

An aerial photograph of a river delta, likely the Colorado River, showing a large dam structure and the intricate network of water channels and sediment bars. The water is a deep blue-green, and the surrounding land is a mix of brown and tan hues, indicating arid or semi-arid conditions. The title text is overlaid on the left side of the image.

THE POLITICS OF ENERGY CRISES

Juliet E. Carlisle, Jessica T. Feezell,
Kristy E.H. Michaud, and Eric R.A.N. Smith

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*To the memory of
Christine Piper and Martha Smith
And to Rob, Finn, and Wells,
Danny and Miles,
Thomas, Jameson, Everett, and Rowan,
and Elizabeth, Katharine and Stephanie—
who are all renewable sources of energy in our lives*

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The Politics of Energy Crises

Introduction

“Gas Dealers Say They Aren’t Guzzling Profits

Service station owners deny making more money because of price surges, but many motorists aren’t buying it.”¹

“Davis Orders State Agencies to Probe Soaring Cost of Gas”²

Headlines such as these regularly appear when energy crises strike and gasoline or electricity prices rise sharply. The public reacts with annoyance and suspicion when prices shoot up, they call on politicians to do something, and politicians respond. Energy crises instantly put energy issues on the nation’s agenda, sometimes with dramatic consequences for public policy. Yet despite the fact that the United States has been hit with a series of energy crises since the Arab-Israeli War triggered the first OPEC boycott in 1973, a great deal remains unknown about them. Much has been written about each individual energy crisis, but the patterns that repeat themselves across all energy crises have largely been ignored. In this book, we investigate the political battles during energy crises and seek to discover what they have in common.

Energy crises, or energy price shocks as many economists call them, are rapid, large increases in energy prices—especially in oil prices. When faced with sharp price hikes, voters get angry and demand that politicians do something about the problem. That puts energy policy on the nation’s agenda. Voters, journalists, policy advocates, lobbyists, and elected officials all start talking about what to do. A window of opportunity for policy change opens up, and new laws and government regulations are often the result.

These energy crises are important first and foremost because energy prices are critically important to the United States economy. We live in what historian David Nye calls the “high-energy economy.”³ Although the United States has a bit less than 5 percent of the world’s population, we use 20 percent of the world’s oil and 18 percent of its total energy.⁴ Our transportation system—which not only lets us drive to work, but fills our stores with goods from around the world

and gives us opportunities to vacation in exotic foreign climes—consumes 28 percent of the nation's energy.⁵ Ninety-four percent of that—from automobiles and airplanes to ships and trains—is fueled by oil.⁶ In addition to being the primary source for our transportation fuels, petroleum is also the primary feedstock for most of the chemicals and polymers that we consume.⁷ A great deal of our clothing, cars, computers, furniture, and other goods are made from petroleum byproducts. Our modern world is made possible by energy, and especially by petroleum.

The health of our economy depends on energy prices. Past energy crises have triggered economic recessions. During the 1973–74 OPEC boycott, for example, gasoline prices shot up from three dollars a barrel to \$11.65 in three months.⁸ The price increase had the same effect as a huge tax increase. Exactly as Keynesian economists would predict, it pulled money out of the US economy and drove the country into a recession. Whether energy price shocks cause recessions—as one did in 1973—or worsen a recession sparked by other causes—as the energy price shock of 2007–8 did—they are clearly important economic events. On the flip side, low energy prices have helped fuel economic booms. Historians and economists point to our relatively low energy prices as a major boon to our economy.⁹

Energy crises are also important because they push energy policy to the top of the nation's political agenda. Most of the major policy shifts on energy issues have come in response to energy crises. Automobile fuel efficiency (CAFE) standards, the Strategic Petroleum Reserve, and the establishment of the Department of Energy were all products of past energy crises. Many other laws and regulations governing the oil and gas industry, transportation, and other petroleum-dependent industries were passed in response to high energy prices as well.

Energy crises are important to the environment as well because energy policies have consequences for the environment. The regulation of the price of oil in 1971 kept gasoline prices low and effectively encouraged more gasoline consumption and greenhouse gas emissions; the deregulation of the price of oil a decade later reversed that policy.¹⁰ CAFE standards not only reduce the amount of gasoline we use; they reduce greenhouse gas emissions as well. Allowing oil drilling in the ultra-deep waters of the Gulf of Mexico with inadequate safety regulations eventually led to the Deepwater Horizon blowout in 2010.¹¹

Many proposed policy choices also pose environmental risks or benefits. Drilling oil wells in the Arctic National Wildlife Refuge, using coal-to-liquid technology to produce synthetic diesel fuel, cutting back on regulations of the oil and gas industry, or shifting to electric cars all could have profound effects on our environment. Moreover, there is growing evidence that hydrofracking for oil and gas poses risks as well.

