Look Back at 1970s to Understand a Real Energy Crisis
by Andrew Brod
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As I get older, I usually resist the urge to claim that what I've lived through was rougher than what's going on today. For example, I never had to trudge through miles of waist-high snow drifts just to get to school. The towns where I lived as a kid had school buses and snow plows.

But all this talk about the terrible "energy crisis" we're supposedly experiencing is too much. The Bush administration has been saying it. The media are now saying it. And polls are beginning to show that many Americans believe it.

Are they kidding? You call *this* an "energy crisis"?

To be sure, things aren't exactly rosy in the energy sector. Gasoline is expensive, which of course is a bummer for the SUV set. Winter heating costs were very high this year and next winter may be just as bad. Experts are predicting black-outs this summer around the country, not just in California.

But let me tell you what a real energy crisis looks like. Remember the '70s?

In 1973, the Organization of Petroleum Exporting Countries (OPEC) was a new player on the international stage. When the United States and many other industrialized countries supported Israel during the Yom Kippur War, the Arab nations in OPEC declared an embargo and refused to ship oil to them.

The Arab OPEC countries soon reduced oil production by about five million barrels per day, or nearly 10 percent of global production. Other countries picked up some of the slack, but the net effect was a seven-percent decrease in global output. By 1974, the world price of crude oil had nearly quadrupled.

The effects in the U.S. were exacerbated by federal regulations that prevented domestic prices from rising high enough to ration the reduced supply. Consequently, domestic demand remained strong, and the results included the now-famous waiting lines at gas stations across the country.

Much worse was the major recession brought on by the sharp increase in oil prices. In 2001, many of us are concerned because the economy is growing at an annual rate of only 2 percent. Soon after the 1973 oil embargo, gross domestic product *fell* by over 3 percent, after correcting for inflation. Unemployment rose to 9 percent and inflation reached double digits.

The U.S. economy had never witnessed that combination of high unemployment and high inflation simultaneously, and a new word had to be invented for it and the economic malaise that resulted: stagflation.

Now *that* was an energy crisis. It trashed the economy, it changed the way Americans viewed energy, and it generated impressive gains in energy efficiency throughout the economy. According to the federal Energy Department, it now takes less than half the energy it did 25 years ago to produce a dollar's worth of output.

A second oil crisis came along a few years later, triggered by Iran's 1979 revolution. The resulting turmoil in oil markets, led by OPEC, sent oil prices skyrocketing to the then-unheard-of level of $30 per barrel, and it sent the U.S. economy into another sharp recession in the early 1980s.

OPEC lost a good deal of its market power after the 1979 crisis, as new producers such as Norway and the United Kingdom entered the market, attracted by the high prices generated by OPEC's actions. And in a way, this development paved the way for the current situation.

The rise of non-OPEC producers around the world helped moderate oil prices for about 15 years. Persistently low prices discouraged exploration for new sources of oil and natural gas, and slowed research on alternative fuels. Refining capacity fell, improvements in industrial energy efficiency dwindled, and truck-like cars began to rule the road again.

The industrialized world's complacency about cheap energy translated into a kind of economic inflexibility regarding oil consumption. And this presented OPEC with an opportunity to jump back into the picture. It has pushed world oil prices upward over the last few years, causing dislocations in markets that had gotten used to low energy prices.

In addition, there have been such disparate events as California's bizarrely ineffective attempt to deregulate its electricity markets, supply disruptions involving oil refineries around the country, and a dramatic decline in new authorizations for electric-power plants.

So the current "energy crisis" is essentially an unfortunate confluence of a series of market dislocations. But the thing about markets is that they eventually adjust to new realities. Already, the number of U.S. oil rigs in operation has more than doubled from two years ago. States are issuing permits to construct new power plants. And you're beginning to hear businesses express concern about their energy bills.

What should the government do? One of the big lessons of the '70s was that economic flexibility and energy efficiency are essential for a country to cope with the uncertainties of world energy markets. But instead of a policy that promotes these principles, the Bush administration has presented us with an energy policy heavy on production.

In principle, there's nothing wrong with more oil and natural gas production. But many of us are nervous about drilling off-shore and on environmentally sensitive federal lands.

Take the famous Arctic National Wildlife Refuge (ANWR) in Alaska. It is a fantasy to argue that oil from the ANWR would do much to solve our energy problems.

President Bush claims that the ANWR will generate 600,000 barrels of crude oil per day for 40 years, and that this is exactly the amount the U.S. imports from Iraq. But so what? The last thing Iraq wants to do is *not* sell its oil. And if it decides for some reason not to sell to us, the world market is such right now that someone else would step in.

Oil is traded in a global market, and you might expect the former oil executives who run the Bush administration to understand that. At best, the addition of 600,000 barrels per day to a market in which supply is currently running about 77 million barrels per day will cause the merest of declines in the price of oil.

But more likely, it would have no effect at all, at least until OPEC's customers rediscover the lessons they first learned after the *real* energy crisis back in the '70s.