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Energy: The Next Twenty Years

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ENERGY: THE NEXT TWENTY YEARS. By *A Study Group Sponsored by the Ford Foundation and Administered by Resources for the Future*. Cambridge, Mass.: Ballinger Book Co. 1979. Pp. xvi, 628. Cloth, \$27; paper, \$11.95.

Energy: The Next Twenty Years is the third and most recent energy study commissioned by the Ford Foundation.¹ It presents a comprehensive but readable report on the energy policy choices facing America in the closing decades of this century, and integrates disparate policy areas, such as environmental protection, petroleum price control, and nuclear plant licensing, into a general framework of energy policy recommendations. The resulting recommendations are less radical than those found in other contemporary works on energy.² The moderate tenor of the recommendations may reflect a more realistic perspective or an inherently conservative bias on the part of the authors, but most likely it results from a diversity of views among them. The book represents the combined efforts of nineteen specialists drawn from business, science, and academic institutions. The roster includes such notables as Kenneth Arrow, Hans Landsberg, John Sawhill, and Robert Stobaugh.³

Members of the study group are predominantly economists, and thus, the book views energy problems primarily from an economic perspective. However, the work demands of the reader only basic economic training. For the more adventurous, the authors have assembled a number of their detailed economic studies in a supplemental volume entitled *Selected Studies on Energy: Background Papers for Energy: The Next Twenty Years*.⁴

The book's organization diverges from that adopted by the Harvard Business School in its recent energy report, *Energy Future*.⁵ The authors of that book categorized potential energy sources and estimated the potential future contributions of each. They then suggested a "balanced" energy program that included heavy emphasis on energy conservation and solar power. The organization of the

1. Previous studies sponsored by the Ford Foundation include *A TIME TO CHOOSE* (1974) and *NUCLEAR POWER ISSUES AND CHOICES* (1977).

2. See, e.g., B. COMMONER, *THE POLITICS OF ENERGY* (1970); A. LOVINS, *SOFT ENERGY PATHS* (1979).

3. Arrow is a nobel laureate professor of Economics at Harvard University; Landsberg is the director of the Center for Energy Policy Research at Resources for the Future, Inc.; Sawhill is the president of New York University and former administrator of the Federal Energy Administration; and Stobaugh is the director of the Energy Project of the Harvard Business School.

4. This work, edited by Landsberg, was published in 1980.

5. *ENERGY FUTURE* (1979) was co-edited by Stobaugh and Daniel Yergin.

Ford study is more thematic. Its authors de-emphasize projections of energy contributions from the various sources and instead concentrate on United States energy policy in light of its economic, international, and institutional underpinnings.

The book is divided into five parts. The first, entitled "Energy and the Economy," treats domestic energy policy as a question of economic management. After considering the future demand for energy in the face of rising world oil prices, and assessing the opportunities for energy conservation and interfuel substitution, the section discusses the economic impact of petroleum price controls and oil imports. Part Two is entitled "Energy in an International Setting," and discusses global energy resources as well as the present energy policies of OPEC, Western Europe and Japan, and the Communist countries. Part Three, entitled "Coal: An Abundant Resource — with Problems," deals primarily with the environmental problems of coal. Part Four examines nonfossil fuel energy alternatives, namely, nuclear and solar power, and details their economic and political drawbacks. Finally, Part Five discusses improvements in the regulatory and policy-making arenas of the energy field. This part also discusses the allocation of energy research and development responsibilities between the public and the private sectors.

The study group identifies a number of "energy realities" which it considers crucial to understanding the energy problems of the next two decades. The book points out that the world's physical energy resources remain huge, but are constrained by economic, political, and environmental factors. The authors maintain that these constraints cannot be relieved by any simple "technical fix" (p. 41), and that they will result in continued energy price increases. The authors believe that in the face of these rising prices, energy conservation will prove to be the quickest and cleanest source of new energy. However, the authors state as a "reality" that the United States and the world will remain critically dependent on oil from the politically unstable Middle East through the remainder of the century. The authors fully expect that this dependence will result in oil price instability and sudden, unpredictable, short-term supply interruptions.

These "realities" form the basis for the authors' concrete recommendations for an improved energy policy. First, they advocate increased reliance on market forces to control the use, production, and allocation of energy. Thus, they favor oil and gas price decontrol and marginal cost pricing of electricity.⁶ The authors argue that the

6. Marginal cost pricing refers to passing on to the consumer the higher fixed costs of plant additions to reflect the true cost of increasing electric generation. Although marginal cost pricing

increased energy production and energy conservation that result from decontrol will "wholly eclipse" its short-term adverse effects (p. 199). They also favor income supplements to ameliorate any inequitable impact of decontrol on low-income groups.

The authors' second recommendation is that the United States prepare for disruption in the world oil market. The authors consider a strategic oil stockpile essential in the face of political instability in the Middle East. They also suggest strengthening cooperative strategies among oil importing nations to minimize harm caused by oil supply disruptions.

The study group recognizes that energy options are limited and therefore hesitates to eliminate any energy source from future consideration. They recommend continued development of nuclear, coal, and solar power. However, the study group recommends that publicly funded research should explore many competitive concepts at a small scale and leave to the private sector the responsibility to select and deploy technology. The authors caution against using public funds to develop technologies that cannot be viably pursued in the private sector, and recommend increasing emphasis on "non-hardware" research. Such research could address everything from the health effects of pollution to the institutional barriers to energy conservation and solar power. Finally, the study group recommends the control of air pollution through economic incentives rather than through the current system of air quality standards.

Energy: The Next Twenty Years is of particular value to lawyers who specialize in one of the many facets of energy law. It provides them a useful perspective by weaving their various specialties into the fabric of energy policy. The book may also portend the future direction of the energy and environmental legislation that shapes the specialist's practice. It is well-suited for any lawyer who is interested in an authoritative view of the nation's energy alternatives.

ing will generally increase utility bills, the authors observe that it may lower artificially high "back-up service" rates now charged to persons who generate their own power. Thus, marginal cost pricing could create economic incentives for both energy conservation and consumer-owned power generation.