In the February 1977 issue of Fortune *magazine, Thomas Bradshaw, the president of the Atlantic Richfield Co., published a provocative essay: "My Case for National Planning." While that essay was only the latest in a series of attacks on a free market economy and defenses of National Economic Planning to appear over the past few years by intellectuals, businessmen and labor leaders alike, Bradshaw's piece deserves special scrutiny. For it comes to us from a man who both is a leading representative of American major oil companies, and was a member of Jimmy Carter's task force on energy during the 1976 presidential campaign. Moreover, it has been published at a time when both oil and government energy policy are getting widespread public attention.*

THE CASE FOR A FREE MARKET IN ENERGY: A REPLY TO THORNTON BRADSHAW

By Charles Koch

In "My Case for National Planning," Thornton Bradshaw claims that a free market never *has* worked efficiently in crude oil, that it never *could* work efficiently in oil—or in the more exotic energy sources that must be developed—and that the only solution to our present crisis is to adopt governmental planning and pricing in certain energy raw materials. Most of Bradshaw's contentions, however, are not only wrong-headed and blatantly self-serving, but his proposals for planning and pricing will only make matters far worse than they already are, as well.

At the outset, there are some areas of agreement that ought to be pointed out. Certainly, government price fixing in natural gas has been an unmitigated disaster; we should move to restore free market pricing to wellhead sales immediately. Again, we can agree that proposals to divest the major oil companies are counterproductive and would only lead to higher energy costs and less efficiency. Divestiture is *also* highly immoral, robbing the owners of their right to their own property. But while Bradshaw recognizes the harmful economic results of such measures, he proceeds to recommend a massive "new" experiment in government planning of energy outputs and prices. Such a position is curious at best, and deserves to be explored in some depth.

FREE MARKET IN CRUDE OIL?

Bradshaw's contention is that government planning is necessary because the "free market mechanism never has worked for oil." He claims that there has always been "too much oil or too little" with a consequent "disorderly" market of gluts and scarcities. Further, the market "fails even more completely when it comes to promoting development of fuels now considered exotic." Such developments are supposedly far beyond the means of private companies and will require massive governmental subsidies and loans.

What is curious about this criticism, particularly for someone in the oil industry, is that it has gotten the matter almost completely *backwards*. The free market mechanism has at times worked inadequately for oil because the government and the courts have failed to define and enforce property rights in underground oil. Surely Bradshaw realizes that the market "mechanism" cannot work without property rights, without the right to own—that is, to control—the resources to be traded in free markets. Yet such a system has never existed in crude oil.

Historically, crude oil has been in a kind of "no man's land" as far as property rights were concerned. Under the so-called "rule of capture," the only oil that could be "owned" and, thus, fully controlled, was oil that had been pumped to the surface. Producers owned whatever they could "lift". Unfortunately, such a system created perverse incentives to pump newly discovered oil as quickly as possible, since any oil not pumped by one producer might be pumped by another. Thus, the "gluts" that Bradshaw complains about resulted from the absence of property rights in oil pools and not from any market "failure".

There is no sound economic reason why future energy sources cannot be developed and innovated totally within a free market framework.

Pumping wells at very high rates can be, of course, wasteful and inefficient, resulting in substantially less oil being recovered than would be the case if the underground oil could be controlled and recovered more slowly. Moreover, the most economical way to inventory oil for future production is to leave it in the ground and *not* lift it to the surface. Yet, again, the perverse incentives set into motion by the court's "rule of capture" required that the wells be promptly pumped in order to establish "rights" to the oil. Thus, it is government, and the courts, which must take the blame for past waste and inefficiency in oil production.

A number of alternatives were attempted as a substitute for property rights control to underground oil. For instance, oil producers frequently sought to band together to limit production from a given pool. If adjacent producers could draw up an agreement restricting production from a jointly owned pool, and if the agreement could be enforced, then the "chaos" of the nonmarket oil might be alleviated or prevented altogether. Bradshaw tells us that such "voluntary restrictions failed," but he never quite tells us *why* they failed.

