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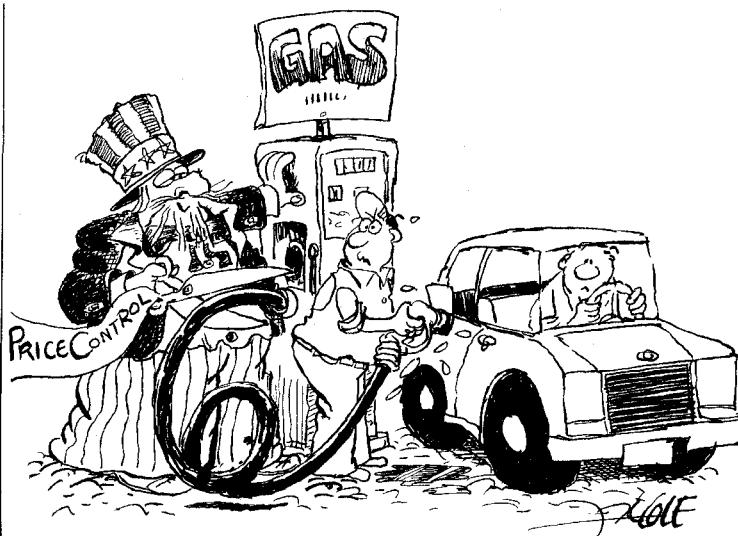
Oil Prices Again

BY MURRAY N. ROTHBARD

Sometimes it seems that our entire apparatus of economic education: countless courses, students, professors, textbooks, backed up—in the case of oil pricing—by a decade of experience in the 1970s, is a gigantic waste of time. Certainly it seems that way when we ponder the near-universal reaction to the Kuwait crisis.

When Iraq invaded Kuwait on August 2 and the Bush administration quickly organized an oil embargo and military action to try to restore the hereditary emirate, gasoline prices, wholesale and retail, began going up immediately. In two days, gasoline price rises throughout the country ranged from four to 17 cents a gallon. Immediately, hysteria hit.

Wherever one turned, media pundits, the financial press, professional consumerists, politicians of all parties, the general public, even parts of the oil in-



dustry itself, the reaction was unanimous. The price increases were unacceptable, a “ripoff by Big Oil,” they constituted evil “price gouging,” and the cause was all too clear: “unconscionable greed.”

Not content with “desecrating” pristine beaches and blue water by wantonly dumping oil

upon them, Big Oil, in the words of Edwin Rothschild (all over TV as energy policy director of the Naderite Citizen Action), had launched a “preemptive strike: they are doing to American consumers what Saddam Hussein did to Kuwait.” Federal, state, and local governments hastily be-

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Dying for the Caribou

BY DOUG BANDOW

To listen to George Bush, one would think that Adolf Hitler had been reincarnated and was ready to turn off our lights. Since there is apparently no more important interest than cheap gasoline for our cars, the U.S. prepared to go to war in the Persian Gulf.

Not surprisingly, petroleum prices jumped 50% soon after the onset of the “crisis.” But that should come as no surprise. Not only has the U.S. organized a boycott of Iraqi and Kuwaiti oil, American military intervention risks causing the entire Persian Gulf to go up in flames. The result, of course, would be far more

devastating than any cartel run by Iraq. But the U.S., which has backed virtually every Third World dictatorship that proclaimed itself pro-Western, now says it is fighting for liberty and democracy by backing the authoritarian monarchies of the Gulf.

Ever since the original Arab oil embargo, Americans have thought of the Persian Gulf as the West’s lifeline. Yet the importance of Middle-Eastern oil has been wildly overstated. Both the U.S. and the U.S.S.R. produce more oil than Saudi Arabia. Iraq, Kuwait, and Saudi Arabia collectively account for only about 15%

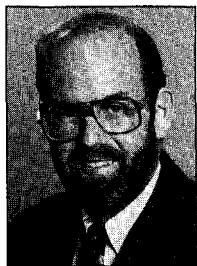
of world production; throwing in the various sheikdoms brings the total up to a little over 20%. Only by conquering the Gulf and holding all of that oil off the market could Hussein push up oil prices sharply. But then he wouldn’t be earning anything, and that’s not good for someone who is broke. If he continued to pump oil, his impact on prices would be far smaller.

