POLICY REPORT

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Energy Backwards

by Alan Reynolds

Six years in the making, the avowed inspiration for Senator Kennedy's energy policy, a startling best-seller with rave reviews from the business press and reprints in many magazines, *Energy Future* by Robert Stobaugh and Daniel Yergin carries the distinguished credential of a major study from (to quote a typical editorial) "the hard-headed Harvard Business School." More than just another book, it deserves more than a book review. It deserves a closer look.

The authors repeatedly describe their work as balanced, pragmatic, and reasonable. Those who want to decontrol natural gas prices, on the other hand, are said to be involved in a "religious war." Congressional reluctance to give 50 percent tax credits for home insulation is "nothing short of ridiculous." And only those "with a stake in conventional wisdom about conventional energy sources may charge that the conclusions of this book are unrealistic."

There is no original research at all here, just a highly selective collection of anecdotes, opinions, and estimates. The sources seem chosen uncritically from whatever will appear to convert raw opinion into reality. There are pointless quotes from "the organizer of International Sun Day," from "one of the more eloquent spokesmen for consumer interest," from biased zealots and old, discredited works (*A Time To Choose*, for example, and *Workshop on Alternative Energy Strategies*). A maze of footnotes often leads to magazine articles, or to information that is hopelessly outdated. For example, someone's guess that "30% of the residences in the country may be completely uninsulated" is traced to a 1975 source—thus conveniently ignoring the insulation boom since then.

"Stobaugh and Yergin do not really want energy prices to U.S. consumers to be lower than the world price (if that were possible), but much, much higher."

Although seven authors are involved, not one of them is an economist. It shows. "Increases in U.S. oil imports," says Stobaugh, "helped trigger the sharp decline of the dollar which ... reached almost panic proportions by the end of 1978." Yet the dollar fell against the currencies of countries like Germany and Japan, which import almost all of their energy, not against the currencies of energy-rich countries like Mexico and Canada. Besides, U.S. oil imports *fell* by 10 percent in the nine months before the dollar crisis in October 1978. When the volume and price of U.S. oil imports rose in early 1979, the dollar strengthened.

The transfer of real wealth due to rising relative prices of imported oil is treated as simply a loss of money that might be offset by printing more greenbacks. An "increase in world oil price reduces U.S. national income by contracting demand" unless federal policies "offset the contraction in demand for U.S. goods and services caused by the outflow of dollars." But such policies would sink the dollar, initially making dollars and oil cheaper in strong-currency countries and later raising the dollar price of traded goods priced in dollars—including OPEC oil.

Conservation Is Free?

The widely publicized conclusions of *Energy Future* are based on incredibly flimsy numbers. "The United States," says Daniel Yergin, "can use 30 or 40 percent less energy than it does, with virtually no penalty for the way Americans live—save that billions of dollars will be saved." This cheaper-than-free lunch turns out to require merely replacing (among other things) all the nation's cars, furnaces, refrigerators, and windows. Capital thus invested in saving energy is obviously not available for maintaining and increasing production, so living standards must be reduced.

The alleged 30 to 40 percent energy saving also requires two items that most people would call production rather than conservation—cogenerating electricity from industrial steam and "using organic waste in urban refuse for fuel." Only from a footnote do we learn that those who projected these figures were very vague about

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The *Times* and the Gasoline Tax

To point out that Vietnam and Watergate have proved that the government is not "us" has become commonplace. But even so commonplace an observation is worth repeating when it is true—and when some people persist in denying it. The *New York Times* editors understood the distinction between the government and us when they were being sued by the Justice Department for publishing the Pentagon papers, but they have forgotten it. Their November 30 editorial is a case in point. The editors' argument for a gasoline tax increase is based on the premise that the government is us.

The *Times* editors argue that their proposed increase in the gasoline tax from 4 cents to 50 cents would not hurt us, because the government could rebate the tax revenues to state governments and force the state governments "to pass on every penny to consumers in lower sales taxes." Even if it didn't hurt us, how would it help us? They claim that the tax would decrease our demand for oil and that the decrease in demand would drive down the world price of oil. In their words, "the country will pay the tax one way or another; the only choice is whether the money will go to the Federal Treasury or to the Middle East."

Before criticizing their economics, it is worth examining their implicit view of government and society. The *Times* editors write as if society is one big organism whose head is made up of government officials, with the rest of us forming parts of the organism's body. But as Bastiat, the French classical liberal economist, once said, "Bring society to lunch and we'll talk about it." Society is no more than a collection of individuals with diverse ends. It has no thoughts of its own, no feelings of its own, and no goals of its own.

