CHAPTER SEVEN

The Market as State Strategy

There was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course. . . Laissez-faire itself was enforced by the state. . . Thus even those who wished most ardently to free the state from all unnecessary duties, and whose whole philosophy demanded the restriction of state activities, could not but entrust the self-same state with the new powers, organs, and instruments required for the establishment of laissez-faire.

Karl Polanyi, 1944

American executive officials tried to fashion a workable policy on energy adjustment by resort to several different tools of government, but in each case they confronted constraints. The initial strategy, international adjustment, failed. Emphasis then shifted toward domestic initiatives, but efforts to redefine and extend the role of the federal government in energy production also failed. Executive officials were able to implement a spending program for energy R&D, but this funding did not produce the immediate payoff necessary to alter prevailing patterns of consumption and production. Oil imports continued to climb throughout the mid-1970s. In the absence of success elsewhere, the issue of oil pricing moved to the center of the policy process. Beginning in 1975, but especially after 1978, executive officials came to embrace the decontrol of domestic oil prices as the single most important tool with which to address the problem of energy adjustment.

For most industrial nations, the OPEC price shocks of 1973–74 passed directly through the economy and forced immediate adjustment.1 The U.S. economy, however, at the moment of the Arab oil

embargo, was under the guidance of Richard Nixon’s 1971 wage and price controls. These controls acted to regulate the market and as a consequence effectively shielded domestic consumers from rising world oil prices. When the controls lapsed in 1973, Congress extended oil price controls in emergency legislation to cope with the crisis. Although enacted as “temporary” measures, these regulatory controls lasted for the better part of a decade and were periodically reformulated in ever more complicated programs.²

Price controls made the nation’s petroleum markets unlikely to respond to any of the government’s energy goals: domestic production was discouraged, consumption was indirectly subsidized, and the effective limit on imported oil did not allow for domestic shortages to be made up with foreign supplies.³ Oil pricing necessarily became politicized. Consumers tenaciously supported the price controls while the large oil companies inveighed against them. At the same time the Ford administration (and later the Carter administration) began in 1975 to seek various ways to dismantle, circumvent, or abridge the controls. Finally, in the spring of 1979, with new executive authority over oil pricing, the Carter administration announced a program of phased oil decontrol.

With the decontrol decision of April 1979, American executive officials finally found a workable solution to the problems of energy adjustment. Unable to develop new interventionist means to stimulate production and encourage conservation, government officials gradually came to embrace market pricing as the most effective method within their reach to advance their goals both in general energy policy and in foreign policy. Understanding now that the market could be used as a tool of national policy, executive officials became involved in efforts to dismantle the regulatory apparatus. The strategic withdrawal of state involvement in pricing and allocation became the most efficacious act of public policy.

The dominant account of oil-pricing policy focuses on the play of interest groups, presenting the history of oil price regulation and deregulation as the active involvement of interest group and congressional politics.⁴ This interest-group explanation traces the persistence

of regulatory controls and their eventual dismantlement to the efficacy of consumer and industry interests within the policy process. Shifts in world oil markets and the domestic political environment were followed by shifts in the bargaining position of these groups, and change in public policy was the consequence.

Consumer and industry groups certainly did have substantial interests at stake in oil pricing policy, but an exclusive focus on interest groups cannot satisfactorily explain the rise and decline of oil price controls. Societal interests were strongly divided over the merits of decontrol and had reached stalemate.

The explanation I advance here pays attention to the inputs of executive officials and to the institutional structure of the American state. The particularities of American government shaped the terrain for policy struggle and provided resources with which executive officials could influence policy outcomes. Adequate explanation of the timing and content of oil decontrol must attend to the institutional structure of the state, I shall argue, because that structure provided a basis for executive officials with their own agendas to respond to and influence the evolution of oil pricing policy.

Constrained within a fragmented and decentralized government, executive officials were nonetheless able to marshal resources uniquely available to the state. Of particular importance was the special access executive officials had to the international system. This privileged position was obvious in 1978 at the annual seven-power economic summit, where administration officials maneuvered to tie an American pledge on oil decontrol to German and Japanese agreements to reflate their economies. American regulation of domestic energy prices put upward price pressure on international markets, much to the displeasure of other industrial importing nations. Price controls also encouraged imports indirectly and by 1978 had weakened an already sagging American dollar. Oil pricing policy, therefore, came to impinge on other important interests in foreign economic policy, giving executive officials opportunities to recast the issue of oil pricing policy—to recast what was at stake and what could be accomplished.

It is in this context that an appreciation of the structure of the state is important for an understanding of the development of policy. The state’s institutional structure provided resources with which, and sites from which, various factions, including government officials themselves, pursued their interests. Executive officials were able to draw upon the state’s unique role as the authoritative agent of foreign policy and thereby recast the politics of oil pricing.
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Societal Interests and Oil Price Policy

Throughout the 1970s large and vocal groups arrayed themselves on all sides of the decontrol issue. Each policy alternative, ranging from the continuation of controls to their immediate dismantlement, would give advantages to identifiable social groups. Yet an exercise that simply matches policy with interests does not adequately explain policy. It is important, therefore, to take a close look at those interests and their role in the course of policy development. Oil pricing policy is not comprehensible as the straightforward translation of private interests into government action. Those interests were mediated by the structure of the state, a structure that allowed executive officials to shape and influence the decision to decontrol.

Regulation and the Entrenchment of Interests

In the decades prior to the 1973 embargo, petroleum producers had generally had their own way on oil pricing policy. The 1959 Oil Import Program, in place until 1971, protected domestic producers from less expensive imports from the Middle East. Throughout the 1960s these import controls kept domestic oil prices at roughly 30 percent above the world market price. Petroleum policy was designed primarily to stabilize and protect the national petroleum industry from its own and foreign surpluses. In the early 1970s, however, fundamental shifts in world petroleum production and pricing interacted with domestic regulations to alter the politics of petroleum policy. Consumer interests, represented in Congress, became a substantial counterweight to industry interests. With this political transformation came new opportunities for executive officials to fashion a distinctive position on oil pricing.

