POLICY REPORT

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The Gasoline Rationing Myth

by Joe Cobb

Many people who worry that supplies of imported oil might suddenly be cut off advocate gasoline rationing, believing that it would ameliorate the hardship, but the idea that rationing would solve the problem of shortages and sky-high gasoline costs is a myth. Public figures have discussed various proposals for gasoline rationing as if they were workable options, but they aren't. Energy Secretary Duncan was quoted in *U.S. News & World Report* (25 February 1980) as advising that rationing would cost $2 billion annually and "would be virtually impossible to administer with complete equity." Yet he went on to say, "I can envision situations where rationing might be necessary—a major supply disruption, for example." Senator Kennedy believes that gasoline rationing is necessary today to avoid war in the Middle East.

The details of a gasoline rationing plan are not final. Congress has already killed one plan, submitted last year under the mandate of the Energy Policy and Conservation Act. A new plan may also be defeated, but attempts to develop a politically acceptable plan will continue as long as the belief persists that such schemes work. The final compromise could be bizarre. The issue, however, is whether *any* plan for rationing would work at all, much less be completely equitable.

It is important to dispose of two misconceptions about rationing. The first is that gasoline rationing worked during World War II. The conclusion that something "worked" requires a definition of the problem that it supposedly solved. There was a serious shortage of natural rubber during the war, but not of gasoline. Gasoline rationing was established as part of the war effort to discourage driving and thus reduce consumption of rubber. Some proponents claimed that it would boost morale by making the folks back home share the sacrifices of war, but no one urged it as a response to gasoline shortages. Gasoline rationing may have "worked," but not in a way that had any bearing on the supply of gasoline.

"The governing elites in many of these countries use rationing to exploit special privilege and reward supporters."

The second misconception is that rationing works elsewhere. Governments in other parts of the world have imposed gasoline rationing, but a closer look reveals that the governing elites in many of these countries use rationing to exploit special privilege and reward supporters; the vast majority of people are totally excluded from gasoline consumption because few have cars; and the black market (i.e., flexible prices) plays an important role in the allocation of supplies. Few Americans want to see gasoline rationing become a tool that will enable some political elite to manipulate society or a system for enriching mafia bosses or the cronies of those who control the gasoline supply allocations.

Authorities on the administration's proposed gasoline rationing program presented testimony at the Department of Energy hearings in January. Some, including economists for major oil companies, argued that rationing would work only if the existing price and allocation controls were removed. Others, representing independent marketers and dealers, argued it could work only if price and allocation controls were retained. A detailed look at the proposal that will be sent to Congress indicates that both arguments are wrong. Gasoline rationing will not eliminate lines at service stations, guarantee that priority users have what they need, or prevent a sudden jump in the cost of gasoline.

No Solution to Gas Lines

First, what does it mean for gasoline to be "rationed?" Three ideas seem to be entailed. The first is that government instead of consumers sets priorities; the second is that supply is diverted to certain users who are assigned priority by public policy; the third is that the gasoline rationing system embodies some element of equity or "equal sacrifice" that a free market system lacks.

Ration coupons would entitle the user to buy gasoline at whatever price the dealer is allowed to charge. Motorists would surrender a coupon for each gallon purchased, and the

(Cont. on p. 3)

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EDITORIAL

Wage and Price Controls

Many economists have opposed wage and price controls on the grounds that they do not work, but few have explained why. Price controls, to be effective, must hold prices below what they would otherwise be, and there lies the problem. Lowering prices makes people demand more, but decreases supply, causing shortages.

Many people understand this reasoning when it is applied to a price control on a particular item, but believe that the argument breaks down for price controls on all goods. They reason that although a price control on cars would reduce supply if production costs remained the same, the government can impose price controls on steel, glass, and other inputs, impose wage controls on auto workers, and thus reduce production costs, giving back to auto manufacturers the incentive to produce. Unfortunately, price controls on inputs would reduce their production also, so that although auto manufacturers might be able to get these inputs at low prices, they would not be able to get as much as before. Imposing a price control on materials used to produce steel and glass would reduce production of these materials, which would mean even less steel and glass and even fewer autos. And so on. The effect of a price control at any stage of production must be to reduce output at that stage. Multiplying price controls multiplies shortages.