The Persian Gulf itself does account for a larger share of proven reserves, one-half by some accounts, but those figures are funny numbers. Proven reserves, currently about one mil-

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Economic Ignorance

From the President



BY LLEWELLYN H. ROCKWELL

The essence of the economic order is the price system. Without it, as Ludwig von Mises demonstrated in 1920, society is doomed to mass starvation.

Even the KGB and the Gulag couldn't entirely wipe out the price system, so the U.S.S.R. managed to stagger along, but only through suffering and bloodshed.

Our own Gosplan, the U.S. Congress, hasn't been as extreme, thanks to the American people and our traditions of liberty. But it's still the biggest collection of economic meddlers and ignoramuses west of Moscow.

When the price system functions freely, it brings supply and demand into rough equality, ensuring that resources are put to their most-valued uses. To the extent that government meddles with prices, it creates waste, hampers entrepreneurship, and makes people poorer. That's true with energy and natural resources; perverting the price system even makes our drug problems worse.

If tomatoes—for whatever reason—become scarcer, their price goes up, which tells consumers to eat less. If more tomatoes come on the market, their price goes down, telling consumers they can eat more. Prices thus constitute a system of resource conservation.

But Congressmen pretend—exactly like Soviet central planners—to know economic values without prices, as we can see in the recent frenzy over oil prices. They denounced “price gouging” while planning tax gouging, including new energy taxes designed to raise the price of gasoline!

The recent hysteria over African elephant tusks was another problem of prices and property rights. If people were allowed to raise elephants and sell their tusks—as even the socialist government of Zimbabwe pointed

out—there would be no more and no fewer elephant tusks than there should be. The same principle applies to all other resources. If left in common ownership, there will be misuse. If put in private hands, we will have the right amount: supply will meet demand.

An example of market response in the animal market was the Cayman Turtle Farm in the British West Indies. The green sea turtle was considered endangered, thanks to overharvesting due to common ownership. The farm was able to hatch eggs and bring the hatchlings to maturity at a far higher rate than in nature. Its stock grew to 80,000 green turtles. But the environmentalists hated the Cayman Turtle Farm, since in their view it is morally wrong to profit from wildlife, and they drove the farm out of business. The green turtle is again on the endangered species list.

Public Goods and Externalities

Liberals justify government intervention in the price system because of “public goods” and “externalities.”

A public good is supposed to be something we all want, but can't get unless government provides it. Environmentalists claim everyone wants national parks, for example, but the market won't provide them, so the government must. But how can we know, independent of the market, that everyone does want these expensive parks? Or how many parks of what sort?

We could take a survey, but that doesn't tell us the intensity of demand. More important, it's not enough to know that people want, for example, diamonds. We would have to know if they are willing to give up other things to obtain them, and we can only

know that by watching their actions in a free market.

If we realize that only the market can give us economic information, the alleged problem of public goods disappears. Absent government prohibitions and subsidies, or competition from “free” parks, the market will ensure that we have exactly the number and type of parks that the American people want, and are willing to pay for.

An externality is a side effect. Your neighbors' attractive new garden is a positive externality; their barking dog is a negative one. One is a blessing, the other an irritant, but you voluntarily purchase neither.

Environmentalists claim, for example, that trash is a negative externality of consuming, so they advocate government suppression of “wasteful” consumption. Yet the free market handles this justly and efficiently through property rights. Privatize everything and the externalities are “internalized,” that is, those who ought to bear the costs do.

Making a product such as drugs illegal hampers this process. Given the incentives, there are no measures severe enough to suppress the trade. Even within the federal prisons, where the criminals are all in cages, there's a lucrative drug market.

A Bush administration official says that one of his goals is to raise drug prices. But what do higher drug prices mean? Higher profits for the drug dealers.

Simple economics teaches that if the price of drugs is driven higher, and the costs of production and consumer demand remain the same, drug producers and distributors can pocket the difference. In economic jargon, the marginal revenue of drug sales already outstrips the marginal cost of production by an artificially huge margin. Profit differentials reach 2,000% in some drug markets!