Rising world oil prices and declining domestic production after 1969 put stress on import controls. Although a liberalization of petroleum markets seemed prudent, the broader problem of inflation led in 1971 to the first phase of wage and price controls. The action reinvented the regulation of petroleum. These wage and price con-
trols, reformulated through four phases, coincided with fundamental change in international oil markets. Most important, the world supply of crude oil and refined products began to tighten, thus putting upward pressure on prices, and devaluation of the dollar also contributed to higher import prices. By the beginning of 1973 world oil prices, for the first time in the postwar period, had risen above domestic prices.

These dislocations mirrored similar changes within the domestic oil and refining industry and prompted demands for additional government regulation. During the earlier period of cheaper foreign sources of oil, the import quota had provided a regulatory basis for small, independent refiners to buy cheap oil and flourish by marketing petroleum domestically at cut-rate prices. As domestic and international price differentials reversed and the quota system broke down, these refiners were forced to compete with the majors. Price controls began to have divergent effects on refining and marketing firms, creating demands that the federal government intervene to allocate supplies for purposes of equity. The changing differential between prices for domestic crude and imported crude is summarized in Table 7.

Further pressure for regulated allocation came with the fourth phase of price controls. Introduced in August 1973 in an attempt to encourage domestic production, Phase Four controls separated oil prices into two tiers. Crude oil from existing wells—"old" oil—would continue to be controlled. But "new" oil—defined as supplies that exceeded 1972 production levels—was allowed to rise to world price levels. This arrangement created new problems for many domestic refiners and marketers, because of the differences among them regarding access to the cheaper, controlled oil. Refiners and marketers dependent on imported oil (primarily in the Northeast) had higher costs, and this competitive disadvantage dislocated the market. Re-
Table 7. Prices for domestic and imported crude oil, 1968–82
(cost per barrel in current dollars)

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<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Imported</th>
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<tr>
<td>1968</td>
<td>3.21</td>
<td>2.90</td>
</tr>
<tr>
<td>1969</td>
<td>3.37</td>
<td>2.80</td>
</tr>
<tr>
<td>1970</td>
<td>3.46</td>
<td>2.96</td>
</tr>
<tr>
<td>1971</td>
<td>3.68</td>
<td>3.17</td>
</tr>
<tr>
<td>1972</td>
<td>3.67</td>
<td>3.22</td>
</tr>
<tr>
<td>1973</td>
<td>4.17</td>
<td>4.08</td>
</tr>
<tr>
<td>1974</td>
<td>7.18</td>
<td>12.52</td>
</tr>
<tr>
<td>1975</td>
<td>8.39</td>
<td>15.93</td>
</tr>
<tr>
<td>1976</td>
<td>8.84</td>
<td>15.48</td>
</tr>
<tr>
<td>1977</td>
<td>9.55</td>
<td>14.53</td>
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<tr>
<td>1978</td>
<td>10.61</td>
<td>14.57</td>
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<tr>
<td>1979</td>
<td>14.27</td>
<td>21.67</td>
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<tr>
<td>1980</td>
<td>24.23</td>
<td>33.89</td>
</tr>
<tr>
<td>1981</td>
<td>34.33</td>
<td>37.05</td>
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<tr>
<td>1982</td>
<td>31.22</td>
<td>33.55</td>
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Note. Prices are figured in terms of refiner acquisition costs.


Regional price disparities and shortages prompted a new interest among industry and government officials in reform. Thus the price control scheme was extended to include a mandatory allocation program.9

Before 1973, when the threats to national oil producers involved declining world prices for petroleum, the industry had been able to enlist government help in protecting prices. The price shocks of the 1970s, however, involved higher world prices, and government policy had to respond to a larger range of societal interests. Price controls, moreover, had an unintended effect, strengthening the position of consumer groups and others who had a stake in the continuation of those controls. Whereas the history of oil pricing policy would lead one to expect policy makers to respond primarily to the demands of producers, price and allocation controls were actually extended and reworked by Congress to insulate consumers from higher world prices. In the process, domestic producers were denied the full gains made possible by OPEC pricing. "The interests of oil users," as one

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analyst notes, "had superceded those of oil producers in determining the direction and nature of government policies."  

The interest of consumers in the maintenance of controls was given voice in Congress. Although officials in the executive branch began to argue for decontrol in 1975, Congress repeatedly voted to extend controls. The costs to consumers would be onerous; when coupled with an excise tax, the burden of decontrol was estimated in 1975 at approximately $24 billion. Many in Congress also believed decontrol would benefit only the large oil producers and would hand over control of domestic pricing to OPEC. The opposition to decontrol was manifest in the Energy Policy and Conservation Act (EPCA) of 1975, which rolled back the price of domestic oil and extended controls for another forty months. At the end of that period the president would need to take positive action, subject to congressional review, to end controls. 

An explanation of the persistence of price controls does require a focus on societal interests, therefore, and in particular on those of consumers represented in Congress. Price controls actually had the unintended effect of diminishing the importance of the majors in the policy process; in contrast to the pre-1973 period, oil producers were not at the center of oil pricing policy. Regulatory controls enlarged the political struggle over pricing policy, and consumer interests demonstrated an ability to overwhelm the interests of oil producers and thwart, for a time, the designs of executive officials. Oil producers did gain from the subsequent decision to decontrol, but there is reason to be skeptical about their influence over pricing policy.

