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## REAGAN'S FADING ENERGY AGENDA

### INTRODUCTION

To a beleaguered energy industry, the Republican 1980 election victory, capturing control of the Senate as well as the Presidency, seemed too good to be true. The four years of the Carter Administration had been marked by a growth of federal intervention in the energy market unparalleled in American history.

New controls, new regulations, and new agencies seemed to spring up at every turn. Questionable technologies received massive subsidies, while more conventional, and reliable, energy sources were hit by punitive taxes. Access to federal lands was curtailed, environmental restrictions reached the point of irrationality, and productive avenues of research were abandoned or curtailed for political reasons. Meanwhile, energy companies struggling to cope with the morass of federal regulations were attacked by Carter Administration officials for failing to provide enough of the very oil, natural gas, and electricity that federal impediments prevented them from producing. It is small wonder that President Reagan and the new Senate were welcomed by many of those convinced that the nation's major energy problem was government interference in, and distortion of, the energy marketplace.

The Reagan Administration's early moves appeared on the right track. Just one week after taking office, Reagan removed the last vestiges of price and allocation controls from crude oil and refined products. The President also made a number of key appointments which signaled a decidedly pro-energy stance. His choice for Energy Secretary, James B. Edwards, vowed to work himself out of a job by abolishing the very department he was slated to head. James Watt, the new Interior Secretary, a veteran of the sagebrush rebellion, promised to halt the accelerating withdrawals of federal lands. And the appointment of Anne Gorsuch as Administrator of the Environmental Protection Agency heralded a new era of rationality in environmental regulation.

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It was widely expected that the Administration's early initiatives soon would be followed by others consistent with the President's free market philosophy. Natural gas, it was believed, would be decontrolled, market-distorting subsidies would be eliminated, and social engineering in the guise of energy regulation would be ended. In short, the market would be unfettered and the ever increasing encroachment of the federal government halted.

These expectations remain unfulfilled. After its initial fast start, Reagan's energy offensive seemed to bog down. There were small signs--vacancies in key slots at the Department of Energy (DOE) that allowed career bureaucrats unsympathetic with the President's policies to continue to exert influence; internal disputes within the agency over the President's proposed budget cuts. Then, more serious problems began to surface.

The expected legislation to decontrol natural gas prices was not submitted to Congress. Three synthetic fuel plants received massive federal subsidies. Even the development of a plan to dismantle the Department of Energy, the centerpiece of Reagan's efforts to eliminate federal interference in the energy market, seemed to be proceeding at a snail's pace. When details of the plan began to leak out, it was soon evident that it would do little to cut programs, but rather would merely transfer them intact to the Department of Commerce.

As disappointments grew, faith in the Administration's commitment to a market oriented energy policy began to erode. The Administration, however, is not solely to blame. A number of key White House officials have contributed to the problem, but a good deal of the opposition to a new direction for energy policy comes from the halls of the Senate.

Many observers have been surprised at the degree of resistance that free market initiatives have encountered in the Senate. It almost seems that, concerning energy policy, the Senate is less conservative than it was before the 1980 elections.

Expediency, pork barrel politics, and, in recent months, election year jitters have all played a part in motivating the Senate's actions. But the most disturbing factor contributing to the resistance to change has been a manifest lack of faith in the ability of the market system to provide solutions, even though that system constitutes the basic underpinning of the Reagan Administration's energy policy.

If the Senate does not believe that the market can provide solutions, then it is bound eventually to advocate the same sort of interventionist policies that were emphasized in U.S. energy policies under previous administrations. In fact, in six specific instances over the last eighteen months, powerful Republican Members of the Senate joined with Democrats in either initiating or promoting interventionist energy policies or in blocking market oriented ones. These include:

- o The delay of natural gas decontrol.
- o The continuation of subsidies for synthetic fuels.
- o The continuation of subsidies for "soft path" energy technologies.
- o The failure to dismantle DOE.
- o The approval of special treatment for the Alaska Natural Gas Transportation System.
- o The enactment of standby price and allocation controls for crude oil and refined products.

What is worse, the Senate seems to lack a coherent and carefully articulated framework of philosophy and values against which policy options can be measured. Without such a framework, it is impossible to focus on the long-term implications of the policies established. As a result, the legislators spend their time on the "crisis of the moment" and its expedient "quick fix." This has precluded their addressing the basic causes of the immediate crisis they face.

