



Logic and Principle

OUR FUEL POLICY has evolved as a series of *ad hoc* measures with no consistent consideration of the long term objectives of policy.

The result, says Professor Colin Robinson in an I.E.A. paper* is a policy which gives blanket protection to all fuel industries regardless of whether or not there is any justification for such protection.

The final products in the energy market—coal, oil, gas and electricity—are close enough substitutes in their various uses to allow substantial competition between them. But governments have repeatedly intervened to restrict such competition by means of taxes, subsidies, import restrictions and controls over the nationalised energy industries.

During the 1950's, oil, a relatively cheap fuel was gaining an increasing share of the industrial fuel market while coal consumption declined. The government intervened to protect fuel industries generally and the coal industry in particular. Intervention was predictable at a time when home-produced energy was being rapidly replaced by a foreign substitute, says Professor Robinson, and although intervention *may* be desirable in such circumstances (for example to slow down the rate of change to what is socially acceptable or to cushion the effect of such changes on those affected) there seems, he says, to be far too general a presumption that it is necessarily so.

The tax on fuel oil imposed in 1961 was said to be purely a means of raising revenue, although the purpose of its consequent retention was the protection of coal. The effect of taxing oil, the fuel that had been setting the

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general level of market prices, was to lift the pressures of competition in the fuel market generally. It has raised all fuel prices and affords protection to nuclear power and to natural gas as well as to coal.

Present fuel policy consists mainly of: the oil tax; a ban on coal imports; preference for coal in electricity generation and in the local authority market; government assistance to displaced miners; a virtual ban on Russian oil. All fuels therefore receive a measure of protection. Professor Robinson shows the irrelevance of traditional arguments given for protecting the fuel industry, *i.e.* balance of payments and security reasons, and the most important of the more common arguments is, he says, the social problem associated with the decline of the coal industry. He sees as additional factors, nationalism, and a hypothetical "Law of Increasing Intervention." The "Law" which can be borne out by a study of many policies, states that once ministers decide that the market is not capable of allocating resources in the "right" way, they intervene, and in so doing, make necessary a sequence of increasing intervention. This ties up with the *ad hoc* nature of existing fuel policy.

The paper concludes by suggesting that although a case can be made for the protection of coal (or rather its present employees) the protection of the other energy industries should cease. This would lower the real costs of energy and shift resources from fuel production into more efficient use.

As far as coal is concerned, the best policy would be to subsidise the people affected by the decline of the industry, rather than subsidise the industry itself. By allowing the industry to decline and cushioning the effects, we would benefit socially by a reduction in employment in a dangerous and unhealthy occupation, as well as economically by a more efficient allocation of resources.

The paper embodies some original and constructive thinking with the kind of systematic approach from which our fuel policies could have benefited.

It is sad that such an elementary lesson in economics, logic and principle needs to be given so long after Adam Smith's *Wealth of Nations*, but so long as the persistent fallacies of protection backed by vested interests of government and monopolists generally prevail, so booklets like these will need to be published.

VACANT POSSESSION

TWO SCOTTISH ESTATES are to be sold reports the *Estates Gazette*, April 18.

The 1,250-acre Bransfield Estate, which includes a 500-acre arable unit with vacant possession, is situated near the town of Darvel, Ayrshire.

Knockie Estate, on the shores of Loch Ness, comprises some 5,600 acres and includes fishing on several large lochs, deer stalking and grouse shooting.