POLICY REPORT

Volume I Number 11 | A PUBLICATION OF THE CATO INSTITUTE | November 1979

The Draft Debate

by Christopher Jehn

The current debate about the success of the All-Volunteer Armed Force (AVF) and the necessity of resuming peacetime conscription is remarkably uninformed. Many relevant facts are often ignored or misrepresented.*

The argument for a volunteer military begins with the contention that conscription is inconsistent with our country's history and principles.[1] Peacetime conscription was first used in 1940. Though a draft was tried during the Civil War, conscription was not an important factor in wartime until World War I. Further, during the post-World War II period of peacetime conscription, about three-fourths of the military personnel on active duty were true volunteers.[2] Conscripts and conscription, then, not volunteers and voluntarism, are the exception in American history.

The most persuasive argument against conscription, however, is that it is immoral and inefficient. First, there can be no mistake that conscription is coercion, a serious and significant infringement of individual freedom. Second, conscription is a tax. Draftees and draft-induced volunteers are forced to serve at wages below what would be necessary to induce them to volunteer. This underpayment is a form of taxation that shifts some of the burden of national defense from the general population to draft-age men and women. Benjamin Franklin recognized these arguments while commenting on a judicial opinion concerning the impressment of American merchant seamen:

> But it may be said, to give the king's seamen merchant's wages would cost the nation too much, and call for more taxes. The question then will amount to this; whether it be just in a community, that the richer part should compel the poorer to fight for them and their properties for such wages as they think fit to allow, and punish them if they refuse? Our author tells us it is *legal.* I have not law enough to dispute his authority, but I cannot persuade myself it is *equitable.*[3]

"The enlisted force today has a higher percentage of high school graduates than at any other time in history."

Third, because the conscription tax is hidden (and hence the true costs of manpower are understated), conscription invites inefficient use of resources in the Defense Department. Finally, conscription imposes social costs on the nation, costs associated with draft avoidance (and enforcement) and the disruption of careers and educations, for example.

Despite these arguments, we might be willing to accept conscription if it were the only workable means of providing for the nation's defense. But it is not. The draft ended nearly seven years ago, and, criticisms in the press notwithstanding, the AVF has been a success. Most of the "problems" attributed to the AVF are not problems at all.

The AVF is said to cost too much, but this argument is specious. Careerists have always been volunteers, so only the cost of recruiting, training, and paying first-term personnel is at issue. If military pay is kept comparable to civilian pay, a return to conscription would save only about $250 million in recruiting costs. Cutting pay of first-term personnel could increase the saving by as much as $2.5 billion (or about 2 percent of the defense budget) if pay for junior personnel were lowered to the relative levels of the 1960s.[4] Such a pay cut is not likely, however, even with a return to conscription. Finally, while a return to conscription might reduce the cost of manpower to the Defense Department, it cannot reduce the cost to the nation. It merely redistributes the burden of that cost.

It is widely believed that the AVF is not attracting personnel in sufficient numbers or of sufficient quality. This argument, too, is largely groundless. Monthly recruiting shortfalls are undeniable and the source of many front-page headlines. But for the last four years, reduced losses from the active force have offset these shortfalls so that the size of the total force has never fallen below 99 percent of the size authorized by Congress.

Quality is harder to measure than quantity. A complete quality measure would include not only such dimen-

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IN THIS ISSUE

EDITORIAL

The Chrysler Bailout

by David R. Henderson

Chrysler executives are begging the government for a subsidy to save the company from possible extinction. They have invoked the traditional mercantilist arguments that executives of failing companies use: (1) If we fail, our workers will lose jobs. (2) If we fail, our suppliers will lose business and lay off workers. The first argument ignores the possibility that the plant will be bought and the workers hired by another firm in the same industry or that the plant will be sold piecemeal and the workers will find jobs elsewhere. The second argument ignores the fact that these suppliers will find other customers, possibly among the new businesses that use the resources released by failure of the old.

