action (ADA) "liberalness" rating scale, Mitchell found that those with low ADA ratings (conservatives) typically supported pro-producer deregulation efforts, while those with high ADA ratings (liberals) typically opposed them.

To see if Mitchell's conclusions apply in the case of petroleum, the Kalt study used the same ADA 0-100 liberalness rating scale (but adjusted it for abstentions). The results were expected to be similar to Mitchell's—and, indeed, this expectation was borne out. Ideology plays a major role in the formation of oil policy—with liberals more often than not carrying the day. The statistical findings say that a ten-point rise above the average liberalness rating decreases the odds that a senator will favor oil decontrol by roughly 30 percent.

While political ideology clearly influences senator voting, certain observations suggest that ideology is not the whole story. Some notably conservative senators from crude-poor states, such as Senator Herman Talmadge (Democrat, Georgia, with an average liberalness rating of 17) and Senator Howard Cannon (Democrat, Nevada, with a rating of 32), made some of the greatest moves towards liberalness in their voting on petroleum policy—jumping 74 and 52 points, respectively. Conversely, a relatively liberal senator from a crude-rich state, Mike Gravel (Democrat, Alaska, with a rating of 85), made the greatest move of all senators, 66 points, towards conservative, pro-producer positions. Other more moderate senators have taken sharp turns from the middle of

the road on petroleum policy. For example, Senator John Glenn (Democrat, Ohio, liberalism rating of 58), from a state having no crude oil but substantial refining and consumer interests, moved 38 points towards the liberal position, while Senator Gale McGee (Democrat, Wyoming, liberalism rating of 63), from a crude-producing state, moved 24 points towards the conservative position.

Statistically, it turns out that any rise in the contribution of crude producer revenues to a state's economy increases the odds of a pro-producer vote. Similarly, increases in the importance of refining to a state significantly lowers the odds of a pro-producer vote, while increases in the fraction of state income spent on energy consumption also significantly lowers these odds.

These overall results thus strongly suggest that regulation of the petroleum industry has been explicitly designed in Congress—at the expense of economic efficiency and energy independence—as a mechanism to redistribute wealth. This mechanism is the political consequence of a nonconspiratorial coincidence of the interests of certain important groups. Specifically, petroleum refiners, petroleum consumers, and ideological liberals have commandeered policy and made themselves better off at the expense of crude oil producers and ideological conservatives.

---

**These overall results . . . strongly suggest that regulation of the petroleum industry has been explicitly designed in Congress . . . as a mechanism to redistribute wealth.**

---

As the nation moves through the current round of policy making, there are no signs to indicate that this powerful refiner/consumer/liberal coalition is in the process of disintegrating. It is true that President Carter challenged the coalition when he decided upon decontrol (and a de facto end to the entitlements program). But it is also true that Congress may overrule his decision—an effort led by Senator Henry Jackson (Democrat, Washington), the well-known champion of consumer causes and supporter of refiner interests who represents a state with no crude oil production. Moreover,

if decontrol does survive, it will be accompanied by a “windfall profits tax” designed to extract the increased wealth of crude oil producers; and the funds created by that tax will assuredly be used to finance measures favoring the members of the coalition—energy tax rebates for consumers, “plowback” provisions or R&D grants for refiners, and subsidies for mass transit, synthetic fuels, and solar energy for liberals.

### **No Room for Consensus**

Our reading of the political-economic roots of federal petroleum policy is applicable to energy policy in general. The domestic energy crisis is, far more than anything else, a quarrel over income distribution. Rising world oil prices augur a shift of wealth from energy users toward energy producers; and this is objectionable to those users who suffer losses in wealth and to liberals who find the direction of such wealth shifts ideologically distasteful. At the same time, policy intervention to stop these shifts is abhorrent to energy producers, as well as to conservatives who find such intervention ideologically loathsome. There seems to be little room for accommodation.

These observations explain the lack of a national consensus on energy policy and the inability of interminable preaching to generate a wartime sense of common purpose. Indeed, the energy crisis is not the “moral equivalent of war”—if what is meant by the phrase is a struggle where virtually all of us stand to lose at the hands of an outside aggressor. Rather, the war over energy policy is being fought primarily amongst ourselves—a civil war where one group in the country stands to gain what some other group stands to lose.

The American political system appears to offer little chance for truce and reconciliation. The only real hope seems to be that Congress will eventually realize that the pursuit of distributional goals in energy policy at the expense of economic efficiency is shrinking the total American economic pie to such an extent that *all* of us—consumers, refiners, liberals, producers, and conservatives alike—may soon be worse off. Until such a realization occurs, talk of a national consensus on energy policy remains propaganda in a civil war. ■