



FUEL FOR BUREAUCRATS- OR PEOPLE?

Murray Weidenbaum

At first blush, the proposal to encourage development of a synthetic fuels industry with \$6 billion in Federal loan guarantees seems very attractive. On the surface, it would apparently promote energy independence without imposing a burden on the American taxpayer. How can anyone possibly object? Unfortunately, it seems that the role of the economist often is to serve as the wet blanket, pointing out the discrepancy between the ideal and the reality. And the economist's job with respect to the proposed loan guarantee is no exception. On the other hand, encouraging domestic energy development is an important national objective. But is Federal subsidy the best way to do so?

As someone who has studied and worked in the area of Federal credit programs, I am aware of their various effects, both intended and unintended. But before I get to that set of technical questions, I want to raise a more basic issue. Why does the domestic energy industry need Federal credit assistance in the first place? It certainly is not a matter of the mere size of the undertaking. After all, the \$7-billion Alaska pipeline project is proceeding with private financing.

Nor is it a question of the weak financial condition of the industry. Although the profitability of the

major oil companies has surely been exaggerated in so much of the current popular discussion, the industry's rate of return over the years is just about average for manufacturing companies.

Neither is it a question of a static or declining demand for energy. Estimates surely vary—and for good reason—yet every forecast of future energy consumption in the United States shows a rising trend. And the projected consumption is far beyond the capacity of existing domestic energy supply sources. Why then is there such a lack of interest in the private sector in going ahead with the creation of a new synthetic fuels industry?

The answer seems very clear: under present circumstances, many such undertakings would be uneconomical. That is, the cost of competitive, conventional sources of energy generally is much lower. But the situation is likely to change as the result of basic economic forces.

In coming years, as more marginal and thus higher-cost conventional energy supplies are used, and these fuels become relatively scarce, the gap is likely to narrow between the cost of conventional fuels and the synthetic alternatives—and then synthetics could become competitive. Yet candor requires me to state the well-known but

painful truth. In good measure the price of conventional energy in the United States is being kept artificially low as a result of government policy. Of course we all prefer to pay less for something rather than more, but that is hardly a guide to sensible public action.

What is relevant to present concerns is that the lower the price of conventional fuel is kept, the less attractive is the prospect of developing synthetic fuel. I can only gaze in wonderment at an approach to policy that first keeps conventional fuel prices artificially low (via government controls) and then finds that synthetic fuels will not be developed on a sufficiently large scale without special government assistance.

The natural and more sensible state of affairs is far more straightforward. Eliminate the special price controls on existing conventional fuels. This will both encourage further exploration and simultaneously promote greater conservation. As the price of conventional fuel rises to the cost of synthetics, there will be an automatic incentive for private companies to move ahead. But given the normal desire to minimize risk, private investments will be deterred if there is a strong possibility that the Federal government will step in and assume the risk.

To those who are concerned that

rising energy prices would be inflationary, I have to point out that holding down individual prices is not the way to fight inflation. (It is the classic way to create a shortage). The basic method to dampen down inflationary pressures is well known—deal with the forces that influence the overall price level by reducing the budget deficit and maintaining a moderate monetary policy.

I will now turn to the specific proposal of Federal credit assistance. First of all, it is important to understand that when Congress enacts a new credit program it does not increase the total amount of investment funds available to the American economy. It merely gives some group of private borrowers a preferred position over other private borrowers. It is really a matter of borrowing from Peter to pay (or lend to) Paul.

It is not surprising that the demands for new Federal credit programs are insatiable. Every time one group is singled out for preference, some other group winds up with less credit and asks for similar treatment. Who gets squeezed out? New and small businesses, school districts and smaller local governments, and individuals—generally the weaker borrowers. The remaining unsubsidized private borrowers wind up paying higher interest rates.

Moreover, giving an agency the authority to select the companies that are to receive the financial assistance of the Federal government is a very substantial grant of power. I have recently had occasion to examine the history of the largest such experience, that of the Reconstruction Finance Corporation. The Congress terminated that agency in the 1950's after Congressional committees uncovered a vast array of improper actions, uneconomical loans, and real scandals.

But in attempting to avoid the bad experiences of the RFC, the energy credit proposal is so full of restrictions that it may border on the unworkable. Here are some of those restrictions:

1. The Bureau of Competition of the Federal Trade Commission must review each guarantee. The FTC is to give "serious and meaningful attention" and provide a "comprehensive and adequate" response.

2. The Department of Justice is to make a similar review.

3. The Energy Research and Development Administration (ERDA) must submit a report on each proposed guarantee to the House Science and Technology Committee and the Senate Interior and Insular Affairs Committee. Either House can then disapprove proposed guarantees (of \$350 million or more) within 90 days.

4. The Department of the Treasury must concur on the timing, interest rate, and "substantial terms and conditions" of each guarantee.

5. ERDA is to be sensitive to the congressional concern that concentration in the energy business is not to be "further aggravated" through the loan guarantees.