These arguments, however, do not seem to have misled many people. People presumably learned a lesson when no catastrophe ensued after Boeing reduced its labor force by nearly two-thirds between 1967 and 1971. The unemployment rate in the Seattle area rose from a low of 3.0% in November 1967 to a high of 15.1% in June 1971—and was back to 8.0% by November 1972.

But now Chrysler has an additional argument, not usually espoused by the mercantilists of old, and they have used it effectively. They argue that since much of their trouble stems from government intervention, the government should compensate them with a zero-interest loan. (The Chrysler executives call it an "advance tax credit." The forthrightness of their argument has not carried over to their use of language.) Unfortunately, their argument is almost convincing.

Chrysler, as well as Ford and GM, *have* been heavily regulated by the federal government. In 1966, Congress passed the National Traffic and Motor Vehicle Safety Act mandating minimum safety standards. In 1970, Congress passed the Clean Air Act Amendments setting maximum standards on emission levels of pollutants, and later tightened these standards. In 1975, Congress passed the Energy Policy and Conservation Act mandating minimum average fuel economy levels for automobiles.

Compliance with these laws requires huge expenditures for research and development (R&D). Because these R&D costs are independent of firm size, the regulations act like a lump-sum tax on auto manufacturers. Since Chrysler is smaller than Ford and GM, the "tax" is a greater percentage of its income. Its existence is threatened more than theirs. Surely, it seems, because the government has hurt them, the government should recompense them. This is simple justice. Destroyers should compensate their victims. But who are the destroyers? There's the rub.

If we go by the fact that Chrysler wants tax money taken from you and me, then you would think that we are the destroyers. But did you destroy Chrysler? I didn't. So why should I have to pay? Chrysler has identified an injustice and the culprit: government prohibition on the sale to willing buyers of cars without seatbelts or without high gas mileage. But instead of calling for an end to that injustice, they demand that more injustice be heaped on the rest of us. As if we don't already pay for that injustice in the form of higher prices for less desirable cars. And as if we weren't already burdened with government restrictions on many other aspects of our lives.

It is true that Chrysler tried to end the injustice: They attempted, in vain, to persuade Congress and the regulatory agencies to loosen the regulations. But when did they ever run full-page ads to get citizen support? Why didn't they launch an advertising campaign to enlist our support for repeal of laws that hurt them and us? Why try to recruit us only when they are trying to fleece us?

Chrysler executives should understand that if they accept a government subsidy, more government control will soon follow. They should carefully read John Kenneth Galbraith's letter to the *Wall Street Journal* (Aug. 13, 1979) and ask themselves why he is so delighted about their plea for aid. It is not because he wants Chrysler to thrive, but because he wants corporate opponents of government regulation to lose their moral claim to participate in the debate. He realizes, as they do not, the power of ideas.

Subsidies and Windfall Profits Taxes

Subsidize anything and more of it gets produced. Failure is no exception. Firms fail because they disappoint consumers. Management strives to satisfy consumers because, if it does otherwise, consumers can take their business elsewhere. When the government, however, sets the precedent of giving grants, loans, or "future tax credits" to firms consumers have abandoned, managers have less incentive to do their job well. If consumers cease to support a firm voluntarily with purchases, the government taxes them to support it with subsidies. Consumers lose their clout. Inefficient management grows.

The opposite of a subsidy is a tax. Tax anything and less of it gets produced. Success is no exception. The same argument against subsidies to unsuccessful firms applies in reverse to taxes on "windfall" profits of successful firms. The possibility of earning extraordinary profits encourages entrepreneurs to satisfy consumers. Eliminating this possibility with taxes discourages entrepreneurs from satisfying consumers. If the manager of an oil firm, for example, expects an embargo in the future, then he knows the price of oil will be driven up. He has an incentive to store oil to sell at higher prices prevailing during the embargo. The possibility of earning these profits motivates him to get information on the likelihood of an embargo. If he expects a special tax on his profits from the embargo, he is less likely to become informed and less likely to save oil. When the embargo comes, consumers will have less oil available than if there were no special tax. The tax discourages producers from shifting production from uses consumers value less to uses consumers value more. Windfall profits taxes and subsidies to failing firms are two sides of the same coin.