Higher prices also mean that

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The high murder rate in the inner-cities is a direct result of drug laws.

users will steal more money to buy their drugs—more robberies, beatings, killings, and break-ins in cities across America. Last year drug users stole more than \$7 billion from innocent Americans. Higher prices will guarantee an increase in that figure.

The high murder rate in the inner-cities is also a direct result of drug laws that make the peaceful settlement of disputes impossible. Drug laws have insured the continuance of a market that relies on violence and the threat of violence.

Tougher law enforcement is not a sufficient deterrent. Pushers already face the prospect of

imminent death when they step out onto the streets to sell their goods. As long as a ghetto kid can earn \$4,000 a week selling drugs, he will continue to take the risk.

That leaves decriminalization, which would subject the drug industry to full market discipline. Drug prices would plummet, profits would crash, and street crime would drop—by 75% according to some estimates.

This wouldn't create a utopia, but that is not one of our options. Once the violence stops, we can focus our energies and resources on private treatment for those who want to stop, and private anti-drug education for the young.

But we should not spend any *public* money on treatment or education. Some liberal legalizers want the billions now spent on enforcement channeled into government-run clinics. About 80% of treated addicts return to drugs within a year, however, showing that the problem is not lack of treatment.

Some people are natural addicts, who will harm themselves with drugs. There's nothing the rest of us can do about it, except prevent them—through decriminalization—from spreading their misery to the rest of society.

It would be nice to have another choice, but the laws of economics do not allow us one. ◀

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gan investigations of the "gouging." Senator Stevens (R-Alaska) ominously predicted "gas lines by Christmas," and Senator Lieberman (D-Conn), leading the anti-oil hawks in the Senate, declared "there is absolutely no reason consumers should already be paying more for oil and gas...it must be stopped."

Under this bludgeoning, ARCO quickly announced a one-week freeze of gasoline prices, and there was general talk of "voluntary" freezes by other oil companies.

We are mired, once again, in a farrago of economic fallacies. Let us start with "greed." There is absolutely no evidence that Big Oil is any greedier than small oil, or that oil businesses are any greedier than any other firms. It is even less likely that oil businessmen, whether big or small, were suddenly seized by a monumental intensification of greed on August 2.

In fact, pricing on the market is not an act of will by sellers. Businessmen do not determine their selling prices on the basis of whether they feel greedy or "responsible" that morning. The entire apparatus of economic theory, built up over centuries, is devoted to demonstrating a great

truth: that prices are set only by the demand of purchasers (how much of a good or service purchasers will buy at any given price), and by the supply or stock of the good.

Prices are set so as to "clear the market" by equating supply and demand; at the market price the supply of a good will exactly equal the amount of the good that people are willing to buy or hold. If the demand for the good increases, purchases will bid the price up; if the supply increases, the price will fall. Demanders consist of consumers, whose purchases are determined by the values they place on the goods, and various producers or businessmen, whose demands are determined by how much they expect consumers to pay for the final product. Current production, and therefore future supply, will be determined by how much businessmen expect that consumers will be paying in the future for the final product.

When Iraq invaded Kuwait, knowledgeable people in the oil market immediately and understandably forecast a future drop in the supply of oil. (In fact, as soon as Iraq began to mass troops on the Kuwaiti border a few weeks before the invasion, crude

prices began to rise sharply, in expectation of a possible invasion.) Actions on the market, e.g., demands for the purchase or accumulation of oil, are not at all mechanistic: they are a function of what knowledgeable people on the market anticipate will happen.

Far from being disruptive or "unconscionable," this sort of speculative demand performs an important economic function. If people were mechanistic and did not anticipate the future, a cutoff of Middle Eastern oil would disrupt the economy by causing a sudden drop in supply and a huge jump in prices. Speculative anticipation eases this volatility by raising prices more gradually; then, if supply is sharply cut off, speculators can unload their oil or gasoline stocks at a profit and lower prices from what they would have been. In short, speculators, by anticipating the future, help to smooth fluctuations and to allocate oil or any other commodity to its most-valued uses, over time.

The general public, media pundits, politicians, and even some businessmen, seem to have a mechanistic, cost-plus model of "just" pricing in their heads. It is

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Oil Prices Again

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all right, they concede, for each businessman to pay his costs of production and then add on some "reasonable" markup; but any price beyond that is morally condemned as excessive "greed." But cost of production has no direct influence on prices; prices are only determined by supply and demand.