#### NATURAL GAS DECONTROL

The need for eliminating the federal price regulations governing the interstate sales of natural gas was recognized long before Ronald Reagan took office. In fact, the first attempts to end federal involvement in the natural gas market date from the late 1940s. It was not until 1977, however, that the decontrol debate began in earnest, with the introduction of the Natural Gas Policy Act (NGPA).

Although well-intended, the NGPA was fatally flawed. The legislators assumed, incorrectly, that they could anticipate the price movement of the energy market over the immediate term and, as a result, developed a formula by which natural gas price controls were to be lifted. This set unrealistically low ceilings on the price allowed for gas subject to those controls. As the actual free market price of gas began to rise in response to the escalation of oil prices, it rapidly passed the maximum allowed under NGPA. Soon, the differential between the price allowable under controls and the world price became so great that the desired effect of NGPA--that controlled prices should equal the world price when controls expired in 1985--became impossible. The gap between the controlled and market price for natural gas, in fact, grew so large as to raise fears of a very sharp rise, called a "spike," in gas prices when the restrictions were finally lifted in 1985.

Despite fears of a "spike," few Republicans disputed the wisdom of decontrolling gas prices. Instead, the debate focused



on how to accomplish price decontrol without disrupting the economy. Most Senators who supported decontrol favored a "phased" approach, which would allow natural gas prices to rise gradually over a three or four year period, via a formula that tied the increase to the actual free market price. This would ensure that the market price and the controlled price were equal when the restrictions were lifted in 1985, thereby eliminating the "spike."

After the President removed the controls from crude oil and refined products in January 1981, it was widely expected that natural gas decontrol would soon follow. What many observers failed to recognize, however, was that the elimination of price controls on natural gas was a far more difficult task than oil decontrol had been. While the President had the authority to lift controls from crude oil and refined products unilaterally via Executive Order, gas price decontrol requires an Act of Congress. Congress has been in no mood to cooperate.

When newly elected Senators made early inquiries on the gas decontrol issue, the Chairman of the Senate Energy and Natural Resources Committee, James McClure (R-Idaho), responded that he did not favor holding hearings during 1981. He expressed a similar view to the White House in private meetings, although he did tell White House lobbyists that, if they had a bill, he would look at it. Since McClure had reserved jurisdiction over the gas rules for his full committee, he was more than able to ensure that his wishes were observed. He justified his resistance with the argument that hearings on the gas issue would divert attention from the more pressing concern of enacting the President's first budget. Some observers felt that the fact that a number of members of his committee were up for re-election also played a major role in his thinking, because of fears that a move to decontrol natural gas prior to the 1982 election might jeopardize the Republican majority in the Senate.

Senator McClure's concerns were echoed by some key White House aides who favored a "go-slow" approach to legislation, taking on the issues one at a time. The trouble with this strategy, however, was that the time frame within which gas decontrol was possible was quite limited. If the Congress waited too long, there would not be enough time left before the NGPA expired to gradually phase in market prices. As a result, Congress would face the temptation to extend controls rather than risk a price spike in 1985--exactly the situation that Congressmen say they want to avoid.

In spite of the Senate's resistance to decontrol, the Cabinet seemed determined to submit a bill. Energy Secretary James Edwards, at first skeptical about such a move because he feared a potential political backlash, was eventually convinced that the controls should be lifted. By late summer 1981, the Cabinet Council on Energy and Natural Resources had voted unanimously to submit a decontrol bill in late September. All that was needed was a formal vote by the full cabinet and the approval of the President.

Because of the delay in the Senate, however, anti-control forces had gained time to organize opposition to lifting the restrictions. A widespread grass-roots lobbying campaign was initiated by a coalition of labor and consumer groups. A number of questionable and highly inflammatory studies regarding the price effects of decontrol were released. Lobbyists representing industrial firms with a stake in continued controls roamed the halls of Congress. More and more, fears of a price spike and its political consequences came to dominate the Senate's thinking. Ironically, these fears persisted in the face of mounting evidence that the price consequences of not decontrolling might, in fact, well be worse than those of eliminating the ceilings. Unfortunately, much of that evidence came from studies based in free market thinking--something the Senate seems all too willing to ignore.