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sions as mental ability, education, training, and experience, but others like motivation and morale. We do not have this ideal measure, but in terms of dimensions we can measure, the AVF compares favorably with its counterpart during the draft years of the 1960s and early 1970s. Today's recruits score as well or better on entrance exams and are just as likely to be high school graduates as were recruits during the draft era. (Recruits of "below average" intelligence totaled 13 percent of enlistments in fiscal year 1965, but only 5 percent in 1978. In 1968, 68 percent of enlistees were high school graduates; in 1978, 77 percent were.) Perhaps most important, the enlisted force today has a higher percentage of high school graduates (88 percent) than at any other time in history.

The picture is not so rosy for the reserve forces, a fact that has become part of the basis for another criticism of the AVF: It cannot meet mobilization requirements in the event of a major conventional war in Europe. Reinforcements and replacements for the active force must come from the reserves (including the National Guard) and from untrained individuals. Many critics of the AVF believe conscription is necessary to man the reserves and provide a source of untrained personnel at the start of a war.

Since the end of conscription in 1973, the selected reserve (personnel drilling regularly in reserve and National Guard units) has declined 12 percent, and the Individual Ready Reserve (the IRR, personnel serving the remainder of an initial six-year military obligation after a period of active duty) has declined almost 70 percent. On the surface these figures seem alarming, but they are only part of the story. For example, although it has declined in numbers, the selected reserve has steadily grown more experienced: In 1977, 68 percent of accessions to the selected reserve came from the active force, compared to only 32 percent in 1970. Though the IRR now numbers less than 400,000, there are other sources of trained personnel: Studies for the Department of Defense estimate that about 250,000 recent military retirees would be suitable for recall, as would over 1 million recently discharged individuals.

How serious the reserve situation is depends greatly on how sensible the requirements for reserve forces are. Reserve "requirements" are not immutable; they are a function of assumptions about future contingencies and about how active and reserve forces will be used.

In any event, there is no necessary connection between a volunteer military and inadequate reserve forces. Only recently have the reserve forces begun to receive the management attention given the active force. (The Army Reserve and Army National Guard did not begin using full-time recruiters until fiscal years 1977 and 1978, respectively.) Recruitment problems in the reserve forces have also been wors-

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POLICY REPORT

Published by the Cato Institute, *Policy Report* is a monthly review that provides in-depth evaluations of public policies and discusses appropriate solutions to current economic problems.

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Subscriptions and correspondence should be addressed to: *Policy Report*, Cato Institute, 1700 Montgomery Street, San Francisco, California 94111. The annual subscription rate is $15.00 (12 issues). Single issues are available for $2.00 per copy.

ISSN: 0190-325X

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ened by institutional discouragements to enlistment and reenlistment. Chief among these are an outmoded pay system and traditional training schedules that require new enlistees to leave their primary jobs for months to take basic and initial skills training. The Defense Department has now recognized these defects and is studying ways to correct them. But doing so may require some new legislation. If Congress wants the AVF to fail in this area, it has the power to ensure that outcome.

Advocates of conscription argue that a functioning draft system is necessary both to provide enough enlistments in the early stages of a major war and to fill reserve units. This argument, although it has surface appeal, assumes that any war in which we would engage would be so unpopular that there would be no increase in enlistments at the outbreak of the war. In fact, an increase in enlistments has accompanied major crises (like Berlin in 1961) and the beginning of every war this country has entered (even Vietnam). Indeed, conscription in World War I was justified on the ground that valuable civilian laborers might otherwise volunteer, and during both world wars voluntary enlistments were eventually banned. Also, a draft, by itself, does not guarantee "quick response." Draftees, after all, take just as long to train as volunteers.