Assume, for example, that manna from heaven, an extremely valuable product, falls on some piece of land in New Jersey. The manna (extremely scarce and useful) will command a high price even though its "cost" to the landowner was zero (or is limited to the costs of advertising and marketing his find). There is no guaranteed profit margin on the free market. A businessman may find that he can only sell his prod-

uct below his costs, and thereby suffer losses; or that he can sell above costs, and enjoy a profit. The better he forecasts, the more profit he makes. *That*, in fact, is what entrepreneurship and our profit-and-loss system is all about.

Ideas have consequences; and the danger is that we will repeat the calamities of the early and late 1970s. Then, too, suddenly higher prices (caused by current and anticipated supply cutoffs) were treated as moral failures on the part of oil men and combated by maximum price controls imposed by government.

Imposing controls to stop a price increase is like trying to cure a fever by pushing down the mercury on a thermometer.

They work on the symptoms instead of the causes. As a result, controls do not stop price increases; they create consumer shortages, misallocations, and drive the price increases underground into black markets. The consumers wind up far worse off than before. The consumer gas lines and shortages of both the early and late 70s were caused by price controls; and these gas lines (including the shooting of drivers who tried to muscle through the line) disappeared as if by magic as soon as gas prices were allowed to rise to clear the market and equate demand and supply.

If the politicians and pundits have their way, there may well be gas lines by Christmas; but the cause will be they themselves, and not small or Big Oil. ◀

Dying for the Caribou

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lion barrels, are not all the oil that we know is out there, but that which is considered to be economically recoverable *today*, something that changes over time—usually upward.

Geologists think there are probably between one and six trillion barrels worth of recoverable oil that has not yet been discovered. Even those estimates may be low, since as both technologies and prices change, new reserves become available. Thus, ever since the first doomsayers began predicting *a century ago* that we were running out of oil, we've been finding and pumping more.

Further, the Persian Gulf's dominance over reserves will come into play only gradually, giving the West time to adjust. Thus, even if Hussein is able to use force to push up prices today, and he is not dead in 20 years, prices will rise slowly over time, bringing forth new supplies—and reserves—of oil elsewhere in the world, promoting new technologies, processes, and substitutes, and encouraging conservation. Indeed, it is the same phenomenon that we have seen

operate over the last decade in the U.S. Despite the hectoring of Congress and predictions of disaster by the "consumerist" lobby, oil decontrol brought forth more energy at lower prices. OPEC's domination of international oil markets was broken by increased domestic and foreign production and decreased consumption.

This obvious lesson in economics has apparently had little impact on the public and policy makers. After the Bush administration threatened war in the Mideast, oil prices responded accordingly. Future supplies of the product appeared relatively more scarce, and the spot price of oil adjusted upward. However, consumers, many of whom had made tens of thousands of dollars from selling their appreciated homes, complained as gas prices rose. Thirty-one state attorneys general called for an antitrust investigation. Democratic and Republican legislators charged "plundering" and "profiteering." George Bush joined in, browbeating the oil companies to ignore the dislocations caused by his policies and hold the line on

prices.

It is common now to hear calls for a "national energy policy" complete with energy taxes, subsidies for alternative fuels, strict enforcement of the 55-mph speed limit, and tighter mileage standards for cars. *Washington Post* columnist Judy Mann even advocated nationalizing the oil companies.

Escaping notice is the fact that when we had endless energy policies—the Nixon, Ford, and Carter years—we also had endless crises. Only when oil prices were decontrolled did the crisis abate. Yet the enthusiasm for government "planning" seems eternal.

What happened the last time the government attempted to manage the oil markets? The result was a disaster.

Richard Nixon imposed limits on oil prices as part of his wage and price control program, but he did not lift them when he freed the rest of the U.S. economy. Ultimately the controls did not even hold down prices: they only threw the market into chaos.

Government regulation left

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companies with neither the means nor the incentive to explore for new domestic supplies—an off-shore platform can cost tens of millions of dollars. Nor did firms want to invest in new technologies that could enhance the recovery of oil from old wells, or refine “heavy” oil.

