The special committee of the General Faculty to prepare a memorial resolution for James W. McKie, professor emeritus, economics, has filed with the secretary of the General Faculty the following report.

Sue Alexander Greninger, Secretary
The General Faculty

IN MEMORIAM
JAMES W. MCKIE

Professor James W. McKie, distinguished member of the economics department at The University of Texas at Austin for many years, died on October 30, 2007, at age 85. A devoted family man, Jim is survived by his beloved wife of nearly 60 years, Catherine; daughters, Julia and Ellen; son, David; and grandson, Ian. To all who knew him, he was a man of great integrity, dignity, and honesty. In his illustrious career, he stood out as a scholar, teacher, academic leader, and public servant.

Research
Professor McKie’s early work and training was in the field of industrial organization, and he applied the expertise developed in this area to become one of the leading scholars on its applications to energy economics. His research is as relevant today as it was when it was originally published. He employed an investigative style that began with a meticulous assessment of the institutional structures of the different industries under study. He then analyzed the influence of these industrial features on a variety of economic outcomes.

An early example of this style of research is the paper, “The Decline of Monopoly in the Metal Container Industry,” which was published in 1955 in the American Economic Review, one of the most prestigious publication outlets in the profession. In the first half of the 20th century, the metal container industry had been dominated by the American Can Company and the Continental Can Company. McKie described the details of the production process and the means by which both companies used the unique features of production and sales to establish control over the market and circumvent the antitrust laws. Despite the companies’ best efforts, the government eventually took antitrust action against American Can Company, and McKie demonstrated that these moves had the desired effect of reducing the market power of both firms.

The effects of market structure on firm behavior are analyzed for oil and gas exploration in the paper entitled “Market Structure and Uncertainty in Oil and Gas Exploration,” which appeared in the Quarterly Journal of Economics in 1960. This important paper examined the role of competition among oil companies (or its absence) on oil and gas exploration activities. McKie began with a detailed description of the process of geophysical exploration and the institutional arrangements associated with lease agreements and royalties paid by oil companies to landowners. He found that industry concentration of exploratory drilling was low by conventional standards but was substantially higher when measured in terms of lease holdings and geophysical exploration. The main conclusion, which is particularly germane to recent developments in the oil business, was that there was little evidence of non-competitive behavior or barriers to entry in exploration activities and that this was largely due to the uncertainty associated with these particular activities. However, the large oil companies did exploit advantages related to scale economies in terms of exploration activities and lease holdings.

The paper, “Petroleum Conservation in Theory and Practice” (co-authored with Stephen McDonald), is as important today as it was when it appeared in the Quarterly Journal of Economics in 1962. The variation of oil prices resulted in public pressure to stabilize prices by changing the rate at which oil was extracted and refined. It became vital, therefore, to determine the optimal rate of resource extraction. Until this paper appeared, petroleum engineers had used the Maximum Efficient Rate (MER) of oil extraction as a benchmark, and this calculation was based solely on the engineering aspects of the production process. McKie and McDonald added
economic content to the MER concept and integrated the engineering dimension of the extraction process with economic cost-benefit analysis. In support of their approach, they found that the outcomes induced by regulatory authorities in Texas, Louisiana, and Oklahoma were consistent with principles of equity rather than economic efficiency and that the levels of extraction deviated significantly from the traditional MER.

In the paper entitled “The Southern Industrial Fuel Economy,” which was published in the *Southern Economic Journal* in 1963, McKie compared the role of the fuel economy on regional economic development in the southwestern and southeastern regions of the United States. He found that industrialization in the southwest was largely associated with petroleum and was self-sustaining. This occurred because oil companies found it economical to establish their exploration research laboratories close to the areas of production. The location of refineries in the area and their provision of raw materials to the petrochemical industry contributed significantly to the growth of the southwestern economy in the late 1950s and early 1960s. By contrast, the southeastern fuel economy featured coal production and had little impact on the region’s industrial development. Even though coal was more costly to transport than petroleum, the extent to which coal-using firms moved to the area was limited.