Shortages are extremely unpleasant, as many of us learned from the gasoline shortages of 1974 and 1979, which resulted in cancelled vacations, frustrating hours spent in line, and even violence and killing.

Price controls do not reduce inflation: They simply hide it. They reduce *measured* inflation since the consumer price index is a weighted average of many *listed* prices, but price controls make this measure meaningless because they reduce availability. One is reminded of the joke about the customer who runs into a meat market and asks the butcher his price on steak. The butcher answers, "$2.50 a pound," and the customer says, "That's outrageous: I can buy it across the street at $2.00 a pound." The butcher says, "Then why don't you buy it across the street?" The customer replies, "Because he doesn't have any." The butcher says, "When I don't have any, I sell it at $1.00 a pound."

Price controls actually make money worth *less* than otherwise. History has given us almost a laboratory demonstration of this point. The German hyperinflation of 1921–23 was so extreme that one mark in August 1922 had the same purchasing power as 10.2 billion marks in November 1923. Toward the end of the inflation, workers were paid twice a day, bought goods immediately before their prices rose further, and wheeled their money around in wheelbarrows. Yet only toward the end did people barter in any significant degree. Money was still useful because prices were not controlled. On the other hand, the post–World War II inflation was much milder—the amount of money circulating in 1947 was 10 times the amount in 1936 when Hitler imposed his price freeze. But this time the Allies retained Hitler's controls allowing prices in May 1948 to be only 31% higher than in 1938. The result was devastating. People resorted to barter, an extremely inefficient form of exchange that requires the needs of buyers and sellers to match, and city dwellers travelled regularly to the country to trade for food. In fact, the "German economic miracle" started on June 20, 1948, when a currency reform cut the money supply to one-tenth its previous level, the price controls were removed, and the shops immediately started filling with goods (See "Briefs"). Economist Walter Heller wrote in 1949 that the 1948 reforms "unquestionably proved an economic success" and "quickly reestablished money as the preferred medium of exchange and monetary incentives as the prime mover of economic activity."

Price controls can cause lasting harm. President Nixon's oil price ceiling combined with a cut in world oil output in 1973 to cause a domestic shortage of crude oil and gasoline. Because the cause of the shortage was not widely understood, many people supported, or at least tolerated, further control of the oil industry. It is conceivable that we would not have a Department of Energy if Nixon had not imposed price controls.

If all this is true, then how does an intelligent man like John Kenneth Galbraith justify price controls? He agrees that they cause shortages in a competitive market—in his 1952 book *The Theory of Price Control* he states this position eloquently—but he argues that few U.S. markets are competitive. A price control in a monopolistic market does not necessarily discourage production or cause shortages because a monopolist prices his product greater than its cost. As long as the ceiling exceeds the monopolist's cost, he will have an incentive to produce. But this theoretical possibility should give us little comfort since the U.S. economy is very competitive, despite what Galbraith may claim. General Motor's competition is not just Ford, Chrysler, and American Motors. It is also Volkswagen, Toyota, Fiat, Honda, used cars, motorcycles, bicycles, and airplanes. Moreover, price controllers do not have a big price-cost margin to play with: A recent FTC study found that in 100 industries alleged to be monopolistic, prices exceeded costs by an average of only 3%. The evidence from periods of price control also goes against Galbraith. Price controls have caused shortages wherever they have been used. During Nixon's controls of 1971 to 1974, there were shortages of paper, meat, oil, gasoline, oil drilling pipes, newsprint, bailing wire, food freezers, furniture, bottled gas, bricks, lumber, fertilizer, concrete reinforcing bars, mining roof bolts, zinc, lead, aluminum, copper, and many other items.

