

Title:

Oil Shortgages - A Solution

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574

Summary:

Is there a solution to oil shortages? How about the same solution that prevents all shortages? Find out what that is in this article.

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Article Body:

Many of us remember the oil shortages of the late seventies. They caused more than just the inconvenience of occasional gasoline rationing. Several elderly people actually died in the New York City area because of a lack of heating oil. Some people thought it would only get worse, and we would run out of oil completely before long.

Interestingly, at the same time, gold and other things much rarer than oil were available to anyone who wanted them. This gives us a clue to what causes an oil shortage, or any other shortage. It is usually just one thing.

Oil Shortages Are Caused By Price Controls

Actually, almost all long term shortages of basic commodities in a modern economy are caused by price controls. Other than economists, not many people know this. They clamor for price controls when prices rise, and these controls then cause shortages. They do it in about ten ways. Examples of three of these ways follow.

First, under price controls, the law said that oil producers couldn't sell oil for more than a certain amount. Of course they immediately closed wells that were producing at a cost higher than that. Reducing the supply sure isn't a cure for a shortage, is it? But then you wouldn't pay your boss to work for him either, so why would a company pump oil at a loss?

Second, because they had a price limit, they sold more to closer customers. This saves on delivery costs, and explains why heating oil was in short supply in New York, which is far from the major oil fields. Anyplace farther away had worse

shortages.

Third, because prices were held artificially low, while some people couldn't get heating oil or gasoline, other's wasted gas on pleasure trips they might not have taken if the price were higher. This further reduces supply. If gas was \$20 a gallon you might travel less, right? The same principle is true incrementally at any price point.

The Solution To Oil Shortages

The tragedy of price controls is that it forces a mis-allocation of resources. Normally the market determines where the oil goes. If it is too expensive, people cut back on pleasure trips, but no elderly folks die for a lack of heating oil. The high price also brings about the resolution, because now it becomes profitable to drill more wells, to make electric cars, and otherwise develop new technologies.

Imagine for a moment the extreme. If the government said no gas could be sold for more than 30 cents a gallon, no other transportation technology could compete with gasoline-powered cars, so none would be developed. Meanwhile, no new wells would be dug, and we would run out the existing supply. With no alternatives developed, it would be a catastrophe. Letting prices go up and down naturally is the solution to this or any oil shortage.

Some of the rarest things on this planet are available to you all the time - if you will pay the price. It is said that all the gold in the world could be put in a large barn, and yet you can buy gold anytime you want. It is price controls that cause shortages. Remember that the next time there are shortages in some basic commodity, despite all the government's best efforts. All their efforts are just politics, and if there is an oil shortage, you can be sure that they caused it.