In the end, the decontrol opponents won the day by convincing the President to defer the introduction of decontrol legislation planned for September 1981 until after January 1982. This meant that decontrol legislation would have to be considered along with the second Reagan budget and in an election year--when the chances of enactment would be small at best. It was inevitable, therefore, that the President would decide once again to table the issue, due to an "already overburdened" legislative and political agenda.

During this whole process, the driving force behind the Senate's resistance and the public opposition was lack of faith in the market system. If the Republicans in the Senate truly believed in the ability of the marketplace to provide the most abundant supplies at the most reasonable price, they would have resisted scare stories about potential price spikes or cassandra-like predictions of imminent resource exhaustion. They would have realized that price controls always distort the market. If, as some contend, natural gas supplies are running out (an assertion refuted by geologic evidence), then controls will cause the gas to be underpriced and overconsumed, leading to shortages. On the other hand, if supplies are not in danger of exhaustion, then controls will inhibit exploration and development of potential reserves, and again eventually lead to shortages. In neither case is the public interest served.

#### SYNTHETIC FUELS SUBSIDIES

When the first synthetic fuels legislation was introduced in the House of Representatives in 1979, it was a program of some \$3 billion in price supports and purchase guarantees. Intended as a means of quelling public outrage at the reappearance of gasoline lines in the wake of the Iranian boycott, the proposal was as much a public relations move as a serious attempt to address the energy crisis. In its initial form, at least, it did not gravely distort the market's signals. Since no funds were to be committed unless an actual product were produced, the taxpayer would not bear the risks of building the plants, but would be liable only if the price of petroleum products were to drop to a level below

that for which the synthetic fuels could be produced. The intent of the House proposal was to protect synthetic fuels manufacturers against an OPEC move to lower crude oil prices precipitously to attempt to stifle the industry. The bill was, in essence, insurance against a political risk.

When it reached the Senate, however, it assumed a totally different character. The \$3 billion House proposal grew into an \$88 billion program creating a whole new quasi-governmental agency, the Synthetic Fuels Corporation (SFC). In addition, it proposed the establishment of an Energy Mobilization Board, which could override state land use planning agencies. Instead of merely insuring the nascent industry against political risk, the Senate measure indemnified firms developing synfuels against economic risk through loan guarantees, price and joint ventures, as well as price guarantees and purchase commitments. The SFC was even empowered to build up to three synthetic fuels plants on its own. The Senate also set a series of ambitious production goals, calling for production of 1.2 million barrels of synthetic fuels per day by the early 1990s, and the SFC was required to outline to the Senate how these goals would be met.

The measure quickly passed both Houses of Congress and was signed by President Carter. When Ronald Reagan took office, he inherited a partially staffed Synthetic Fuels Corporation and a number of commitments for Department of Energy subsidies to synthetic fuels projects.

Within the new Administration, there was considerable sentiment to abolish the SFC and cancel existing commitments. The world oil supply picture had changed radically since the panic-stricken days of 1979 and U.S. oil imports were dropping to lower levels each week. More important, the President was committed philosophically to open marketplace competition, free of federal interference, for all energy technologies. The massive subsidies envisioned for synthetic fuels contradicted this principle. And the subsidies were not for high-risk, high-potential payoff research and development projects, but for straightforward commercial ventures, which should be able to stand or fall on merit.

From the outset, strong opposition to any reduction in the federal commitment to synthetic fuels was voiced by many Senators. Among the most adamant synfuels advocates were Senators McClure and Pete V. Domenici (R-NM), who had played a major role in drafting the original legislation. They argued that huge plants were necessary to protect the U.S. against another oil embargo and that the construction of several plants would send a signal to the OPEC cartel that the U.S. is resolved to withstand exorbitant price increases.

There are a number of flaws in this line of reasoning. First, the earliest that any synthetic fuel plant could be expected to come into service would be at the end of this decade. Substantial amounts of synfuels would not be available until the



middle 1990s. This time frame coincides with the period during which some mideastern oil producers reserves are expected to be exhausted and non-OPEC producers, such as Mexico, are expected to grow in importance in the world oil market. Since the non-OPEC producers lack the political motivation to interrupt petroleum sales, and need the revenue from those sales more than many OPEC nations, their emergence will significantly lower the likelihood of an embargo. Until that occurs, synthetic fuels will do little to help the U.S. during the time that a embargo poses the gravest threat.