Price controls cause shortages and do not reduce inflation. Next month's editorial will discuss how to reduce inflation as painlessly as possible. ■

Gasoline Rationing (Cont. from p. 1)

dealer would use this coupon to get fuel from his jobber or refiner.

The planners in the Department of Energy responsible for developing the gasoline rationing plan recognize that their biggest problem is the possible appearance of a black market. Any strict, nontransferable assignment of ration coupons will lead to an illegal trade in both coupons and supplies of motor fuel as well as to bribery and corruption. The plan resolves this problem by legalizing the secondary market: This "white market" would allow coupon recipients to sell them openly to anyone willing to buy extra coupons.

Most economists believe that if the demand for gasoline exceeds the supply but the number of coupons issued does not exceed the quantity of gasoline available, then the market will clear and motorists will not have to wait in lines because coupons can be freely traded. Unfortunately, this belief is not correct.

Ration coupons could be actively traded among friends and relatives or sold to strangers across the country, much like last year's airline half-fare coupons. The market would be nationwide and very efficient; coupons could be bought and sold over the telephone and shipped by mail or courier. The distribution of gasoline supplies, however, would be local because of price and allocation controls and so would not match the final distribution of coupons. If most of the consumers with inelastic demand for gasoline were concentrated in large cities and those with coupons for sale were scattered among hundreds of smaller towns, the white market would rapidly shift distribution of coupons. Coupons would shift from small towns to large cities, but the gasoline supplies would not, and gasoline lines would form at service stations in the cities. Some kind of market mechanism on the supply side as well as the demand side would be absolutely necessary to eliminate gasoline lines. The planners agree that they don't have the time, the staff, or the knowledge to eliminate them all by themselves. No one does. The semblance of the coupon system to a market process is illusory because any transfer of coupons between geographical areas would alter the neat equality between coupons and available supplies.

Removing the allocation controls and using the ration coupons to establish the pattern of allocation so that a concentration of coupons in Los Angeles or Houston would bring more gasoline to those markets would not work either. The price of the ration coupons would rise or fall with supply and demand, but the supply of gasoline would not change. The initial allocation of supplies to dealers would determine how many coupons the dealer could collect. Once a dealer's tanks were dry, he would not continue to collect coupons because he would have nothing to sell. Yet he would have to collect some additional coupons in order to obtain an increase in his allocation to satisfy the demand. Some active intervention by the bureaucracy would eventually be needed to redistribute gasoline supplies. Unlike the price mechanism in a free market, the coupon ration system does not give entrepreneurs enough incentive to bring supplies of gasoline to those markets that have greater demand.

If gasoline rationing were imposed, the same politically explosive situation that followed the overthrow of the Shah in 1979 would recur, with lines at service stations in many areas. The blame would rest squarely on the members of Congress and administration officials who approved the program, not on the oil companies or some foreign government.

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POLICY REPORT

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Gasoline Rationing (Cont. from p. 3)

No Alternative to Price Increases

Gasoline rationing is also supposed to prevent sudden increases in the cost of fuel, but it would not. Assume that the available supply of gasoline is less than consumers want to buy, either because of a reduction in the supply normally available or because artificially low prices have created a large demand. If ration coupons were issued to match the available quantity of gasoline, each consumer would have to decide whether to use the coupons to obtain fuel, to buy additional coupons to maintain some necessary level of use, or to sell some of the coupons on the white market and use less gasoline.

With a reduction in available supplies, everyone would receive coupons to reflect his reduced average share. Political priority users might perhaps receive coupons for the same quantity of fuel as before, thereby forcing a greater than proportional reduction on everyone else. With binding price controls on gasoline, the excess demand would cause an increase in the price of ration coupons on the white market.

