HENRY GEORGE NEWS

"Very much like such a discussion is a good deal of that now going on over "the social problem" — a discussion in which all sorts of inadequate and impossible schemes are advocated to the neglect of the simple plan of removing restrictions and giving Labor the use of its powers."

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The great oil shoot-out

Landlord against capitalist

by Harry Pollard

California has been awash with high sulphur Alaskan oil. So much oil, that the refineries couldn't handle the flood and storage facilities were bursting at the seams. Special permission is being sought to unload it on Japan in a complicated three-way swap with Mexico.

That was yesterday. Today, millions of Southern California drivers are parked before gas stations trying to get their 10 gallon allocations. It's the latest aggravation of a sorry tale of monopoly power and bureaucratic ineptitude.

"the landlords showed their muscle"

The story began when the landlords showed their muscle. Not the post-Prop. 13 California landlords, but the ones who fight desert heat with burnous and air-conditioned tent. These particular landlords were not over-sophisticated.

For a long period labor and capital did quite well. The crushing rack-rent burden of Ricardo's 'Iron Laws' often is lessened by ineffective landlordism. This happened in the middle-east. More rent **could** have been exacted, but the Arab landlords were slow to appreciate it.

"the impregnable multi-nationals"

The decline of the dollar was their rude awakening. Payment for a barrel of $2 to $3 looked pretty meager when Washington's attempt to paper the world with Washington's pictures received its comeuppance. Foreign banks, up to their ears in bucks, began to dump the surplus on the market. As the sheiks' return diminished with the shrinking dollar, they got pushy — and discovered their strength.

Before long, the oil companies were agreeing to anything that was demanded. Before long, those terrifying bugaboos, the impregnable multi-nationals, were handing over to the sheiks their refineries, pipe-lines, ships, their shorts — anything that would keep the oil flowing.

"OPEC was born"

It was a textbook landlord/capitalist shoot-out, with predictable result. The middle-eastern oil landlords enjoyed the 'Iron Laws'; the oil company capitalists did not.

Historically, landlords don't combine in any positive sense. An understanding about a common property line, or a handshake agreement to return each other's escaping serfs was the extent of their cooperation. Rarely would they combine in a single policy of action. The sheiks changed that. They began to test the market by up-pricing oil in concert. A cartel called OPEC was born.

"Cartel prices break downward"

In a free market, it doesn't matter that producers combine to fix prices. Such prices cannot be sustained without government intervention. And governments which cartelize their international operations there is great difficulty in maintaining the monopoly — unless land is involved. (This can occur through fortuitous location, such as Panama's, or fortuitous mineral deposits, such as Rhodesia's chrome). Cartel prices break downward as the market reacts to the pressure and other suppliers outside the cartel rush to fill the shortages.

However, a Ricardian 'land' cartel acts differently. When it breaks (as it will) prices move upward as members search for upper limits. **(cont'd on P. 2)**

MOBIL MAKES A POINT

The oil industry was shaken by a Mobil suggestion to keep the old oil price, but to allow all new oil to be market priced. This is making the best of a poor situation and it's not a bad idea (perhaps to be expected from a company that is primarily a foreign oil importer rather than an American producer of 'old oil').

The amount of profit to be obtained from old oil is demonstrated by the California City of Long Beach. A consortium of five companies pumps oil from the city harbor. For this privilege, the companies (their acronym is THUMS) pay Long Beach more than 96% of the profit. They can do their job for the remaining pittance. If they were to keep the 96%, it would be called "windfall profit", when in fact it would be economic rent

The Long Beach collection of rent could be duplicated everywhere by collecting heavy royalties in place of consumer taxes. Alberta's success in this area will be told in an upcoming NEWS.

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This has already happened with OPEC. Their latest 'fixing' is about as unfixed as it can be. Individual suppliers are raising prices as they wish. But, the price-break is not evidence that the free market is reasserting itself. It is the playing out of a classic Ricardian scenario. Any member of OPEC — **or a non-member with oil** — may fix a barrel price of $100 before heading for Paris, rest and quiet.

