The Case Against Energy Independence

by Charles Peters and Glen Allerhand

There seems to be nearly unanimous support for the goal of energy independence. Some favor attaining it by reducing consumption through conservation, rationing, or taxation. Others seek independence by increasing production through the incentive of higher prices. But almost everyone, be he liberal or conservative, agrees that the United States should not be dependent on foreign energy.

We disagree.

Publishing a monthly magazine means disciplining yourself not to write about things you think will become commonplaces of discussion in the daily newspapers and weekly magazines before your next issue appears. Thus each month for the last six months or so, we have chosen not to make the case against energy independence because we thought it was obvious enough that it would soon appear in many other publications. We were wrong. Almost nothing has been said, so we've decided to speak up. Here is a brief outline of our case.

Continued pursuit of the policy of energy independence will lead to continued inflation, recession, and environmental damage.

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Consider the following results of such a policy:

- Much more use of coal, with a technology still inadequate to protect the quality of the air we breathe.
- Much more strip-mining, with its destruction of agricultural and timber lands and its pollution of streams.
- Much more off-shore oil drilling, with its threat to the life of the ocean and to coastal ecology.
- Much more nuclear power, with its dangers of terrorist hijacking and accidental holocaust.
- Much more expense—$50 billion to $100 billion more per year to produce independence by the presidential target year of 1985.

The goal of energy independence is also responsible for President Ford's desire to decontrol the price of domestic oil. Decontrol will cost the average consumer a minimum of $200 a year, according to one of the Administration's own experts, Eric Zausner, deputy to Frank Zarb at the Federal Energy Administration. Ralph Nader thinks it will be more like $900. Ford's sole justification for decontrol is that it will encourage development of domestic sources of energy and lead to energy independence.

Late this month the Arabs will raise their price, probably around $2 a barrel. After all, says Farouk M. Akhdar, a leading Saudi official, "If the price of oil is too high, why do

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you increase the price in your own country?" So the forthcoming OPEC increase is defended by pointing to our own proposed decontrol, which in turn is justified by Project Independence.

And this OPEC increase, according to another of the Administration's own, Gerald Parsky, an assistant secretary of the Treasury, "could pull down economic growth by as much as two to three per cent and around 600,000 workers could be forced out of their jobs."

The average price of oil—domestic and imported—is now between $9.50 and $10 a barrel. With decontrol and an increase in the price of imports, this could easily rise to about $15 by the end of the year, according to Edwin L. Dale, Jr. of *The New York Times*. It seems more likely, however, that Ford, and his allies in the oil companies, will try to postpone the worst price increases until after the general election in 1976, just as Nixon did his best to control inflation in 1972.

But even if decontrol is stretched out over two years, the new Congressional Budget Office estimates that it could cost us an average of $21 billion annually in gross national product. The Budget Office also predicts that Ford's energy policy would cause a rise of $33 billion annually in domestic oil prices.

This, of course, is just in the price of oil. It in turn causes a host of other prices to rise—everything from synthetic textiles to air fares.

The Air Transport Association, for example, estimates that the higher operating costs would put one out of every five commercial planes in mothballs and compel the airlines to lay off one out of every seven employees.

Does It Make Sense?

Since the only justification for the Ford decontrol policy that would produce these unsettling results is energy independence*—that the rising prices would stimulate greater domestic exploration and production—it's interesting to note that as domestic oil prices have tripled in the last three years, domestic production has continued to decline. It's also a little hard to see how the decontrol of old oil—which is all that is controlled—will encourage the discovery of new oil, which is already decontrolled.

Assuming, however, that the oil companies would dutifully plow their profits into exploration and that higher prices would in fact stimulate more domestic production, the question remains: Do we want to pay the higher price and does it make any sense?

The average barrel of Arabian oil costs 15 cents to produce; a barrel of American oil, anything from $2.50 to $10. The difference is dramatic and illustrates how, from the standpoint of an efficient world economy, both America's independence policy and the Arab's pricing policy border on insanity. The world's most efficient food producer prepares to tear up its farm lands to get coal, while the world's most efficient energy producer charges prices that have absolutely no relationship to cost.

After the World War I sugar famine in Europe, consumer countries wanted to develop independence in sugar and

*If the reason for decontrol is the goal of energy independence, the reason for energy independence is the fear of another Arab embargo. Yet in the first quarter of 1975 the Arabs furnished only 7.8 per cent of the total oil requirements of the United States. While the percentage of Arab oil in our total imports is rising, the fact remains that we get most of our oil imports from non-Arab countries and, with reasonable attention to maintaining an adequate stockpile (in April it was 780-days worth of Arab imports), we could ride out an Arab embargo with only the mildest hardship. With World-War-II-type rationing, we could even fight a World-War-II-dimension war without going outside the Western Hemisphere for oil. In other words, there is no real short-term oil shortage. In the long term, of course, the world does face exhaustion of its fossil fuels—which is good enough reason for energy research and conservation but not good enough reason for wrecking the economy and the environment in a head-long rush for energy independence.