The coupon rationing system would not prevent the possibility of a sharp price increase to gasoline consumers. The price of the coupons on the white market tells someone how much he has to give up by not selling a coupon. It will therefore influence the individual's demand at the margin for some quantity of gasoline. Those consumers with the most flexibility, or the greatest elasticity of demand, will offer to sell their extra ration coupons to consumers with less flexibility, or inelastic demand. Consumers who buy additional coupons will have to pay both the price of the coupons and then the price of the gasoline.

Even those gasoline consumers who neither buy nor sell their coupons will be affected by the price on the white market because each unit of gasoline they buy for their own consumption will cost them the income they have forgone by not selling. An economist would view this forgone income as part of the price of the gasoline.

Consumers with the least elastic demand, such as traveling salesmen, will be hit hardest because they will have to buy additional coupons. It is not surprising therefore that the Sales and Marketing Executives International has come out in favor of a rationing plan in order to assure them an adequate supply of gasoline (at somebody else's expense). Since the coupons would be distributed without charge to all vehicle owners, or, alternatively, to all licensed drivers, the ones who are willing to sell coupons will enjoy a windfall profit. This is probably not part of the equity that people like Senator Kennedy who advocate gasoline rationing have in mind.

> **"Coupons would shift from small towns to large cities, but the gasoline supplies would not, and gasoline lines would form at service stations in the cities."**

The gasoline rationing program, therefore, would not prevent an increase in the cost to consumers of gasoline during a severe supply interruption, although this is one of its most touted goals. Indeed, the coupon rationing system would make the problem worse than it would be on a free market because the producers and suppliers of gasoline could not legally receive any extra payment from those people who demonstrate, by their voluntary purchase of extra coupons, that they would be willing to pay more for fuel. The willingness and ability of the producers and suppliers of gasoline to help solve the shortage problem would thus be forestalled.

No Substitute for the Market

Gasoline rationing is not a feasible solution to the problem of a severe or sudden supply interruption. A white market would alter the intended allocation of gasoline supplies, and thus public policy priorities would not take precedence over consumer choices. Gasoline rationing would not eliminate gasoline lines.

Instead, a rationing program would be a $2 billion fiasco that would make many people unhappy and some people angry. There would be a substantial income transfer among individuals, but hardly one that anybody could regard as more equitable since it would tend to take money away from people who might need their automobiles for getting to work and transfer income to anyone with a greater than average elasticity of demand for gasoline.

The only sure way to eliminate gasoline lines and to allocate supplies to those willing to pay the price is to allow a free market. Gasoline rationing is seriously proposed only because of the shortages induced by price controls coupled with cutbacks in the oil supply.

If a major supply disruption were to occur, the United States economy would have to adjust as rapidly as possible. The real problem is not how to eliminate the pain of the adjustment, because that cannot be done; rather, the problem is how to make the adjustment as fast as possible and at the lowest possible cost. A program like gasoline rationing would make the adjustment more difficult and slower than it needs to be. In truth, the only way that the long-run solution to a sudden or severe crisis in fuel supplies could be discovered and implemented would be to allow profit-seeking entrepreneurial behavior on the part of the entire society. ■

Because we have two lengthy main articles in this issue, Washington Update, usually found on page 6, does not appear. However, it will appear regularly in future issues.

The Trucking Ripoff

by Thomas Gale Moore

The regulation of trucking demonstrates how government intervention often benefits special interests, creates massive inefficiency, and increases the price of consumer goods.

The regulation of the inherently competitive trucking industry resulted from the natural tendency of regulation to beget regulation. The ICC was created in 1887 for a variety of reasons, not least of which was to help cartelize railroads. Over the decades the Commission struggled to increase the profitability of railroading by keeping rates high, but as trucking increased in importance this effort was outflanked. In 1935, Congress, acting at the behest of the railroads and some large trucking firms, both of which feared competition, substituted the mailed fist of the federal government for Adam Smith's invisible hand. Henceforth the Commission would have two wards, the railroads and the trucking industry. The ICC itself favored this expansion of its power. (In 1940 the ICC also began regulating part of the water carrier industry and in 1942 freight forwarders.)