The government even created an oil-company “entitlement” program. It required companies with more domestic reserves to send checks to firms that imported more oil. In practice this operated as an *import subsidy*. This entitlement program caused oil imports to be three and one-half times greater than they would have been without controls.

Oil price controls also stifled the development of lower-grade oil resources, such as coal (liquefied coal could provide up to a trillion barrels of oil), shale (the possible source of 1.8 trillion barrels), and tar sands (even larger potential reserves). These resources shouldn’t be developed so long as cheaper oil is available, but only when future supplies grow scarcer, and more uncertainty and higher prices signal firms to start exploring, experimenting, and, ultimately, producing.

Natural gas price controls persisted into the mid-1980s. The controls cut production by 25 trillion cubic feet and halved recoverable reserves. In an attempt to encourage new exploration, Congress created a 26-tier regulatory structure that priced harder-to-find gas at a higher price, which caused firms to avoid increasing supplies near existing reserves because the government would treat these new finds as “old,” and thus cheaper, gas.

The final impact of price controls was to encourage consumption and discourage conservation. There were even well-publicized natural gas shortages, as consumers wanted more of a cheap fuel that companies had no incentive

to provide. (The government naturally responded with the Fuel Use Act, which mandated that certain utilities and manufacturers convert to coal and oil.) With the lifting of controls, however, Americans looked for ways to reduce their use of energy. As a result, energy use per ton of output has dropped by nearly a third since 1973.

The demagogues in Washington even imposed a roughly 70% excise tax on domestic oil production (misleadingly called the “windfall profits tax”). The tax has since been repealed, but during its prime, it discouraged production of up to 800,000 barrels a day.

Most Americans are not aware that during the 1970s, the government decided how much gasoline was to be shipped where. Under the government’s allocation rules, current use was based on previous use. Fast-growing urban areas were short-changed, resulting in gas lines, while rural states, such as Vermont (which had fewer skiers visiting in 1973 than in 1971, for instance), were flush with gas. The rules were further distorted by the political clout of such groups as boaters, farmers, and auto fleet operators, whose members received 100% of previous allocations while average motorists had to live with 70% or less.

Carter also included a range of other idiotic and repressive measures. There was, for instance, the \$88 billion Synthetic Fuels Corporation, intended to subsidize high-cost synthetic products, that even Congress finally closed in disgust at its waste and incompetence.

There was the Energy Gestapo to enforce temperature controls in “public” (open to the public, that is) buildings and the Highway Gestapo to enforce the 55 mph speed limit. Oil overcharge prosecutions continued into the 1980s. And the government threatened to ruin auto-

makers that didn’t make smaller cars, irrespective of consumer demands.

It is not enough to simply avoid repeating the mistakes of the past. Arcane environmental relations are blocking expansion of our energy supplies.

Most of America’s remaining reserves are on federal property—both the third of the U.S. that the federal government “owns” and offshore in areas claimed by various levels of government. All told, the national government owns the mineral rights in 52% of the entire U.S. It controls 95% of oil resources, 85% of high-grade tar sands, 76% of oil shale, 40% of natural gas, and 35% of coal.

Indeed, the federal outer continental shelf (OCS)—which already provides roughly 14% of our crude oil and 29% of our natural gas—is thought to contain as much as 32 billion barrels of oil and 116 trillion cubic feet of natural gas. Unfortunately, we don’t know how much there is because less than 3.8% of OCS lands have been leased. Just 2% are now under lease. With much of the OCS—nearly all of California, New England, and west Florida, which include most areas with the best energy potential—placed off limits by the government, little leasing is likely to occur in the near future.

There is also Alaska. Although Prudhoe Bay provided a major find, only two of the state’s basinal areas have been intensively explored and a dozen haven’t been explored at all. As much as nine billion barrels of crude oil may be present in a sliver of land just 65 miles away from the North Slope. But again, we don’t know, because they have been declared off limits. They are considered within the Arctic National Wildlife Refuge, which cannot be touched.

The best solution is to make all this land private property. Even the environmentalists who so fer-

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vently oppose developing federal lands allow drilling within their private wildlife preserves.