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proceeded to encourage domestic sugar-beet production and erect tariff barriers and import quotas. The result was the widespread but uneconomic substitution of high-cost beet sugar for low-cost cane sugar.

Russia appears to have learned the sugar-beet lesson and is having second thoughts about the cost-effectiveness of its own efforts to become self-sufficient in agriculture. Recently *Pravda* devoted a full page to a speech by Fyodor D. Kulakov, secretary in charge of agriculture for the Central Committee of the Communist Party, in which he repeatedly mentioned the inadequacy of return on Soviet agricultural investment. The latest figures available show only a 0.42-ruble increase in production for every one ruble invested.

Mercantilism

The Russians, then, may be learning one of the main lessons of Adam Smith, a man they have not heretofore honored as prophet. Smith's *Wealth of Nations*, first published in 1776, was a tract against "mercantilism"—the 18th century's name for Project Independence. The nations of Europe at that time were obsessed with the idea of preserving their gold reserves by preventing imports. To this end each country erected high tariff barriers to foreign trade and attempted to produce internally as many of the goods it needed as possible. Smith's famous discussion of the division of labor was intended to show how mercantilism led to inefficiency and reduced prosperity for all nations.

It does seem to make sense for a country to produce what it can produce more economically than others and to buy from others what they can produce more economically than it.

The catch here, of course, is that while the Arabs can produce oil at a low cost, they want to sell it at a high price. The reason is that they want to get as much as they can in the next few years—before we and other nations develop alternate sources of energy. In other words, the faster we move toward energy independence, the greater the Arabs' interest in concentrating their profits now. This is the irony of ironies. If we weren't trying to develop energy independence, they would not have to hold us up now. What they need is a long-term assurance of reasonable prices so that they won't have to charge $11 today for fear they won't be able to get 11 cents in 1985.

Of course the conventional argument is that the Arabs' oil is a finite resource for which they need to get all they can while the getting's good. The fact is that it's not that finite—the Arabs have another 30 years' worth of oil—and the getting might not be so good if prices soar so high that customers go bankrupt trying to pay them.

The Shah of Iran says his country has lost 35 per cent of its purchasing power since the beginning of 1974 because of the world-wide inflation and decline in the value of the dollar. (The Shah, who is not lacking in chutzpah, uses this to justify another price increase.)

Instead of taking on the Shah's argument and turning it against him—his dollars are worth less because of the inflation his oil prices caused—the United States seems terribly fearful of offending Iran and Saudi Arabia. Indeed, our policy seems to be to protect those conservative regimes as a bulwark of stability in the Middle East. The Administration seems to assume that these governments will be threatened if oil prices don't continue to go up.

Focus on Economics

There is another factor in America's going along with the Shah. Henry Kissinger cares little about economics and tends to avoid getting involved in economic policy—he leaves oil policy

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to an assistant named Thomas Enders, who believes in the high-price route to energy independence.

Congress has a similar distaste for economics. The result is that for two years it has done nothing to prevent a repetition of the two major causes of our recent inflation—the 1972 Russian wheat deal and the 1973-74 increases in oil prices.

The shame of all this is that what we need most is a diplomacy that focuses on economics. Producers all over the world need assurance of stable prices; consumers need assurance of adequate supply at a reasonable price. This is glaringly true of the raw material suppliers of the Third World, but it really applies to everyone. A healthy world economy cannot be left to chance any longer.

Last April, at the international conference on energy in Paris, we parried Third World demands to broaden the agenda to include all raw materials. Yet this is really what should be done—and in doing so we would gain allies in convincing the Arabs that stability and reasonableness is in the interest of us all.

What else will convince the Arabs?

The basic argument is that anyone who has something to sell needs a customer. And the Arabs, with the last price rise, came terribly close to destroying quite a few customers. Another price increase might do the trick.

Second, he who unleashes the tiger may get bit. Or, as we pointed out in our February issue, the world-wide inflation-recession could have disastrous consequences for Egypt. Suppose angry mobs raise a howling radical to power who will use Radio Cairo to stir up revolution in Saudi Arabia. A lot of princes would end up in unmarked graves. This result would not seem to serve our policy of protecting the present Saudi regime. And it is not just a remote possibility. There have already been inflation-inspired demonstrations in Cairo.

Third, the Arabs need places to invest their wealth. The widest choice of investment opportunity in the world exists in the United States. It is in the Arab's interest for the United States to have a stable, prospering economy in which the value of Arab investment will grow. This point is made with special persuasiveness in an important new book, *U. S. Energy: Policy, Alternatives for Security*, by Douglas R. Bohi and Milton Russell (Johns Hopkins University Press).