To operate as common carriers in interstate commerce, motor carriers are required by law to have a certificate of "public convenience and necessity" issued by the ICC. In the late 1930s, the Commission took a strict approach to issuing "grandfather" certificates. A firm had to prove that it had been in business at the time of the Motor Carrier Act of 1935 and that it had been carrying specific products and serving specific points. The Commission then issued a certificate for only those products and points. Of the 89,000 grandfather applications, the Commission approved only 27,000, of which some 62% were limited to carrying special commodities; 40% of those were limited to one commodity or commodity class. The restrictions the Commission placed on individual permits specified the highways on which the carriers could travel. About 70% of these regular route common carriers were not authorized to serve all of the intermediate points on their routes, and many could not serve any intermediate point. The certificates of one-third of the regular route common carriers restricted them in the competition for shipments on return trips.

> **"The ICC was created in 1887 for a variety of reasons, not least of which was to help cartelize railroads."**

Applications for new authority either by existing truck firms or new firms have not fared well. The ICC has taken the attitude that if an existing trucking firm holds authority to serve the route the new applicant proposes to serve, that firm must be given the opportunity to do so. For example, in one typical case the Commission wrote:

> It has consistently been held that existing carriers should be afforded the opportunity to transport all the traffic which they can handle adequately, economically, and efficiently in the territory they serve before a new service is authorized. (110 M.C.C. 180, 184-185)

With the exception of the last few years, the Commission has continued to be restrictive. For example, I found in a sample of new grants of authority during fiscal 1975 no significant case of any new authority that permitted a carrier to compete with an existing trucker. In particular, the ICC authorized one trucker to provide service from the Newark airport to tiny Montgomery Township, New Jersey (population 6,300), but denied the carrier's request to serve Mercer County (population 304,000) also. Of the new licenses granted, half did not include the right to haul anything on the backhaul and three-fourths restricted the carriers to one shipper. Over half of the successful applicants had no opposition.

ICC control has resulted in much circuitous routing. For example, whenever one trucking firm purchases the operating rights of another, it is prohibited from offering a new service. Suppose a firm that was originally certificated to carry goods from point A to point B purchases authority to go from B to C. If the firm then proposes to offer a service from A to C, the ICC requires it to send its trucks and trailers through B on the way from A to C. It cannot offer direct service from A to C. The Commission has continually refused the requests of Consolidated Freightways Corporation to go directly from Minneapolis, St. Paul, Minnesota, to Dallas, Texas, which would save 377 miles in transit. The ICC ruled in 1974 that by taking a direct route the Consolidated Freightways would be able to reduce by one day the time required for shipments and thus change the competitive structure. To preserve the status quo, the Commission is forcing firms to use thousands of extra gallons of fuel each year, to employ extra help to drive excess mileage, and to add to the exhaust fumes polluting our atmosphere.

The 1948 Reed-Bulwinkle Amendment to the 1935 Act permits but does not require the Commission to exempt price fixing from the antitrust laws. The ICC has used this authority to authorize rate bureaus to in effect establish tariffs and to protest competitive moves by other carriers. All or most of the carriers who move specific goods on a specific route belong to a rate bureau in which they debate and then agree on the appropriate charges.

(Cont. on p. 6)

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The Trucking Ripoff (Cont. from p. 5)

These rates are then filed by the bureau with the Commission and go into effect unless protested.

Federal law specifically authorizes motor carriers to file rates independently with the Commission. Most such independent filings involve tariff reductions. For example, in 1975 about 95% of the independent filings were for lower rates. Rate bureaus often protest independent filings. In one famous case, a trucker facetiously proposed a special rate to carry yak fat between two points, and 13 other carriers immediately protested. The irony is that the ICC dutifully suspended the proposed rate to hold a hearing on its legality even though no yak fat has ever moved in interstate commerce.