Professor McKie addressed the complex problem of setting appropriate limits to the direct regulation of public utilities in a paper entitled “Regulation and the Free Market: The Problem of Boundaries,” which appeared in the *Bell Journal of Economics and Management Science* in 1970. Regulatory agencies should economize on the means and limit the scope of regulation, but given that these interventions affect unregulated as well as regulated firms, this is very difficult to accomplish in practice. A boundary problem exists when regulated firms compete with each other or are in the same market as unregulated firms. McKie provided a comprehensive discussion of this problem that may be used to situate the more abstract mathematical treatments offered by researchers today.

McKie again presented a broad perspective in the paper entitled “Organization and Efficiency,” which was published in the *Southern Economic Journal* in 1972. Here, he laid out the limitations that arise from using economic efficiency as an overriding norm for the organization of social activity. The major drawbacks include the following:

- The efficiency criterion does not consider “quality of life” or properly include market externalities.
- A feasible institutional arrangement to achieve efficiency may not exist.
- Efficiency involves the concept of equilibrium, and we do not fully understand how the market achieves equilibrium.
- The pursuit of some equity standard, rather than efficiency, often drives government regulation of private industry.
- Efficiency is difficult to apply to a nonprofit organization such as a university.

At the conclusion of this paper, McKie made a case for behavioral economics about 20 years before its arrival.

McKie was a leading expert on the effects of the Organization of Petroleum Exporting Countries (OPEC) on the world oil market and U.S. policy. In the paper, “The Political Economy of World Petroleum,” which was published in the *American Economic Review* in 1974, he was one of the first scholars to deal with the change in the world economy wrought by the creation of OPEC. Due to the rapid growth of demand starting in 1970 relative to supply, this producing country cartel had replaced the transnational oil company oligopoly as the controller of supply. McKie provided an optimistic forecast and a pessimistic forecast of oil prices. He emphasized that the supply of oil under OPEC would be controlled by political as well as economic interests of the cartel members. If the value of oil reserves rose quickly, there would be no point to pumping more oil in the present because its value in the future will be much greater. He illustrated this by analyzing the hypothetical case of a 50% increase in oil reserves by 1985.

McKie examined the growing dependency of the U.S. on foreign oil in a paper entitled “The Oil Crisis in Perspective – The United States,” which appeared in *Daedalus* in 1975. This dependency developed because the supply of other forms of energy was restricted by government policy. The price of natural gas was regulated at such a low price that it inhibited exploration for more natural gas. Public fear about the possible hazards of generating nuclear energy retarded its use, and environmental concerns restricted the growth of coal supply. In the face of a growing demand for energy, the easiest way to increase its supply was to import increasing
amounts of oil. This made the U.S. very vulnerable to the Arab oil embargo after the 1973 Arab Israeli war. McKie saw well into the future. The U.S. government has continued to struggle with these same issues and has yet to develop a comprehensive energy policy to deal with this economic and political problem.

While Professor McKie became best known for his work on energy, he maintained his fundamental interest in the field of industrial organization. For example, in the paper, “An Antimonopoly Policy for North America: Opportunities and Problems,” which was published in Law and Contemporary Problems in 1981, he provided a perceptive analysis of the potential economic benefits that could arise from a hypothetical North American Economic Community (NAEC) that would encompass the U.S., Mexico, and Canada. Using the existing European Economic Community as a model, he focused on the structure and behavior of industry in the countries. Would the NAEC create more effective competition? Would the NAEC foster a common antitrust policy?

McKie envisioned some incremental impact beyond the gains from freer trade. International price discrimination and predatory practices could be reduced by the NAEC. However, after a careful institutional analysis of Mexico and Canada, he concluded that they would likely stay aloof from a NAEC. Mexico had not shown much concern for competitive structure and behavior despite formal statements in its law. Throughout the 20th century, foreign ownership of Mexican economic activity had been of national concern (even phobic in nature at times). McKie posited that Petroleos Mexicanos (PEMEX), the Mexican government’s oil monopoly, would remain a departure from the competitive market.

Similarly, Canada had shown fear of U.S. control of its industry. Canadian protectionism was alive in the law, e.g., the Foreign Investment Review Act, and government policy. Furthermore, in 1975 Canada had created a government-controlled corporation, Petro Canada, which was expected to become the largest company in the Canadian petroleum industry. The NAEC would have to include many exceptions. McKie concluded that the asymmetry among the three countries in size, power, and (in the case of Mexico) stage of development would prevent the formation of a NAEC that meshed economic integration with antitrust policy. His analysis in 1981 continues to be relevant by shedding some light on structural aspects of the North American Free Trade Agreement (NAFTA) created by the three countries in 1993.