"Always be last to sell"

That they wouldn't sell much oil at that price doesn't really matter, which highlights the gulf between landlord and producers. While unused capital collects rust and obsolescence and unemployed labor starves, the landlord who delays commitment of his land to the market waxes rich.

This is Pollard's 'First Law of the Land Market' which cautions landowners "Always be last to sell". This is valid advice no matter whether the land is an unused down-town corner location, or an untouched 'non-renewable resource'.

Oil sold next year is likely to return more than oil sold now. Yet, in either

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case, once it's gone, "there ain't any more". So, it might as well be left in the ground. ('Phased' decontrol of oil prices compounds the problem by **guaranteeing** a lower price now ($6) and a higher price later ($20) — not exactly the most artful way to maintain the oil flow.)

"It is not marxist against capitalist"

The results of Ricardian pressure are well and often recorded. Subsistence level living and peasant revolt against the landlords are important and recurrent parts of every country's history. (Marx was wrong. The workers don't rise against capitalists. Peasants **always** start the trouble.)

Every "communist revolution" begins with peasant resentment of rack-renting landlords. It is not marxist against capitalist; it is peasant against landlord — with communists always ready to lead.

Anti-landlord violence is also advocated by a few of us. **Our** jingoists want to hit the Arabs with tanks, guns, bombs and marines. One quails at such stupidity. Taking the oil fields might be easy, but holding them intact would be impossible. Oil supply routes are susceptible to attack by small groups. Narrow shipping lanes and narrower pipe-lines offer tempting targets to a determined man with a handful of explosive plastique. The draft would again be necessary merely to supply the GI's to 'walk the pipeline'.

"the sharp reality of landlord power"

Less violent US reaction is predictably curious. The dollar has slipped, slid and toppled. Whether this is intentional or not doesn't matter. The effect is to pay the sheiks far less **in real terms** than they demand. Like other policies (or their lack) this inflation will be impaled on the sharp reality of landlord power. To reiterate the obvious, indexing is the landlord's way of life. They can raise prices and demand payment **in any fashion they choose.**

But, government policy is not limited to humbling our unit of account. Other brilliancies include bits of oil price deregulation; exhortation to greater oil production, accompanied by heavy taxation for those who obey; and pompous, ponderous and somewhat unprincipled interference with the notoriously volatile and specialized oil market. And something else.

"spread the misery"

Socialist economies, confronted by shortage, spread the misery. Everyone is made to be equally unhappy. Which brings us to the implied threat of rationing. Probably nothing will cost more human and other energy than passing around the little coupons. The poor will sell them to the rich. The rich will buy all the coupons they need. And we'll have to support a new administrative and enforcement bureaucracy before we pay a penny for gas.

Bureaucracy proliferates and its costs escalate. The 1978 $9.4 billion profit earned by the top 8 oil companies for bringing us oil is less than the $10½ billion budget the Department of Energy gets for obstructing its passage. And to underscore the emphasis, the DOE budget is about twice our oil bill from Saudi Arabia.

"We can free trade NOW!"

Our problem is evident. We are bent beneath the twin burdens of officialdom and landlordism.

What to do?

We can free trade NOW! Keep the OPEC's hooked on American goodies (which makes more difficult their attempts to go 'cold turkey' on us). Then tell the world we're open for business. We want oil. We're prepared to pay for it, but anyone who wants to sell to us must compete in the open market.

The Arab landlords hold a powerful hand. But, we must end this hapless and helpless awaiting of the latest imperial edict handed down from the OPEC price-fixing huddles.

We have a card of our own to play. Their united front can be broken by free-for-all market pricing. As prices rise, consumption will be choked off (while other fuel sources become attractive). A surplus will occur and the bargaining can begin.

The market won't bring us low prices. But, it **will** get us the best possible deal; and it will get us oil.

"a bonus"

As a bonus, the deregulated, decontrolled, free market would make the DOE unnecessary. With them gone, we'll have that $10½ billion to buy oil. Then, maybe, we'll be able to resume our joy-riding and put the thermostat up to 72° .