The Oil Industry and Decontrol

An interest-group explanation of the shift from controls to decontrol would look to the changing influence of consumer and industry groups in the policy process. In particular, one would expect to find an erosion of consumer interests in Congress, on the one hand, and a better-organized and more active oil industry, on the other. Indeed, the absence of strong influence by producers over pricing

policy throughout the period of controls suggests that the rise in industry influence would need to have been quite remarkable. In fact, however, industry interests were not well organized during the period of controls, and the controls themselves split the petroleum industry by creating winners and losers. An explanation for policy change has to look beyond industry interests.

The regulatory controls redistributed very large amounts of income. The major losers were the domestic producers of crude oil; petroleum refiners and consumers were the winners. Joseph Kalt estimates that if these producers had been able to sell their production at unregulated prices, between 1975 and 1980 they would have enlarged their annual income in amounts ranging from $14 billion to $49 billion (in 1980 dollars). The rents that would have gone to crude producers were instead captured by petroleum users, both domestic refiners and final users of petroleum products. (For a calculation of the redistributive effects of price and allocation controls, see Table 8.)

With prices for domestic crude oil controlled, competition developed among users for access to the cheaper supplies. Government regulations initially allowed access to this oil to be based on existing supply contracts. The result was the transfer of billions of dollars to some domestic refiners with access to price-controlled oil who could refine and sell their products at world prices. The Entitlements Program, enacted in November 1974, spread the subsidy to all domestic refiners. Price controls also created distortions in the downstream use of refined petroleum products, prompting demands for “priority access” to supplies. In effect, the growth of federal regulations for allocation expanded the range of refiner and consumer groups that benefited from the control of prices.

Thus price and allocation regulations fragmented the interests of the American oil industry. Kalt notes: “Even among the largest integrated companies, the effect of federal policy was disparate. As the balance of operations shifted from domestic crude oil production (where regulatory burdens were imposed) to refining and international operations (where entitlements benefits were conferred), companies acquired vested interests in the overall regulatory program—


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<tr>
<th></th>
<th>Crude oil producers</th>
<th>Petroleum refiners</th>
<th>Petroleum product consumers</th>
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<tbody>
<tr>
<td>1975</td>
<td>-23.9</td>
<td>+15.0</td>
<td>+6.9</td>
</tr>
<tr>
<td>1976</td>
<td>-18.9</td>
<td>+10.2</td>
<td>+6.8</td>
</tr>
<tr>
<td>1977</td>
<td>-18.7</td>
<td>+10.4</td>
<td>+6.4</td>
</tr>
<tr>
<td>1978</td>
<td>-14.3</td>
<td>+8.5</td>
<td>+4.7</td>
</tr>
<tr>
<td>1979</td>
<td>-32.6</td>
<td>+21.8</td>
<td>+8.3</td>
</tr>
<tr>
<td>1980</td>
<td>-49.6</td>
<td>+31.7</td>
<td>+12.2</td>
</tr>
</tbody>
</table>

Note. 1980 figures are annualized from data for January–March.

as differences in companies' lobbying efforts on the issue of decontrol repeatedly testified.¹⁵

Regulatory controls provided gains to some and losses to others within the petroleum industry, and company positions varied accordingly. Standard Oil of Ohio and Marathon, both medium-sized oil companies, are illustrative. Sohio, with a large refining capacity and little oil production of its own, qualified as an independent refiner. Under the terms of the Allocation Act it was able to buy subsidized crude from other domestic producers and consequently favored extension of the regulatory program. Marathon, on the other hand, was largely self-sufficient in petroleum production and was forced to sell some of its production. Unable to gain the full rents of its own petroleum production, Marathon vigorously opposed controls.¹⁶

The problem with any society-centered explanation of decontrol is that group interests were highly mediated by the prevailing institutional structures of government. The capabilities of societal actors cannot be taken as given. The interests of consumers, which otherwise would have been diffuse and difficult to organize, were crystallized in unanticipated ways by the existing price controls, magnifying consumer claims and creating an effective counterweight to the interests of oil producers. At the same time the regulatory program also split the petroleum industry on the issue of decontrol. Although most oil

¹⁵Ibid., p. 109.
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producers had a substantial stake in decontrol, the evolution of policy in that direction cannot be explained by changes in their capabilities. Indeed, oil decontrol was accomplished in spite of rather than because of the interests of the majors. The shift from controls to decontrol hinges on the role of executive officials who drew upon resources available only to them and, by so doing, redefined the issues at stake.

State Structure and Policy Change

Federal petroleum regulations generated profits and losses to various societal groups, but they also had aggregate effects on the national economy and the nation's international position. Artificially low domestic prices created incentives to overconsume imported crude and to underproduce domestic reserves. Regulations put upward pressure on the world market price of oil, strengthening the monopolistic pricing of OPEC and disadvantaging other industrial nations. Domestic controls prevented the production of domestic oil that, even at world prices, would have cost less than the imported oil that replaced it. The national wealth transferred to foreign suppliers by virtue of control has been estimated at between $1 and $5 billion (in 1982 dollars) per year between 1975 and 1980. Executive officials began in 1975 self-consciously to address these national and international consequences of domestic regulation. It was the activity of these state officials which shifted the balance of forces in favor of decontrol, a process accomplished by redefining what was at stake in oil pricing policy.

I have argued that in explaining adjustment policy, we do well to pay attention to the institutional configuration of government and the influence of evolving political institutions on the political position of and resources available to specific actors in the policy process, including executive officials. In this sense, the state is not a single, integrated, institutional actor but a piece of strategically important terrain, which shapes the entire course of political battles and sometimes provides the resources and advantages necessary to win them. Among these resources is the special access of executive officials to the international system.

