



DECONTROLLING ENERGY

Liberals are embarrassingly split these days on the subject of energy pricing. On the one hand are environmentalists and other elitists who favor slowing energy growth and see higher prices as a means to that end. On the other hand are populists like Sen. Henry Jackson and some consumerists, who see red at the very mention of higher energy prices and "windfall profits." Recent months have witnessed increasing confrontation between these two viewpoints.

Early in the summer the Ford Foundation released an econometric study on energy growth projections, claiming that the U.S. can — and should — achieve an energy growth rate of 1.7 percent per year between 1975 and 2000, compared with the historic 3.4 percent rate. The study's authors point out that the historic energy growth rate reflects the artificially low prices of energy over the past 20 years, held down by FPC regulation of natural gas prices, government subsidy of energy R and D, public utility regulation of electricity rates, etc. In real dollar terms, the price of electricity has dropped 43 percent over the past 20 years. Consequently, energy users have become increasingly wasteful, as is anyone else faced with a cheap, abundant commodity. Yet according to the econometric model developed for Ford by Data Resources, Inc., price is a much more effective way to curb energy demand than previously thought. Hence, a good way to spur energy conservation measures is to allow prices to rise to free market levels.

Many voices are being raised to urge just that, for both oil and natural gas. An American Enterprise Institute study by Robert B. Helms has called for complete deregulation of natural gas pricing. The FPC itself has recently increased the price for "new" (post-1972) gas to 42 cents per thousand cubic feet (mcf) from the old range of 20 to 34 cents, but this is still far below the \$1.25 per mcf that unregulated intrastate gas (about half of the total gas) is going for. And the FPC has yet to budge on the price of "old" (pre-1973) gas, which accounts for the majority of interstate sales.

A similar situation prevails with "old"

and "new" oil. Unregulated "new" oil (post-1972) is selling for \$10-10.50 per barrel, while price-controlled "old" oil (about 60 percent of the total) goes for \$5.25. Naturally, this kind of price differential encourages producers to leave old wells alone and expend great sums drilling new ones, including offshore wells. Just this anomaly recently led the California Coastline Commission, which opposes offshore drilling, to urge deregulation of oil prices. Many independent oil refiners are also urging deregulation of old oil prices, since the bulk of the old oil supplies are controlled by the major oil companies; as a result, gasoline produced by many independents today sells for more than that of the majors. Treasury Secretary William Simon, formerly head of the Federal Energy Office, is the leading government advocate of complete deregulation, removing both price controls and the oil allocation program.

All of this is too much for the populist liberals. Sen. Jackson complains that the Administration advisers "are still committed to the 19th-Century notion of limiting demand by raising prices," and Lee White of the Consumer Federation of America states that, "With petroleum prices at an astounding level . . . I'm dumbfounded that anyone even mentions decontrol." Yet the free market forces seem to have the upper hand, at present. The man responsible for planning oil decontrol and deallocation, Assistant Treasury Secretary Gerald Parsky, states flatly: "Everyone agrees that we should get rid of price and allocation regulations; the only question now is how to do it." Parsky's optimism may be premature, but we hope he turns out to be right.

SOURCES:

- "How Much Energy Does the U.S. Need?" Stephen B. Shepard, *Business Week*, June 1, 1974, p. 69.
- "Study Urges Freeing Gas," UPI (Washington), Aug. 8, 1974.
- "FPC Grants Hefty Hike in Natural Gas Rates," *Los Angeles Times*, June 22, 1974.
- "Coastal Commissions Suggest Lifting of Price Controls on Oil," *Santa Barbara News-Press*, Sept. 11, 1974.
- "Moving Cautiously to Decontrol Oil," *Business Week*, August 31, 1974.
- "The Slippery Job of Decontrolling Oil," *Business Week*, Sept. 7, 1974.
- "Simon Urges Steps to End Price Curbs on Oil, Natural Gas," *Los Angeles Times*, Sept. 11, 1974.

KEEPING THE LIGHTS ON

It is simultaneously ominous and heartening to report the emergence of private, voluntary organizations in England devoted to maintaining essential services in the face of militant, nationwide strikes. Ominous, because it indicates how close to breaking down England has come, via

ever-increasing government interventionism; yet heartening, in illustrating that there are still people in that country who are unwilling to give up completely to statism.