Wendell Willkie's One World

There is evidence—again, see our February issue—that nothing pains the Shah and at least some of the Arabs more than our playing around with the price of gold. While the reasons for this are obscure, it is nevertheless so. and the threat should be part of our psychological weaponry in dealing with them.

But such weapons should be kept in the background, to be used only upon the recalcitrant. The primary argument is that Wendell Willkie turned out to be right. It is one world, no longer merely in the sense that military aggression in one place will ultimately affect others, but in the sense that severe economic problems in any part of the world can set off shock waves that can reach all the rest of us. The old argument was that if we didn't learn to live together, we would all end up naked and radiated in a nuclear desert. The new truth is that if we don't get together economically, we'll all end up on the bread line with no one to hand out the bread.

Of course, it is possible that this reasoning will not commend itself to the OPEC nations, that they and the other countries of the world will not want to join us in working out a fair system of prices for one another's products. But shouldn't we at least make a major effort to persuade them before we continue on the path to energy independence with all its terrible hazards for the economy and the environment? ■

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One of a series of reports on the first hundred years of the telephone.

How there came to be only one telephone company in town.

"Number please."

"In many cities of the United States, and in rural communities as well, there are dual and competing telephone systems, doing both local and long-distance business...Patrons of these telephone systems are put to endless annoyance and increased expense. In order to reach all the people using telephones, the telephone patron finds he must install two telephones in his house and office...Double systems of cables, wires and conduits burden the streets and highways."

—Report of the House of Representatives Committee on Interstate and Foreign Commerce, 67th Congress (1921)

When Alexander Graham Bell's telephone patents expired in 1893 and 1894, new telephone companies sprang up almost overnight. The accepted way of organizing communications was to have the "dual and competing telephone systems" cited in the Congressional report.

"Call us. We're on the Bell," was a frequent invitation in those days, to friends or customers. Central, the voice of "Number, please?", spent a lot of time explaining to customers that the number wanted was on the town's other telephone system. And each month there were two telephone bills to pay.

A solution to the problem had been worked out long before by John Stuart Mill. In 1847 Mill had studied the situation of two other new industries that supplied water and gas through pipes to the homes and businesses of London:

"It is obvious, for example, how great an economy of labour would be obtained if London were supplied by a single gas or water company instead of the existing plurality. While there are even as many as two, this implies double establishments of all sorts, when only one, with a small increase, could probably perform the whole operation equally well; double sets of machinery and works, when the whole of the gas and water required could generally be produced by one set only; even double sets of pipes, if the companies did not prevent this needless expense by agreeing upon a division of the territory. Were there only one establishment, it could make lower charges, consistently with obtaining the rate of profit now realized."

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Such a consolidation, Mill saw, was clearly in the public interest. The concept of a "public utility" was reinforced.

John Stuart Mill

When Edison's electric light superseded illuminating gas, the parallel was obvious. It was not quite so obvious for the telephone.

It was not hard to see that the public benefited from having water piped into homes. But while some viewed the telephone companies as providing a similar vital service, others regarded them as being more akin to manufacturers selling ingenious machines in the luxury class. When only a few people had telephones, one observer called them "electric toys." Should Bell's invention be compared with Edison's new electric light, or was it more like his phonograph? As the proportion of homes and businesses with telephones grew, the usefulness of the telephone increased greatly.

Then there was the matter of geographic area served. An exclusive franchise for a specified area is a natural corollary of Mill's concept of a public utility. And exclusiveness was a troublesome subject.

When two or more rivals supply a similar service, competition keeps each up to the mark, or else some eventually lose customers and go out of business. If in the public interest, government removes that rivalry by granting exclusive franchises, then government must provide the mechanisms for preventing arbitrary or excessive charges or unreasonable or discriminatory regulations.

The doctrine of public regulation of privately owned resources has its roots in Roman law and the tenet of *justum pretium* —"just price." English common law provided a rationale for regulation. In an essay on rates for wharf services, Sir Matthew Hale, Lord Chief Justice of England, established in 1670 the criterion that private industries "affected with a public interest" may be regulated by the public:

> "If the King or subject have a public wharf unto which all persons that come to that port must come and unload their goods...because they are the only wharfs licensed by the King...or because there is no other wharf in that port...there cannot be taken arbitrary and excessive duties...but the duties must be reasonable and moderate....For now the wharf and crane and other conveniences are affected with a public interest."

Various municipal boards did undertake to control the quality of service provided by water, gas and electric companies, usually through periodic reviews of franchises granted. It was no easy task. For quality of service leads quickly to questions of cost: good service for the price charged;

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equal prices for all customers for services of a similar nature, so that no one is discriminated against; adequate service capacity so that anyone able to pay for the service can have it.