6. Guarantees are limited to construction and start-up costs.

7. A "high priority" is assigned to the demonstration of the synthetic production of pipeline quality gas.

8. If ERDA seeks to override the negative recommendation of a governor, the burden is on it to show that the particular facility is indeed in the national interest.

9. No oil shale commercial demonstration facility receiving a loan guarantee shall be larger than is necessary to demonstrate the commercial viability of the process.

10. ERDA must have due regard for the need for competition in making guarantees.

11. ERDA can require each new commercial project to cover the capital costs for essential public community facilities. (Where the private project cannot adequately provide for the capital costs of new community facilities, ERDA can make direct loans and can forgive all or part of their repayment.)

In conclusion, the proposed ERDA loan guarantee program is undesirable for many reasons. It avoids dealing with the fundamental need to provide basic market incentives to increase domestic energy production although it is intended to aid a new private industry, it would weaken further the basic risk-bearing and entrepreneurial character of the American business system. There is no indication that the Federal credit program would result in any specific increase in domestic energy production. It would be an extremely cumbersome program to operate, moreover, involving many Federal, state, and local agencies,

while ignoring the sad lessons of history, notably the RFC experience. And it could well be the beginning of an even larger and more expensive program. The 1976 budget message specifically contemplates that the program will be folded into the Energy Independence Authority.

At the very least, the program would be a major extension of Federal responsibility for local affairs. In connection with each project, ERDA could guarantee up to 100 percent of a locality's bonds for "essential" public activities or it could guarantee the amounts of anticipated tax revenue from the energy demonstration facility. ERDA could even wind up operating plants and selling the products or energy that are produced, in case of corporate default.

I urge policymakers to consider the various alternative ways of promoting the nation's objectives in the energy area—including greater reliance on normal market incentives, reducing regulatory barriers to the use of coal and to the exploration of the outer continental shelf, and stockpiling petroleum to reduce the threat of embargo. ■



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MacBride's March On WASHINGTON

An Interview with Roger MacBride

Libertarians who wisely refuse to vote for the "lesser of the evils" may decide to go to the polls this November to support the candidacy of Roger MacBride for the presidency. MacBride is a graduate of Princeton University and Harvard Law School and practiced law with a prominent firm in New York before moving to Vermont in 1960. He served a term in the Vermont Legislature, where he won recognition for his fight to reduce the size of the Vermont bureaucracy. MacBride moved to Virginia in 1968 and operates a farm there. He has authored and edited six books, including his recently-published A New Dawn for America: The Libertarian Challenge, an excellent, readable introduction to libertarianism. He is the co-creator of the NBC-TV series, "Little House on the Prairie."

MacBride gained national attention in 1972 when, as a Republican elector in Virginia, he cast his ballots for the Libertarian Party candidates, John Hospers and Tonie Nathan. As a result, Hospers received only sixteen less electoral votes than George McGovern, while both of them lost to Nixon by a landslide. As the LP's Vice Presidential candidate, Nathan was the first woman in American political history to have received an electoral vote.

MacBride was nominated as the

Libertarian Party's Presidential candidate at the LP's climactic national convention in New York City in August 1975. A California attorney, David Bergland, was selected as the LP's Vice Presidential candidate, and the LP ticket expects to be on the ballot in a majority of states across the nation.

A cartoon in a recent issue of the New Yorker magazine depicted a Jimmy Carter booster saying to a doubting colleague: "I like him because he is an unknown quantity." In contrast to Carter, MacBride has written and spoken widely—and consistently—about his stands on the issues. In his nationally syndicated column, James Kilpatrick described MacBride as a "person of high principle," but concluded that the executive office is no place for a person such as MacBride. "Up with competent plumbers!" said Kilpatrick, who described Carter and Reagan as "accommodating fellows" rather than principled candidates, and asserted that "the country needs a good city-manager type, unconcerned with such nebulosities as freedom...."

The 1976 election will include the candidacies of MacBride and Eugene McCarthy, as an independent, on many state ballots, and the votes they receive can have a definite impact on the outcome of the election.

MacBride has been conducting an active campaign, from coast to coast, flying to appearances in his specially-equipped DC-3. REASON's editor Manuel Klausner interviewed MacBride at a resort near San Diego, where he was resting after several intense weeks on the campaign trail. MacBride is well-steeped in the libertarian philosophy and combined with his knowledge of practical politics and a can-do approach to his personal goals, he is a credible and appealing candidate. An alert and effective spokesman for libertarianism, MacBride has attracted many Americans to libertarian ideas. MacBride is deeply committed to libertarianism, and has dedicated himself to work within the political system to achieve positive social change.

REASON's interview took place shortly before the start of the Republican National Convention. We think our readers will be interested in what MacBride had to say about his campaign and where he stands on the issues.

REASON: Roger, you've served a term in the Vermont State Legislature and you've had a taste of elective office. Why are you running for President?

MACBRIDE: Well, I suppose it's this, that when you perform an act that has as its goal an ultimate revolutionary purpose, you are drawn into pursuing