If society were an organism, then the *Times* editors' claim that a tax is paid to ourselves would be correct. Increasing the tax would be no different from my shifting a weight from my right hand to my left hand. But, to repeat, society is not an organism. It is composed of millions of flesh-and-blood human beings. When the government taxes, it forcibly takes from some and gives to others. Treating taxation as a payment from ourselves to ourselves is saying that what happens to individuals does not count. It is like seeing no difference between murder and suicide.

What effects would the proposed gasoline tax increase have on real flesh-and-blood human beings? It would add 40 percent to the price of gasoline and make driving more costly. Not only would drivers be affected, but consumers of transported goods would also suffer. Contrary to the *Times* editors, its effect on the world price of oil would be minimal. By their own estimates, the tax would reduce gasoline demand by only 700,000 barrels per day, or less than 1.5 percent of world demand. Such a small decrease in demand is not likely to lead to a significant decrease in price. Their claim that the choice is simply between paying a tax to the U.S. Treasury or to the Middle East is wrong on two counts. First they are wrong that all the oil we buy at the world price is from the Middle East. All Alaskan oil and all of the oil from stripper wells is bought at the world price. Second, to say that we would pay the tax anyway and that the only question is who receives it is to say that the tax would not affect the price paid by U.S. consumers. But an increase in any sales tax raises the price consumers pay for the good that is taxed. Gasoline is no exception.

In fact, the *Times* editors themselves recognize that the tax would increase gasoline prices. Otherwise their argument that gasoline consumption would fall would not make sense. Moreover, they explicitly admit that raising the gasoline tax would increase the cost of living.

Their treatment of society as an organism makes them almost indifferent to the damage the tax would do to millions of people. They argue that the government would rebate the tax to states and force the states to lower sales taxes, but do even they believe this? Is this what happened when the federal government introduced revenue sharing? Can they point to one instance where the government raised a tax and decreased other taxes by the same amount? Unless Congress changes its stripes, an increased gasoline tax would mean a net increase in taxation and an increase in the cost of living.

There is another way of achieving the *Times* editors' goal. It does not increase coercion—in fact, it eliminates coercion. It does not depend on the good intentions of congressmen—it does not depend on anyone's good intentions. It would not raise the price of gasoline by 40 percent—it would raise it by at most 2 to 3 percent. That way is to decontrol oil prices immediately and not substitute the excise tax on crude oil (incorrectly labeled a "windfall profits tax") which is, at this writing, making its way through Congress. The price domestic producers receive would thus be raised to the world price, giving them a greater incentive to produce high-cost oil from existing wells and a greater incentive to explore for new oil. This is a more humane way of reducing our dependence on OPEC. ■

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the date of substitution and emphasized "physical possibilities, without attempting to calculate a cost." That is, we don't know when it could happen or what it might cost.

Even Stobaugh and Yergin don't appear to believe this often repeated claim that a 30 to 40 percent saving in energy is available at a cost less than zero. Their own proposals show U.S. energy use increasing by more than 24 percent from 1977 to the late 1980s. If we charitably assume they mean to simply cut expected future energy use by 40 percent, that would still amount to the equivalent energy saving of almost 22 million barrels of oil a day. Yet Stobaugh and Yergin hope to "conserve" only eight million barrels a day, or five million more than a "conventional program."

Arguments for even this much taxpayer-subsidized conservation are unconvincing. We learn that Los Angeles once slapped a 50 percent surcharge on using more energy than a year before (thus penalizing those who conserved early), and electricity sales fell 8 percent from 1973 to May 1975. But Yergin neglects to mention that 1973 was the peak of a wild boom and early 1975 was near the bottom of a severe recession. We are also told that one gas company peddled some attic insulation kits: "The company advertized the kit with the message that it would cost consumers more not to buy it than to buy it." Yet both *Consumer Reports* and *Money* magazine have since cautioned against being oversold on attic insulation.

The villain of the book is not OPEC or the U.S. government, but the U.S. consumer. "The United States," writes Stobaugh, "is at the center of the world oil problem." Our "reckless" behavior threatens to "drain the world" of oil. Our oil imports, unlike those of Europe or Japan, "are an important contribution to political tensions within the Western community."

