

## SOLVING THE ENERGY CRISIS

It is no news that there is a shortage of available energy in relation to the demands of consumers. The problem, in most peoples' minds, is to cut through the rhetoric and, somehow, develop a logical explanation of how this shortage developed and how it can be ended.

To develop such an explanation, we must first consider the two economic factors which govern all economic transactions: supply and demand. More specifically we must deal with two questions: Why is the demand for energy outdistancing the supply of energy, and why is the supply of energy failing to keep up with the demand for it? By answering these questions we can shed light on the overall problem of energy shortages and take the first step to developing an appropriate cure for the problem.

### Price and Demand

The most important concept in relating supply to demand is *price*. Prices serve, in a free economy, the function of stimulating production of demanded goods while limiting the consumption of undersupplied goods. It both allocates goods to areas of maximum demand and creates new supply in the areas of greatest value.

In 1970, the free market economist Murray Rothbard warned "price control [imposed by government] creates an artificial shortage of the product which continues as long as the control is in existence—in fact, becomes ever worse as resources continue to shift to other products."

If controllers did not want to listen to free market economists, they could have instead listened to the popular interventionist economist, MIT's Paul Samuelson who commented: "Goods are always scarce in the sense that there is never enough to give everyone all he wishes. Price itself is always rationing scarce supplies: rising to choke off excessive consumption in order to expand production. Even in peacetime when there arises any kind of emergency or state of general shortage and inflation, political pressures for wage and price freezes develop. Experience has taught most economists, whether they be liberals or conservatives, that such emergency measures create more and more distortions the longer they are in effect."

### Waste

The factors which have gone into the creation of demands for energy which have outdistanced present supply all can be summed up thusly:

At present prices, consumption of energy ignores the real economic costs that should be borne by the user of energy. Consumer waste, often cited as a source of energy shortages, is a social problem only to the degree that wasters are free to escape the economic cost of their actions because of the government's refusal to allow underpriced energy sources to rise in price with market demand.

So long as government freezes prices of gasoline, for example, those car owners who drive high consumption cars are free to escape the full economic consequences of their actions that a free market price of gasoline would force on them.

Government, for its part, has not only encouraged energy consumption through its control of energy prices but has also, through its ecology activity, created excessive increases in per capita gasoline use as a result of pollution control devices (currently estimated to be increasing gasoline consumption by 300,000 barrels per day).

### Supply

On the supply side of the problem, one sees a similar price effect. While price increases that should have naturally occurred with the growing dependence on Arab oil in the late 60's were stopped, no innovation and technological advance in the area of energy occurred.

In essence, the general wage and price freeze of October 1970 produced the gasoline and energy shortage of today. Until recently, gasoline prices were effectively frozen even while inflation and resource depletion was steadily increasing production costs. Price controls + a rash of ecology legislation + licensing delays = the energy crisis.

Economists have shown that a price rise of at least 12 cents per gallon is necessary to make development of shale oil reserves in the U.S. Can one really expect oil producers to lay out the kind of capital required for supply expansion while their return on investment remains below that of other industries?

Further examination of the general problem of energy supply reveals a sorry tale of government meddling, state regulation of oil well production to benefit certain influential oil firms, federal tariffs

and quotas which eliminated competition, wage and price controls which stifled new exploration or led to exportation or diversion of oil to areas of the world where prices are higher.

In summary, when one views the dual areas of demand and supply one can see a clear pattern of government control of production and pricing destroying the market. The job now is to sort out all of the proposed cures of the present crisis, keeping in mind that the role government regulation has played in creating the present problems.

### Proposed Solutions

It seems natural that most of the proposed cures for the energy shortage should reflect the general cultural biases that currently are dominant in America.

Generally, business is regarded as the problem and government as the only solution, however poor. It is therefore not surprising that we hear mounting calls for more government force: rationing, gasoline tax increases, excess profits taxes and even nationalization of the oil industry.

Each and every one of these proposed "solutions" ignores all that experience and economic theory has taught us about the function of price and the "batting average" of government. Each and every one of these proposed cures reflect the same sick philosophy of state coercion instead of individual voluntarism.