In “Heavy Oil: Its Significance for the U.S. Energy Balance,” which was published in The Journal of Energy and Development in 1982, McKie argued that heavy oil and tar sands should be included in future recoverable oil on the expectation of future price increases and a rising recovery ratio. His outlook proved to be right. Heavy oil and tar sands are now considered to be a part of the world’s oil reserves, as higher oil prices and new technology have made them economically viable. McKie probed a number of other policy issues. Should government subsidize heavy oil? He argued against this intervention in favor of relying on the price mechanism. Would heavy oil development in the Western Hemisphere help to “break OPEC”? He concluded not. Declining world demand and growing excess capacity well might disrupt OPEC, but rapid expansion of heavy oil supply would be unlikely to do so. The article is remarkable for its current relevance to the behavior of the world oil market.

McKie made yet another contribution to the study of energy policy in “Federal Energy Regulation,” which was published in the Annual Review of Energy in 1984. He started with a taxonomy of market failure that might call for government intervention: external costs, incorrect price signals, national security, “equity” (meaning effects on the real distribution of income due to price changes), and monopoly power. He noted the conflict that can develop between environmental regulations and energy development policies. He also observed that federal energy policies had shifted over the preceding two decades from those designed to protect and promote the domestic petroleum industry (leading to price floors) to those designed to restrain and redirect it (leading to price ceilings).

Given this economic framework, he closely examined five federal energy programs having to do with natural gas, oil, coal, and nuclear power. Throughout, he looked at both the intentions of government policy and the actual outcomes within the context of the evolving economy. Finally, he broke down the evolution of federal energy regulation in terms of (a) the old regime of 1965, (b) the national energy plan of 1977, and (c) the partial return to the market in 1981. He concluded with a gloomy assessment about the effectiveness of the government interventions:
These regulations and policies have sporadically introduced major inefficiencies and allocative distortions in energy use, discouraged true conservation, restricted supply, interfered with security, and inhibited necessary adjustment to changed economic circumstances—and often without actually doing much to promote equity, their announced purpose. (p. 348)

Whether one agrees or disagrees with McKie’s conclusion, this study is a tour de force on federal energy policy in the 1970s and 1980s.

Teaching
Professor McKie was a faculty member at Williams College (1951-52), Harvard University (1952-54), Vanderbilt University (1954-1971), and The University of Texas at Austin (1971-1990). He was a dedicated teacher who presented courses on industrial organization and the economics of energy that greatly influenced the intellectual development and career choices of his students. They knew him as a highly organized and knowledgeable teacher who challenged them to think deeply about the economic issues of their time.

Lisa (Stovall) Cowan, a former undergraduate student and research assistant, writes in his memory:
In everyone’s life there is a favorite teacher, professor or guide who in some way, big or small, recognizes talent or ability and encourages development beyond the limits on one’s own estimation. I recognize, and at times with regret, that I did not follow the path to become the economist that Dr. McKie encouraged me to become. However, the path of my career was permanently marked from the beginning of my first industrial organization class taught by this beloved professor.

She recalls that McKie, as chief economic witness in the DOJ vs. IBM case, argued that IBM did not have a monopoly position in the computer industry, as the computer and communications industries were merging. She notes that the merger of these two industries has finally happened. McKie’s students were often treated to his extraordinary sense for what was to come as the U.S. economy evolved.

Professor McKie was also effective as a teacher and mentor of graduate students. James Cowan recalls the seminal 1970 article by McKie on the boundary between firms and regulators, which appeared in the inaugural edition of the Bell Journal of Economics and Management Science (now the Rand Journal of Economics).
McKie knew that the regulated firms would find a way to mute the attempts to regulate and force the regulator into becoming more and more enmeshed in the inner workings of the firm. He passed on to his students—and their students— an understanding and skepticism of regulators and other forms of government intervention in private markets. The relevance of McKie’s thinking to modern times, including the recent failure of regulation in the case of the U.S. financial sector, is striking.

