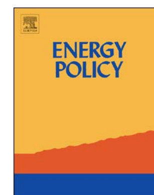
Energy Policy 96 (2016) 45–49

Contents lists available at ScienceDirect

Energy Policy

journal homepage: www.elsevier.com/locate/enpol



Why is the oil price not about equilibrium?: An economic sociology account of petroleum markets

Andrei V. Belyi *

Centre for Energy, Environment and Climate Change Law at the University of Eastern Finland, Finland

HIGHLIGHTS

- Oil price is not about affordability but about social embeddedness processes.
- Producer-Consumer juxtaposition stems from resource-determinism concept.
- Elevated oil price postpones peak oil and favors inter-fuel competition.
- Important symbolisms surrounding the oil price exists in terms of business perspectives and political risk aversion.

ARTICLE INFO

Article history:
Received 30 November 2015
Received in revised form
28 April 2016
Accepted 2 May 2016

Keywords:
Oil price
Energy security
Investments
Inter-fuel competition
Social embeddedness

ABSTRACT

This opinion paper seeks to initiate discussion of the institutional and societal causes of oil price. On this basis, the social embeddedness concept is proposed instead of the frequently used producer-consumer juxtaposition. Observation shows no linearity between resource distribution imbalances and supply dynamics on the one hand and price on the other. As a socially endogenous factor, oil price generates practices and norms comprising benchmarks for resource valuation, stock market dynamics and risk aversion practices. A high oil price incentivises investments and inter-fuel competition, whereas a low oil price increases both political and market risks beyond the consumer-producer conceptualisation. Hence, it is argued that the notion of oil price affordability in energy security should be revised.

© 2016 Elsevier Ltd. All rights reserved.

1. Introduction

Recent years have witnessed animated discussion about the oil price, its affordability and subsequent political and economic interactions. Producers, consumers, traders and financiers have all sought to find the right equilibrium for the price. A large proportion of the scholarly literature on the subject has emphasised the consumer-producer juxtaposition shaping international energy relations and affecting transnational oil markets (Kalicky and Goldwyn, 2006; Andrew-Speed, 2007; Florini and Sovacool, 2009; Vivoda, 2009; Ortung et al., 2009). I argue here that a different analytical path should be taken in order to achieve understanding of the oil price, which should be seen endogenously within a web of political, societal and economic interactions.

The roots of the academic discussion stem from the 1973 oil shocks that impacted on energy policy studies in general (Sovacool, 2014). Since then, oil prices have often been viewed as unfair per se, while the Organization of Petroleum Exporting Countries (OPEC) has long been seen as a price-setting monopoly (see Colgan (2013)). Tracing the historical evolution of the oil price shows even more clearly that its 'non-market' features also existed before the oil shocks of the 1970s (Chalabi, 2010). It has also been argued that the development of trading platforms since the end of the 20th century and the liquid 'oil-paper' trade resulting from it still leaves the hydrocarbon sector within a different domain from other economic sectors (Mitchell and Mitchell, 2015). Among other things, even in the aftermath of the decline of OPEC's capability to have a direct impact on markets (Mabro, 2005) the oil price has surged on a number of occasions. Consequently, the manifest inadequacy of equilibrium-related explanations leads one to examine price-related processes more from a sociological perspective. In particular, it could be hypothesised that oil prices, defined hereafter as a form of institution, are not linearly linked to imbalances in resources. In fact, the opposite should be argued: oil prices condition the value of the resource. Therefore, oil price should not be explained in terms of a 'right balance' but must instead be viewed in a broader context. For similar reasons, the current market practices delink the low oil

* Corresponding author.
E-mail address: Andrey_belyi@yahoo.com

http://dx.doi.org/10.1016/j.enpol.2016.05.012
0301-4215/© 2016 Elsevier Ltd. All rights reserved.

price from GDP growth (Tverberg, 2016). Hence, the existence of a linear relationship between security of supply and affordability of price may also be questioned.

In order to demonstrate the validity of the claim sketched above, there is a need to take a fresh analytical path by integrating the concept of social embeddedness into the price-formation. This implies achieving insight into the nature of the valuation of resources, security perceptions, peak oil considerations and environmental concerns. Among the various other empirical observations that may be made, the likelihood that a significant demand for an elevated oil price coexists with the dynamics of supply and demand in respect of hydrocarbons should be pointed out. Moreover, oil price offers an important symbolic dimension for market and policy agents and therefore the significance of an increase in the oil price may be felt beyond physical supply flows.

2. Equilibrium versus sociological approaches in respect of prices

Theories of price have been almost completely dominated by various views on the interaction between supply and demand. Classical political economy departs from the assumption that price results from an exogenously-induced supply-demand equilibrium. Thus, a large proportion of the empirical scholarship on this topic has focused on the predictive power of the behavioural pattern of rational agents in relation to price formation. In this context, a fair market price is that which is closest to the presumably objective equilibrium. The classical approach has attracted vigorous criticism on the strength of its frequent mismatching of reductionist theoretical models with empirical evidence relating to complex politico-economic systems. The equilibrium-based approaches underestimate the non-economic factors at play in both domestic and international developments (Strange, 1988).