The Interstate Commerce Commission has cartelized the trucking industry. It has restricted entry, reduced competition between carriers, and limited price competition. Initially these steps were taken to reduce the inroads truckers were making on the railroads, but in time the Commission's aim became to protect a healthy, i.e., profitable, trucking industry.

Although regulation has failed to achieve the original purpose of preserving a profitable railroad industry, it has succeeded mightily in securing above-normal profits for truckers. Accounting profits, especially for large motor carriers, are high: The largest eight trucking firms earned over 20% per year on stockholders' equity in the last eight years, as compared to 13 to 14% for the average business. The most convincing evidence of the extraordinary profits, however, is the huge amount of money that buyers are willing to pay for operating rights, initially issued for nothing by the ICC. For example, in 1975 a federal bankruptcy court auctioned off the operating rights of Associated Transport for over $20 million. Buyers purchased nothing but the right to haul goods under the ICC-issued certificates of public convenience and necessity. In an unregulated market, no licenses would be required.

The American Trucking Associations, Inc. has claimed in a 1974 brief that "recent acquisitions in the motor carrier industry indicate that amounts paid for operating authorities are approximately 15 to 20% of the annual revenue produced by those authorities." My article about the relationship of revenue to the purchase price of certificates confirmed that buyers usually paid about 15% of the value of the gross revenue expected to be generated from operating with the certificate ("The Beneficiaries of Trucking Regulation," *Journal of Law and Economics* 21 (October 1978): 327–43). On this basis the total value of the operating rights granted by the Commission exceeds $4.5 billion. The value of these certificates and permits implies that the monopoly costs consumers about $1 billion extra annually (assuming that investors need at least a before-tax rate of return of about 20%).

In addition, by comparing unregulated trucking with regulated, by comparing union rates with nonunion, and by examining historical trends in wages in trucking, I concluded in the same article that the wages of unionized drivers, helpers, and platform workers (Teamster members) were 50% higher than they would have been if there had been no ICC control. This means that Teamster members earn about $2 billion extra each year as a result of regulation. Is it any wonder that the Teamster union is so vociferous in its opposition to deregulation?

Both the truckers and the Teamsters argue that deregulation would produce chaos, a reduction or elimination of service to small towns, destructive competition, and eventually either monopoly or control of the industry by a few giant firms. But whenever an industry claims that without the "benevolent hand" of Washington chaos would result, the public should be wary. Businesses like to be protected from competition.

Reality contradicts their claims. Farmers, fearing what regulation would do to rates and service, succeeded in exempting the trucking of agricultural products from regulation. Studies by the Department of Agriculture and others indicate that even though such trucking operates under a severe handicap it produces better service than regulated trucking at rates about a third less. The handicap is that carriers moving agricultural products to markets usually cannot find a legally exempt load to carry on the return trip to the farm areas. They must either break the law or go back empty, although they can sometimes lease their truck and themselves to a certificated carrier. Moreover, exempt agricultural carriers specialize in handling traffic from remote areas and small rural towns.

New Jersey has never regulated most trucking operations. Motor carriage works well there at rates lower than interstate. Authorities in Great Britain, after concluding that regulation simply created monopolies without any benefits to the public, accomplished deregulation without chaos or cutthroat competition; service to small communities was not adversely affected. Australia eliminated all regulation of interstate trucking after a court decision in the early 1950s. Neither the shippers nor the public want to return to regulation in Australia. Some provinces in Canada have had little or no regulation of trucking.

Deregulation would bring substantial gains to consumers, reduce shipping costs by about $5 billion, and would not produce the horrendous evils that truckers and Teamster members forecast, but what are the chances for change? The opposition is strong and united. When an investment of nearly $5 billion is at stake, it sharpens the mind and quickens the lobbying. With nearly 2 million members distributed throughout the districts of virtually every congressman and with about $2 billion annually to lose, the Teamsters make a potent political force.

