

CLARK



ON THE ISSUES

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Energy

The energy crisis is real, but it is not a result of our running out of energy sources. It is an energy policy crisis, caused from start to finish by laws and regulations that have discouraged energy production and have reduced incentives for users to conserve energy. The energy crisis is a clear example of the kind of trouble politicians cause when they constrict and control the economy for short-run political goals.

President Carter, and before him Presidents Nixon and Ford, proclaimed it our national objective to reduce dependence upon imported oil, but all three Administrations introduced policies that have restricted domestic production of oil, gas, coal, and alternative energy sources. The price controls on oil, along with the refinery "entitlements" system, subsidized the imports of oil and stimulated OPEC to raise world prices even further.

United States foreign policy has been warped by its OPEC connection. Recently we learned that Henry Kissinger encouraged the shah of Iran to promote the initial dramatic jump in OPEC prices in 1973 in order to finance his military equipment purchases. The Nixon Administration viewed the shah as its military client in the Middle East, and it knew that Congress would never agree to send him all the money the Administration wanted. Today the Carter Administration has launched a new Cold War offensive over the Afghanistan invasion, complete with a revival of draft registration, because of its desire to guarantee continued access to Mideast oil, by military means if necessary. The entire idea of "energy independence" -- which makes no economic sense at all -- is part of the on-going strategy for an interventionist foreign policy, which I oppose.

I advocate, instead, a policy of free market prices for oil, gas, coal, and new energy sources such as solar power, shale, and synthetic fuels. I would remove all restrictions on imports of

oil because the free market will determine the "correct" volume of imports. Concern over excessive import dependence is misplaced: for the past several decades the free market has been distorted by price controls, subsidies, import quotas and fees. With the elimination of these restrictions on domestic production and distortions in the prices of energy, the proportion of oil that this country imports from unstable parts of the world may well decline; but consumers in a free market, not politicians and diplomats, should make the decisions.

SOURCES OF THE PRESENT CRISIS

The present energy crisis actually began in the natural gas industry in 1954. In that year the Supreme Court reinterpreted the Federal Power Act to place price controls on the well-head price of gas. For more than a quarter of a century, the price was kept so low that new discoveries of natural gas declined, existing reserves were depleted at an accelerating rate, and because of uncertainties in supply in the industrial Northeast, many industries were encouraged to locate in the sunbelt regions of the country where gas supplies were assured.

The crisis in energy was extended to the petroleum sector by President Nixon in 1971, when he imposed wage and price controls. The Nixon controls program produced shortages in almost every industry and was eventually phased out -- but not for the petroleum industry. A gigantic political struggle among refiners, producers, and consumers to cut up the economic pie developed instead. This is always the consequence of economic controls: interest groups are created with prizes to be won in the political arena. Domestic oil producers lost the political struggle, and as a result domestic oil production has declined. The decrease in domestic production and the "entitlements" subsidy for imported oil have worsened the situation of the United States relative to OPEC.

The independent gasoline marketers obtained special political privileges under the mandatory allocation system for refined products, which assured each retailer of guaranteed quantities to sell. Unfortunately, with rising prices for gasoline the pattern of demand changed over time and the system produced shortages and lines at gasoline pumps in some areas of the country in 1979, and surplus inventories in other areas of the country. As a Department of Energy Official said during the gas lines of 1979, the allocations program "put the gas where the people aren't." Ironically, the shortages of gasoline in California, Washington, and New York led to political demands for gasoline rationing -- even though it was the government's mandatory allocation system that caused the distribution problems in the first place.

The coal industry, which one might think would benefit with the problems of petroleum and natural gas, has suffered from political conflicts as well. Restriction of coal leasing on govern-

ment-owned land, environmental policy restrictions against the surface mining and burning of coal, and coal mine safety and health regulations that have lowered the productivity of mines but not contributed to increased health or safety, have all worked to reduce the feasibility of coal as an energy source for the United States. We can solve the problems of the production and use of coal by applying the principle of private property rights. I favor establishing property rights in those areas where the government now controls land and water resources. The sale of public lands in the Western states would resolve this issue of access for mineral development as well as the concern of the environmental movement for preserving wilderness areas and restoration of strip-mined lands, since concerned environmental groups or individuals could make outright purchases of equity interests. Environmental problems can also be better solved by the application of private property rights. Rather than costly, burdensome, yet often ineffective regulations, I would favor the application of the traditional common-law rule that no one may force another person to breathe harmful pollution. These solutions would take two of today's most bitter political conflicts out of the realm of "winner-take-all" political conflict and permit mutually cooperative resolutions.

The outer continental shelf, where much potential oil and gas production is located, should be managed in the same way as I propose for the government lands in the West, with sales to private interests for development or preservation as the owners choose. Owners would be in a position to recover for any pollution damages or other harm, for example to fishing grounds, from companies engaged in offshore drilling, without bureaucratic restrictions. The questions of land use and the relative values that should be placed on alternatives for development, pollution control, or wilderness preservation can be easily solved in the free market, once the political process is terminated and property rights are permitted to emerge.