A focus on state structures allows us to appreciate the independent

and intervening efforts of executive officials to recast the problem of oil pricing in ways that advanced a set of goals larger than those embraced by any particular social group. Although decontrol did provide benefits to national oil producers, it was the task of executive officials to redefine what goals the market pricing of petroleum would serve. The need to redress losses to national wealth and to the international position of the nation required state officials to distance themselves from the interests of the oil producers. Their goals, as Douglas Bohi and Milton Russell argue, were “clouded because of pervasive suspicion of the oil industry and because this national goal coincided so exactly with certain of its special interests.”

The development of a foreign policy rationale for decontrol, most prominently expressed at the 1978 Bonn summit, allowed that decision ultimately to be made.

**The State and Market Strategy**

During both the Ford and early Carter administrations, executive officials articulated a “state interest” in market pricing and related their goals to larger national economic policy and to foreign policy. Both administrations labored under the regulatory programs championed in Congress. In 1978, as we shall see, new opportunities arose for executive action on oil pricing—opportunities seized upon by senior officials and linked to larger objectives in foreign economic policy.

**The Ford Administration and Market Pricing**

In 1975, although economic recession had restrained growth in oil consumption, the import dependence of the United States continued to climb. In this context the new Ford administration began to articulate a national adjustment strategy organized around a return to the market pricing of petroleum. This priority, which was to re-emerge in the Carter administration, had an uneasy history. At each turn the Ford administration was forced to compromise with Congress, diluting its market strategy. Nonetheless, a small victory was won: congressional legislation contained the provision for eventual presidential control over oil pricing policy.

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The administration made a commitment to decontrol in January 1975 with the proposal for an excise tax and import fee on foreign crude oil and a “presidential initiative to decontrol the price of domestic crude oil.” The rationale for decontrol was simple. The deputy administrator for the Federal Energy Administration argued before a congressional committee in August 1975: “The most efficient way to reduce demand and increase supplies (and thereby reduce imports) is, of course, through the price mechanism.” The controls frustrated the goal of lowering U.S. dependence on imported oil, and they had other problems as well. The administrator argued that the controls hindered competition in the petroleum industry and prevented rational decision making on corporate investments. He also argued that the controls prolonged distortions and inefficiencies in the adjustment process itself. “As domestic production continues to decline at differing rates in different parts of the country, necessary adjustments in crude oil distribution channels cannot be resolved through the operation of normal market mechanisms, and can only be accomplished [under present circumstances] by ad hoc action by the FEA, which is ill-equipped to deal with such matters.”

In addition to this immediate rationale for decontrol were other arguments concerning foreign policy goals. The State Department took the position that leadership in the West hinged on gaining control of rising petroleum imports. International energy goals would necessarily involve domestic pricing decisions to encourage conservation and the development of alternative energy technologies. This indirect support for reformed pricing, based on broad foreign policy goals of allied energy cooperation, were espoused by the Carter administration and became an important force behind the final decision to decontrol.

With this rationale for decontrol, the administration prepared itself for legislative maneuverings with a skeptical Congress. An import fee, proposed in Gerald Ford’s January 1975 speech, was designed as a bargaining chip. Ford intended to decontrol oil prices on domestic oil
on April 1, 1975, which he could do if Congress did not veto decontrol (as it could under the terms of the 1974 Emergency Petroleum Allocation Act). He was therefore eager for Congress to approve his excise tax proposals and asked for passage within three months. To stimulate congressional passage, Ford warned that he would impose a dollar-a-barrel import fee on February 1 and a second dollar-a-barrel fee on April 1.

This pressure on Congress was not, however, effective. To begin with, Congress passed legislation denying the president the authority to impose an import fee for ninety days. Ford quickly vetoed this legislation. Negotiations followed between the two branches, and Ford agreed to delay both the fee and the decontrol plan. Decontrol action was pushed back to May 1, which was also the date by which Ford wanted Congress to act on his tax proposals. The deadline was missed again, and on April 30 Ford agreed to a phased program of decontrol.23

The president could have allowed prices to be decontrolled had he let the Emergency Petroleum Allocation Act expire as planned on August 31, 1975. Ford, however, wanted decontrol to be a decision shared with Congress, and so he accepted the phased plan.24 A second opportunity to veto energy legislation that extended EPAA controls came in December 1975 (the Allocation Act was due to end on the fifteenth of that month). Again the president chose not to decontrol by veto, waiting instead for the phased program to lapse in thirty-nine months. Thus the president, although urging decontrol, was not willing to take it at any cost.

A victory of sorts was rescued from the congressional struggle. The Energy Policy and Conservation Act of 1975 contained provisions for eventual presidential discretion over oil pricing policy. Although this authority was still several years off, the politics of oil pricing had been shifted from a congressional-executive struggle to an intra-administration struggle. In the early Carter administration, officials were still bound by EPCA controls, and they sought an ingenious taxing scheme to replicate market pricing artificially. As discretionary authority over pricing policy neared in 1978, the struggle moved into the executive branch, where foreign policy and energy officials sought to fashion a persuasive rationale that would lift decontrol above the troubling constraints of domestic politics.

24 Ibid., pp. 35–36.
The Carter administration came to office officially opposing decontrol of petroleum prices, but it came to embrace a taxing scheme that moved effective prices to world levels. Once in office, energy planners moved quickly to propose a tax scheme that would bring domestic energy prices to the prevailing international level—the Crude Oil Equalization Tax (COET) proposal of 1977. This elaborate tax proposal languished in Congress and was ultimately defeated. When energy prices moved upward again with the collapse of Iranian oil production, the Carter administration came to embrace the strategy of market adjustment more fully.