The familiar international comparisons are invoked to present Americans as having insatiable appetites for oil. Yet population density is far greater in Europe, thus making transportation much simpler, and gasoline has long been subjected to punitive taxation ($1.59 a gallon in Italy). Switzerland has little energy-using industry, Sweden is blessed with vast hydroelectric and nuclear power, and so on.

The United States not only uses 31 percent of the world's oil, but also produces 25 percent of that oil. Automobiles account for only 15 percent of U.S. energy use. Much of the rest is "consumed" in producing things of greater value, like food for Sweden and Russia. The claim that this country uses 30 percent of the world's total energy is true only if muscle power (human and animal) and wood (the major inanimate energy source in most developing countries) are not counted as energy.

The burning of garbage and manure is not only counted as "conserving" energy in *Energy Future*, it is also defined as producing "solar" energy—as are hydroelectric power, windmills, and firewood. The supposedly great potential from all such sources turns out to be estimated at only another three million barrels of oil a day within the next decade. Solar power as most people understand it—actually drawing power directly from the sun—might be good for that much only by the year 2000 ("admittedly ... a vision"). Solar heating is called "a here-and-now alternative to imported oil," but "it is far from clear that solar heating will fulfill its potential as a real alternative to imported oil."

"Sunshine is free," says *Energy Future*. But using that sunshine turns out to require tons of decidedly finite and energy-intensive materials—"aluminum, glass, plastic and copper," not to mention silver, chrome, and thousands of acres of land. Solar power "does not carry the external costs of coal or nuclear," claims the book, yet this really remains to be seen. "Furthermore, it requires more person-hours per BTU of energy"—that is, lowering the economy's productivity is considered a virtue.

Prices Are Wrong

There is a curious ambivalence about using the price system to minimize waste, maximize innovation, and allocate energy efficiently toward uses that consumers prefer. "An irrational American price system," *Energy Future* correctly notes, "could be one of the main causes of much higher oil prices in the years ahead." But "a number of knowledgeable politicians explain that

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a free market solution is simply not acceptable." "What those who argue for exclusive reliance on the free market forget," writes Mr. Yergin, "is that there are real people with real problems, for whom high energy costs create genuine hardships."

This is all a smoke screen. Consumers already pay an OPEC-determined price for refined products. The wholesale price of gasoline is the same in New York as in Rotterdam. Decontrol will not affect this, but instead involves ending a legislative gift of "entitlements" from domestic crude producers to a few refiners to help them buy imported oil. Stobaugh briefly mentions that "the U.S. government is already heavily involved with payments from one part of the oil industry to another" but nonetheless claims that this system is "giving American consumers a subsidy of $15 billion a year." In fact, consumers get little of that unearned windfall from price controls—most goes to ARCO, Socal, and Sohio.

Stobaugh and Yergin do not really want energy prices to U.S. consumers to be lower than the world price (if that were possible), but much, much higher. This book is mainly an argument for extremely high-priced U.S. energy: "Even world market prices would still be much too low to reflect the real risks caused by oil imports. These include such things as higher oil prices..." So, U.S. consumers and taxpayers should pay much higher energy prices than OPEC charges in order to protect themselves from the possible risk of higher energy prices.

The authors do want domestic oil and gas prices to move only "moderately upward." Yet "the redistribution of income ... raises very real economic and political problems, which means that changes in prices must be gradual." Such gradual decontrol could provide strong incentives to limit current production and development—waiting for the higher price—but the authors don't worry about that.

When it comes to investing in conservation or "solar" power, however, Stobaugh and Yergin rationalize prices well above the world prices for oil. First, "the addition of 5 million extra barrels to the current 9 million barrels daily of U.S. imports would result in an additional 5 million barrels daily of oil imports by the other industrial nations." The idea that more U.S. imports mean more foreign imports implies that the Saudis can and will double production, and that higher OPEC prices would somehow encourage more consumption.

"The authors' concern about income distribution, which supposedly makes rational pricing unacceptable, is not applied to their own proposals."

If one can swallow all that in one gulp, the next bite is still hard to digest. The OPEC price is *assumed* to be extremely sensitive to U.S. imports: "As the world's largest oil importer, the United States would bear much of the blame for higher oil prices." If we import an additional five million barrels a day, all assumed to come from OPEC, "the price of OPEC oil is assumed to be 40 percent higher, or $21 a barrel" in the late 1980s. Actual OPEC prices are already much higher than that, of course, though U.S. imports are now much smaller than the authors estimated. Their theory of OPEC pricing has already failed.