Two organizations have thus far come to light, both headed by retired military officers and therefore dubbed "private armies" by the press. Great Britain 75 is the creation of Col. David Stirling, creator of the British equivalent of the Green Berets. Stirling's concept is for GB 75 to enlist engineers, computer experts, scientists, technicians, helicopter pilots, truck drivers, and other specialists. In the event of a crippling strike, they would cross picket lines to bring supplies and specialists to struck plants. GB 75's top priority is to keep electricity being produced. The other, similar group, variously reported as "Unison" or "Civil Assistance," was founded by Sir Walter Walker, former NATO commander in chief for northern Europe. Walker hopes to enlist up to 3 million people, and reportedly has some 100,000 supporters already.

Against Great Britain's background of strikes, bombings, unemployment, bureaucracy, and a 20 percent rate of inflation, the formation of volunteer groups to keep the lights burning seems prudent — and perhaps a preview of what may be needed elsewhere.

SOURCES:

- "Plan Leaked for Private British Army," Tom Lambert, *Los Angeles Times*, Aug. 23, 1974.
- "Can Democracy Survive Inflation?" James Reston, New York Times News Service, Aug. 30, 1974.
- *National Review Bulletin*, Sept. 20, 1974, p. B137.

WHAT PRICE ZONING?

The concept of externalities has been used by some economists to justify the use of police power to restrict the uses to which urban property may be put. The argument rests on the commonsensical notion that certain types of land use (e.g., boiler factories) can result in harmful external effects on neighboring properties. Thus, the argument is made for setting up in advance a system of laws (zoning) to prohibit supposedly incompatible uses. But "common sense" is not always a reliable basis for laws, especially where the laws involve a form of prior restraint that strikes deeply at the concept of property rights. Hence, the importance of the first empirical study of the alleged externalities covered by a municipal zoning ordinance.

Frederick H. Rueter studied the municipal zoning ordinance of Pittsburgh,

Pennsylvania. Reasoning that the specific prohibitions codified in the ordinance must define the types of externality being guarded against, he set out to determine the relationship between the market value of a given piece of property and the degree to which 53 factors such as those specified or implied in the ordinance were present on adjacent properties. (Most of Pittsburgh's land uses were established prior to the passage of the ordinance.) Using a mass of data from 12 residential zoning districts, Rueter set up a regression analysis to estimate the predicted relationships.

The results were striking. In a large fraction of the cases, factors presumed to be external *diseconomies* turned up as external *economies* — i.e., exerting a positive value on adjoining property values, rather than a negative one. These results often differed between similar zoning districts, suggesting that, in fact, they are random effects. Rueter concludes that "there is much more independence from external diseconomies in urban property markets than the zoning ordinance anticipates." And, "the value of residential property seems to be affected much more significantly by the attributes of the improvements to that property and by aggregate economic conditions than it is by any features of the neighborhood which have been tested here."

Rueter points out that gross diseconomies (like boiler factories) are prevented by economic factors — it simply makes no sense to locate a factory in a residential neighborhood. But politicians can use the fear of such diseconomies to justify setting up a land use control bureaucracy that is an endless source of political power. Analyses like Rueter's expose these spurious excuses for restricting property rights.

SOURCE:

• "Externalities in Urban Property Markets: An Empirical Test of the Zoning Ordinance of Pittsburgh," Frederick H. Rueter, *Journal of Law and Economics*, Vol. XVI (2), Oct. 1973, p. 313.

FREEDOM TO ADVERTISE

The self-serving anti-advertising rhetoric of two professions — pharmacy and law — is crumbling with increasing speed. Consumer groups, government agencies, and media organizations are all taking part in a series of actions to repeal laws which prohibit advertising in the name of professional ethics, protection of consumers, and other spurious grounds.

The action is greatest in the pharmacy area. Some 20 states still have laws banning pharmacies from advertising

prices of prescription drugs or posting price lists in stores, but the laws are toppling one by one. Last year the Pennsylvania Supreme Court ruled that state's anti-advertising law unconstitutional; in January the Wisconsin Supreme Court threw out that state's anti-advertising law; in March a U.S. District Court ruled Virginia's law unconstitutional; and in May a Denver District Court judge did the same with Colorado's anti-advertising law. In Connecticut the legislature has made it legal for druggists to post price lists, and is now considering a bill to allow full drug advertising. And in California a coalition including consumer groups, the California Newspaper Publishers Association, and the California Broadcasters Association has filed suit challenging the constitutionality of the sections of the Business and Professions Code which make advertising and discounting drugs misdemeanors. The suit claims that Pennsylvania residents pay an average of 38 percent less for prescription drugs than Californians, due to the absence of advertising in California.

