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When America Ran on Empty

Farmers, wildcatters, truck drivers, pipeline operators and oil companies all prospered by using energy policy to their advantage.

By **MARC LEVINSON**

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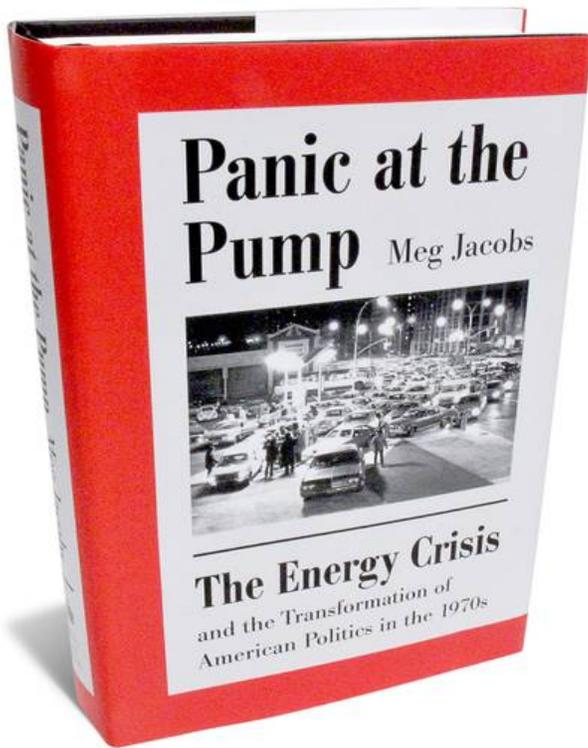
The annals of regulation hold no shortage of oddities, but there may be none as bizarre as the Brownsville Loop.

The Loop was an outgrowth of U.S. quotas on petroleum imports that had been crafted in the 1950s to keep domestic oil production profitable. When our Canadian neighbors objected, the Eisenhower administration crafted an exemption for oil arriving by land. But soon, tankers of Mexican crude were steaming to Brownsville, Texas, where the oil was off-loaded into tanker trucks, driven a few miles across the Rio Grande into Mexico, and then hauled back to the Brownsville dock. After taking the energy-wasting detour, this waterborne oil, 30,000 barrels of it a day, was deemed to have arrived in the United States by land, exempting it from the quotas.

The Brownsville Loop, which was eliminated in 1971, was just one of many monuments to American ingenuity created by federal energy policy. There was also concubinage—a practice involving intimate relations between big refineries that desperately wanted cheap foreign oil and small ones, which Congress had favored with extra import quotas. There were rules to ensure cheap heating oil in the Northeast—and a lively black market that siphoned those supposedly vital supplies to the Midwest. And, of course, there were bureaucracies, both in Washington and in the states, charged with deciding what oil and natural gas should cost and how they should be allocated.

Such intricacies of regulation don't get much attention in Meg Jacobs's book, "Panic at the Pump." Ms. Jacobs, a Princeton historian, has written a history of the political battles over energy that wracked the United States in the years following the Arab oil embargo in 1973.

The energy crisis, she contends, transformed American politics, decimating liberalism and bringing anti-government conservatives to power. “Just as ambitious New Dealers used the Great Depression as an opportunity to carry out a Keynesian revolution, so did these reformers use the oil crisis as an occasion to advance the ideology of their intellectual heroes like Friedrich von Hayek, Ayn Rand, and Milton Friedman,” Mr. Jacobs writes.



There's an element of truth to her claim.

Jimmy Carter's anguished presidency would surely have been a happier one had oil not been in short supply. Block-long gasoline lines and strikes by truckers angry at the high cost of diesel fuel indisputably darkened

PHOTO: WSJ

PANIC AT THE PUMP

By Meg Jacobs

Farrar, Straus & Giroux, 371 pages, \$35

the nation's mood. Any number of think-tankers and ideologues did use the energy crisis as a wedge to promote their agenda of smaller government and

less regulation. Contrary to Ms. Jacobs's depiction, though, the endless political battles over energy had less to do with partisan politics than with rent-seeking.

THE KEY FACTOR IN THE DIGITAL ERA ISN'T TECHNOLOGY. IT'S PEOPLE.

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Behind the fog of rhetoric about “energy independence” and “free markets,” various players—farmers, wildcatters, multinational oil

companies, pipeline operators, truck drivers, electric generators, industrial users of natural gas and dozens of other constituencies—all prospered by using the regulatory structure to their advantage. It was hardly the case that business in general, or energy businesses in particular, wanted regulations lifted; had that occurred, certain oil refineries would have lost their cost advantage over others, and some oil wells would have become unprofitable. Many other manufacturers would have been stuck with commitments to buy natural gas at prices well above the market. This is why energy deregulation proved so devilishly difficult to enact: Any change that benefited one interested party was likely, at least in the short term, to be harmful to others.

Nor is it clear, as Ms. Jacobs contends, that energy was the dominant political concern of the 1970s. In reality Americans, along with the citizens of almost every other wealthy country, had ample cause to be unhappy. Productivity growth had fallen sharply everywhere for reasons largely unrelated to higher energy costs, and this weakness translated directly into sluggish income growth and stagnant living standards. Taxpayers who had cheered the expansion of the welfare state during the robust economy of the postwar period began to see it as a burden when times grew tougher. Inflation raged around the world as politicians and central bankers tried to make their economies grow faster than fundamental conditions would allow. Americans saw the purchasing power of the dollar fall by more than half within a decade. The energy crisis was unpleasant, but it does not explain why politics turned right, in the United States or anywhere else.

Ms. Jacobs tells her story largely by stringing together pronouncements by politicians and anecdotes from the media. In a single 11-line paragraph, to take but one example, she manages to quote Sen. Abraham Ribicoff, the Associated Press, an unnamed North Carolina man, Newsweek, and Senator Lowell Weicker. The book thus brims with cardboard characters—“liberals,” “conservatives,” “environmentalists,” “the industry.” Republicans are depicted as favoring the “free market,” although “what they meant by a free market was no government interference unless it benefited the industry,” Ms. Jacobs explains. Democrats are shown fighting deregulation to protect consumers and preserve the environment, except when they seek to spend vast sums on boondoggles like synthetic fuels. The extraordinary complexity of unwinding decades of government intervention in energy markets goes missing amid the stereotypes.

Mr. Levinson, author of “The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger,” is completing an economic history of the 1970s.



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