Local officials had their hands full regulating the three industries already mentioned (water, gas, electricity). They were not eager to take on the responsibility of regulating the telephone business. And so redundant companies continued to exist in many towns. Confusion multiplied geometrically as the companies strung long distance lines to connect various cities.

Theodore N. Vail

Soon after he was elected A.T.&T. President in 1907, Vail enunciated the goal: "One policy, one system, universal service." He saw that the future of the business depended on having one unified telephone service for the entire nation—a service that every family and business could enjoy. That meant ending duplicate telephone companies, replacing them with exclusive telephone franchises. In other words, Vail understood that it was not enough for the nation to have telephone companies. What was needed—and what he sought to create—was a *telephone system.* Vail saw, too, that the very "exclusivity" of the franchises invited—indeed, demanded—regulation by officials elected or supported by the public to protect the public interest.

Vail thus agreed with the efforts of Gov. Charles Evans Hughes of New York and Senator Robert M. LaFollette of Wisconsin, who were working to persuade state legislatures to try a new approach to regulation through state utility commissions—responsive to the public at the state level—as best serving the public interest.

The state commissions, supported by public desire for efficient regulation, worked. Most public utilities came to be regulated on a statewide basis, and a framework of efficient regulation was set.

Vail recognized, however, that national regulation also was a necessary complement to state regulation, particularly since one company—A.T.&T.—was chiefly responsible for interconnecting the individual telephone companies into a telephone system.

As noted earlier, regulation of telephone companies already had begun to develop at the state level. But on the national level—for telephone lines and services crossing state boundaries—there was no federal counterpart to the state regulatory commissions, although telegraph companies had been regulated to some extent by the Postmaster General and the Interstate Commerce Commission under statutes dating back to the 19th century.

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Alexander Graham Bell

The first effort at comprehensive federal regulation came in the Mann-Elkins Act of 1910, amending the Interstate Commerce Act. Telephone, telegraph and cable companies were declared to be common carriers subject to ICC regulation.

Federal regulation took a new turn in 1934 with the passage by Congress of the Communications Act, which established the Federal Communications Commission. The intent of Congress—as it had been the intent of both Bell and Vail—is outlined in Section I of the Communications Act:

"For the purpose of regulating interstate and foreign communications by wire and radio so as to make available, so far as possible, to all the people of the United States a rapid, efficient, nationwide and worldwide wire and radio communication service with adequate facilities at reasonable charges...."

Almost alone among the nations of the world, then, this country entrusted the development and operation of its communications resources to private enterprise. It endowed companies with the rights and responsibilities of common carriers, each solely privileged to purvey its services within its territory but all in turn strictly accountable through state and national regulation to the public they serve.

Has it worked?

In 1968, President Johnson's Task Force on Communications Policy concluded, "It can be truly said that the United States has the finest telephone system in the world."

That kind of service didn't just happen. It was planned that way, right from the start.

One Bell System. It works.

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Tying the Imperial Purse Strings

by Ben Roberts

Lyndon Johnson and Richard Nixon brought it to our attention, and Arthur Schlesinger graced it with an official label: the Imperial Presidency. Now, members of Congress huff and puff about the need to reassert control over foreign and domestic policy, and add provisions to bills demanding that they—Congress—be treated to something called "consultation" before the President exercises his imperial prerogatives. The *Mayaguez* incident—when President Ford had low-level White House staff members read a brief statement to congressional leaders over the telephone—showed how easily a president can negotiate such strictures.

An analogy may be drawn to congressional activity in opposition to the war in Vietnam. While congressional doves concentrated their efforts on troop withdrawal deadlines, the Pentagon budget slipped right through Congress and into the war machine. In fact, the means of curbing the imperial presidency lie close at the congressional hand, just as those of ending the war did. Here, Congress' abandonment of its most effective technique of supervision is even more complete. The White House supports itself on money that passes through Congress virtually unreviewed. There is no way even to determine how much money is spent on the President and his staff every year.

Congress reviews presidential finances in what is known on Capitol Hill as a "spirit of comity." Indeed the imperial presidency operates technically in violation of the law. According to the laws of the United States, in 1975 the President receives a salary of $200,000 plus $50,000 for expenses. He is authorized $40,000 for travel. He is authorized 16 aides, whose individual salaries cannot exceed $42,500. He may request that people from other departments be assigned to the White House for temporary duty. And that's all. Where does the rest come from?

The vast majority of tax dollars that support the imperial presidency are not authorized to be spent for that purpose. This technical violation of the law would not be terribly important, except that it explains how little control—or even knowledge—Congress has of how much the White House is spending, and on what. Unauthorized money gets to the White House in two ways; either it is appropriated to the White House and spent by it without ever having been

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