In Washington, both the Justice Department and the Federal Trade Commission have spoken out in favor of advertising and against the state laws. The FTC is investigating the retail drug industry for "deceptive or unfair acts in connection with the disclosure or nondisclosure of price information." If all states permitted drug advertising, the FTC estimates that consumers would save \$1 billion per year in drug costs.

Lawyers, too, are beginning to feel the heat. The Justice Department has suggested that bar associations (which are sanctioned by force of law) consider eliminating from their codes of ethics prohibitions on advertising and solicitation of clients. Joe Simms, special assistant to the head of the Antitrust Division, says that advertising of legal services, including fee levels, would promote competition and could lead to lower prices. "It may well be . . . essential to reevaluate existing constraints on competition in the legal profession and test them against the standards universally applied . . . to the marketplace," Simms said in a recent speech to the New York Bar Association. "The consumers of legal services are just as entitled to the benefits of competition . . . as are the consumers of other services."

SOURCES:

- "Retail Drug Pricing," *Business Week*, June 1, 1974, p. 34.
- "Prescription Drug Advertising Barriers Apparently Falling," Brian Sullivan, *Santa Barbara News-Press*, June 26, 1974.
- "Consumer Groups File Suit to Legalize Prescription Drug Ads," Myrna Oliva, *Los Angeles Times*, June 26, 1974.
- "Freedom for Lawyers to Advertise Proposed

by Official," Linda Mathews, *Los Angeles Times*, August 22, 1974.

MILESTONES

• **Vitamins.** The FDA's attempt to regulate high-strength vitamin supplements as drugs has been voted down by the Senate, 81 to 10. House action this session on a similar bill is uncertain as of this writing. The Senate bill, sponsored by Sen. William Proxmire, would prevent the FDA from classing as drugs all vitamins of greater potency than 150 percent of the recommended daily allowance (RDA). The FDA plan had been scheduled to go into effect on January 1, 1974, but has been delayed by a Federal Court injunction until July 1, 1975. Congress has received over a million letters opposing the FDA's plan. (Source: "Senate Votes Bar on FDA Regulation of Some Vitamins," *Wall Street Journal*, Sept. 25, 1974)

• **Communications.** The General Accounting Office has recommended an experiment to test the feasibility and potential benefits of *renting* a portion of the radio frequency spectrum. The idea, of course, is that pricing of scarce resources such as radio frequencies would promote more efficient use than the present bureaucratic allocation process. GAO recommended that the FCC proceed to institute a rental plan for the 2700 to 3700 megahertz band, which is allocated for radar and used mainly by the Federal Government. "The fiscal implications or administrative and technical practicalities of such an experiment should be explored if we are to make the most effective and efficient use" of the frequency spectrum, GAO concluded. (Source: *Industrial Communications*, No. 37, Sept. 20, 1974, p. 4)

• **Privacy** The FBI has been ordered by a federal court in Washington to remove from its computerized files the arrest records of those persons who were later exonerated of the charges. The ruling affects the FBI's massive National Crime Information Center (NCIC), a computer system to which most of the nation's police departments are linked by teletype-writer networks. The Court of Appeals for the District of Columbia ruled that the FBI can no longer act merely as a passive collector of information from police departments, because of their potential for harm as well as good. Rather, it must act to ensure that disposition information is supplied, and where not, to remove the records to prevent harming the innocent. It has been estimated that from 30 to 50 percent of the NCIC arrest records contain no disposition records. (Source: "FBI Must Erase Crime Records of Not Guilty," *COMPUTERWORLD*, May 1, 1974.)

This column reports trends in the advancement of individual liberty and the rediscovery of economic freedom. Readers are invited to submit material of potential interest.

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GOODBY AMA

There's a tendency on the part of the public to view physicians and surgeons in the United States as a reactionary group of greedy business people who are out to make a mint from others' misfortune and helplessness — hence the widespread public acceptance of various national health insurance schemes. When the average citizen hears that representatives of the American Medical Association have been called to testify before a Congressional committee, he has a vision of a group of staunch free market advocates defending the privacy of the individual doctor-patient relationship against the onslaught of various liberal dogooders — if the citizen happens to be of a conservative bent he cheers for the AMA and if a liberal he cheers for the legislators. But in either case the citizen thinks that the testimony of organized medicine is always a reflexive "no" to any governmental health program.

The citizen is mistaken.