Secondly, if the U.S. wants to send a meaningful signal to OPEC, it should move to fully utilize its domestic oil and gas resources. Eliminating the windfall profits tax on crude oil and decontrol of natural gas prices would do more to increase U.S. domestically based fossil fuel production in a much shorter period of time than realization of the most ambitious predictions of potential synfuels production. And it would achieve this at a far lower cost to the taxpayer.

The first significant confrontation between the White House and the Senate Energy Committee on the question of synthetic fuels involved subsidies for three projects which had been previously negotiated with the Department of Energy. In the case of at least one of the three, a synthetic gas plant, it was highly questionable whether it should be built at all; there were questions as to whether the subsidies to the other two (shale oil plants) might be larger than required.

The Administration was split on the issue, with some advisors arguing that, regardless of the merits of the projected plants, the federal government had made a commitment and thus was obligated to fund them because the "full faith and credit of the United States" stood behind that commitment. Others countered that the commitment was only tentative, had been made by a previous administration, and the most that was required was reimbursement of money already spent.

In the end, all three plants were approved--mainly because of pressure from the Senate. The market, however, is not easily thwarted. Falling oil prices caused by abundant supplies have prompted one of the sponsors to suspend construction and have cast doubt on the future of the other two plants.

#### SOFT PATH PROGRAMS

During the Carter years, the Department of Energy's budget for so-called "soft path" technologies grew at a rapid pace. Included in this category are such energy sources as solar, wind, geothermal, and some types of conservation devices. In many instances, the Carter programs focused as much on social engineering as on actual technological development. Analyses of those programs generally agree that soft path technologies make marginal

contributions at best and that, in many instances, federal subsidies have misdirected research efforts instead of helping them. As a result, the Reagan Administration moved in its budget proposals to reduce sharply funding of these programs. In each instance, the monies were restored--at the insistence of Republican Senators.

Senators Charles Percy (R-IL) and Mark Hatfield (R-OR), along with a number of Democrats, have championed the cause of soft path technologies, despite the evidence that such programs at best make a marginal contribution to ensuring America's energy future. In so doing, they demonstrate little faith in markets to provide solutions.

Take, for example, conservation. The fact is that the single greatest incentive for conservation is market price. This is illustrated by General Motors' attempt to introduce a line of fuel-efficient vehicles. Prior to the Iranian oil boycott, and the accompanying price increase for gasoline, GM's projections of future sales indicated that the company would not be able to meet the federally mandated fleet fuel efficiency target of 27.5 miles per gallon in 1985. The reason was quite simple: the American public was not buying fuel-efficient cars in sufficient numbers to enable GM to meet the requirement. As gasoline prices reached, and then passed, the \$1 per gallon price tag, however, the situation changed dramatically. Fuel economy suddenly became a major consideration when consumers purchased a new car. This, in turn, radically altered projections of what GM's product mix would look like in 1985. Instead of the fleet efficiency average of 26 miles per gallon previously projected for 1985, GM is now projecting an average of 30.5 mpg--more than 17 percent higher. The reason: gasoline prices. Nor was automobile mileage the only indicator of how increases in energy costs (the workings of the marketplace) encourage conservation.

Consumption of petroleum and petroleum products declined sharply across the board in the wake of the 1979 oil price increases. Most important, imported oil declined from accounting for nearly half U.S. consumption to only around one-third. In the case of overall oil consumption, as with imports, it was not a federal program that spurred conservation; it was the market. But it is not just that most federal programs to encourage conservation or stimulate the production of alternative technologies fail to produce positive benefit. In many instances, they actually retard development of innovative technologies by sending the market the wrong signals.

A case in point is alcohol fuels. These initially began to develop spontaneously in response to circumstances unique to some parts of the midwest. Farmers with surplus grain found that they could make a profit by converting their grain to ethanol for use as a gasoline additive. When several states decided to encourage such efforts by allowing this so-called "gasohol" a partial exemption from state gasoline taxes, the practice became quite profitable. In about two years, approximately 1,300 service



stations were offering gasohol at their pumps. It appeared that gasohol was destined to make a modest, but still respectable contribution to helping increase America's fuel stocks. At this point, the federal government entered the arena and spoiled things.