The facts are that voluntary restriction failed because of government. State governments made such restriction agreements illegal *per se* under their own anti-trust laws and the courts refused to enforce these early unitization efforts. So voluntary attempts to cure the property rights defects of the "rule of capture" were undercut by government and there was no "restriction". Thus, government regulation came to crude oil production in the 1930's in the form of the prorationing system, not as the result of "market failure," but as a direct result of the absence of property and contract rights—and thus the absence of a true "market"—in oil.

OPEC AND A FREE MARKET

Another important contention in the Bradshaw article is that the existence of OPEC makes a free market in crude oil impossible since that organization "controls the price" of oil. On the other hand, Bradshaw asserts, if there were a free marked *including* OPEC oil, the newly posted price of crude would fall to $3 or $4.

Neither of these claims is accurate. In the first place, our own domestic price fixing of crude oil and natural gas prices has tended to reduce domestic production, stimulate consumption and increase our reliance on foreign crude. It is entirely possible that OPEC would not long be setting world oil prices if America deregulated domestic oil and gas and created a free market in crude oil. Our own irrational price fixing policies prop up the OPEC cartel price.

Secondly, in the absence of domestic price-fixing, OPEC's "power" to control oil prices has been greatly exaggerated. World oil prices prior to October, 1973, were held down artificially despite massive world-wide inflationary pressures caused by the expansionary monetary policies of the United States and other governments. When the surplus capacity of regulated domestic oil and gas ran out in the early 1970's, the demand for OPEC oil began to soar. This enabled OPEC to belatedly and, therefore, drastically raise prices on their artificially underpriced oil.

Finally, it is extremely unlikely that a free world market for crude oil would result in prices of $3 or $4 a barrel as Bradshaw speculates. Years of inflationary pressures have all but destroyed cheap energy. In addition, government regulations, restrictions and taxes in the U.S. and virtually every other oil producing country have added enormously to the costs of finding and producing oil. Certainly there is little need to worry about prices so low that "every drilling rig in the world would be stacked." Such fears are totally unfounded.

THE DEVELOPMENT OF FUTURE ENERGY SOURCES

Most of the other problems that Bradshaw associates with the market mechanism can also be traced to government mismanagement. Secondary and tertiary recovery techniques have been delayed because of price controls on

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crude oil. Market signals *will* bring forth coal and shale oil *when and if* the government gets out of the way and *when and if* the development of such oil is competitive with conventional techniques. Certainly the market cannot be faulted for leaving very expensive crude oil in shale or in coal. At the moment, that is precisely where most of it belongs.

Indeed, there is no sound economic reason why future energy sources cannot be developed and innovated *totally* within a free market framework. It is wrong to claim that future developments are simply beyond the financial capacity of private corporations and the private market. In fact, such assertions always attempt to prove too much. Governments have no "resources" of their own by which the private market might be "subsidized." If there are to be massive subsidies to develop exotic fuels, such funds will have to be borrowed or taxed away from the very same private market that cannot, allegedly, effect sufficient private commitments in energy research and development. Nor is there any reason to expect governmental time horizons to be longer than those in a free capital market.

In fact, the evidence is to the contrary. When expenditures are made through the political process, long term projects tend to be avoided since voters feel that they will benefit only in the distant future, if at all. On the other hand, owners of a business have every incentive to make long term investments, as the present value of their shares rises with expectations of future earnings enabling them to sell and realize the benefits *now*. There is every reason to suppose that the unregulated and unsubsidized free market can finance and sustain future energy sources. For example, the now approximately $9 billion trans-Alaskan pipeline system—in which Bradshaw's Arco is, oddly enough, a participant—has been financed privately in spite of the landmark governmental roadblocks and delays. A great many offshore development projects which cost billions of dollars have been and are being financed without government subsidies.

Proposals to divest the major oil companies are counterproductive and would only lead to higher energy costs and less efficiency.