In short, oil prices have a critical impact on the economy and the environment. When oil prices rise or fall, America responds. The responses are most obvious in the aftermath of energy crises.

The Energy Crises

Since 1973, the United States has been hit with five energy crises. We will take each one up in detail in later chapters. Here we offer only a brief review to set the stage for our discussion.

The first energy crisis began with the October 1973 invasion of Israel by Egypt and Syria. At first, the invasion seemed to be succeeding. Israel's armies were forced to retreat and to call on Washington for additional supplies and aid. When President Nixon announced an emergency military aid package for Israel and American supply planes began arriving in Israel, Arab leaders struck back with the oil weapon. The Arab members of OPEC stopped oil shipments to the United States. The result of the embargo was a wave of price hikes and gasoline shortages across America. In the following weeks, the sight of lines at gasoline stations became commonplace. In some cities, police had to be stationed at gasoline stations to prevent violence. In the midst of this crisis, oil company profits shot up 52 percent. Consumer advocates and some politicians suggested that the oil companies were manipulating prices to make money. The public largely believed them. Polls showed that as many as three-quarters of the public believed that the oil industry was conspiring to fix prices.¹² Congress responded with hearings to investigate the charges, and eventually with laws to address the crisis.

The next energy crisis began with the Iranian revolution. Throughout 1978, the Ayatollah Ruhollah Khomeini, a fundamentalist Islamic opponent of the Shah of Iran, had been calling for demonstrations against the Shah in an effort to topple him. In December, those efforts peaked in a month of violence and a complete shutdown of Iranian oil exports. The demonstrations worked. In January, the Shah abandoned his country to the Ayatollah Khomeini and his followers.

Few observers foresaw the consequences of the Shah's fall. Iran supplied only 5 percent of the world's oil. Nevertheless, an oil panic set in. Between hoarding and speculative buying, prices climbed sharply throughout 1979 and into 1980. In the fall of 1980, Iraq worsened the situation by invading Iran. The Iraq-Iran War continued to keep Iranian oil off the market and caused a 70 percent cut-back in Iraqi oil exports as well. The results for America included higher prices, shortages, and the by-then familiar and infuriating lines at gas stations. Prices eventually peaked in 1981 and then began sliding down as demand fell during a worldwide recession, which was partly triggered by the high oil prices.

In August 1990, Iraqi dictator Saddam Hussein ordered his army to invade Kuwait. The invasion shut off the flow of Kuwait's oil to world markets. Moreover, the ideas that Iraq now controlled 20 percent of OPEC production and 20 percent of the world's known oil reserves and that Saddam Hussein was a major influence on world oil markets worried Western nations. The result was an immediate jump in world oil prices.

The United States and its allies launched their counterattack in January 1991. The Persian Gulf War was short, brutal, and completely dominated by the US military. Iraq's army collapsed before the combined might of the United States and its allies, but before they fled from Kuwait, Iraqi troops set over 730 oil wells on fire, leaving an environmental and economic disaster behind them.

The 1990s ended with another price blow to the United States, albeit one that crept up more quietly. The cause was not the 2001 attack on the World Trade Center and the Pentagon, but a series of OPEC price hikes starting in 1999. In December 1998, oil prices had fallen to \$8.03 a barrel because of overproduction and sharp declines in demand from weak Asian markets. In inflation-adjusted dollars, that was the cheapest oil had ever been. Those rock-bottom prices were causing serious economic problems for Saudi Arabia and other oil-producing countries. In response to the situation, OPEC started reducing the flow of oil in order to drive up prices. With a series of production cuts, OPEC managed to drive the price of oil to \$30.36 a barrel by November 2000 and make the price of oil one of the most critical issues in the 2000 presidential election.

The second wave of the price shock began in early 2004. The Iraqi insurgency was growing, and America seemed incapable of stopping it. Prices edged up, reaching just under \$50 a barrel in the summer of 2005, immediately before Hurricanes Katrina and Rita roared into the Gulf of Mexico. In the aftermath, oil briefly rose over \$70 a barrel before dipping. But then oil prices began rising again. Year after year, prices moved up until the recession struck in 2008. By then it was no longer clear whether the expression "energy price shock" was appropriate. Rising oil prices had become a chronic condition, a trend that was broken only when the high prices helped drive the United States into recession and demand for oil fell.