There are other *alleged* problems with the AVF. These include a "high" rate of turnover among first-term personnel (though turnover in the military is less than among similarly aged people in the civilian sector), a "shortage" of physicians (though there are relatively more physicians in the services today than during the draft years, despite military physicians' pay considerably lower than in the civilian sector), and a lack of representativeness. This last criticism is pernicious not only because it is largely untrue, but because a "representative" force seems intuitively desirable to many.

Contrary to popular belief, the AVF is at least as representative of the total population as was its draft-era counterpart. In terms of both geography and family income, today's enlisted recruit population faithfully mirrors the general population from which it is drawn.[5] The distribution of enlistments by geographical area and by family income is virtually identical to the distribution of the sixteen- to twenty-one-year-old male population. That is, neither the poor nor people from any specific geographic area are overrepresented. The highest income brackets are underrepresented, but that was true of the drafted forces, and for essentially the same reasons: The wealthy do not serve because they face opportunities that are more attractive than the military or because they are able to evade conscription.

"The large number of blacks in the military represents progress on the part of the military, not the opposite."

Blacks are overrepresented in the enlisted force, as they were during the last years of the draft. (In fiscal year 1971, 13 percent of all enlistees were black. By 1978 blacks accounted for 23 percent of all first-term enlistments.) The difference now is that blacks are volunteers paid a competitive wage. Blacks find the military attractive (compared to whites, they *reenlist* at an even higher rate than they enlist) because racial discrimination is virtually nonexistent in the military. If this leads to a racially "unrepresentative" force, then the blame rests with the civilian sector, not with the AVF. The large number of blacks in the military represents progress on the part of the military, not the opposite. For most of our history, blacks have been underrepresented in the military. As late as 1940 the Army had only two black combat officers. It is hard to see how society (or blacks) would be better off if black access to the military were reduced.

The charge of lack of representativeness is still more irksome since it is never accompanied by a description of the consequences of underrepresentation. Will a more representative force fight better? Critics of the AVF do not address that question.

The military has never been representative of the general population. The very young, the old, the illiterate, the highly educated, the very wealthy, the women, and, until recently, the blacks have always been underrepresented. Those arguing for "better" representation do so in a very selective fashion. They first define the (unrepresentative) group they think should serve, and then complain if that group is not serving.

Most criticisms of the AVF, then, simply do not hold up under close scrutiny. That is not to say there are no problems. There are, but they are more accurately termed problems of the military manpower system than problems of a volunteer military. As such, they can be solved with means other than conscription. It would be especially tragic if an institution as alien to this country's history and principles as conscription is were adopted on the basis of erroneous premises. ■

FOOTNOTES

*Much of this article was previously published elsewhere.

[1]John L. Rafuse, "United States Experience with Volunteer and Conscript Forces," *Studies Prepared for the President's Commission on an All-Volunteer Armed Force,* Vol. II (Washington, D.C.: U.S. Government Printing Office, 1970).

[2]*Report of the President's Commission on an All-Volunteer Armed Force* (Washington, D.C.: U.S. Government Printing Office, 1970), p. 48 ff.

[3]Ibid., p. 24.

[4]For an excellent collection and analysis of facts about the current AVF see *America's Volunteers: A Report on the All-Volunteer Armed Forces* (Washington, D.C.: Office of the Assistant Secretary of Defense for Manpower, Reserve Affairs, and Logistics, 1978).

[5]Richard V. L. Cooper, *Military Manpower and the All-Volunteer Force* (Santa Monica, Calif.: The Rand Corporation, 1978), Chap. 10.

Oil Economics

by David R. Henderson

In his July 15 speech on energy, President Carter stated that our dependence on the Organization of Petroleum Exporting Countries (OPEC) "is the direct cause of the long lines that have made millions of you spend aggravating hours waiting for gasoline." This belief is misleading. OPEC is a cause of gas lines, but it alone could not have caused them.

