# Rural Times 17

## How to Create an Oil Crisis

*John Hyde*

Following threats to oil supplies from the Persian Gulf the world-wide price of oil rose sharply. Price rises (and falls) are the natural mechanisms that bring supply and demand back into balance after what economists euphemistically call 'exogenous shocks'---that is, events that are not expected. Governments interfere with such price movements at their peril. Nevertheless, Treasurer Keating has frozen the wholesale price of petroleum products in Australia.

The Treasurer no doubt held a wetted finger to the political wind before he did so, and he has, so far, been mostly applauded for what he did. The oil companies must, however, buy oil at world prices---even the world's greatest Treasurer could not freeze those! Since the refiners now lose money on the crude oil they buy, they will buy no more than they must to meet their most pressing commitments. They will not be able to do even that for long. Thus the Treasurer is deliberately running the risk of creating an oil shortage. He knows this, and he is being extremely cynical. He has, however, been led into freezing oil prices by another cynical attempt to interfere with prices---Accord Mark VI, the deal that the Government did with the unions just prior to the last election.

The once courageous Treasurer, who deregulated the financial markets, is discovering that it is hard to be just a little bit pregnant. A sad change has come over a potentially worthy leader.

His problem is that the current version of the Accord is predicated on 6% inflation. Should inflation be higher than 6%, the ACTU will press for more than the 7% wage increase to which the Government has agreed. (The Arbitration Commission will ratify whatever the Government and the unions decide.) Australian inflation is already much higher than in most Western nations and such wage settlements might set in train an unstoppable wage-price spiral. Mr Keating must, therefore, keep inflation down until after the current National Wage Case. Thus Mr Keating's pusillanimity is partly explained, if not excused, by past mistakes forced upon him by his Prime Minister and the exigencies of an election. It is also, I suspect, partly explained by his wish to keep his leadership aspirations open by maintaining cross-factional support, and that involves not offending the unions.

To understand why an oil price freeze is wrong we might contemplate almost any economic shortage. In 1978, the Centre for Independent Studies published a delightful account of 5000 years of attempted price controls. These are some examples from it: On-and-off attempts to keep down the price of Roman wheat played havoc with Roman agriculture during the first four centuries AD, and in the reign of Diocletion artificially low prices led to considerable loss of life. Rules made by the Indian ruler Kautilya (321 BC) to regulate the price of prostitution required the 'superintendent' to determine the earnings of every prostitute according to her 'beauty and accomplishments'---happy man! More recently, President Nixon's price commissioner found himself having to rule whether prostitution in Nevada (where it is legal) was 'a service industry or a regulated utility'. Such rulings can never be made with equity and prices cannot be interfered with without creating shortages and surpluses. Only hypocrites don't want the prices of the things they sell frozen, but support the freezing of the prices of the things they buy.

We have had oil shocks before. The 1973 oil embargo was more serious than this one is so far. President Nixon, who did not believe in price control any more than I think Mr Keating does, but who was, like Mr Keating, a politician, appointed William E. Simon his 'energy Czar'.

In his book, 'A Time for Truth', Simon gives us a telling account of shortages, long queues at bowsers, consumer panic and political obtuseness. Except for the political stupidity, it was all brought about because the US kept down the price of fuel. At the low price, fuel was wasted---guzzled by the biggest automobiles in the world---and potentially viable oil fields in Texas and elsewhere were not developed or closed down. Attempts to allocate the available fuel bureaucratically failed dismally.

For the time being, the Australian oil companies are an easy target---haven't we been told that they make 'obscene profits'? In fact, the availability of refined product from Singapore and elsewhere keeps oil products competitively priced. As if that were not enough, Mr Keating's department sets maximum prices based on Singapore prices. And finally, if super profits were available in this industry, then ACTU Solo was even worse managed than I imagined.

On the other hand, the oil companies are not charities. If they are denied the opportunity to make profits, they will not deliver fuel to our tractors and cars as we need it. And that situation really would be costly!

*John Hyde is Executive Director of the Australian Institute for Public Policy*

ENDS