The free market is the best possible regulator of future technological developments. When existing supplies are reduced prices tend to rise and alternative sources are developed and innovated. The market process, when it is allowed to operate within a framework of assured property rights, has always tended to ensure a steady stream of innovations to replace, at lower costs and prices, existing depleting alternatives. The industrial world has yet to "run out" of any resource traded on the market, although there are dozens of cases of resource exhaustion, depletion, and even extinction with resources *not* protected by property rights. Innovation delays and artificial scarcities are the province of governmental planning, not of the free market.

UNCERTAINTY AND PLANNING

If there is an obstacle to future improvements, it is the incredible *uncertainty* associated with future governmental energy interventionism. Which exotic fuels will the government subsidize next and what will be the total commitment? Will the prices of oil and gas continue to be regulated? Will the Congress decide to divest the major oil companies? Certainly energy companies are foolish to plan long-term when they have little or no idea what future policy and law will be, or even whether they will be allowed to develop "competing" sources of energy. The government's energy shortage has become a self-fulfilling prophecy. Its irrational controls and meddling have dried up existing supplies of oil and gas and all but paralyzed future investment commitments. To assert that more government is required because the private capital market is inadequate to the task is to add insult to injury.

Bradshaw would probably respond that permanent government output controls and pricing, combined with "incentives" to private industry will substantially decrease the uncertainty and lead us out of the crisis. But why would future government plans be any more "certain" than existing rules and regulations? What will crude oil outputs be in 1979 or in 1981? What prices will result in such a supply? What are our "national needs" in oil, coal or gas? Who is to determine this and by what means? What new taxes will be devised to reduce demand and consumption? And why should we assume that the political leaders who make *these* decisions are any more informed or wise than free men in competitive markets? The only "certainty" about government planning is that it will *not* work, that it will tend to produce results *opposite* to those intended, and will *doom* any substantial private long-range planning in energy development.

Economic theory and history demonstrate that a political bureaucracy cannot intelligently make such decisions, that the determination of some all-embracing national goal is illusory, and that the only sound alternative to the present regulatory arrangement is the prompt ending of *all* government regulation. In short, we must create a free market in oil. We must institute a system of full property rights in underground oil. We must abolish all federal and state controls over price and output in the petroleum industry. We must end the state prorationing system and abolish the Connally "Hot Oil" Act of 1937. We should, we *must*, establish a free market system in the energy industry. It is the only *practical* solution to the problems that face us.

PLANNING, POLITICS AND POWER

We should also look at the more subtle historical and political implications of Thornton Bradshaw's call for government planning in oil. Bradshaw would have us believe that his stance on government planning is an unorthodox, even radical political position for a prominent business leader to take, and a sharp break with tradition. This is a totally misleading impression, however. Important and influential business leaders have *always* been anxious to convince the public and the Congress that the free market cannot work efficiently in their industry, and that some government planning and regulation would be more in the public interest. They have told us repeatedly that the free market cannot work, that it is often "irrational," and that it is incapable of planning and investing long-range. Bradshaw's plea for planning, far from economic heresy, is entirely consistent with a classical business philosophy that would replace the "chaos" of the market with the security and certainty of government planning, guaranteed loans, and contracts for development.

Now it is perfectly true that we do not normally associate such views with the business community. But that is because the general public has been deceived into believing that most businessmen support free-enterprise capitalism. With a few important exceptions, however, this is not the case. The majority of businessmen prefer power and government-guaranteed profits to any kind of principled consistency. They are more than willing to give up market principles for a system which promises less competition and more security.

Indeed, much of the institutional change that we have seen in the system to date has come at the insistence of business. Almost every major piece of interventionist legislation since 1887 has been supported by important members of the business community. Certainly regulation in the oil and gas industry is no exception. While some might describe such legislative activity as "public spirited," most of us now realize that the "public interest" rhetoric is only a smokescreen for restrictionist legislation aimed at creating or preserving positions of wealth and power in the industrial system for those pushing for more and more government "action." To an important extent the present crisis is but the inevitable consequence of business plutocracy—that is, of the segment of the business community which attempts to gain its profits by government favors, rather than free, competitive enterprise.

