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Editor: Fred Harrison

Editorial Consultant: Vic Blundell

Editorial Offices:
177 Vauxhall Bridge Road,
London SW1V 1EU
Tel: 01-834-4266

5 East 44th Street,
New York, N.Y. 10017
Tel: 212-697-9880

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Oil price rig – it's a perversity

STABILITY is the crafty catchword among the "experts" who oppose cuts in oil prices.

Price fluctuations are generally held to be bad – even for consumers!

In non-communist countries, which claim to base international trade on free market principles, the last thing that most economists or commentators want is a downward slide in oil prices.

Why? We think the answers lie in perverse economics and political expediencies.

Norway triggered the last round of anxieties when it trimmed a fraction off the price of its North Sea oil.

Britain followed suit, and the Organisation of Petroleum Exporting Countries was forced into an emergency meeting to defend its rigged prices.

OPEC managed to keep the price of crude oil at $29 a barrel, and the world appeared to sigh with relief. Why?

It costs about $1 to extract a barrel of oil in the Middle East. Which means that the producers are reaping oil rents at around $28 a barrel. That revenue is pure surplus over and above the costs of production.

A marked cut in the rate at which oil rent was extracted from consumers would produce profound benefits for doldrum-struck economies.

These are some of the benefits of lower prices:

- Petroleum would be conserved, as high-cost wells were shut down (the free market price of oil is thought to be between $3 and $11 a barrel – below the production costs of many North Sea fields.
- Cheaper energy would reduce industrial costs, and lead to more jobs.
- Oil producing nations that have enjoyed a high old time on oil rent since 1973 would have to think about creating competitive manufacturing and agricultural sectors.
- Third World countries would be less dependent upon "recycled" petro-dollars: instead of sinking further into debt, they could divert more of their national incomes directly into development programmes.

These arguments do not seem to carry weight with politicians who fear a "collapse" in oil prices. And they point out that, if prices on the Amsterdam spot market really undermined the cartel's price, the other producers (including Norway) would throw their weight behind OPEC.

MEXICO, it is pointed out, would suffer if its oil rent was cut back sharply. But why should the world's unemployed masses pay the price of the imprudent borrowing and spending policies in Mexico?

BRITAIN would certainly suffer: North Sea oil rent has helped to protect the value of sterling. But why should four million unemployed people suffer for the sake of a monetary virility symbol?

NIGERIA is already suffering: so incompetent have many of her leaders been that, despite the fortune that has flown into that country, the small cuts in oil prices have caused chaos. Why should the poor peasants care if the scope for corruption is pruned back?

Spot sales of petroleum now account for around 40% of non-communist oil trade, while OPEC's share stands at around 30% of world sales.

This suggests that the market is substantially de-controlled.

The reality, alas, is that the minds of the world's policy-makers have not been de-controlled. And their collective wishes – expressed through both official and unofficial channels – are powerful enough to resist the logic of the marketplace.