If another five million barrels a day of U.S. imports really made OPEC prices rise 40 percent, then that higher price would be paid on the entire 14 million barrels of daily imports. So the cost of those added imports would be higher than it looks. This arithmetic is so seductive that the *New Republic* once argued that it justified developing $100 a barrel domestic energy because that would make OPEC oil so cheap. Stobaugh and Yergin modestly suggest that their "admittedly crude" illustration justifies spending from about two to six times as much as the OPEC price to produce or conserve energy at home. At present OPEC prices, that comes to something like $60 to $250 a barrel.

Even if the U.S. could save or produce an extra five million barrels a day at, say, $60 per barrel, there is little reason to suppose that would have so drastic an effect on OPEC prices. Contrary to Stobaugh and Yergin, the U.S. is not a monopsonist. Our oil imports amount to only 13 percent of world oil production, or 22 percent of the traded portion.

To the extent that we did displace cheaper OPEC oil with more costly domestic alternatives, other nations would face a lower marginal cost of energy. If U.S. industry actually had to pay energy prices far above the world level, directly or through tax-financed subsidies, our goods would become less competitive in world trade. We would thus have a harder time exporting enough to pay for oil imports, the dollar would fall, and the dollar price of OPEC oil would probably end up significantly higher, not lower.

One of Stobaugh and Yergin's main proposals is a tax credit covering at least half the cost of a solar heating system or attic insulation. But reducing taxes for Mr. Jones means that more of the load is borne by Smith and Brown. As it happens, Mr. Jones is almost sure to be more affluent than Smith and Brown, who help pay his energy bills.

Part of the added demand would initially drive up the prices of solar and conservation equipment, as has already happened with attic insulation. Therefore, the solar and conservation industries would grab some of the tax credit. And the tax credit is, as its architects proudly acknowledge, "very important if the homeowner is in a high tax bracket." Poorer homeowners, who do not pay enough income tax to offset the credit, would not receive the full benefit. The authors' concern about income distribution, which supposedly makes rational pricing unacceptable, is not applied to their own proposals.

Other arguments against "an excessive faith in the efficiency of the market" include an implicit faith that government agencies are faster. "If we had decades, then the market alone working through gradual [sic] rise in prices, would be sufficient." Conservation, by contrast, supposedly "provides more immediate relief than do high-capital, high-technology alternatives." The only source of this crucial assertion is an unpublished "preliminary estimate" by Roger Sant that investing over $220 billion (in 1978 dollars) could save "about 10 million barrels a day in 1986 energy consumption." Yet investing $220 billion is certainly a "high capital" alternative (all U.S. manufacturing firms invested $67.6 billion last year), and 1986 is not exactly "immediately relief." To put that proposed 10 million barrels of daily conservation into perspective, destroying all U.S. passenger cars would achieve only about half of it. And even if projected growth of energy use could be cut that much, energy demands would still end up higher in a decade than now—and higher still in each subsequent decade with growth of population and the economy. Conservation is at best a delaying tactic.

Another Stobaugh-Yergin argument against trusting the market is that individual households and firms are incurably stupid and myopic, while centralized political authority is presumably enlightened, omniscient, and farsighted. "Because of continuing imperfections and failures, it is unrealistic to expect an uncorrected 'free' market to solve U.S. energy problems." "Those who advocate exclusive reliance on price forget about the considerable imperfections in the very decentralized housing market with its millions of decision-makers. The homeowner is typically ill-informed about

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Briefs

☐ How much tax revenue is generated by the highest income tax rates? Economists at W. R. Grace used IRS data to address that issue recently. They found that tax rates above 50 percent generate only $1.7 billion in revenues and tax rates above 36 percent generate only $7.5 billion. Since lowering taxes encourages people to be more productive, cutting the top tax rate to, say, 36 percent would cost the Treasury even less than $7.5 billion. To put this in perspective, remember that total federal spending is now over $500 billion annually.

☐ In late October, Federal Reserve Chairman Paul Volcker sternly warned all 5,600 Fed member banks against making "nonproductive loans," by which he said he meant corporate-takeover loans. This has caused many banks to suspend takeover lending (*Wall Street Journal*, December 5, 1979). Mr. Volcker is incorrect in calling such loans nonproductive. The loans generally go to companies whose managers think they can run the target firm better than the target's management is doing. These loans, which help not only the borrower but also the stockholders of the target firm, are very productive indeed.