Yet even if the land is opened for leasing, the regulatory process is tangled. Offshore drillers have to obtain 15 different permits and comply with 90 sets of safety regulations. Sometimes expected leases are not issued—a supposed threat to the Bowhead whale in Alaska's Beaufort Sea caused the Interior Department to halt leasing of one-half million acres in 1980, for instance. Sometimes the leases are issued, as were some off of West Florida, but then frozen.

Moreover, there is normally almost a two-year delay between the lease sale and the acquisition of drilling permits because of a complex system of approvals and reviews. And litigious environmental groups, local politicians, and federal bureaucrats can drag the process out indefinitely.

Consider the experience of the Santa Ynez Unit in California, where Exxon struck oil in 1969. The firm filed an application to develop the field in 1970. It took four years to complete the 1,800-

page Environmental Impact Statement; approval from local, state, and federal agencies took another year. In 1976, the California Coastal Commission sought to block the project; then the EPA reversed its prior approval and the California Air Quality Board filed suit to enjoin the project. The board's lawsuit was dismissed in 1978; the following year the same court ruled that the EPA had no jurisdiction over the drilling. Oil finally started to flow in 1981, 12 years after Exxon's initial discovery.

A decade later, the bureaucratic nightmare has become worse. A Chevron-led consortium has spent \$2.5 billion to develop the Point Arguello field off of California, which could produce roughly 100,000 barrels of oil a day. But the Santa Barbara County Board of Supervisors has so far managed to block production by refusing to issue permits for either tankers or a pipeline to transport the oil to refineries.

No wonder Texaco has signed an agreement with the U.S.S.R. to develop its potentially vast arctic resources. If the capitalist

U.S. won't disturb a few caribou (which have actually flourished after the installation of the Alaskan pipeline), the Soviet Union will invite the American oil companies over there.

The energy crisis is a crisis of public policy. If a free market had been allowed to prevail then, there would have been no crisis and no problem. The same is true today.

If the politicians in Washington are really worried about our dependence on foreign oil—so worried, in fact, that they are willing to send tens of thousands of troops to prop up authoritarian monarchies and subsidize the Europeans and Japanese who depend so heavily on Middle-Eastern oil—then they should adopt a new energy policy: *get the government out of the way.*

A crisis seems to bring out the worst in everyone. Our best hope is that the public has learned how poorly government controls have worked in the past. Or we may get another "energy policy," which will bring dead American soldiers abroad and gasoline lines at home. ◀

Lies and Consequences

BY DAVE BARRY

I'm sure that by now all of you taxpayers have heard the exciting news about how we're finally going to lick this pesky federal budget deficit. President Bush, reversing a major campaign pledge, has announced that he is appointing convicted rapist Willie Horton to be secretary of the treasury.

No, hold it, my mistake. President Bush remains FIRMLY OPPOSED to Willie Horton. For now. The campaign pledge that the president reversed himself on was the one about no new taxes.

Remember that one? Remember the 1988 presidential election campaign, when Bush was running against what's-his-name, the little Democratic dweebster with the eyebrows, and just about the only coherent statement that Bush made, every

other time he exhaled, was that we should elect him because he would definitely NOT, no way, read his lips, cross his heart and hope to never catch another bonefish, never ever EVER allow new taxes? THAT'S the position Bush reversed himself on. The reason for this change, according to an unusually frank White House statement, was as follows: "All along, he was lying."

NO! STRIKE THAT! There is a BIG difference between "lying" and "reversing your position." A HUGE difference. Let's say you have a 2-year-old child, and this child swears that he won't spit his mashed beets on your pants, but then he does. This child was lying, and you would punish him. But if the president of the United States—the most powerful man on Earth,

with numerous armed bodyguards and a nuclear arsenal and shoes that gleam from being licked by federal judges—if HE spits mashed beets on your pants, then he is REVERSING HIS POSITION, and he will be widely praised by editorial writers for being "realistic."

If you have trouble understanding this, it's because you're an ordinary taxpayer and therefore, no offense, pretty much of a moron. We are dealing here with high-level government economics, an area that is very difficult to grasp by anybody who has an actual job.

The basic underlying cause of the deficit is that—follow me closely here—THE GOVERNMENT DOESN'T HAVE ENOUGH OF YOUR MONEY. This conclusion was

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reached in high-level negotiations between representatives of the White House and Congress, who have taken precious time away from the urgent task of stopping this nationwide epidemic of flag-burning that has reached the point where it is threatening the ozone layer.