In every energy crisis the United States has faced, we have seen a common sequence of events—what we call the "energy crisis cycle."¹³ The steps in the cycle are (1) When foreign oil production is sharply cut, energy prices rise quickly—starting the cycle. (2) Along with increases in energy prices come large increases in the profits of energy producers. The news media inform the public about the soaring profits. (3) Politicians and interest group advocates criticize the energy industry for their greed in profiting at other people's misfortune, and accuse them of manipulating prices to increase profits. Some critics even claim that the energy industry fabricated the energy crisis to increase profits. (4) Most of the

public believes the industry critics. They do not accept claims that the energy crisis is real, and so they feel justified in demanding that the government fix the problem without any cost to the public. (5) Business interests join the debate with demands to relax environmental regulations in order to produce more energy. For them, the energy crisis presents a window of opportunity to weaken environmental protections and increase their profits. (6) Environmental groups resist business demands and propose their own green solutions to the energy crisis. (7) Congress and the president attempt to respond with legislation and executive action to address the crisis and the competing political demands.

In most respects, the energy-crisis cycle is no different from what Anthony Downs, John Kingdon, or Frank Baumgartner and Bryan Jones have described when they discuss the agenda setting and policymaking process.¹⁴ What makes energy crises a special case is that several aspects of the process are predictable. When world energy production quickly slows down because of wars or OPEC pricing decisions, oil prices rise because of the laws of supply and demand, the profits of energy producing companies always shoot up, politicians and policy advocates always accuse the energy companies of manipulating energy prices, the public always believes them, and a window of opportunity for policy change opens. That makes energy crises different from most other policymaking cases. We know that people will get angry and we know who will get the blame.

Theoretical Approach

Our study of agenda setting and policymaking builds on the theory of punctuated equilibrium in agenda setting and policymaking developed by Baumgartner and Jones and others.¹⁵ Their basic argument is that the American political system is designed so that policy is fairly steady and unchanging most of the time, but occasionally there are “punctuations” of large, rapid policy change. The punctuations are initiated by what Roger W. Cobb and Charles D. Elder, Thomas Birkland, and others refer to as “triggering events” or “focusing events,” which are exogenous shocks to the prevailing policy system and yield sharp policy change.¹⁶

We go beyond previous work by giving more attention to the role of public opinion than do other studies. We see public opinion as one of the driving forces behind policy changes regarding energy. Moreover, we see public opinion as having a role throughout the policymaking process, not just at the time when a focusing event initiates the process. Public opinion is important because almost all Americans own cars and drive. They see gasoline prices posted on huge signs at gas stations everywhere. When they buy gas, they see how much it costs and how much it has changed. And when they answer public opinion polls, politicians see how upset voters can become about gasoline prices.

Jones and Baumgartner write that agenda setting and policymaking are so complicated that no grand theory will ever be developed to explain them adequately.¹⁷ They are probably right. However, we can learn a good deal about agenda setting and policymaking in the narrow area of energy policy. Energy issues are important, so this is worth doing. Moreover, there are bound to be more energy crises as oil supplies dwindle and as Middle Eastern wars continue to occur.

Plan of the Book

We begin our examination of the politics of energy policy in chapter 2 with a look at energy crises through the lens of Baumgartner and Jones's punctuated equilibrium theory. We use the methods they developed to explore the impact of energy crises (e.g., media content analysis and congressional hearing counts). We use some of the data they have collected in their Policy Agendas Project supplemented with our own data from other sources. Unlike most work on policy agendas, we focus on explaining substantive policies passed by Congress, rather than on budgets.

Chapter 3 examines how public opinion on energy policy changes over time, especially during energy crises. We look at general environmentalism and specific opinions about energy policy because the two parallel one another in important ways. We then move from general environmentalism to look at the public's support for offshore oil drilling and other energy development policies. We show that support for energy development rises and falls with the price of gasoline in the same way that environmentalism fluctuates with general economic health. This fluctuation creates windows of opportunity for policy change. When energy crises strike and prices are high, people want change—which opens opportunities for both energy industries and environmentalists to push their proposals onto the nation's political agenda.

The chapter continues with an examination of who gets blamed for high prices during energy crises. Blame plays a critical role in energy crises. When energy prices spike, people react angrily. Rising gasoline prices hurt people financially. Even people who can afford to spend fifty dollars to fill their gas tanks do not like it. So they look for explanations. Who or what caused the prices to rise? Who is to blame? That search involves sorting the competing politicians and policy advocates into good guys and bad guys, and has repercussions for policymaking.

Chapter 4 looks at the critical role that trust plays during energy crises. Trust is important because competing factions are seeking public support for their proposals. Environmentalists, oil companies, and other participants attempt to persuade the public to accept their versions of the truth and their

policy recommendations because they believe that winning public support will increase their chances of winning their policy battles.