☐ Treasury Secretary G. William Miller, back from a trip to the Middle East in November, came up with a brand-new argument for the windfall profits tax: The Saudi princes want it. That's right. In his words, "Their message is, either we put in a windfall profits tax or they're going to be raising prices." The truth is just the opposite. The "windfall profits tax," as the editorial in this issue points out, is simply an excise tax on oil. It would restrict domestic production and increase U.S. demand for foreign oil. The motive of the Saudis in supporting the domestic excise tax is clear. What is not clear is why Mr. Miller believed them. Could it be that he is willing to mislead the American public in order to get more revenues for the agency he runs?

☐ Whom does trucking regulation hurt and whom does it help? Economists have found that Interstate Commerce Commission (ICC) regulation has forced shippers to pay 15 to 30 percent higher freight rates than they would otherwise pay. Professor Thomas G. Moore of the Hoover Institution was one of the economists who found that the ICC hurt consumers. In a recent article, "The Beneficiaries of Trucking Regulation" (*Journal of Law and Economics*, October 1978), Professor Moore identifies trucking firm owners and unionized truck drivers as the people who benefit. Moreover, he estimates the extent to which they benefit.

Moore finds that union wage rates in trucking are 40 to 50 percent higher than they would be without the ICC. Regulation enhances the Teamsters union's power in two ways: (1) By reducing the number of firms from 89,000 in 1935 to 14,600 in 1974, the ICC made it easier for them to be unionized. (2) By basing regulated rates on the ratio of operating costs to total revenue, the ICC has given truckers an incentive to have higher operating costs relative to capital costs than they would otherwise have. Labor expenditures are 60 percent of operating costs. Moore estimates the gain to truck drivers at $1.0 to $1.3 billion in 1972.

The ICC helps trucking firm owners by restricting competition on their routes. Moore uses data on the price of trucking route certificates when they are sold from one firm to another to estimate the annual gain to trucking firms at $1.5 to $2.0 billion. ■

✓Washington Update

✓As of this writing, the Congress has passed nearly 140 laws in 1979, but several major bills still await final action. The windfall profits tax bill will probably be amended to repeal the carryover basis provisions of the 1976 Tax Reform Act, and the bill will probably pass. No tax-cut fever has yet hit Congress, and action on tax cuts promises to be slow in 1980. If Robert Giaimo, chairman of the House Budget Committee, has his way, the congressional budget act will be amended to make the creation and expansion of tax "loopholes" more difficult. This is part of the move to balance the federal budget, and could spell trouble for taxpayers.

✓A $0.50 per gallon boost in the federal excise tax on gasoline—in addition to the windfall profits tax—has been proposed by several members of Congress. House Banking Committee Chairman Henry Reuss supports such taxes in lieu of increases in Social Security taxes. President Carter has stated that he will not ask Congress for a sharp increase in the federal gasoline tax "at this time," nor will he propose a Social Security tax reduction. A $0.50 per gallon boost would drive the price of gasoline to over $1.70 a gallon in 1980.

✓Congress gave final approval last month to a $3.5 billion aid package for Chrysler Corporation. Pressured by union and Chrysler lobbyists who predicted the company's imminent collapse if government backing was not approved immediately, Congress rushed through the legislation in three days of marathon sessions. The house on December 18 voted 271 to 136 for a $3.4 billion aid package. The next day, the Senate, by 53 to 44, approved a $3.6 billion measure. Finally, conferees from both houses spent a grueling six hours reconciling the two plans. They finally split the difference between them, approving a $3.5 billion measure that quickly passed the House and then the Senate on December 21. The final bill would provide $1.5 billion in federal loan guarantees to Chrysler if the company comes up with a matching 2 billion dollars in help from workers, dealers, and creditors.

✓One byproduct of the Chrysler testimony before the Congress is an increased awareness of the uncontrolled and to some extent uncertain size of the federal loan guarantee programs. Various estimates of the size of the program, ranging from $200 to $400 billion, were provided by witnesses. Former Chairman of the President's Council of Economic Advisers Alan Greenspan testified that the massive loan guarantee programs are a major cause of inflation and malinvestment in the United States. Look for legislation to control or at least monitor the current loan guarantee programs operated by the federal government.

