

## Milton Friedman on Energy

July 31, 2017

Born on this day 105 years ago, free-market economist Milton Friedman (1912–2006) was one of a kind.

Even the dyspeptic Paul Krugman called his rival “the economist’s economist... a very great man indeed—a man of intellectual courage who was one of the most important economic thinkers of all time and possibly the most brilliant communicator of economic ideas to the general public that ever lived.” *The Economist* (November 23, 2006) called him “the most influential economist of the second half of the twentieth century... and possibly all of it.”

Milton Friedman’s major professional mark was in monetary economics. But as a public intellectual, writing popular books and a biweekly *Newsweek* column, he became conversant in different fields, including energy.

Friedman understood how, for much of US history, major energy regulation was sponsored by some segment of the industry. “Few U.S. industries sing the praises of free enterprise more loudly than the oil industry,” he stated in 1967. “Yet few industries rely so heavily on special government favors.”<sup>[1]</sup>

The same can certainly be said today for the nuclear, wind, solar, ethanol, electric vehicle, and carbon-capture industries. From time to time, an interventionist proposal might also emanate from an oil, coal, or natural gas company.

Friedman’s harsh reaction to President Nixon’s wage and price control order of August 1971 is particularly important for the energy debate, for this action, *not the Arab Embargo*, created the oil shortages and a decade of spiraling regulation. The negative effects of the wage and price controls were so great that federal price controls on energy have not been part of the debate since.

Friedman explained how a *surplus* of regulation caused a *shortage* of oil and gas. He did not buy the “running out of resources” argument, elegantly dressed as Harold Hotelling’s fixity/depletion model, as did so many economists—even those at Resources for the Future.

Near the end of his long career, Friedman weighed in on the global warming debate with a blurb for Thomas Gale Moore’s book for the Cato Institute, *Climate of Fear: Why We Shouldn’t Worry About Global Warming* (1999). Friedman opined:

This encyclopedic and even-handed survey of the evidence of global warming is a welcome corrective to the raging hysteria about the alleged dangers of global warming. Moore

demonstrates conclusively that global warming is more likely to benefit than to harm the general public.

Some salient Friedman quotations follow with commentary.

### **Energy Economics**

“I do not believe there is a natural resource economics. I believe there is good economics and bad economics.”

– Milton Friedman to Robert Bradley, e-mail communication, September 8, 2003.

**Comment:** This is a very profound view. Many economists, viewing minerals as fixed and thus depletable, have tried to separate natural gas, coal, and oil from so-called nondepletable goods. Friedman is saying that there is no special scarcity value for minerals, energy, or other natural resources. This puts him in the camp of Julian Simon and Ludwig von Mises, not Hotelling-inspired economists.

### **Energy Depletion**

“[Oil, gas, and coal are] producible ... at more or less constant or indeed declining cost because of the improvements in the technology of drilling and exploring and so on.”

– Milton Friedman, “The Energy Crisis: A Humane Solution” (Cato Institute: 1978).

**Comment:** This is Friedman’s nod to what Julian Simon memorialized as the “ultimate resource”—human ingenuity. (Friedman, by the way, felt that Simon’s empirical work on human improvement should have qualified him to win the Nobel Prize in economics. Simon died in 1998.)

### **Protectionism**

“The infant industry argument is a smoke screen. The so-called infants never grow up. Once imposed, tariffs are seldom eliminated.”

– Milton and Rose Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1979), pp. 5–6.

**Comment:** Think about wind power and (on-grid) solar power, particularly in reference to the federal Renewable Energy Production Tax Credit (PTC), first established in 1992. Now 25 years old, the PTC has been extended nine times: in 1999, 2002, 2004, 2005, 2007, 2009, 2012, 2014, and 2015.

### **Nixon’s Price Control Order: August 15, 1971**

“I regret exceedingly that he decided to impose a ninety-day freeze on prices and wages. That is one of those ‘very plausible schemes ... with very pleasing commencements, [that] have often shameful and lamentable conclusions.’”

– Milton Friedman, “Why the Freeze is a Mistake,” *Newsweek*, August 30, 1971.

“Individual price and wage changes will not be prevented. In the main, price changes will simply be concealed by taking the form of changes in discounts, service, and quality, and wage changes,

in overtime, perquisites and so on.... But to whatever extent the freeze is enforced, it will do harm by distorting relative prices.”

– Milton Friedman, “Why the Freeze is a Mistake,” *Newsweek*, August 30, 1971.

“By encouraging men to spy and report on one another, by making it in the private interest of large numbers of citizens to evade the controls, and by making actions illegal that are in the public interest, the controls undermine individual morality.”

– Milton Friedman, “Morality and Controls,” *Newsweek*, October 28, 1971.

**Comment:** Friedman’s criticism ranges from economics to civil liberty to human morality. Regarding oil and gas, quality changes could not compensate for such intervention, leading to physical shortages.

### **1970s Energy Crisis**

“It is a mark of how far we have gone on the road to serfdom that government allocation and rationing of oil is the automatic response to the oil crisis.”

– Milton Friedman, “Why Some Prices Should Rise,” *Newsweek*, November 19, 1973.

“The present oil crisis has not been produced by the oil companies. It is a result of government mismanagement exacerbated by the Mideast war.”

– Milton Friedman, “Why Some Prices Should Rise,” *Newsweek*, November 19, 1973.

“Lines are forming at those gas stations that are open. The exasperated motorists are cursing; the service-station attendants are fuming; the politicians are promising. The one thing few people seem to be doing is thinking....

“How can thinking people believe that a government that cannot deliver the mail can deliver gas better than Exxon, Mobil, Texaco, Gulf, and the rest?”

– Milton Friedman, “FEO and the Gas Lines,” *Newsweek*, March 4, 1974.

“The long gasoline lines that suddenly emerged in 1974 after the OPEC oil embargo ... and again in the spring and summer of 1979 after the revolution in Iran, [came after] a sharp disturbance in the supply of crude oil from abroad. But that did not lead to gasoline lines in Germany or Japan, which are wholly dependent on imported oil. It led to long gasoline lines in the United States, ... for one reason and one reason only: because legislation, administered by a government agency, did not permit the price system to function.”

– Milton and Rose Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1979), p. 14.

“There is one simple way to end the energy crisis and gasoline shortages tomorrow—and we mean tomorrow and not six months from now, nor six years from now. Eliminate all controls on the prices of crude oil and other petroleum products.”

– Milton and Rose Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1979), p. 219.

**Comment:** Price controls on oil and on natural gas were removed in the 1980s, and markets went from shortage to surplus where they have been—with rare exceptions—ever since.

Milton and Rose Friedman explained prices controls and shortages in their most popular book, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1979), p. 219:

Economists may not know much, but we know one thing very well: how to produce surpluses and shortages. Do you want a surplus? Have the government legislate a *minimum* price that is *above* the price that would otherwise prevail...Do you want a shortage? Have the government legislate a *maximum* price that is *below* the price that would otherwise prevail. That is what New York City and, more recently, other cities have done for rental dwellings, and that is why they all suffer or will soon suffer from housing shortages. That is why there were so many shortages during World War II. That is why there is an energy crisis and a gasoline shortage.

Milton Friedman's timeless energy insights should be appreciated for all time.