Shortages and Price Controls

OPEC cannot by itself cause gasoline lines. OPEC can reduce the supply available to us, but a lower supply cannot cause gas lines if the price of gasoline is free to rise. In the absence of price controls, a lower supply of gasoline can cause at most a brief shortage. When dealers see people lining up to buy their products, they know they can raise their prices and still sell all they have. As the prices rise, gasoline users find ways of using less gasoline—driving less, driving smaller cars, etc. The prices rise until the amount people demand equals the amount supplied, and the lines disappear.

Only when the price is not free to rise can a decreased supply cause a persistent shortage. Although the cutback in Iranian output did lead to the shortage, it was not sufficient in itself to cause a shortage. Price controls on gasoline did that.

President Carter's belief that OPEC caused the shortage is contradicted by empirical evidence as well. If dependence on OPEC causes shortages, then the worst shortages should be in countries most dependent on OPEC oil, such as Japan and the nations of Western Europe. But in fact there are no gas lines there whatsoever.

There is other evidence against Carter's belief right here in the United States. If dependence on OPEC causes shortages, then there should be shortages of other petroleum products be-

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Briefs

Briefs is a new feature that will appear regularly in *Policy Report*. It describes some of the latest research findings reported in academic journals and elsewhere, criticizes them where appropriate, and gives short analyses of policy proposals.

☐ During the debate over the Proposition 13 tax cut in California, opponents claimed that hundreds of thousands of jobs would be lost and economic growth would suffer. Events have proved them wrong on the prediction about lost jobs, and so far economic growth has not seemed to suffer either. And, if we go by a recent study by two economists at Harris Bank in Chicago, it is likely to improve. Robert Genetski and Young Chin found a weak inverse relationship between state economic growth and changes in state tax levels, and a strong inverse relationship when they allowed for a three-year lag between the changes in tax levels and the economic growth. In other words, within a few years of a tax cut a state can expect to see substantial positive effects on state output.

☐ In a recent article ("The Demand for State Regulation of the Electric Utility Industry," *Journal of Law and Economics*, October 1978) Professor Gregg Jarrell of the University of Rochester reports that the introduction of state regulation of electric utilities led to higher prices for the consumer and higher profits for the utilities. This conclusion contradicts the widely held view that regulation keeps rates low.

It also contradicts George Stigler's and Claire Friedland's conclusion that electric regulation had no effect ("What Can Regulators Regulate? The Case of Electricity," *Journal of Law and Economics*, October 1962). Jarrell reconciles these apparently contradictory findings by pointing out that Stigler and Friedland found no difference between regulated and unregulated rates at one point in time. His evidence shows that regulation was first introduced in the most competitive low-price states and raised rates up to those in the states that remained unregulated.

Jarrell also presents evidence that before state regulation, the municipal regulators "regulated" by freely granting franchises. They did not regulate rates, but instead kept existing utilities on their toes by granting new franchises to new utility companies. The market did the regulating. Duplicative franchises did not necessarily result in duplicative facilities. In one case, a new franchise holder first negotiated long-term contracts at lower rates with customers of the existing utility, and then offered either to sell the contracts to the existing utility or to purchase the utility's plant.

Jarrell's work lends support to the view of Harold Demsetz ("Why Regulate Utilities?," *Journal of Law and Economics*, April 1968) that economies of scale alone do not yield monopoly. As long as firms can compete to be the single producer (by arranging contingent contracts with potential customers, for example), the gains from both nonduplication of facilities and competition can be obtained. In short, there is nothing natural about natural monopoly.