The federal government established a huge fund to subsidize construction of alcohol stills to provide motor fuel. Loan guarantees and in some cases direct loans were to be made available for the construction of "small stills." The program was an economic disaster. The limitations on size and capacity under the federal programs were so stringent that the units were likely never to become self-supporting. At the same time, the very existence of a federal loan guarantee program caused investment bankers to require prospective borrowers to seek such federal assistance regardless of the risk associated with their particular project. The result was that virtually all lending for alcohol fuels plant construction came to a halt as the banking community waited to see what the federal programs would eventually include. Needless to say, construction of alcohol plants came to a virtual halt as well.

In short, as long as the market was allowed to function without federal interference, the alcohol fuel development progressed at a pace commensurate with its true potential. Once government entered the picture, false signals were sent to the marketplace, leading to misallocation of resources and waste of manpower and materials.

#### DISMANTLING DOE

In an earlier study, a group of analysts commissioned by The Heritage Foundation noted that the basic flaw in the Department of Energy was "the fact of its existence." By this they meant that the government was incapable of efficiently managing the energy sector of the economy. There are simply too many transactions, too much complexity for any bureaucrat, or group of bureaucrats, to follow. Inevitably, attempts to manage the energy sector lead to shortages, inefficiencies, and misallocation of resources.

This fact was not lost on candidate Ronald Reagan. Time and again, he cited DOE as symptomatic of what was wrong in Washington. Eventually, the department came to symbolize the bureaucratic interventionism that he was pledged to end. Since the Republicans in the Senate had long been critical of DOE's performance, it was expected that the newly elected President would find willing allies in the upper chamber.

Original plans called for the submission of legislation to abolish DOE at the time of its scheduled sunset review in January 1982. As the end of 1981 drew near, however, word began to leak out of the agency that plans for dismantlement were not proceeding

as rapidly as desired, and that the move might be postponed. By December of that year, a number of drafts of proposed legislation began to circulate in Washington. All drafts shared a common attribute: they kept most of the Department's programs intact and transferred its personnel virtually intact to successor agencies. As January 1982 came and went, it was evident that something had gone radically wrong with the dismantlement plan. A good part of the problem, it now appears, was opposition from key Members of the Senate.

According to Senate staff members, while objections to the dismantlement plan arose from a number of concerns, primary was the sense that energy policy deserved a cabinet level agency. The purpose for forming the Department, it was argued, was to bring all of the federal programs concerned with energy under one umbrella to receive special attention. Dismantling the department directly contradicted this goal. While this attitude did indeed give rise to DOE in the first place, their assertion that the federal government can improve America's energy position through governmental action would appear to ignore contrary evidence.

The error in the thinking of DOE advocates lies in the assumption that bureaucrats can somehow manage energy resources better than can the market. Experience has demonstrated that this simply is not true. DOE's programs have hindered the operation of the energy market, and no amount of adjustment can alter the fact that they should not have been instituted to begin with.

A second frequently voiced concern involves emergency preparedness. DOE's performance during emergencies, however, has been dismal. In the 1979 oil interruption, DOE mismanagement shared responsibility with the actual drop in crude oil supplies for the gasoline lines which proliferated across the U.S. In case after case, supplies were misallocated, confusing signals sent, and wrong decisions made. Moreover, policies that preceded the actual boycott heavily contributed to exacerbating its effects. The Strategic Petroleum Reserve had not been filled at an adequate rate, and thus was not available. Refiners were ordered to produce heating oil at the expense of gasoline, even though the likely effect would be to create a shortage of motor fuel during the peak summer driving season. Prices were held to artificially low levels, encouraging wasteful consumption at the very time that conservation was needed. Oil companies were discouraged from purchasing crude oil through the spot market so that their stocks declined to dangerously low levels.

By contrast, when the war between Iraq and Iran broke out in September of 1980, DOE did nothing. Despite the fact that the conflict caused a decrease in crude oil from the world market at least as large as that experienced during the 1979 boycott, no gasoline lines appeared, no sharp price escalations took place. The market was allowed to function, and it adjusted, with some producing nations increasing their output to make up the loss, and buyers switched their source of supply. Had the Department

in 1979 followed a similar course, it is likely that no oil shock would have occurred then.