The remaining chapters look at what happened in each one of our energy crises. Chapter 5 looks at the crisis of 1973–74. Chapter 6 looks at the crisis that was sparked by the fall of Iran and the Iran-Iraq war in 1979–80. Chapter 7 looks at energy issues at the time of the Persian Gulf War in 1990–91. Chapter 8 is an examination of the energy price spikes in 1999–2001 and 2008, which vary in nature and from the previous crises.

Following the presentation of the core theory and the historical examination of each crisis, our concluding Chapter 9 revisits the theory of agenda setting and punctuated equilibrium, discussing some limits to Birkland's definition of focusing events. In our conclusion, we also offer our commentary on the implications of these limits and possible extensions and how we can understand theory in the dynamic environment of policymaking.

PART I

THE ROLES OF AGENDA
SETTING, PUBLIC OPINION,
AND TRUST DURING
ENERGY CRISES

Energy Crises and Agenda Setting

“Never let a good crisis go to waste.”¹

Energy crises change the nation’s political agenda. Surging prices draw attention to energy policy. Voters’ anger about rising prices attracts media attention. Interest groups, recognizing that they have a window of opportunity, call for policy reforms. And politicians respond. The goal of this chapter is to put these crises in a theoretical framework.

Since the 1973–74 energy crisis, the United States has experienced a series of similar crises. During each one, the public called on politicians to step in and help. In this chapter, we will use the theory of punctuated equilibrium² (PE) to set the foundation for our analysis of energy policy. Punctuated equilibrium, as we discuss in more detail below, unites two literatures that were once disjointed—public policy and agenda setting. As Frank Baumgartner has said, “A punctuated equilibrium (PE) perspective on the study of public policy reminds us to pay attention equally to the forces in politics that create stability in public policy as well as those that occasionally conspire to allow dramatic changes . . . punctuations may come only rarely. . . [but] can have long-lasting consequences.”³ We believe that this perspective can reveal a great deal about the politics of energy crises.

To set the stage for our investigation of energy crises, we begin with a review of agenda setting and the theory of punctuated equilibrium. We discuss how the theory should be modified to address cases such as energy crises. We then use the tools of punctuated equilibrium theory to examine the history of energy crises starting with the 1973–74 crisis.

Agenda-Setting Theory

Agenda setting has been the topic of much empirical research stretching back to the 1960s. While Walter Lippmann’s *Public Opinion*⁴ might very well be

the first to describe the mass media's link between "the world outside and the world inside our heads," it was Maxwell McCombs and Donald L. Shaw who, in their "Chapel Hill Study," offered the first important empirical analyses of public agenda setting. In their work, McCombs and Shaw present the theory of agenda setting that describes a direct relationship between the media's attention (amount and prominence of coverage) to a particular issue and the public's ranking of the perceived importance of that issue. According to McCombs and Shaw,

In choosing and displaying news, editors, newsroom staff, and broadcasters play an important part in shaping political reality. Readers learn not only about a given issue, but how much importance to attach to that issue from the amount of information in a news story and its position. The mass media may well determine the important issues—that is, the media may set the "agenda" of the campaign.⁵

Related to McCombs and Shaw, Anthony Downs describes the "issue-attention cycle."⁶ In his analysis of environmental policy, Downs traces five stages through which an issue rises and falls on the public agenda, beginning with the pre-problem (stage one), where the issue exists and experts are aware of it, but there has been little media attention. In stage two, there is "alarmed discovery and euphoric enthusiasm,"⁷ followed by stage three, where there is public recognition of the dimensions and costs associated with solving the problem. Stage four is characterized by a general decline in the public's interest in the problem, and finally, the fifth and last "post-problem stage,"⁸ occurs when the public's attention stabilizes and does so at a point lower than it was at peak interest, but higher than at the beginning of the process.

Downs's cyclical theory argues that external shocks provide opportunities for substantive policy change. The policy issue moves through a process in which public attention peaks and then gradually declines. Over time public policy concerns shift elsewhere, and the original policy area is left somewhat changed but outside the public setting. The residual changes often alter the policy in a substantial way, and will most likely play a key role when faced with a subsequent shock.⁹

Roger W. Cobb and Charles D. Elder's work deals directly with the process of policy agenda-building. They seek to explain from where policy issues derive. More precisely they ask, "How is an agenda built, (i.e., how is an issue placed on it), and who participates in the process of building it?"¹⁰ In the spirit of E. E. Schattschneider's earlier work,¹¹ Cobb and Elder assume bias in the system insofar as there are "social forces" that influence and control the agenda and