☐ Carter administration officials are trying to choose a system of allocating rights to import oil under President Carter's import quota plan. Some of them have expressed fear that auctioning the rights would drive the price above world levels (*Wall Street Journal*, October 5, 1979). But the price will be driven above world levels by the quota, not by the system of assigning quota rights. The size of the quota, not its assignment, affects the price. What they really mean is that allowing quota rights to be sold makes it obvious how much the quota system is costing U.S. consumers. Not auctioning the rights is a way of hiding that cost. ■

✓ Washington Update

✓ On October 1 the federal government should have ground to a halt, but it illegally continued to function. The day marked the start of the 1980 fiscal year, for which almost no funds have been appropriated. Only three out of 13 major appropriations bills for FY80 have become law, and an omnibus continuing-appropriations resolution containing more than $250 billion was held up by House/Senate fights over pay raises and abortion. The Congress passed the debt ceiling bill just in time, raising the "temporary" debt ceiling in the second Liberty Bond Act by $49 billion and changing the method by which the ceiling will be raised in the future. From now on, Congress will not be embarrassed by voting for increases in the debt ceiling; through a novel procedure, the ceiling will be included in the budget resolution and "spun off" for the President's signature. In view of the illegality of the situation surrounding the start of a new fiscal year, one wonders what a timely suit for an injunction against the government might have accomplished.

✓ While the debate over tight and loose money rages on, with the chairman of the House Banking Committee periodically blasting the chairman of the Federal Reserve for his tight money policies, few have noticed that the money supply, specifically the monetary base, has exploded at the annual rate of 15 percent in recent weeks. If this continues, the annual rate of increase in the Consumer Price Index could be 15 percent for a sustained period. Should that happen, price controls might well be imposed by a worried and harried Carter Administration.

✓ Rumors in Washington are that the Treasury will increase its monthly gold sales in November and will attempt, with the aid of some international arrangement such as a substitution account, to prop up the faltering dollar. The IMF/World Bank meeting in Belgrade, Yugoslavia, discussed what could be done to manage the international financial markets, but as of this writing, no result of the meeting has been announced. It is interesting to note that a $60 per ounce drop in the price of gold coincided with the meeting in early October.

✓ Some members of Congress are suing the government for its lobbying activities on behalf of the SALT II Treaty. The criminal code (18 U.S.C. 1913) provides penalties of $500 and/or one year in jail for using appropriated funds for any indirect or direct lobbying effort, which is defined as "any personal service, advertisement, telegram, telephone, letter, printed or written matter, or other device, intended or designed to influence in any manner a Member of Congress, to favor or oppose, by vote or otherwise, any legislation or appropriation by Congress...." SALT is not the only issue; the Administration has lobbied on behalf of the ERA, the Department of Education, and other issues.

✓ During the last week in September the Democratic House leadership flexed its muscle and reversed the losses suffered in the House the previous week at the hands of Republicans and rank-and-file Democrats. The Department of Education bill was passed, the Panama Canal Treaty implementation legislation enacted, the debt limit raised, and the continuing appropriations resolution passed. The effort required the Speaker and Majority Leader of the House to speak twice, back to back, pleading for the passage of the legislation.

✓ A staff report of the Senate Governmental Affairs Subcommittee on Nuclear Proliferation informs us that at least eight "highly sensitive" documents containing information on nuclear weapons were declassified and made available to the public for periods up to four years at Los Alamos, New Mexico. A survey conducted by the Department of Energy shows that hundreds of foreign visitors came to the library during a period when most of the critical data on newer weapons was available. Among the foreigners were 87 Russians, 23 Chinese, and 25 others from various Communist countries, as well as visitors from Egypt, Lebanon, Guinea, Zaire, and Cyprus.

✓ Consumers appear to be in the second psychological stage of inflation: "Buy real assets now, before prices go up more." The first stage was "Save, for prices will level off and perhaps decline soon." The third stage? "Buy anything now—just get rid of the paper." This shift could be the factor that is confusing economists about the existence of a recession or a boom.

✓ The Value Added Tax may become law soon, if Al Ullman, chairman of the House Ways and Means Committee, and Russell Long, chairman of the Senate Finance Committee, have their way. Hearings were scheduled for October, and action could come as early as next year.

