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Domestic Energy Policy Since 1960

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It's hard to believe today, but Crude Oil prices ranged between $2.00 and $3.00 per barrel from 1948 through the end of the 1960s. During this period, the Texas Railroad Commission, which was the first oil cartel, controlled prices by adjusting supply. The balance of power shifted to the Organization of the Petroleum Exporting Countries (OPEC) in the early 1970s when the Texas Railroad Commission ran out of capacity.

Richard Nixon decided in 1971 to remove the U.S. dollar's gold standard status, since the Treasury no longer had enough gold. This caused the collapse of the Bretton-Woods currency stability system. The result was a steady decline of the dollar for the next eight years. By 1973, Americans found themselves helpless in dealing with the Arab oil embargo and $12 per barrel of oil. The stage was set for inflation and economic volatility. Domestic natural gas prices moved little due to Federal price controls. Domestic inflation rose above 14% during the Carter administration (1976 -1980). The Shah of Iran was deposed during Carter's watch, only to leave the country in the hands of radicals and clerics who openly despise the U.S. (and its allies in the region) to this day. In addition, Libya was a major crude oil supplier to Europe and proclaimed its intention to disrupt American interests in the region.

Congress has been talking about energy independence since Richard Nixon (who imposed the 55 mph speed limit) for more than 30 years, nearly a generation. Experts have proclaimed alternatives that include: wind, geothermal, wave action, photovoltaic, nuclear, coal, hydrogen, oil shale, ethanol, and biomass. Nothing has really changed since 1973. America today uses 25% of the world's oil and imports 70% of what it consumes. Domestic oil consumption is 88% related to transportation. Coal, natural gas, nuclear, and hydro produce nearly all of America's electricity, but these alternatives are not transportation fuel substitutes at this time.

Since the failed rescue attempt of Americans in Tehran, energy policy was framed by the Carter Doctrine, which made it clear that America would attack (using military force) any country that disrupted the flow of oil to the U.S. or its allies. This was actually carried out during operation Desert Storm.

The decline in the buying power of the dollar and fear of further supply disruptions drove oil to $70 per barrel in 1980, as the Iran/Iraq war intensified. The crude oil bubble ended when the Federal Reserve, under Paul Volker, raised interest rates in the early 1980s to more than 17%. The ensuing recession crushed American heavy industry, broke the unions, and shifted jobs overseas. Demand for natural gas collapsed as factories closed – causing crude oil to fall to $14 by 1983. The dollar rebounded since Treasuries were paying such high yields. By 1999, crude oil had fallen from its $70 high in 1980 to $12 and natural gas had declined from $15 to $2 per thousand cubic feet.

According to the International Energy Agency (IEA), the global oil market will remain tight for the next five years. It predicts that global oil capacity will rise to 96.2 million barrels per day by 2013 from today's 90.2 million level, which works out to 1.3% growth per year.

Both China and India are becoming major consumers of oil & gas. With emerging nation populations far outnumbering the developed world and large demand for infrastructure, the IEA report becomes even more disturbing. As the developing world attracts more investments, and growth prospects rise, competition for the control of energy supplies will increase.