The Democrats believe that the only solution to the budget deficit is to raise taxes. This is the standard Democratic solution for everything, including nasal congestion. The Republicans, on the other hand, believe that the solution is "fiscal responsibility," which means "blaming the Democrats."

Now I know what you taxpayers are thinking. You're thinking: "Why does the government need more money? Why can't the government cut spending? For example, why are we spending billions of dollars to defend West Germany from East Germany, when the entire East German population is in West German shopping malls purchas-

ing Bugle Boy jeans?"

Ha Ha! You taxpayers say the most comical things sometimes! We CAN'T cut government spending. Government spending has already been cut to the BONE. If we cut it any more, there will be drastic consequences, as you'd know if you'd been reading the newsletters that your congresshuman has been sending you in enormous quantities at your expense this election year. In fact, members of the House of Representatives this year will spend nearly \$80 million just for POSTAGE to mail you newsletters keeping you up to date on how hard they're working on this pesky budget mess.

And that's just one example of the kind of vital program that the government needs more of your money for. Another one is the program wherein the Air Force is spending \$100,000 to find out how the noise from low-flying fighter jets affects pregnant horses. I am not making this up.

According to the Associated Press, the Air Force is blasting pregnant horses with simulated jet noise to obtain results that will probably be extremely vital. At least we hope so, because \$100,000 is a lot of money—enough to buy the Air Force 100 PAIRS OF PLIERS.

Yes, the pregnant-horse study could ultimately prove to be as scientifically vital as the Hubble Orbiting Space Paperweight, which was purchased for \$1.54 billion from Telescopes R Us and which has performed perfectly except for one minor design flaw, namely that it would have been cheaper to take a regular telescope and put it on top of an 87-mile-high pile of \$50 bills.

So, taxpayers, there's no question that you're getting a strictly "no-frills" government, and I know that you'll be more than happy to pay more for it. This means you should NOT lie on your income-tax returns. Although here and there you may want to reverse your position. ◀

The War on Tobacco

BY MARK THORNTON

Undeterred by the colossal failure of the government's war on drugs, bureaucrats are promoting a war on tobacco. But it will fail, just as surely as every war on tobacco has failed. In his classic work *The History of Smoking*, Count Egon Corti issues this warning: "If we consider how in the past the efforts of the most absolute despots the world has ever seen were powerless to stop the spread of smoking, we may rest assured that any such attempts today...can result only in a miserable fiasco."

Wars on cigarettes usually coincide with other prohibitions. During the "Progressive Era"—when alcohol was prohibited in many states, and nationally through the 18th amendment—the government attacked cigarettes. And now, at the height of the drug war, we see another all-out war against cigarettes.

Since 1986, the number of anti-smoking bills introduced in Congress has increased 67%, while the number of state laws enacted increased 50% in just one year, from 1986 to 1987. The federal excise tax has doubled from 8 to 16 cents, and new proposals, sure to pass, will double it again. The government requires cigarettes to carry warning labels and restricts advertising. It prohibits smoking in airplanes, government buildings, and public places. And it denounces behavior not yet covered by law, such as advertising or marketing aimed at minority groups.

The state has seen tobacco smoking as a grave evil at least since James I published his *Counterblaste to Tobacco* in 1604. He railed against the private interests that gained from the industry and forbade the growing of tobacco in England—and then established a profitable royal monopoly on im-

ported leaf.

Outright tobacco prohibition has already been tried in our own country. A number of states temporarily outlawed cigarettes in the early years of this century, and New York City even banned cigarette smoking for women (but not for men). It made the front page of the *New York Times* when 29-year-old Katie Mulcahey was arrested for refusing to put out her cigarette. "No man shall dictate to me," she told the policeman.

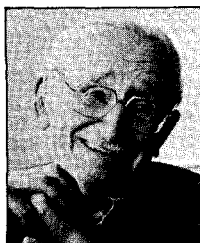
Yet today, the goal is absolute prohibition once again, with former Surgeon General C. Everett Koop calling for a smoke-free America by the year 2000.