✓ Carter's hospital cost containment bill has been reported by both the House and Senate Committees, but the fight is far from over. Floor battles in both bodies will occupy the attention of members during October and November, but this piecemeal approach to price controls may be overtaken by a galloping CPI. The President has sent his national health insurance bill to Congress (H.R. 5400) and Senator Kennedy's Health Care for All Americans Act has also been introduced in the House.

Oil Economics (Cont. from p. 5)

sides gasoline. There are not.[1] And, not coincidentally, gasoline is the only petroleum product whose retail price is controlled by the government.

Are U.S. Oil Companies a Monopoly?

Many people who understand that price controls cause shortages fear that if the gasoline price were free to rise, U.S. oil companies would conspire to withhold output, driving the price above the competitive level. This fear is unjustified. There are many oil companies around, and it is too tempting for any one of them to cheat on a collusive agreement by expanding output. Collusive agreements are very difficult to enforce when the government is not the enforcer.[2]

Moreover, if U.S. oil companies would be an effective cartel now, then they should have been a cartel in the 1960s when there were no price controls. But if they were, why didn't they act like OPEC by raising their price to the monopoly level? We know they did not do so, because OPEC, by quadrupling prices, tripled revenues.[3] If the U.S. oil companies had been a cartel, they would have been crazy not to raise prices when they could. We must conclude either that the U.S. oil companies are not a cartel or that they are the dumbest cartel around.

Decontrol: Phased or Immediate?

Many economists who believe the government should allow the free market to set prices of oil at all levels—crude, wholesale, and retail—want to decontrol the crude price in stages. They advocate that the government set a timetable of increases in maximum crude prices, known to the oil companies beforehand. Although phased decontrol may appear to be a way of getting rid of control with as little disruption as possible, it is not. Phased decontrol would be more disruptive than immediate decontrol.

Phased decontrol could cause a sharp drop in the amount of oil presently supplied. If prices are scheduled to rise faster than the rate of interest, crude producers can make higher profits by withholding production and waiting for the higher price. For instance, if the current controlled price of oil is $10.00 and it is scheduled to rise to $12.00 in one year, a producer can earn a 20 percent rate of return simply by keeping his oil in the ground and

> **"Either the U.S. oil companies are not a cartel or they are the dumbest cartel around."**

extracting it one year from now. If the interest rate is less than 20 percent, he will do so.

The feasibility of withholding output depends on how easy it is to control the output of wells. Presumably this control is not too difficult or else the Texas Railroad Commission would not have been able to regulate well outputs effectively all these years. But even if outputs of existing wells are difficult to alter, a crude producer's decision about when to exploit a newly discovered oil deposit is not. Gradual decontrol would cause firms that discover new oil to wait until the price rises before extracting the oil.

Import Quotas: The New OPEC

It is ironic that while President Carter laments OPEC, he advocates import quotas. Import quotas and OPEC have the same effect. If the quota is set below the amount we import, it restricts supply and drives up the price. If the price is not allowed to rise, the import quota makes the gas lines longer. The import quota has not had any effect yet because the quota Carter has set is above the amount we currently import. But if our demand for imports exceeds the import quota in the future, the quota will restrict supply. President Carter's own program will do to us what he blames OPEC for doing. ■

FOOTNOTES

[1]An apparent example that may come to mind is diesel fuel. But there was no shortage of diesel fuel this summer. Rather, the government used its powers to allocate diesel fuel between farmers and truckers, pitting the two groups against each other in a fight for increased allocations. The allocations affected the price each paid for diesel fuel but did not cause a shortage. The price of diesel fuel, though influenced by government allocation, was not controlled.

[2]One possible exception to this is OPEC. If it is indeed a cartel (and this is not altogether clear), then it has been a very stable one. Possibly its stability is due to its being a cartel among governments rather than among private firms, although it is not clear why this should matter.

[3]Demand was very inelastic, in economists' jargon.

David R. Henderson is the editor of *Policy Report*.