By contrast, a different ontological angle offers circumstance-based perspectives on economic processes and casts doubt on exogenously-defined agents' interests. In this perspective, both the price equilibrium and the no-transaction costs economics become either an object of agency's meanings based on specific interest or socially-determined interactions (Wight, 2006) unevenly impacting on supply-demand dynamics. While the significance of market trends themselves should be acknowledged, the definition of markets as endogenous to social relations, perceptions and understandings is a key distinguishing feature here.

Among the first theorists of social embeddedness in economic processes, Karl Polanyi questioned the validity of equilibrium-based concepts. He regarded the explanation offered by classical approaches of, among other things, deep transformations that occurred during the Industrial Revolution as being nonsensical (Polanyi, 1944). In the clarifying conditions of societal payoffs during the course of economic evolution, markets are defined as social structures and conceptualised independently from material economic structures. To put it in a slightly different way, the markets witness a specific and not unique transaction, which ‘contrary to common assumptions, does not originate in random action of exchange’ (Polanyi, 1944: 37). Therefore, Polanyi's conception assumes that markets have various functions depending on the social contexts at hand (Ankarloo, 2002). Markets form a relationship with society and therefore give rise to a number of practices and norms. Polanyi emphasises that ‘the control of the economic system by the market is of overwhelming consequence to the whole organization of society’ (Polanyi, 1944: 57). In particular, it may be noted that resources are commodified through new social and economic practices. Consequently, a price results from a contextualised web of social interactions existing beyond the supply-demand equilibrium.

The analytical framework of the ‘market society’ has influenced further theoretical constructs, including sociological institutionalism (Lie, 1991). More recently, Bourdieu (2005) has argued that social symbolism exists in any behavioural pattern and in any economic transaction. Therefore, in his view a price itself may have symbolic meaning for economic agents, such as in valuing land, luxury products and cultural goods. To emphasise the socially endogenous character of price formation, Bourdieu hypothesises a set of drivers that determine the price (Bourdieu, 2005: 197). Furthermore, this famous scholar equates markets with a relation between various forces ‘to which the different agents engaged in the field contribute to varying degrees through the modifications they manage to impose upon’ (Bourdieu, 2005: 204). In this context, the very term ‘fair pricing’ gains a symbolic, even normative, dimension contextualised within agents' varied interests at hand.

Making a theoretical account of these various perspectives might involve integrating human subjective interests, power relations, as well as perceptions and knowledge in respect of the formation of price. Directly observed empirical facts in international energy relations tend to demonstrate an ever-changing embeddedness impacting on the value of oil. Moreover, the petroleum price results from a variety of agency-based perceptions and interests ranging from short-term gains to global environmental considerations as well as the symbolic meanings of petroleum. In this context, the frequently mentioned producer-consumer juxtaposition becomes *non certus* component in the complex chain of economic interactions that take place at transnational level. In addition to that, the overall argument to the effect that oil price is not set by markets is open to question since markets by their very nature involve various levels of interaction, symbols, and power relations.

However, a number of scholars still argue that the natural resource factor is the core issue in petroleum markets. Nonetheless, as discussed below in further detail, resources are valued on the basis of socio-economic trends related to price formation rather than vice versa. To give a general example that illustrates this issue, the Industrial Revolution did not first emerge in coal-rich regions, although the initial industrial development was based on that hard fossil fuels. In turn, the oil era is certainly an inherent part of the process of globalisation of economic transactions (Di Muzio, 2012). Increasingly, profits from the oil trade in stock markets involve the banking sector, traders, exchange-traded funds and price reporting agencies. Therefore, the new transnational hydrocarbon market differs from the previous ‘Seven Sisters’-dominated world as well as from cartel-based practices (Mitchell and Mitchell, 2015).

Economic Sociology contribution to outlining the difference between economic structures and market institutions seems crucial to oil price analysis. Increasingly, the commodification process in oil markets shaped various trading schemes and derivative markets, including hedging and secondary markets. It has also been noted that in recent times the value of transactions in oil has exceeded the actual global production level because market practices offer various schemes that allow for the sale and purchase of a right to possess a given volume of energy in the future (Fattouh, 2011). The current price formation enlarges the gap between trade and physical flows (Fattouh, 2011; Dannreuther, 2015) and therefore creates yet further distance from resource-related and supply-demand equilibriums.

3. Understanding the oil price by distancing it from resource determinism

The idea of unbalanced hydrocarbon prices is foregrounded within a theoretical model defining energy resources as an

Download English Version:

https://daneshyari.com/en/article/7398825

Download Persian Version:

https://daneshyari.com/article/7398825

Daneshyari.com