One motivation for the strong Senate support for the Department of Energy appears to be a desire to "do something" about energy. Though well-intended, this attitude has fostered many of the problems the energy sector of America's economy faces today. To "do something," the government must interfere in the market's normal operation. This sets off a chain reaction of consequences that go far beyond the act itself and creates pressure to "do something else." As such, regulation breeds more regulation, intervention breeds more intervention.

Although eliminating DOE will reduce federal intervention in the energy market, it will not end it entirely. Other programs and policies advocated in the Senate also contribute to the problem. Many of these initiatives are justified as essential to "national security," although in many instances, they do little to support that end. Among the most prominent examples is the fight for the Alaska gas pipeline waivers.

#### ALASKA GAS PIPELINE

Billed as the largest single construction project ever undertaken, the Alaska Natural Gas Transportation System is estimated to cost as much as \$54 billion. Originated during the Carter Administration, the pipeline is designed to bring natural gas from the Alaskan North Slope through Canada to the lower forty-eight states.

The pipeline was first conceived as an answer to growing concerns that the U.S. was running out of natural gas. Predictions during the Carter years projected rapidly diminishing reserves in the lower forty-eight states and, as a consequence, growing shortages of gas. Given these facts, it made sense to try to tap the huge natural gas reserves of the Alaskan North Slope.

Various routes for the proposed pipeline were examined before the current one was selected. In spite of considerable concern that the best route had not been picked and that the project might prove prohibitively expensive, under pressure from the Carter Administration, such objections were ignored and the project moved forward.

By early 1981, it became evident that serious problems had emerged in financing the proposed line. The financial community, uncertain over the route's economic viability, pushed the pipeline's sponsors to obtain special treatment from the Congress. Among the most important guarantees that the bankers wanted was for the pipeline to win the right to "prebill" its customers as each segment was completed. This meant that the consumers whom the line eventually would service would actually pay for part of the pipeline before it brought them any gas; in fact, even if it never did.



The notion of giving such special treatment to the Alaskan Natural Gas Transportation System (ANGTS) violated principles of free market economics. What the bankers were asking Congress to do was to shift a substantial portion of the risk involved in building the line from the project's sponsors to the customers, even though those customers would enjoy none of the benefits resulting from that risk if the line were to be completed and profitable. To accomplish this, the pipeline's sponsors would have to convince the Administration to submit a "waiver package" for congressional approval.

Initially, the Administration was skeptical about backing such waivers. Policymakers at the Department of Energy and White House doubted the wisdom of such a measure. In their view, since the pipeline company would reap the potential rewards gained from the project, it should bear the risks. More important, they feared that the waiver package would be only a first step and that the company later would pressure Congress for loan guarantees and other subsidies. If the line had so much merit, they asked, why could not the banks finance it without special exceptions?

As it became increasingly evident that the White House might refuse to submit the waiver package, a number of Senators began to pressure the Administration, indicating that they might retaliate by not supporting the President on other issues. Arguing that the gas was needed to reduce U.S. dependence on imported oil and that the line could only be built with the waivers, they claimed that the issue was national security, not simple economics.

On close examination, however, this argument does not stand up. Gas from Alaska would enhance U.S. security only if it directly replaced imported oil, but there was no guarantee of this. In fact, Alaskan gas was most likely to replace gas from domestic wells. It would be in direct competition with other types of high-cost sources such as "deep" gas, or gas from "tight sands." In many cases, gas from these alternative sources of supply could be obtained at prices lower than those projected for gas from the North Slope. The pipeline companies investing in ANGTS, however, would have more incentive to use the Alaskan gas so that they could recoup their investment. As a result, their customers might actually end up paying higher prices than would otherwise have been the case.

As the wisdom of building the Alaskan line increasingly came into question, opposition to the waivers increased hand-in-hand with pressure on the White House to submit them. An odd coalition of conservative Members of the House who opposed the waiver package as unwarranted market intervention and liberals who opposed it as anti-consumer emerged to challenge the move. In the Senate, however, the pipeline had powerful support from Energy Committee Chairman McClure and the Majority Whip, Ted Stevens, as well as a large number of Democrats. Since the White House needed the support of key Republicans for several other initiatives then pending before the Senate, the decision was made

to submit the waivers, despite mixed feelings regarding the package.

