

BOOK REVIEW

A POLICY OF DISCONTENT: THE MAKING OF THE NATIONAL ENERGY STRATEGY by Vito A. Stagliano (PennWell Corp., 2001).

Reviewed by
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In the weeks following Iraq's invasion of Kuwait in August 1990, Bush Administration senior advisors became embroiled in a debate on whether to recommend drawing down a portion of the Strategic Petroleum Reserve (SPR) to blunt rising oil prices. A multinational embargo of oil from Iraq and Kuwait meant that approximately 5 million barrels per day of oil production was unavailable, putting a squeeze on the entire international oil market. Oil prices rose quickly on the spot and futures markets, from a little over \$20 immediately prior to the invasion to about \$31 by August 24, 1990. Continuing to trend upward, spot market prices hit a high of \$41.07 on October 11.

Although President Bush's foreign policy approach to Iraq's misadventure is well-known and chronicled, limited light has been shed on the administration's domestic energy policies during this period. A recent book focuses on the SPR debate within the larger goal of detailing development and passage of the 1992 Energy Policy Act (EPAct). Likely to raise a few hackles among members of the former president's inner circle, *A Policy of Discontent: The Making of a National Energy Strategy*, offers an insider's view of policy development at the highest levels of government. It is in the recounting of the SPR debate that author Vito Stagliano offers his most compelling account.

The United States developed an SPR policy in 1984 and communicated it to Congress in 1988: "Recognizing the need to calm the markets quickly, the Administration's basic policy is to use the SPR early and in large volumes in response to a major supply disruption." Stagliano contends the policy was not followed, even though the Bush Administration embraced the policy just five months before the Iraqi crisis, not because of some quibble over what constitutes a major supply disruption, but in part because of plain incompetence.

According to Stagliano, Secretary of the Treasury Nicholas Brady misread Wall Street's reaction to the Iraqi invasion in a key cabinet meeting with the President. Where Brady apparently viewed an increasing spread between higher spot prices relative to futures prices as an indication that the market was unconcerned about future supply, Stagliano contends that this market state, known as backwardation, rather indicates that oil traders were willing to pay a premium for immediate supplies because the

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availability of future supplies was too uncertain. Stagliano adds to this charge Brady's not raising other major impacts of high oil prices, including rising inflation and unequal distributional effects.

Proponents of drawing on the SPR in light of increasingly higher oil prices argued that a limited drawdown of 400,000 barrels per day in the United States and 800,000 barrels per day in other International Energy Agency countries would have the following effects: the domestic inflation rate would decrease by up to 20%, Gross National Product losses would decrease by about 25%; and total economic losses would be reduced by 20%. To many analysts both inside and outside of government, it appeared that no policy initiative short of a drawdown of the SPR would likely have as significant an impact on the price of oil.

Opposition to drawing down the SPR sprang from a central tenet of several high ranking administration officials that governmental intervention in the markets is nearly always counterproductive. This group would consider an SPR drawdown only if it appeared that actual physical shortages were a likelihood. In this view, the upward movement of prices demonstrated that the markets were working as they should, and that market forces would best correct any short-term inefficiencies.

When a drawdown did finally occur approximately six months after the crisis began, the proponents of using the SPR were fully vindicated, according to Stagliano. Oil prices fell more than \$10 per barrel in a single day, back to pre-crisis levels.

Policy of Discontent covers an enormous amount of material regarding the shaping of EPAct. As a prelude, the book provides a brief overview of federal energy policy from Franklin D. Roosevelt up through Ronald Reagan. This section apparently is not intended to be comprehensive, but rather attempts to track the general consensus view as to federal energy policies, i.e., what types of policies work and which do not. Oil import controls under Eisenhower are singled out as perhaps the most egregious policy to date, spurring a number of ill effects, including: raising domestic consumer prices, accelerating depletion of domestic reserves, being counterproductive to U.S. leadership on reduction of trade barriers and undermining the U.S. position on the General Agreements on Tariffs and Trade. And, oh yes, they probably also played a part in the formation of the Organization of Petroleum Exporting Countries and accelerated the nationalization of oil production in Latin America, Africa and the Persian Gulf.

Chapter 2, "The Search for a Policy Consensus," begins by detailing the principals proposing a new national energy policy and those who came to be the main antagonists. The focus moves to the effort to get a new program off the ground by garnering presidential support. Support in hand, the protagonists then engage in nationwide public hearings to solicit the broadest range of views possible on key energy issues. This feedback was condensed into an interim report that was intended to narrow the policy options and thereby construct a final strategy on consensus views. This chapter ends with an overview of the structure and trends of the U.S. en-

ergy economy.

Chapter 3, "The Economic Policy Council Takes Control" is a thorough accounting of power politics and the many diverse influences on policy development. Having developed a record of what energy issues most concerned Americans in 1990, several of the president's advisors begin to whittle away potential options judged inconsistent with the administration's stance. This chapter nonetheless addresses the scores of options available to the national energy strategy proponents and summarizes the results reported in numerous white papers created by the Department of Energy's national laboratories, including such topics as global climate change, energy efficiency, renewable energy and several papers on technology transfer and the technology transfer process.

Chapter 4, "Saddam Hussein Lends a Hand," details the debate on the SPR, addresses the impact of the Iraqi crisis on the development of the national energy strategy and attempts to answer the question of where the profits from high oil prices went. Stagliano finds that the vast majority of wealth transfer was to foreign governments who owned the oil production facilities, not the major gas or oil companies, independent producers, refiners or marketers, or oil field companies.

Chapter 5, "The National Energy Strategy Emerges (Scathed)," reviews the massive inter-agency effort to bring some degree of cohesion and a focus on the most preferred policy options in a format suitable for presidential review. This includes a background paper on the options available, called the framework paper, which formed the basis for the Economic Policy Council's six meetings intended to forge a consensus on specific options that would become a part of the national energy strategy.

Chapter 6, "Congress Wants to Know," follows the congressional hearings and legislative process by which numerous independent bills incorporating most or all of the national energy strategy components were melded together in both the House and Senate. This chapter also details two congressional broadsides to the plan, neither of which made much of a dent, although the time expended to meet these challenges was enormous.

A Policy of Discontent is a fact filled book geared toward readers interested in real world examples of how policy is developed. The many facts and detailed accounting of events may make it tedious reading for some and may disappoint others for its lack of a cohesive presentation of energy policy over the past few decades. However, the book provides a fresh first-hand account of the enormous undertaking that is energy policy. For anyone with an interest in federal energy policy and the mechanics of how policy initiatives are accomplished, including a healthy dose of internal politics, this book is highly interesting and reads fairly quickly.