Jimmy Carter's initial pricing proposals were included in the policy package presented to Congress as the 1977 National Energy Plan. The oil price taxing aspects of the plan reflected the tactical problems of using the price mechanism to alter consumption patterns while also meeting obdurate political resistance in Congress (primarily among liberal Democrats in the House) against the idea of giving producers a free market in petroleum. The 1977 plan's Crude Oil Equalization Tax was designed as a tax on producers in an effort to limit their profits while at the same time bringing the effective price of oil at the refining and marketing stages up to world levels. Taxes collected from oil producers were to be rebated back to lower- and middle-income families in order to offset the inflationary impact on these households of higher retail energy prices. Tax receipts would also be channeled into mass transit projects and an energy investment fund.

In making prices to consumers reflect international prices the COET proposal addressed only the consumption side of the problem. The tax would not create new production incentives. As Mark Steitz notes, "one possible method for dealing with the consumer-to-producer transfer had been previously proposed; President Carter's crude-oil equalization tax would have prevented any of the revenue gain from decontrol from accruing to producers. While this would have maintained the demand-side benefits of decontrol, the supply-side benefits would have been lost; no additional domestic production would occur."25

This emphasis on conservation rather than production allowed the National Energy Plan to employ a tax in order to dampen consumption by moving prices toward replacement cost. Carter's policy inno-

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vation was the attempt to have it both ways: to continue controls in order to regulate the prices producers could charge, but also to introduce replacement-cost pricing for energy. With this initiative the administration affirmed that price levels had to be set in a larger context of demand and supply. Elaborate though it was, the new notion of pricing represented a step away from the premises of the regulatory regime.

This distinctive approach was slowly smothered in congressional committee. In the House, where Democratic leadership supported the package, the COET proposal survived committee and floor votes. The Senate, however, was less forthcoming, and the decisive obstacle was the Finance Committee. Although finance chairman Russell Long from Louisiana initially endorsed COET, the committee refused to pass the tax proposal, and it was hung up in Congress without legislative life.

THE TRANSNATIONAL BARGAIN

In early 1978 the Carter administration was caught between an annual import bill for oil of $45 billion and a failed proposal for a COET. At the same time leaders of other industrial nations began to voice criticisms of excessive American consumption of oil. The administration's foreign economic policy officials then began an effort to redefine the oil pricing issue by linking oil decontrol to a larger set of international economic problems and to a diplomatic agreement that addressed those problems. In doing so, they drew on the special legitimacy of the state to manage foreign economic policy. In transforming the issue of decontrol, these officials strengthened their position within the domestic policy process and within the administration itself. Less than a year later, the administration had successfully begun the process of decontrol.

Although leaders from the major industrial countries had become highly critical of rising American oil consumption, in 1978 U.S. officials were more concerned about slow economic growth in Japan and West Germany. Using the annual summit conference as their forum, they attempted to forge a transnational bargain linking these issues. Allied governments, Germany most prominently, were attempting to pressure the American government to bring the cost of domestic oil into accord with prevailing world prices. Meanwhile, the Carter administration was attempting to convince Chancellor Helmut Schmidt to reflate the German economy in order to stimulate international
growth. It was this set of counterdemands which made the decontrol decision of larger significance and gave a new rationale to administration officials who already favored market pricing.\textsuperscript{26}

In the winter and spring prior to the 1978 Bonn summit, the industrial nations confronted several major international economic issues. The German and Japanese economies were experiencing both low inflation and low growth. The United States, on the other hand, had accelerating inflation, an increasing oil deficit, and a weakened currency. The Carter administration moved to reflate the U.S. economy and sought similar efforts from Germany and Japan. Also, the Multilateral Trade Negotiations were entering their final stages, and the British and French governments were showing some reluctance to finish the process. Finally, there was the nagging issue of American energy consumption—by the end of 1977 oil imports had risen to a historic high. A package agreement might be possible.

It was probably British prime minister James Callaghan who in the early months of 1978 began to explore a package deal for the Bonn summit. An agreement linking the issues was discussed when Callaghan visited the White House in the winter. Carter’s key officials for international economic policy—Richard Cooper at State, Anthony Solomon at Treasury, and Henry Owen, ambassador at large for economic summits—had also discussed the idea at the first of the year.\textsuperscript{27} Formal discussions to link American energy policy and German growth policy began in March 1978 at meetings of the summit sherpas in Bonn.\textsuperscript{28}

In Bonn the American representative, Henry Owen (special representative for summit preparations) met with Chancellor Helmut Schmidt seeking a commitment on German reflation. The German chancellor asked for American concessions, contending that the continuation of controls on American domestic petroleum indirectly contributed to higher world oil prices. Not only did controls discourage the production of domestic American oil, they also encouraged consumption and therefore increased demand in the international mar-

\textsuperscript{27}Interview, Henry Owen, August 10, 1985.
ket. In exchange for budgetary stimulus in Bonn, Schmidt asked for assurances that the United States would cut levels of imported oil and go forward with its comprehensive energy policy. The result was a trade-off: German reflation for American world oil pricing.