The waiver package won Senate approval by an overwhelming margin and was passed by the House in a closer vote. But as in the case of synthetic fuels, market forces were not so easily thwarted. Even with the special exceptions granted by Congress, the pipeline does not make economic sense. As a result, the anticipated financing has not developed and the project has been delayed with its completion date moved to 1989.

#### STANDBY CONTROLS

The ANGTS controversy is not the only instance in which national security was used to justify market intervention by Congress. In fact, the gas pipeline pales in significance when compared with the enactment of standby price and allocation controls for crude oil and refined products.

The imposition of price controls on crude oil and refined products by Richard Nixon in 1971 may have been the most important factor spurring the surge of U.S. oil imports. The move severely restricted incentive to seek new domestic supplies and encouraged uneconomical excessive consumption. The continuation of controls through succeeding administrations is widely blamed for the decline in U.S. domestic oil development and the gross supply misallocations of 1973 and 1979.

It was not surprising that one of Ronald Reagan's first acts as President was to remove the last vestiges of the price and allocation rules. Although they were set to expire in September 1981 anyway, the President intended to signal the energy industry that his Administration would move aggressively to eliminate federal interference in the energy market.

As expected, Democratic Members of Congress began calling for an extension of the President's soon-to-expire authority to impose price and allocation controls; some Democrats even called for reinstatement of controls. While Democratic calls for price controls came as no surprise, what was surprising was an early ally they found: Senator McClure.

He argued that, at a minimum, the President should have standby authority to regulate petroleum and petroleum products in the event of a supply interruption. He said that the authority should be enacted in advance of an emergency to avoid precipitous action by Congress in the potentially highly charged environment, should an oil supply interruption take place. The controls, after all, he argued, would be only temporary emergency measures used in response to a crisis.

The trouble was that the President had only just removed what remained of an earlier temporary emergency measure enacted

ten years before under the Nixon Administration. Experience demonstrates that temporary measures have a way of becoming permanent policy and, more important, that existence of authority very often gives rise to its premature use. It was this last point that particularly concerned policymakers at the White House and Energy Department. While it was highly unlikely that President Reagan would impose price controls on oil under any but the most severe circumstances, future Presidents might be more tempted to invoke such powers. Moreover, if such authority existed, congressional pressure to move prematurely might prove overwhelming at some future date.

A basic problem with price and allocation controls is that they tend to create constituencies that lobby for extra allocations of fuel. Whether it is farmers arguing that the crops have to be brought in, truckers pleading that they need extra fuel to keep goods moving to markets, or hospitals seeking extra supplies to ensure emergency services, all seem to feel that they justly require special treatment. But, as the number of special allocations and "set-asides" mount, the ability of the market to shift supplies in response to changing demand is increasingly limited. The result inevitably is an overabundance of supply in one area and a shortage in another.

Support for price and allocation controls once again underscores the lack of belief in the market system that is so pervasive in the Senate. What makes the problem much more serious, though, is that this lack of faith appears to extend to the very Senators on whom conservatives rely to advocate market solutions. If they do not stand up for free enterprise, how can other Members, more oriented towards an interventionist approach to energy, be convinced that markets work best? How can we hope to end the inexorable extension of the federal government into more and more aspects of our daily lives? How can the President hope to succeed in bringing a new direction to energy policy?

## CONCLUSION

It is not too late to redirect the course of energy policy back toward the market. To accomplish this task, the legislators and Administration officials charged with devising energy policy must first demonstrate that they believe that market solutions work.

This end is best accomplished by advocating solutions founded in a free market philosophy. Some of the first steps they could take include:

- o The decontrol of natural gas prices.
- o The elimination of subsidies to commercialize new energy technologies, whether they be large-scale projects such as synthetic fuels, or smaller ones like solar energy or alcohol fuels.



- o The dismantlement of the Department of Energy.
- o Strong support for Secretary Watt's efforts to increase access to federal lands.

Longer-term policies that the Senate could consider would include:

- o Examining the possibility of deregulating the electric utility industry.
- o Examining the possibility of deregulating natural gas and oil pipelines.
- o Privatizing the Tennessee Valley Authority.
- o Privatizing the federal power authorities.

Most important though, the Senate should take the time to set forth the principles against which to measure proposed legislation. Without such a framework, the tendency to choose the expedient solution rather than the principled one will continue to result in policies that hinder the normal operation of the market.

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