Much attention has been drawn recently to the oil industry for taking advantage of the energy shortage to increase its profits. A careful examination shows that indeed profits have been on the increase, and in fact some oil firms are again almost up to the levels of average industrial profits in the U.S. The facts also show, however, that the oil industry has, until recently, been frozen into a situation where price levels were frozen at their lowest point since 1968.

It is such a crime for oil producers to take advantage of the shortage government has created to increase their profits? Can any workers be found who are asking that their wages be cut for the duration of the crisis? The real question at hand is not how to limit oil producers' profits but rather how to free the market of conditions that continue to create shortages.

## SIL DECLARATION OF PRINCIPLE

Adopted October 1969

*As Advocates of Individual Liberty We Affirm:*

*That every person has an inalienable right to their own life, liberty and property;*

*That the only proper use of force is in retaliation against those who violate human rights;*

*That the basic violation of human rights consists of the initiation or the threat of the initiation of force against the individual;*

*That all proper social organization can only be a consequence of voluntary association between individuals;*

*That the only economic system consistent with human prosperity and happiness is laissez-faire capitalism;*

*That the ideologies and instrumentalities of coercive collectivism are the basic threat to human rights and the existence of moral human societies;*

*And that both moral individuals and moral societies have the obligation to act in their own rational self-interest to protect themselves from those who seek to coercively control, direct and enslave them.*

*With the apostles of coercion increasingly predominant in the councils of man, it is the duty of all those who value their life, liberty and property to take appropriate action—intellectual and social—to preserve and extend their freedom.*

*We as libertarians resolve to resist all forms of involuntary collectivism and all programs and activities of government which violate our rights and attempt to take from us the ability to set our own goals and to determine our own destiny.*

*We work for the day when all individuals are free, and we look forward to a society of peace, plenty and freedom where the individual's rights are truly politically inalienable. As advocates of reason and liberty we seek and will settle for no less than:*

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### Solving the Energy Crisis

The answer is obvious. It is not to spread out the current supplies of energy by rationing, thereby making everyone equally deprived. The answer is not to raise gas taxes, thereby rationing through price without stimulating production.

The solution is clear—allow prices and profits to rise . . . so that energy supplies will once again meet energy demand . . . so that energy users will pay the market price of their action . . . so that new supplies will be developed by companies seeking new profits.

Rationing, new gas taxes, and nationalization only would prolong the shortage and guarantee "equality of control" over your life and mine. What such controls would mean to our freedom of action can readily be seen by examining the living standards and liberties of people living in "managed economies."

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*Coercion gives men no special powers or abilities that they do not otherwise possess. All that which is truly worthwhile can be accomplished without aggression. Free men are not idiots or brutes—they do not need governments to force them to provide for their education, their sick, their poor, or for their old age. Historically the greatest advancements in human welfare have been made in precisely those periods with the least governmental regulation of human action.*

*The omnipotent state is the archaic remnant of tribal war lords and witch doctors; it is the super-parent who tells us that we are not fit to run our own lives. But there comes a time in the life of every man and society when they must leave the stifling safety of a programmed existence, discard the myths of childhood, and venture forth into the world of self-responsible adults. There are, to be sure, risks in abandoning the nursery, but no human development is possible without risk.*

*As libertarians we say to the world: Wake up and cut the cord. There is a world of infinite pleasure, variety and adventure open to the person with the courage to be free.*

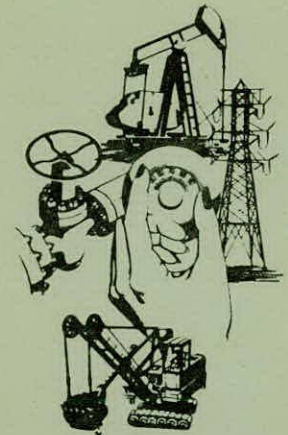
Jarret B. Wollstein

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# SOCIETY FOR INDIVIDUAL LIBERTY