The nature of this bargain was suggested by Chancellor Schmidt just prior to the summit: "Governments of some participating countries believe that they have a recipe for me and for Germany. By way of compromise, if others would bring about some sacrifices or tackle some domestic hardships, I would be ready to do so in my country." Carter also has indicated that a bargain had been struck. In his memoirs he notes that he held a meeting with congressional leaders several weeks before the Bonn summit. "I got all of those who would speak out to advise me . . . to tell our partners at the Bonn economic summit meeting that if Congress did not act to raise the domestic price up to the world level by 1980, then I would act administratively."29

The agreement at Bonn did not, strictly speaking, involve an exchange of concessions. Most participants suggest the heads of state themselves wanted the German pledge on growth and the American pledge on energy. Rather, the agreement was a form of cooperation that attempted to strengthen each leader's domestic position. Carter and Schmidt would each be able to pursue their policy commitments bolstered politically by the impression that a concession had been extracted from the other. Thus the Bonn pledge was the outcome of a momentary "international coalition" of political leaders, each with domestic political problems, each agreeing to create the convenient fiction that hard-fought concessions had been won.30 Ironically, at a moment when the interests of the leaders of two powerful industrial


30An interpretation along these lines was suggested to me by Richard Cooper, interview, August 9, 1985. The Japanese sherpa to the summit, Deputy Foreign Minister for Economic Affairs Hiromichi Miyazaki, argues that the issues of economic stimulation and energy were not explicitly linked, and that the Japanese, at least, had no intention of "bartering" over U.S. oil pricing policy. The Japanese did resist engaging in a "locomotive" expansion of American, German and Japanese economies. Nonetheless, a compromise did emerge. "The Japanese," Miyazaki noted in an interview, "would do things that would look like reflation in U.S. eyes." In essence, Miyazaki's argument is that each side was able to use the other's public statements in the formulation of a domestic rationale for policy they already supported. In this sense, the summit pledges were used to strengthen the domestic position of the various leaders, and they were not strictly speaking a bargain built on mutual concessions. Interview, Ambassador Hiromichi Miyazaki, Bonn, Federal Republic of Germany, July 22, 1985.
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ditions converged, agreement had to be presented to the world as a contest over concessions.

There was a great deal of ambiguity within the Carter administration concerning what the president had in fact pledged. Foreign policy officials understood that the Bonn statement was itself a policy decision on oil pricing. One participant suggests that the decision was made “in principle” at Bonn that the effective price of domestic oil was to move to world levels. However, this commitment might still be carried out through the COET or other tax or administrative mechanisms.31 Another participant argues even more strongly that the decision on decontrol was made in Bonn. “Carter wanted oil decontrol,” this official argues, “and welcomed Bonn as an opportunity to do it.”32 Carter himself argues that the U.S. inability to implement an energy policy was “becoming an international embarrassment.” And he notes his commitment at Bonn to “let American oil prices rise to the world level.” Others, such as CEA chairman Charles Schultze, thought Carter had gone too far, exchanging a pledge on oil pricing for commitments on growth that the Germans would have pursued anyway. Schlesinger was hesitant to see the government make a foreign policy commitment when the issue hinged on domestic politics. The domestic policy staff, however, were least aware or not convinced that a decision had in fact been made at the summit. Although they had attended several presummit meetings on the proposed pledge, Stuart Eizenstat and his staff were dismayed by the announcement at Bonn. Eizenstat faulted the foreign policy side of the administration for not being “sensitive to domestic considerations.” No decision memorandum had been prepared before the summit, and the domestic implications of the pledge had not been discussed.33

A foreign policy rationale now added impetus to government deliberations on oil pricing policy. Although the Bonn summit pledge was pushed by officials not directly involved in domestic policy discussions, it did encourage those discussions. The pledge, one domestic

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31 Interview, Richard Cooper, August 9, 1985.
32 Interview, Henry Owen, August 10, 1985. In an essay Owen described the outcome of the Bonn summit: “the United States decontrolled oil prices (arguably the single most important step taken by the industrial countries to address the world energy problem), which Carter could only have done as part of an international economic bargain which also included stimulus and trade pledges from other countries.” Owen, “Taking Stock of the Seven-Power Summits: Two Views,” International Affairs 60 (Autumn 1984), 660. It would come as a surprise to other officials in the administration (particularly on the domestic side) that Carter decontrolled oil prices at the Bonn summit.
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analyst noted, “gave people within the administration reason to keep working on this issue.”34 A student of the annual Western economic summit meetings concludes that “international pressure played a significant part in convincing President Carter that the time had come to push for decontrol of the price of oil.” One Carter foreign economic policy official suggests the Bonn pledge “tilted the balance” in administrative deliberations on oil pricing.35 Another notes it would have been “embarrassing for Carter to change his mind after Bonn.” A cabinet secretary argues that the Bonn pledge was a “significant but not preponderant” factor in the final decision to decontrol.36 Nonetheless, in internal discussions of oil pricing and the conflicting problem of inflation, in early 1979, Carter had clearly realized that a postponement of decontrol would be possible only if Schmidt and other Western leaders could be persuaded that inflation posed the greater international economic threat. After Bonn, oil pricing was manifestly an international issue, even in meetings with domestic staff.

The impact of this transnational bargain is difficult to measure. Robert D. Hormats, a State Department official who helped guide American summit planning during the Ford and Carter administrations, has emphasized the summit’s importance in countering domestic opposition to decontrol. The summit, he has noted, “helped Carter, who I think wanted to do it in the first place, but for a variety of reasons didn’t.”37 In this interpretation the summit did not force the decontrol decision but supported the decision. Other officials see a stronger significance in summit politics. The Bonn pledge served to break the deadlock on oil pricing within the administration, Robert Putnam and Randall Henning argue, by separating the question of whether to raise domestic oil prices from the means for doing so.38 This idea overstates the role of the Bonn pledge. On at least two occasions in early 1979 Carter had indicated privately to his staff that fighting inflation might be of greater importance than living up to the Bonn pledge and that he would be willing to accept the consequences. The crux of the decision was the dilemma between meeting the Bonn pledge and setting goals for energy conservation and production, on

34Interview, Jim Voytko, June 7, 1985.
the one hand, and fighting inflation through the continued use of controls, on the other. In the end the weak-dollar problem seems to have undercut the inflation-fighting argument. Treasury Secretary Michael Blumenthal and Anthony Solomon argued that continued controls would further weaken the dollar, thus cancelling out anti-inflation gains.\(^{39}\)

The transnational bargain struck at Bonn had an agenda-setting effect. It ensnared the administration debate over oil pricing in foreign policy and international economic issues. Energy officials were forced to balance their domestic concerns against international problems. In the end, officials in energy and foreign policy became allies, articulating a rationale for decontrol that challenged officials concerned with domestic politics and the inflation-fighting program.