In this effort, the average American is the loser. Not only do taxpayers finance this costly war, but it establishes a bad precedent. The powers government gains from the battle against to-

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The War on Tobacco

CONTINUED FROM PAGE SEVEN



Monetary Nationalism and International Stability by F. A. Hayek

In this important but neglected small book, Noble Laureate F. A. Hayek shows the harm done by central-bank inflation to the world economy—a subject that is becoming all too contemporary again. Hayek shows how free trade and sound money—the foundations of international amity and economic stability—are undermined by governments that embark on central bank inflation.

This is also Hayek's most explicit statement about the importance of defining currencies in terms of gold. For this work and others, he was regarded as a leading monetary theorist in the 1930's. Here Hayek teaches lessons that need to be relearned now more than ever. The price for this hardbound book, including U.S. postage and handling, is \$21.50 (B065).

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bacco can and will be used against any product or service disliked by the state. As Ludwig von Mises pointed out in *Human Action*, "...once the principle is admitted that it is the duty of government to protect the individual against his own foolishness, no serious objections can be advanced against further encroachments."

The bureaucrats and government-paid scientists who direct the war know that their most effective weapon is research on the health effects of tobacco. The findings of this research are trumpeted in the media, even though much of it consists of faulty empirical studies.

A recent study, for example, found that smoking increased absenteeism (another crime against the state). The researchers compared absenteeism among smokers and non-smokers. However, when the study was redone to consider other factors that affect absenteeism—such as age, income level, and drinking habits—it turned out that smoking had no discernible effect on absenteeism or productivity. A subsequent study sponsored by the U.S. Chamber of Commerce found that smoking neither reduced productivity nor increased absenteeism. And a Minnesota bank study showed that smokers were actually more productive. You probably didn't read about that one in your local paper.

The Surgeon General estimates that smoking has "caused" 390,000 deaths a year. But most of these "deaths" were people over 65 and the estimates were compiled from a faulty sample: smokers of non-filtered cigarettes (which now account for less than 5% of the market). In fact, the study admits that mortality is

only a "unit of measurement" and "each of these deaths does not represent a named, individual person." The pleasure that people get from smoking is not discussed, nor what would replace tobacco if it were outlawed, nor the economic importance of tobacco.

Despite the intervention, the system of private property rights has shown time and time again that it can solve any problems associated with tobacco smoking. Airlines and restaurants, for example, found it profitable to offer their customers smoking and non-smoking sections. Hotels now offer the same option.

The system of private property rights has shown that it can solve any problems associated with tobacco smoking.

But bureaucrats *mandate* smoke-free sections. This increases the costs of doing business. For example, a law mandating smoke-free sections was imposed on a jazz music club where virtually all the customers and employees smoked.

In the few cases where people are medically allergic to tobacco smoke, they can rely on the market, personal resources, and good will, just as in the case of people allergic to cats.

The free market has produced such innovations as filtered cigarettes, low-tar cigarettes, and ul-

tra low-tar cigarettes. New products such as smoke-less and tobacco-less cigarettes are on the drawing board.

Bureaucracy, on the other hand, has accomplished precious little with the billions of dollars at its disposal. And it has slowed the pace of progress or even prohibited it, for example, by limiting advertising. In countries that prohibit the advertising of cigarettes, smoking continues to increase and the introduction of low-tar cigarettes has been stymied.

Government intervention also creates a mutant entrepreneurial process. For example, advertising restrictions have resulted in tobacco companies promoting teenage smoking in order to "lock in" life-long customers. And confiscatory excise taxes encourage the use of high tar, unfiltered cigarettes so that the consumer gets the biggest "bang for the buck." High taxes also encourage black markets and the smuggling of cigarettes from low-tax to high-tax states.

As Koop's Year-2000 deadline approaches, the calls for tobacco prohibition will increase. But the prohibition of tobacco would be a disaster. It would eliminate an industry, reduce consumer choice, increase police powers, diminish market freedoms, cause organized crime to flourish, and ultimately fail to achieve its goal.

Supporters of the free market might be lulled into indifference on this issue. They should not be. The war on tobacco will establish another dangerous precedent for federal tyranny.

Besides, if government really is upset about smoking, it can eliminate tobacco farming subsidies and thereby cut the budget. Somehow that never seems to be mentioned. ◀

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