✓News of former President Nixon's apartment hunting in New York has caused Congress to begin taking a closer look at the cost of maintaining former presidents in the manner to which they have become accustomed. Those costs totaled $64,000 in 1955, and are projected at over $18 million in 1980. It seems that the taxpayers can be forced to pick up that tab for office space for former presidents, and Nixon has been looking at space in the $250,000 range.

✓A tax exemption for savings account interest was overwhelmingly approved by the Senate in December. The proposal, attached to the oil windfall profits bill, would exempt the first $201.00 a year ($400.00 for joint returns) in savings account interest. The amendment would reduce tax liabilities by $2.1 billion in 1981. The exemption still must be approved by the conference committee considering the windfall profits bill.

✓Proponents of synfuels in Congress are trying to capitalize on the Iranian crisis, too. The Congress is expected to vote in December on the final version of the Defense Production Act amendments. The Act, passed originally in 1950, is a Korean War emergency powers bill that was selected by the House Banking Committee to be the vehicle for creating a major synthetic fuels industry. The Act contains very broad powers, including rationing and virtually unlimited eminent domain.

✓The House passed new stiff limitations ($70,000 in a two-year period) on Political Action Committee contributions to House candidates, but Senate opponents are threatening a filibuster. It is unlikely that any such limitation would pass the Senate in 1979—or in 1980. Sixty other campaign reform bills have been introduced.

✓The Department of Energy is contemplating taking oil from the Naval Petroleum Reserve in Elk Hills, California (reputed to be the largest proven reserves in the lower 48), and transporting it by ship through the Panama Canal to the salt domes in Louisiana and Texas that are being used for its Strategic Petroleum Reserve. The Department is turning to domestic supplies because it has been unable to buy any oil on the international market since last fall.

✓As recently as 1977, the federal minimum wage was $2.30 an hour. This month's increase to $3.10 an hour is the latest in a series of increases that will push the minimum to $3.35 an hour in January 1981. In addition, Congress has tightened up the exemption granted employers whose workers receive tips—including waiters, waitresses, bellboys, and maids. Until this month, employers could count 45 percent of tips collected by such employees toward the minimum wage. Now they can apply only 40 percent of tips toward the minimum wage. ■

conservation. . . ." There are just too many people to entrust with this choice; they don't know much and don't care about the future. "If you think you are going to move in a couple of years, why invest?" (The unspoken answer is that a well-insulated house now commands a higher price.)

The frequent references to many "decision-makers" as an obstacle to progress just shows that Yergin does not trust situations in which many people are free to make decisions. The opposite ideal would logically be *one* decision-maker—i.e., a dictator.

A Double Little Is Big

There is a blatant double standard throughout this book that describes remote possibilities of small amounts of exotic energy as far more "significant" than admittedly larger and quite probable increases of oil, gas, coal, or nuclear power from known sources. Mexico, China, and the North Sea are estimated to increase oil production by about six to seven million barrels a day by 1985. This is somehow dismissed as trivial—"unlikely to make a substantial change"—and the possibility of new finds in the many unexplored areas of the globe is not even considered. The alternative possibility of development of foreign oil and gas outside OPEC—which would diversify our risks and undermine the cartel—is likewise not mentioned. The world's largest oil producer is ignored because Soviet oil "goes only to Eastern Europe," so "the Soviet Union has little impact on the world market." That is like saying that most Texas oil goes to Chicago and therefore doesn't affect global supply and demand. Besides, the Soviet Union exports one million barrels of oil a day to Western Europe.

Energy Future also makes no effort to resolve any controversy about potential energy from tested domestic sources. Many experts believe that unexploited sources of natural gas in the United States are enormous, yet "equally respectable stock estimates contradict all of these relatively optimistic outlooks." The "respectable" sources cited are Exxon, Mobil, and Shell, which have demonstrated a talent for acquiring subsidies for turning tons of coal into a dribble of synthetic oil and gas.

If higher natural gas prices don't bring more supply, says *Energy Future*, "then the end of wellhead price regulation on newly discovered gas would indeed mean a transfer of wealth from consumers to producers without any compensating economic or social benefit." But if there is no new gas found at higher prices, then producers wouldn't get one cent from deregulating new gas prices. If *any* new gas is found, a deregulated price would reflect its value to consumers (e.g., as a replacement for OPEC oil). Besides, holding prices below replacement cost encourages inefficient use or "waste."