A Note from the Publisher

With this issue the editorship of *Policy Report* is assumed by David R. Henderson, Senior Policy Analyst at the Cato Institute and formerly with the Graduate School of Management at the University of Rochester. Dr. Henderson received his Ph.D. in economics from the University of California, Los Angeles, and has worked for the Council of Economic Advisers as a specialist in deregulation. His works have been published in *History of Political Economy, Human Events, The Libertarian Review,* and the *Carnegie-Rochester Conference Series on Public Policy.* He has testified before congressional committees on real wage insurance and on the draft, and has made numerous appearances on radio and TV commenting on public policy issues. Dr. Henderson takes over from Professor Richard Wagner, whose widened research and teaching responsibilities have necessitated the change. We appreciate the excellent job Professor Wagner has done in establishing *Policy Report* as an important periodical on current questions of political economy.

"To be governed..."

The Middle East in black and white

"Israel's state-owned television network gets many of its programs from the United States, all in color, but the network's technicians eliminate from the broadcast signal the pulse that puts color in the picture.

"Israeli electronics manufacturers, in a countermove, invented a 'pulse reviver,' which puts the color back in. So Israelis buy a $2,000 [sic] TV set and a $100 pulse reviver and they can see the Muppets in color.

"'We have a farcical situation where Israelis spend thousands of dollars a year on a device imposed upon them by a government trying to save money,' said Yosef Lapid, director general of the Israel Broadcasting Authority."

—*Los Angeles Times*, Sept. 30, 1979

L'état, c'est moi

"Rejecting the proposition that 'government knows best,' Sen. Edward M. Kennedy (D-Mass.) Thursday night outlined a broad program intended to reinvigorate the free enterprise system...."

—*Los Angeles Times*, Sept. 28, 1979

"The specific economic issues on which the Senator's positions are known are airline and trucking regulation, health insurance, tax reform, the price of energy, and mergers involving large corporations. It is only the advocacy of transportation deregulation that seems to lie outside a well-known 'liberal' gestalt. One might think from his position on this matter that he has some appreciation of and respect for the free market. But when this position is considered in the context of others a different result appears, which is more anti-business, especially anti-big-business, than pro-free-market. There does seem to be recognition that the market may sometimes be an efficient instrument for carrying out decisions, but it is the politicians' decisions, not the decisions of private producers and consumers, that are to be carried out. And when the free market leads to decisions which the politician finds distasteful, as in the case of energy, that is too bad for the market."

—Herbert Stein,
"And Now... Prince Valium!"
Wall Street Journal, Sept. 27, 1979

"One of Mr. Kennedy's eminent economic advisers, when in a facetious mood on the subject of incomes policy, likes to recall an aphorism attributed to the gangster Al Capone: 'You get a lot more from a kind word and a gun than from a kind word alone.'"

—William Safire,
New York Times, Sept. 24, 1979

Raising less corn and more land prices

"...to the extent that federal programs succeed in raising farm prices, they help push up the price of farm inputs, especially land. As one observer put it, the government is basically 'subsidizing the price of farmland.' Thus arises another contrast between the populist rhetoric of farm groups and the results of actual programs: The established, large farmer enjoys another boost in net worth, while the younger, beginning farmers find it progressively more difficult to get started or expand."

—*Wall Street Journal*, Oct. 8, 1979

Teddy just might be an improvement.

"When President Carter ran for office in 1976 he promised to streamline the federal government by reducing the number of Cabinet departments. So far he has added two—Energy and Education."

—Albert Shanker,
New York Times, Oct. 7, 1979

"By September, 1980, the four budgets that the Carter administration has controlled are expected to show a cumulative deficit of 157.3 billion dollars.

"That would be the largest cumulative deficit for one President since the 12 years of the Roosevelt administration, when the U.S. government spent 196.9 billion more than it took in while combating the Depression and fighting World War II."

—*U.S. News & World Report*,
Oct. 8, 1979

Don't look now

"BART (Bay Area Rapid Transit) has been beleaguered with problems ever since the beginning. The state should take it over and run it."

—*Oakland Tribune*, Sept. 4, 1979

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