

Sample Descriptive Abstract

ABSTRACT

“Oil and National Security,” by Darwin C. Hall, in *Energy Policy* (1992) v. 20, no. 11
submitted by Janet Lerner

Keywords: National Energy Security (NES), Strategic Petroleum Reserve (SPR), energy security, oil.

In February 1992, President Bush presented the National Energy Strategy (NES), which is based upon the ideals of a free market. Included in the NES are policies that remove restrictions on oil production and restrictions on the construction of nuclear power. This paper attempts to quantify the costs associated with spending on oil imports as related to national security and the Strategic Petroleum Reserve (SPR).

Energy security is measured by the size of U.S. imports because the Middle East holds the majority of reserves and oil reserves are being depleted. The consequence of this is that oil prices can be manipulated to harm the U.S. and its allies. Oil price shocks or supply disruptions instigated by OPEC cause recessions by lowering output, raising prices, and lowering real wages. These effects are determined by applying the Granger causality tests.

A benefit of a market-driven price determination system is that prices rise as depletable resources fall, implying increased scarcity. This rise in price gives an incentive to produce substitutes as well as reduce consumption of oil.

There is a large divergence between the social cost of energy and the price because of environmental externalities associated with conventional energy sources. The philosophy of the administration is to rely on market prices to determine 20% of the economy's investment. However, misplaced investments based on such a policy have implications for many years. Hall concludes that the policies reflected in the NES will result in gross economic inefficiency.

I agree with Hall's conclusion that misplaced investment in such a large part of our economy is dangerous. I believe that there should be more of an analysis concerning how varying oil prices can affect the costs associated with oil import spending. This would show how vulnerable oil import spending is relative to price changes. Although Hall mentions the opportunity cost of interest that could have been earned had the amount spent been invested, he does not attempt to quantify what that amount is. I would attempt to calculate these costs using various interest rates. I also feel that he should calculate the inventory holding cost, and I am also curious to know what the cost of oil deterioration is and if there are transportation costs involved. These additional costs could be very significant in adding to the costs that Hall has already predicted.