Dr. Cowan, who is currently teaching at Fairleigh Dickinson University, concludes with this tribute:
Dr. McKie gave much to me as a teacher, and as an economist, and greatly influenced my thinking and approach to real world problems. He remains for me a role model for living, teaching, and giving. I owe many of my teaching and scholarly skills to his guidance and critical eye. When I walk into class each day, he continues to walk with me and remind me of what it is that makes a teacher, a teacher. I feel fortunate, today and always, to have had such an extraordinary example and light post to guide me in life’s journey.

Michelle Burtis, who wrote her dissertation under McKie’s supervision, remembers him “as a kind and generous man as well as an accomplished academic economist.” At a time when she was unsure of what to do after earning her Ph.D., he introduced her to the world of economic consulting. He understood her professional inclinations and arranged the interview with a leading consulting firm that launched her career. She is currently a member of the senior staff of Cornerstone Research in Washington, D.C.

Peter Hilsenrath came to study at The University of Texas because of its strong program in the economics of energy resources within which Professor McKie was the ranking faculty member in industrial organization and energy economics. Dr. Hilsenrath, who currently teaches at the School of Public Health at the University of North Texas Health Science Center, offers these thoughts on the passing of his mentor:
The news of his passing was sobering. It was cause for reflection about Jim and the Department of Economics in the early and mid 1980s. We all appreciated Jim’s role, and it is proper to consider his influence in shaping the department. He was a decent man with well-grounded instincts, a representative of the “greatest generation” that Tom Brokaw has described. As time passes, memories fade. But let us do what we can to keep these memories alive. They have meaning for all of us associated with the economics department at The University of Texas.

Professor McKie has left a wonderful legacy.

Service
In addition to being a distinguished scholar and dedicated teacher, McKie was an excellent administrator. From 1965 to 1968, he served as chairman of economics at Vanderbilt University. In 1971, he returned to UT, where he had received a B.A. and M.A., to become dean of the College of Social and Behavioral Sciences, a new branch of the former College of Arts and Sciences, which ultimately became a part of the present College of Liberal Arts. While serving as dean, McKie worked especially hard to secure resources for the large number of students the college attracted. In 1976, he returned to full-time teaching in the Department of Economics. When the department needed a chairman in 1979, he answered the call and turned the department towards increased application of formal theory and econometrics. He strove to establish a curriculum and research culture that integrated theoretical economics with the historical/institutional approach for which the department had been previously known. While some faculty did not share this vision, everyone respected him as a man of integrity and fairness. The department became more visible in the profession under his steady leadership.

Robert King, who served as associate dean under McKie and subsequently as dean of the College of Liberal Arts, considers McKie to be “just about the finest teacher-administrator-gentleman-scholar I have known in an academic career now going on almost half a century.” King recalls him as a delightful colleague. “Talking to him off-duty was always fun: wine, recipes for seafood gumbo, energy policy, being an undergraduate at UT in the Thirties, the Salzburg Seminars he participated in, being on TIME Magazine’s Board of Economic Advisors.” As dean of liberal arts, King could always rely on McKie to handle difficult tasks for the college in a cheerful and helpful way without asking for time off or extra pay.

Jim McKie was a star in the public arena. As discussed earlier in this resolution, his research in the area of energy economics was penetrating and influential. Among the many achievements that grew out of his scholarship and leadership, he was a Ford Foundation Faculty Research Fellow (1957-58), a member of the editorial board for the Southern Economic Journal (1959-1962), a member of President Johnson’s Task Force on Antitrust Policy (1967-68), a member of the National Science Foundation’s Advisory Committee for Environmental Sciences (1968-1970), chief economist for President Nixon’s Cabinet Task Force on Oil Import Control (1969-1970), president of the Southern Economic Association (1970-71), a senior fellow of the Brookings Institution (1969-1974), and a member of the TIME Board of Economists (1981-84). In 1983, he was named the Edward Everett Hale Centennial Professor of Economics at the University; and in 2002, he received a Pro Bene Meritis Award for his outstanding contributions in professional pursuits and service to the College of Liberal Arts.

Professor McKie was an exceptional scholar, teacher, academic leader, and public servant. He will always be remembered by the many students and colleagues whose lives he touched.

This memorial resolution was prepared by a special committee consisting of Professors Vincent J. Geraci (chair), Alfred Norman, and Daniel Slesnick.

Distributed to the dean of the College of Liberal Arts, the executive vice president and provost, and the president on April 29, 2009. This resolution is posted under "Memorials" at: http://www.utexas.edu/faculty/council/.