Nuclear power is just dismissed as unpopular, "and the fears it arouses resist the rational calculus." The chapter dealing with nuclear energy simply lists the claims of critics and (less often) advocates, and concludes inconclusively that "it has been virtually impossible to make any substantive statement about reactor safety that would not be challenged." Therefore, no substantive statements are made. In other chapters too, anything controversial is for that reason alone declared an improbable source of energy, except in the case of solar power and conservation (where controversy is ignored). Another chosen approach to uncertainty is to argue both sides. The decline in proven reserves of natural gas, for example, "does not necessarily mean that the United States is running out of gas," but in the case of oil, the authors are alarmed that "proven reserves have continued to decline."

The casual reader of *Energy Future* is apt to believe that the book really proves that "conventional" energy holds little promise, that the price system can't deal with scarcity, that subsidies and tax credits are free, and that conservation and solar power offer something for nothing. When the logic and evidence behind such claims is carefully examined, however, it becomes apparent that this volume is mainly an amateurish jumble of unsupported opinions. To use *Energy Future* as a guide to energy policy would be to legislate fantasy.

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"To be governed..."

There ought to be a law.

Professor George Sternlieb of Rutgers University and Sanford R. Goodkin, author of "The Goodkin Report," estimate that regulations now account for 20% of home costs. The Building Contractors Assn. estimates the cost to be slightly less—$8,000 of the cost of a $50,000 home, or 16%.

—*Los Angeles Times*, Nov. 18, 1979

Aiding the fiscally handicapped.

New rules issued by the Transportation Department require lifts for wheelchairs on buses, room for wheelchairs on railway cars that now cannot handle them and elevators in many subway and rail stations....The Congressional Budget Office has calculated the nationwide cost at $6.8 billion over the next 30 years. The Congressional budgeteers also figure that the modifications would serve no more than 7 percent of the severely disabled, at an estimated cost of $38 per ride. Door-to-door taxi service, by contrast, could serve 26 percent of the same group at a cost possibly less than $8 a ride.

—*New York Times*, Nov. 18, 1979

Or he's been into the laboratory samples.

Will the FDA enforce the elimination of nitrosamines [a potent cancer-causing agent] from beer? "Section 402(a)(1) prevents the FDA from taking action," [FDA consumer affairs officer Camilla] McGowan said on October 19. Then, on October 25, the new FDA commissioner, Dr. Jere Goyan, announced that after January 1, any domestic beer with more than five parts nitrosamines per billion would be subject to regulatory action. To this, another FDA officer joked, "Maybe the new commissioner doesn't know all the rules yet."

—*New West*, Nov. 19, 1979

The New Left, R.I.P.

Tom Hayden is quoted as having said in Towson, Md., "If you don't run for office, then someone more opportunistic than you may run on your issues and take away your votes."

—*Village Voice*, Nov. 5, 1979

Dog bites man, Army bites taxpayer.

U.S. military families qualify for a little-known but controversial benefit: no-cost or low-cost care for their pets at military veterinary clinics.

This year alone, American taxpayers will spend an estimated $57 million to pay the salaries of 667 Army and Air Force veterinarians and the 2,000 enlisted personnel who serve as their assistants.

—*Los Angeles Times*, Nov. 4, 1979

This may not be a coincidence.

WASHINGTON—As the nation's problems with inflation, recession and unemployment grow, so does the number of federal workers here whose job it is to monitor and help solve the problems of inflation, recession and unemployment. Hard times for the rest of the nation usually produce a job boom here.

Right now there are more people working for the federal government in Washington than at any other time, or during any crisis, in the nation's history.

—*Los Angeles Times*, Nov. 11, 1979

Never mind what it means, is it pioneering research?

Sir Arthur Lewis and Theodore Schultz recently were awarded jointly the Nobel Prize in Economics for, according to the Nobel committee, "...their pioneering research into economic development research...." Much of Professor Lewis's work has been based on the assumption that agricultural labor in developing countries has what economists call zero marginal productivity. In other words, withdrawing one or more workers from agriculture and putting them to work in another sector, such as industry, will not reduce domestic agricultural output....

Much of Professor Schultz's work has been based on the assumption that agricultural labor in developing countries does *not* have zero marginal productivity.... Professors Lewis and Schultz cannot both be right about this issue. One must be wrong. Yet they share the same award. What, one wonders, does this mean about the politics of awarding the Nobel Prize?

—Economist John R. Hanson II, in a letter to the *Wall Street Journal*, Nov. 5, 1979

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