**Agenda Setting and the Decontrol Decision**

The Bonn agreement signaled a shift in the way in which the Carter administration characterized oil pricing, thereby changing the balance of forces for and against decontrol. Within the administration, senior officials concerned primarily with national and foreign economic policy, who uniformly favored market pricing, gained the political upper hand. The administration also strengthened its bargaining position with Congress. Price and allocation controls were due to expire in April 1979, giving the president for the first time in almost four years discretionary authority over pricing. A decision would be necessary: he could choose to continue controls, abolish them, or phase them out. The struggle over pricing policy continued, but executive officials pursuing a larger, foreign economic policy agenda had become stronger. It is this development which is necessary to explain policy change.

Circumstances external to administrative strategy pushed a decision on decontrol forward in late 1978 and early 1979. International oil markets were in turmoil. The shutdown of Iranian production triggered skyrocketing prices on the spot market, and in December 1978 and March 1979 OPEC made decisions that doubled world prices. At the same time his Western allies continued to pressure Carter to stand by his 1978 pledge to raise domestic prices to world levels. They had reason to complain. Whereas Japanese and Europeans had reduced import levels marginally, American oil import

Energy policy
—replacement cost pricing;
—provision of adequate incentives to stimulate maximum domestic production of oil;
—incentives for conservation and a reduction in oil imports;
—equity in the distribution of any windfalls associated with oil price increases;
—elimination of the current complex system of price controls, allocation, and entitlements.

Economic policy
—reducing inflation, and holding 1979 increases in the Consumer Price Index as low as possible;
—maintaining the strongest possible posture to urge major unions to remain within Administration guidelines in upcoming contract negotiations;
—maintaining growth in the economy and in employment;
—improving the balance of trade and the strength of the dollar; and
—regulatory reform objectives.

Foreign policy
—the Bonn pledge to raise the price paid for oil in the U.S. to world prices by the end of 1980
—the general international concern over inflation, including Bonn pledge to make reduction of inflation a top priority of U.S. economic policy.
—reducing U.S. dependence on oil imports, thereby reducing the trade deficit and strengthening the dollar.
—maintaining U.S. credibility among our key Summit allies and assuring their continued efforts toward meeting their own Bonn pledges.


levels continued high by historic standards. Finally, inflation continued to mount, compounding the seriousness of the oil-pricing decision.

All of Carter’s senior advisers for domestic and for foreign policy were engaged in the debate over oil pricing. No longer was decontrol simply an energy issue: national economic and foreign policy considerations were explicitly incorporated in the decision process. The expansion of the policy debate is illustrated in the decision memorandum prepared for the president by his senior advisers (see Figure 4).

The memorandum summarized the key issue before the president: “Should our energy policies and international commitments on energy be deferred or delayed in their implementation so as to minimize the near term inflation effects which an increase in U.S. prices to world levels would entail?”40 Those urging immediate decontrol in-

cluded energy secretary Schlesinger, who saw it as a way to provide incentives for production and conservation and reduce imports.41 Treasury secretary Blumenthal and his deputy, Anthony Solomon, urged decontrol as a means of improving the balance of trade and strengthening the dollar. Richard Cooper and Henry Owen, along with Blumenthal, had been instrumental in the original Bonn pledge, and these officials continued to press for decontrol for foreign policy and international economic reasons.

Those giving special attention to inflation and domestic political considerations, and seeking a compromise position, included Charles Schultz of the CEA and Alfred Kahn, who headed the Council on Wage and Price Stability. Special Trade Representative Robert Strauss and OMB director James McIntyre also sought compromise. Those most resistant to immediate decontrol had an eye on Democratic party politics and constituencies: Stuart Eizenstat and Vice-President Walter Mondale.

In the meantime officials debated various options on production, conservation, inflation, and foreign policy. The critical meeting was at Camp David on March 19. Gathered with his cabinet secretaries, Carter listened to a vigorous debate on oil pricing. Schlesinger presented what had become a narrowed set of options: either immediate decontrol or a gradual raising of prices to world levels. Schlesinger argued that decontrol was necessary to meet the Bonn pledge; that it would be a symbol to the IEA and OPEC of the administration’s seriousness about gaining control over imports; and that, in the absence of a presidential decision, Congress would lead on the issue. Vice-President Mondale spoke in favor of continued control, with phrased decontrol and a windfall tax as second-best. Blumenthal argued that immediate decontrol would allow the president to be bold, as he had been with Anwar Sadat and Menachem Begin on the Middle East accord reached at Camp David. Such a decision would help the dollar, and the effect on inflation would be only marginal. Eizenstat argued that in political terms, immediate decontrol would “kill us on inflation.” Carter ended the discussion by suggesting he was hesitant to decontrol without a tax—he could not simply give $16 billion to the oil companies. Total decontrol with a tax to allow for some “consumer compensation” was what he favored.42

Following this Camp David summit, discussions focused on what

41Schlesinger thought that a “window of opportunity” had been created by the Iranian crisis in the early months of 1979 that would close by summer. Interview, August 22, 1985.
42My source for this paragraph is Eizenstat diary, March 19, 1979.
type of decontrol would provide the most likely basis for congress to pass a windfall profits tax. At a meeting on March 23, 1979, Carter again heard the foreign policy and economic arguments for decontrol. The Council of Economic Advisers, which had wavered on the issue, argued that a phased program could be completed by 1981. Warren Christopher from the State Department argued that decontrol would enhance Carter's image for world leadership by honoring the Bonn and IEA pledge.