Another misleading impression created in the Bradshaw article is that government *can* in fact plan. Surely it is no longer novel to point out that governments do not plan anything, that only *individuals* plan. the alternatives are not planning, or the absence of planning, but, *Who shall do the planning?* The interesting question is who does Bradshaw have in mind to plan our energy outputs and prices *in the name of government?* The word "government" is nothing but a facade hiding a jungle of powerful, behind-the-scenes private interests. It is naive and false to assume that any legitimate public interest could even be defined, let alone served, by such an institution in the energy area.

More realistically, perhaps, Bradshaw does not really intend that government planning serve any public interest in the conventional sense. After all, the public could best pursue its own particular interests through free exchange in free competitive markets. Bradshaw's planning involves government output determination, government price setting, and government taxes, regulations and subsidies to "adjust" market demand to supply. Thus, clearly, it is not the public interest that planning is meant to serve. It is existing governmental policies, particularly *foreign* policy, that mandates further economic planning. As Bradshaw notes, correctly, our foreign policy "has been thrown into confusion" by recent developments in oil.

And so it *has*. Bradshaw is right to see that a free market in oil conflicts with existing American foreign policy. But he is *wrong* to suggest that we abandon still more of our free enterprise in order to preserve such policies. *Why* should we abandon freedom in the domestic economy for still additional foreign adventurism and interventionism? If we intend to be a free society—if that is what America is truly about—then we must adopt domestic and foreign policies consistent with that end and not, as Bradshaw suggests, reshape our social system domestically to fit and serve existing governmental policies. It is existing interventionist institutions and policies that need dismantling and not our freedom to buy and sell oil. What is the ultimate purpose of all these lofty policies and plans if we must lose our freedom to preserve *them?* Bradshaw's eulogy to the "efficiency" of the World War II American economy is entirely fitting—and revealing. But if the American economy is to run *permanently* as in wartime, to what *end* are all the sacrifices? What do we "win" in this "war" if we must permanently abandon freedom and submit to massive "disincentives" in our style of life?

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The answer, of course, is that *we* cannot win anything. In this deadly social process of abandoning free market processes and strengthening political ones only increasing governmental power can emerge victorious. Statism is the recipient of the sacrifices and the reason, ultimately, for planning and controls. Our precious heritage is to be sold to further preserve and strengthen the power of the state and the private interests that make use of it.

Such pleas for planning and increased governmental power must be resisted with all our will. Statism is not only inefficient, it is thoroughly immoral as well. Economic planning by its very nature is *people* planning. It is part of a misguided policy that would return us to the dark ages of political economy where the State controlled the entire economy and society in its own political interests. To return to that system is to finally abandon the American experiment and the American dream.

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we noted earlier are simply the frontmen for more powerful interests, for interests that really count. Behind almost (not all) every regulator is some historical business compromise or sellout of free enterprise capitalism. In energy, and eventually in the rest of the economy, we are about to reap the whirlwind of such policies. *D.T. Armentano, Professor of Economics, University of Hartford*

Letters from readers are welcome. Although only a selection can be published and none can be individually acknowledged, each will receive editorial consideration and may be passed on to reviewers and authors.

[BOOKS IN BRIEF, continued from page 45]

Psychiatric Slavery
By Thomas Szasz
Free Press, 1977
176 pp., $8.95

In a short, powerflly written book, Dr. Szasz takes aim once more at conventional psychiatry, which labels individuals "mentally ill," and at the attendant system of courts, hospitals and psychiatrists who confine patients against their will. The focal point here is a recent Supreme Court case involving a man forcibly committed to a Florida asylum for 14 years. In refuting the widely held notion that the landmark *Donaldson* case represents an advance in the rights of mental patients, Dr. Szasz has put the American psychiatric and legal establishments on trial, with disturbing results. He investigates abuses in diagnostic methods, electroshock "therapy" and the judicial apparatus, singling out for his wit and invective well-known psychiatrists, lawyers, judges and professional organizations. His book, which could stir up a hornet's nest of controversy, is essential reading for those concerned with the care of the emotionally disturbed and the moral dilemmas of psychiatry. Index.—*Publisher's Weekly*