Reagan removes controls on oil prices

Effects on MIT will be slight

By Dave Lingelbach

"The effects of oil decontrol on MIT's heating costs will be small," said Thomas Shepherd, Associate Director of the Physical Plant.

MIT spent 1.5 million dollars for fuel oil in fiscal year 1979-80 and approximately 2.6 million dollars for natural gas, according to Shepherd. MIT buys its oil, known as residual fuel, from Venezuela in a pricing arrangement not tied to OPEC pricing mechanisms. Shepherd said that the entitlement payment on Venezuelan residual, which would be eliminated by decontrol, is approximately $1.50 per barrel and doesn't greatly affect MIT fuel outlays.

MIT consumed approximately 2.6 million gallons of fuel oil, or about 6,750 barrels. Removal of the entitlement payments will raise MIT's fuel cost by $71,000, according to The Tech calculations, and this may be taken into account in current discussions about next year's tuition.

Shepherd said that gas is considered much more attractive as a fuel by MIT, since it is cheaper per gallon on gasoline during the past week. Dr. Morris Adelman, Professor of Economics at MIT, and Dr. Richard Schmalensee, Professor of Applied Economics at the Sloan School of Management, conclude that oil decontrol is far less substantial than Americans are being led to believe.

Dr. Adelman, an expert on energy economics and a consultant to several previous Administrations, commented that there really had been no purpose for regulations in the first place, with the possible exception of checking inflation. Oil price controls were first imposed in 1971 as part of President Nixon's program of wage and price controls. Oil controls were lifted temporarily in April of 1974, but then reimposed until President Carter began the oil decontrol process. Adelman and Schmalensee both confirmed that Reagan's Executive Order decontrolled the remnants of basing oil and gasoline, and the President Carter had already decontrolled most of the oil prices.

Adelman said that oil price increases were "somewhat unsalable" to the American consumer, largely because of the increasing profits of oil companies that price increases would cause. Adelman said that oil price regulation is a "policy of spite and not based on sound economics."

Dr. Schmalensee said that oil regulation has been a process that has subsidized imports. Adelman agreed, adding that controls acted to encourage increased domestic consumption of oil. "The entire system of oil price control has resulted in the United States paying more to foreigner for their oil," Adelman commented.

Schmalensee believed that oil decontrol was not necessarily inflationary. Oil decontrol would result in higher prices for petroleum products, which would increase the Consumer Price Index (CPI). Decontrol does not, however, contribute to the process of inflation, since it does not increase pressures of inflation within the economy. "There will be no recession as a result of decontrol," said Adelman, because outlays for those goods affected by decontrol are a small portion of the Gross National Product (GNP).

Oil decontrol may have some effects on the ability of the poorer segments of the population to meet their fuel bills. Schmalensee said that a subsidy for the poor could act to reduce usage of mass transit, and increase air pollution. Schmalensee said that decontrol will have small effects on the poor compared to the OPEC price increase.

Analysis

Decontrol effects unclear

By David C. Lingelbach

One of President Reagan's first acts was the removal of the remaining controls over oil prices. Oil decontrol, coupled with the filtered-through effects of the December price rise of the Organization of Petroleum Exporting Countries (OPEC), has resulted in price leaps of up to $1.00 per barrel on gasoline during the past week. Dr. Morris Adelman, Professor of Economics at MIT, and Dr. Richard Schmalensee, Professor of Applied Economics at the Sloan School of Management, conclude that oil decontrol is far less substantial than Americans are being led to believe.

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