AMERICA'S ENERGY FUTURE

The energy crisis has been debated by many people as if America or the world were running out of oil and gas. This version of disaster is an irrelevant horror story. The United States alone has proven reserves of 27.8 billion barrels of oil -- more than Libya, Venezuela, or Nigeria. Potential U.S. reserves are estimated at between 276 billion and 444 billion barrels, or enough to support current levels of consumption for the next 46 to 74 years without importing a single drop. To bring these potential reserves into production, all that is required in most cases is market pricing and removal of regulatory obstacles.

But even if we did not have these reserves, the fear of running out of energy is unfounded. It is based on the idea of a static economy, without new materials, new technology, new needs, or new ideas. Predictions of disaster based on absolute scarcity have been around at least as long as modern civilization itself, but people have always discovered new ideas, new ways of solving problems, and new technical inventions. As long as the universe exists, there will be an abundance of energy; the real issue is one of economics, the least expensive way to harness our energy resources.

The free market is the only system available for discovering the true relative costs of energy production, and only the free market -- especially free market prices -- will give the correct signals to consumers of energy to guide them toward the most efficient uses of scarce fuels and the most economical ways to conserve resources. Over the next few years, the prices of oil and gas will go up, because we are running out of cheap supplies, but that is a far cry from an absolute depletion of those resources. Most of the surface of the earth has never been explored for oil and gas. If producers are allowed to keep the fruits of their labor, as they should, then we never will run out of oil and gas. Eventually, however, alternate energy sources will be cheaper and will begin to replace them.

There are forecasts that solar power, fusion, and synthetic fuels from coal or shale will be the wave of the future. Other energy experts swear by nuclear power, and disdain its critics who worry about radiation and nuclear waste products. I have no preconceived formula for America's energy future because no one really knows what the relative costs of the various proposals will be in thirty or forty years. Until the investments are made, and the entrepreneurs with their new inventions actually face the risks of consumer selection, no amount of science fiction or "scientific" predictions can tell us what the cheapest energy source in the future will be.

But no amount of government planning, or dumping of tax dollars into synthetic fuel schemes, will get us to the new energy frontier any more effectively than a program of complete deregulation of energy prices. Indeed, government subsidies and attempts at government planning will only lead to wasted capital investment and false expectations. We have seen how government subsidies of nuclear energy have led to public controversy and serious questions regarding nuclear safety. Government intervention in the energy industries is our biggest policy mistake -- and one that the federal government seems about to repeat with its synthetic fuel schemes. Every dollar invested by the government today in a synthetic fuel process that ultimately proves to be a failure is a dollar that might have, instead,

been invested by private entrepreneurs assuming full risk in enhanced oil recovery, or deep gas exploration, or new sources of energy.

Solar energy may be the best long-run source of electric power, but a number of technological breakthroughs need to be made. One of the biggest barriers to solar power development is the system of public utility regulation in the United States. Public utilities are given monopoly privileges by state and local governments, and their use of the power of eminent domain to condemn property and rights-of-way is a blatant violation of individual rights. The prices that public utilities charge for gas and electricity are typically set by some government agency, not by any considerations of economic opportunity costs. The principle of "rolled in" prices for incremental supplies prevents marginal users of energy from recognizing the true social costs of consumption, because the costs are spread out over all of the users of energy from that public utility; all of the old customers are forced to subsidize the increase in demand by the new ones. Solar power, on the other hand, is an investment that must be fully financed by the person who installs a new solar collector. As long as public utility monopolies exist, with government agencies setting their prices in order to subsidize marginal users, solar power will never be able to develop to full potential. Other obstacles to alternative sources of energy must also be removed. Building codes in many cities, for instance, forbid the use of solar power to heat homes. The public utilities work hard to prohibit any kind of competition. There is a process called co-generation, which used to be widely used in the United States. When factories generate processed steam in the course of their activities, they can install turbines and "co-generate" electric power with this excess steam, instead of letting it go to waste. But the public utilities commissions in most states have ruled that only utilities may produce electric power, and they have thus prohibited companies from producing their own power. Restrictions like these must be ended.

My solution to the energy problems of today and my prescription for future development is to abolish regulations and monopoly privileges that prevent competition and the true relative pricing of alternative energy sources. It must be emphasized that a free market in energy is not an impractical, utopian dream. It is the only program that establishes the correct incentives, puts a true value on the alternative uses of scarce resources, permits producers to work at top speed to solve the energy supply problems, and gives consumers a true picture of energy costs so that they can decide exactly how much conservation is needed.

Consumers have never benefited from government price controls and production regulations. Some special interests have profited from government subsidies, regulations, and controls, but the great

majority of us are poorer because of these policies. Moreover, the attempt by government to bestow economic benefits on some classes of people at the expense of others is fundamentally unjust and unethical. The free market is the only system of economic organization that recognizes each individual's right to keep and enjoy the fruits of his or her labor, and to trade freely with others for mutual benefits. When governments step in, with their police powers to prevent producers and consumers from reaching voluntary agreements, they destroy the equity of trade, the respect for contracts, and the incentives for people to invest, invent, or create new ways to solve the ancient problems of poverty.

We can solve the energy crisis if the government will get out of the way and let consumers and producers find the answers.

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