On the other hand, the deregulation movement is gaining momentum. Congress is concerned with the outcry over government regulation. Both Presidents Ford and Carter have advocated limited deregulation of trucking. Senator Kennedy, who was instrumental in deregulating the airlines, has held extensive hearings on trucking regulation and is a strong advocate of change. Kennedy and Carter have teamed up to introduce legislation that would relax entry standards, remove restrictions on backhauls, end route and commodity restrictions, remove any prohibition on serving intermediate points, and eliminate antitrust immunities for rate bureaus. Although most of these changes are a step in the right direction, the antitrust immunity would be a moot issue if the ICC did not have the authority to enforce the rate bureau's rates and to prevent entry in the first place.

Moreover, the ICC has on its own initiated some major changes. It has made entering the trucking industry significantly easier by eliminating the test as to whether existing lines could furnish the proposed service. New carriers must now simply show a need for their service; any opponents have to demonstrate that their own operation would be endangered. The ICC has proposed a zone of reasonableness for rate setting within which it would not challenge a particular rate. It is considering issuing master certificates authorizing service within a large region and for a broad category of products. However, Senator Cannon has warned the Commission not to move too quickly. Both the zone of reasonableness and the master certificate proposals are likely to be held in abeyance until after June 1, the date Senator Cannon set for having federal legislation on trucking.

The thrust of policy, however, is for change. As the Commission continues to relax entry controls, the value of existing operating rights will fall. Moreover, as new nonunion firms enter the trucking business the strong position of the Teamsters Union will be eroded and thus industry opposition to deregulation will decline. There may easily be some truckers who will shortly decide that they could do better without the Commission than with it. This decision occurred in the airline industry with United, Hughes Airwest, and PSA all favoring deregulation. I am optimistic therefore that Congress will pass a major deregulation bill for trucking within a year or two. I hope that it will produce a plan that will eventually result in total deregulation. As long as some regulation is left, there will remain some costs to consumers and some monopoly gains. A successful trucking bill can continue the momentum of reducing regulation and the move toward a freer society. ■

Briefs

☐ It is often claimed that markets break down during disasters and economies require some degree of centralized government planning. In *Disaster and Recovery: A Historical Survey,* Professor Jack Hirshleifer of UCLA's economics department finds the opposite: Government planning worsens disasters, and letting the market operate helps people to recover. Published as a Rand Corporation Memorandum in April 1963, his study examines four disaster situations: War Communism in Russia from 1917 to 1921 and the subsequent loosening of restrictions under Lenin's New Economic Policy (NEP), the American Confederacy from 1861 to 1865, and Japan's and Germany's post–World War II economic recoveries. In all four cases price controls caused devastating shortages and led to barter (see editorial). As many as 900,000 people trekked from Tokyo to the countryside on a single Sunday to barter for food; eight million Russians left the towns for the villages between 1918 and 1920, and in Moscow and Petrograd the population declined by 58% during the same period. In both Russia and Germany, removal of the price controls led to an explosion of industrial production. In Germany, short-haul railroad passenger traffic dropped immediately to less than 40% of its pre–price control volume as shops filled with goods and foraging trips to the country ceased. It is a testimony to the reduction in the value of money caused by price controls, that the Russian people's demand for money rose in 1922 once the price controls were removed, in spite of the fact that the Bolsheviks increased the money supply over 100-fold that same year.