On April 5, 1979, Carter announced the United States would gradually lift price controls on domestic crude oil. Existing law would have ended controls in September 1981; Carter phased in decontrol over several months. At one level it was a dramatic turnaround by the Carter administration, as observers noted. But in a more important way it was not. Executive officials had consistently sought policy opportunities to discourage consumption and boost production. Earlier incarnations of energy policy—such as the Crude Oil Equalization Tax—had sought to influence price within prevailing political constraints. The new problems created by the oil shock of 1978–79 also provided new opportunities for extensive action. Indeed, the new policy was seen as a victory for the planners of Carter's first energy plan.

Strikingly, the other groups that had struggled over oil pricing throughout the decade were now on the outside. Congressional opponents of decontrol were on the defensive. Several congressional representatives continued to attempt to discredit the decision by linking it to the interests of the oil industry. But the Congress was no longer able to find a majority vote for continued controls. In the fall of 1979 Representative Toby Moffett of Connecticut proposed to continue price regulations, but for the first time in history the House voted against the extension of controls. The amendment never came to the floor in the Senate. Consumer interests in controls had not changed—indeed, the 1979 oil shock made controls more attractive. What had changed was the terms of the debate.

46Senator John Durkin, speaking for the New England delegation, argued that Secretary of Energy Schlesinger shared "the oil industry's self-serving allusion that all will be well if we only pay higher prices." Quoted in Vietor, Energy Policy in America, p. 265.
47Congressional Quarterly, October 13, 1979, p. 2262.
The oil industry was also on the outside of the decontrol decision. The administration proposed a Windfall Profits Tax designed to capture half of the expected increase in oil revenues. In effect, it applied a severance tax of 50 percent of revenues gained from the release of controlled production. The large oil producers, while opposing the tax, were hurt less by this tax than by the earlier COET program. Independent producers, whose revenues came almost exclusively from domestic reserves, vigorously attacked the new tax. Congress struggled over the tax plan, and old consumer and industry conflicts resurfaced, but the final agreement preserved the general character of the Carter proposal. An estimated $227 billion in tax revenues would be transferred from the oil industry to the federal treasury by 1988.48

Neither consumer nor industry interests were satisfied with the outcome, though the final tax and decontrol plans bore their marks. The movement toward market pricing, however, was propelled by a distinct agenda embraced by executive officials. These officials were strengthened as oil pricing became a foreign policy concern, most forcefully defined as such at the 1978 Bonn summit. In a contentious policy process, executive officials were able to resort to resources unique to the state—the ability to gain special access to the international system and to define issues in terms of foreign economic policy imperatives.

Conclusion

In an era of turbulent oil prices, the choice between regulatory and market policy engages powerful social and economic interests. For consumer and producer groups the struggle is over who will bear the burden of higher energy costs, and each policy choice produces winners and losers. For executive officials, with a broad political mandate, the problem is not simply the mediation of societal demands. Foreign policy and national economic goals are also at stake. Such were the circumstances in the protracted struggle over oil pricing in the 1970s.

In providing an explanation of oil pricing policy—of the persistence of price controls and their eventual abandonment—I have focused on both societal groups and government officials. The society-centered approach accounts for policy change in terms of shifts in

The power or influence of consumer and producer groups that struggle over pricing policy. This focus on interest groups is useful in understanding the persistence of controls, but even in this case those interests were highly mediated by the prevailing structures of government. If we take the capabilities of consumer and industry groups as given, we cannot fully explain the movement toward decontrol. Price controls had the unintended effect of diminishing the importance of petroleum producers in the policy process; in contrast to the pre-1973 period, industry groups were relegated to the margins of pricing policy. Regulatory controls served to enlarge the struggle over policy, and consumer interests represented in Congress demonstrated the ability to perpetuate controls. Although government officials, pursuing their own agenda, were also thwarted during this period, the societal divisions over pricing policy created opportunities for them to advance their own position.

The interest-group explanation accounts for the movement toward market pricing in terms of the rising influence of producer interests. These interests, however, were divided over oil policy. Indeed, regulatory controls helped fragment the petroleum industry by creating winners and losers. The decision to decontrol did not respond directly, or even indirectly, to industry pressure. If executive officials were simply developing policy that echoed the most vocal or widely embraced societal interests, then they would have continued controls as politically far more rewarding. Decontrol policy was actually accomplished in spite of rather than because of industry interests. Executive officials had to differentiate their position on market pricing from the positions of the petroleum industry.

The alternative approach I have developed focuses on the independent impact of executive officials on policy development. In this case, executive officials, concerned about national economic and foreign policy, maneuvered to tie oil pricing to a larger set of international issues and, by so doing, recast what was at stake. In 1979 the executive gained discretionary authority over oil pricing, and by that moment the issue was imbued with larger significance. The new context of foreign and international economic policy tilted the balance in a political setting that otherwise favored the continuation of controls. A foreign policy rationale codified at the 1978 Bonn summit made the decontrol decision possible.

Many groups struggled over oil pricing policy, but an explanation that omits the role of executive officials with their own agenda is incomplete and misleading. The struggle over oil pricing policy unfolded within a distinctive set of government institutions. Those in-
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Institutions helped shape the decontrol of oil. They did so not in the guise of a single, integrated institutional actor but as a piece of strategically important terrain whose topography influenced the course of battle over pricing policy. First, institutional advantages went to consumers, as price controls unexpectedly sheltered the domestic population from the effects of adverse international economic change. Ultimately, the institutional advantages accrued to executive officials through their special access to the international system. A diplomatic commitment changed the definition of what was at stake in the domestic debate.