Far from being the poor, oppressed victims of the State, M.D.'s, through their major professional organization (the AMA), are major supporters of government intervention into the medical market place. In the past Congressional session, the AMA sponsored or supported over 26 pieces of legislation, all calling for more government intervention, not less.

For instance, the American Medical Association has testified many times over the years in favor of governmental financial assistance to medical schools, medical students, nurses, students, schools of public health, etc., and they repeated their testimony this summer, calling for maximum funding under the Comprehensive Health Manpower Training Act of 1971. Apparently the AMA not only wants to run a closed shop (since the law specifies that medical schools and their graduates must be AMA-certified in order to teach or practice medicine) but it wants the taxpayer to foot the bill! True, getting a medical education is expensive (most things in limited supply are expensive, and the requirement of AMA accreditation for medical schools assures a limited supply of schools) but once that education is obtained the new M.D. can expect to make \$50,000 + per-year. Perhaps the medical students could use loans, but they hardly need subsidies!

Another program the AMA supported was the Indian Health Care Improvement Act based on 25 specific recommendations the AMA House of Delegates adopted for improving the health of American Indians.

It's unclear whether the Indians were consulted in the matter, but it is clear that the AMA's paternalism was hardly consistent with the private, voluntary physician-patient relationship the AMA is believed to espouse.

AMA paternalism is also in evidence in their support for an extension of the Comprehensive Alcohol Abuse and Alcoholism Prevention, Treatment and Rehabilitation Act, which calls for, in essence, taking one citizen's money in order to prevent another citizen from spending his money on booze. Along that same line, the AMA supported a three-year extension of the Drug Abuse Education Act, which aims to control and eliminate drug abuse through education about drugs. (Apparently they ignored evidence such as that presented by Consumers Union in their book *Licit and Illicit Drugs* which indicates that drug education programs serve to arouse curiosity about drugs and can actually result in increased drug use among those opposed to the program!)

Another program the AMA has supported is the Lead-Based Paint Poisoning Prevention Act, which aims to control the use of lead-based paint and thereby eliminate the hazards of poisoning, particularly of children. This Act had the apparently unforeseen effect of creating a shortage of low-cost housing in Philadelphia and elsewhere (since landlords couldn't afford to repaint), forcing rents up, even for poor people without small children (few adults need to be protected from the hazards resulting from eating paint).

The above, of course, are only some of the programs the AMA has supported which call for further government involvement in the health services field — others, such as the National Health Insurance/Medicredit program (which is designed to give every person in America under the age of 65 equal access to high quality health care regardless of their ability to pay) and the Hill-Burton Hospital Construction Program (which subsidizes the construction of tax-exempt hospitals and medical centers, and has resulted in a surplus of hospital beds but not a reduction of the cost of hospitalization) have already been criticized in REASON and elsewhere.

The point of the recitation of the "sins" of the AMA is not, however, to attack the physicians of this country, but rather to urge them to wake up to what they are supporting when they join and remain associated with the AMA or any similar

statist group. The AMA is not the friend of M.D.'s who value their freedom — next to the government itself, the AMA is the worst enemy a freedom-loving doctor could have.

The AMA, by calling for subsidies for medical education, is calling for making doctors wards of the state — it's the height of naivete to think that a government that finances one's education is not going to demand something in return. *Individuals* aren't that altruistic and one can't really expect a collective to be, either! Subsidies mark the start of enslavement — it's that simple.

Plus, the AMA, by putting out free market sounding rhetoric praising private practice and the sanctity of the doctor-patient relationship at the same time that its representatives are in Washington urging bigger and better government health programs, serves to make all the doctors associated with it look like a bunch of money-grubbing hypocrites. It's no wonder doctors can generate little public support in their fight against socialized medicine!

Now, it's quite possible that the AMA does reflect in its actions as a corporate entity the will of its membership — if so, then the doctors of this country should face up to the fact that they are getting in the way of government coercion exactly what they asked for. It's tragic, but just.

On the other hand, perhaps the AMA's actions do not reflect the wishes of at least some of its members. Perhaps some AMA members are libertarian enough to believe that they and the State should leave each other strictly alone and that Big Brother should butt out of the doctor's office. *Perhaps those AMA members should get out of the AMA.*

The AMA (and other professional organizations that actively lobby for statist measures) exists because it has the at least tacit sanction of its members. And they in turn are colored by its image. This country is getting closer and closer to compulsory national health care — if any doctors care to resist enslavement now is the time to make a stand, and boycotting an organization that is working hand in glove with the enslavers is a good first step.

Boycott the AMA.

LYNN KINSKY