☐ President Carter is considering war to protect our "vital interests" in the Persian Gulf, by which he presumably means our access to oil. It is extremely implausible that anyone who controls the area would want to cut off the supply because the revenue from the 20 million barrel per day (mbd) production is approximately $200 billion per year. But what would happen in the worst of all possible worlds where the supply was cut to zero? Assuming other OPEC and non-OPEC countries would not make up for some of the cutback, world oil supplies would fall by about 30 percent. If the world elasticity of demand were 0.2 (that is, a 1% increase in price causes a 0.2% reduction in demand), the price would rise by 150%, that is, from $30 per barrel to $75 per barrel. The welfare cost to U.S. consumers, assuming that current consumption is 18 mbd, would be $272 billion per year, a sizable amount, but $131 billion of this would be paid to U.S. producers, leaving a loss to the U.S. economy of $141 billion, or 6% of the national income. The price increase would result in an approximately one dollar per gallon increase in the price of gasoline, which would still leave gasoline cheaper than in most European countries. ■

"To be governed..."

Unless, of course, he pays taxes

...if we were ever to end all the federal favors to special interests, it is likely that our economy would collapse in short order. Many of our own jobs and livelihoods would be in jeopardy, since there is hardly a one of us who, if he is employed in the private sector, does not benefit from the subsidies, tax breaks and regulatory protections that flow to our employers.

—J.F. ter Horst,
Los Angeles Times, Feb. 14, 1980

Private virtues, public vices

The Carter administration is coming under increasing pressure to resort to wage and price controls—an anti-inflation device it has sworn not to employ....Even Sen. William Proxmire (D) of Wisconsin, chairman of the Senate Banking Committee, says it is "time to reconsider all of our policy options," including the possibility of wage and price controls. Personally, however, the senator remains opposed to controls.

—*Christian Science Monitor*,
Feb. 26, 1980

You know those people who lose your mail...?

Republican presidential candidate George Bush on Saturday threw his sharpest jabs yet at his chief rival, Ronald Reagan, saying the former California governor's views on nuclear waste are "irresponsible" and "dangerous."

Bush told a press conference...that he disagrees strongly with Reagan's statement during the Republican debate in South Carolina on Thursday that nuclear waste disposal should be left in the hands of private power companies.

"I favor safe nuclear power," Bush said. "But there is a time for a strong role for the government...And, (nuclear waste) is one of those times. To suggest otherwise is irresponsible and, in fact, dangerous."

—*Los Angeles Times*, Mar. 2, 1980

Let's order them to spend more, and see if they disobey that

Big spenders are proving themselves adept at turning efforts to control spending into ways of increasing spending. The Budget Act of 1974, which was supposed to control spending and balance the budget, was promptly turned into a spending machine, spewing out more dollars and red ink over every stage of the business cycle. Since this act was passed, Congress has run a cumulative budget deficit of $286 billion, and annual spending has about doubled.

—*Wall Street Journal*, Feb. 6, 1980

Turning the Screws, er,...ratchet

The Federal Communications Commission significantly tightened its equal employment standards yesterday for processing the license renewal applications of the nation's TV and radio stations....

In deciding it was time to raise the processing standard, the commission noted that the existing procedure had been in effect for one three-year rotation period during which every broadcaster had faced a license renewal.

"We're at the point where it's time to turn the ratchet one more turn," said FCC chairman Charles D. Ferris yesterday.

—*San Francisco Chronicle*, Feb. 14, 1980

Verdict first, trial afterward

The [Supreme Court] turned down Adolph Coors Co.'s attempt to overturn a California court ruling that it violated a state antitrust law.

The justices, without comment, refused to hear Coors' arguments that it now faces having to pay damages without ever actually having had a trial on whether it violated the law.

—*Los Angeles Times*, Feb. 2, 1980

Are 220 million taxpayers a significant number?

In a "statement of intent" issued Thursday, the secretary [of agriculture] said that the U.S. Department of Agriculture would not put federal money into research where the "direct and immediate benefits" would go to a "relatively few in a limited number of localities," while:

—"Neither serving the national interest nor benefiting the general public.

—"Posing a direct or indirect threat to social stability, our national resource base, the environment, national security or the economic well-being of a significant number of citizens."

—*Los Angeles Times*, Feb. 1, 1980

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