

GUEST COLUMN

# Free market in electricity is as yet untapped

*Selected deregulation distorts prices and policy*



**GEORGE REISMAN**

► Mr. Reisman, who lives in Laguna Hills, is a professor of economics at Pepperdine University and the author of "Capitalism: A Treatise on Economics" (Jameson Books, Ill.)

**ON PAGE 4:** An executive of San Diego Gas & Electric gives the company's side of the story of recent price hikes.

**E**lectricity rates in San Diego County and in adjacent south Orange County – the first area in California to be freed from state rate regulation – have sharply increased in the last month or two, immediately following the end of state rate regulation.

The result has generally been interpreted as a failure of the free market and is being cited in efforts to halt the extension of rate decontrol to other areas in the state.

I cannot claim to be familiar with all of the important details of the situation. My only source of information (apart my own sharply higher electric bills) is news reports by people who appear to have no understanding of any kind of the principles governing a free market.

On the basis of my knowledge of those principles, in conjunction with knowledge of the fact that rate decontrol has thus far come to just this one area, I am prepared to advance the following explanation.

The freeing of one part of a market, while the rest remains controlled, subjects that one part to the full pressure of a competition among buyers that properly should extend over the entire market.

The situation is analogous to water in a garden hose the nozzle of which has been tightly blocked and then is opened just slightly. Naturally, water escaping from just one small part of the nozzle will escape with great force. But as soon as the entire nozzle is unblocked, the water pressure will be greatly reduced.

The freeing of the very limited market of San Diego and south Orange counties means that the power supplies of that relatively small area are subjected to the competition of buyers of electric power throughout the state and in surrounding states. The solution is the freeing of the power supplies of the whole state and of surrounding states to meet that competition. Then the price pressure will be greatly reduced.

The further solution is the removal of obstacles to the construction of new and additional power plants, so that the overall supply of electric power can be increased. This would serve to bring about a progressive reduction in the real cost and price of electric power. It would enable businessmen in the industry to be free to earn high profits on the foundation of lower costs.

Free competition would then serve to eliminate such premium profits by driving prices down toward the lower level of costs (just as happens in the

computer industry).

Further high profits would have to be earned by further reductions in cost, and so on and on, with an ever falling real price of electric power. (Of course, to make this possible, the environmentalists would have to get out of the way.)

This is the overwhelming thrust of the free market: ever lower, not higher prices. To be sure, this result is not very obvious when prices are expressed in terms of fiat paper money, which is comparable in its cost of production to paper clips or

**WE HAVE MERELY TAKEN A MODEST STEP TOWARD A FREE MARKET, IN THE AFTERMATH OF NUMEROUS OTHER, MORE POWERFUL STEPS IN THE OPPOSITE DIRECTION.**

pins, and which gets cheaper faster than businessmen can make most goods and services cheaper, with the result that prices expressed in paper money almost always rise.

But it is very obvious when prices are expressed in terms of how many hours or minutes of labor the average worker must put in at a job in order to earn the price of something. Once prices are thought of in these terms, it is clear

that the real price of almost everything has been falling for generations – precisely because of the free market and its profit motive and freedom of competition. That's the real meaning of a free market in electric power as well.

Unfortunately, we do not yet have such a market.

We have merely taken a modest step toward it, in the aftermath of numerous other, more powerful steps in the opposite direction, such as the moratorium on the construction of new atomic power plants and the moratorium on the development of new domestic sources of oil and coal that would serve as fuel for conventional power plants (and also serve to prevent the OPEC cartel from raising the price of oil and thus the cost of producing electric power).

These moratoria, coupled with rate controls, have served to create shortages of electric power in various places, and efforts to cope with these shortages have intensified the competition for whatever electric power is available.

To the extent that such power is now available by competing for it with the residents of San Diego and south Orange counties, the residents of those counties are temporarily bearing the brunt of the consequences of environmentalism and other anti-free-market forces.

That is the real meaning of the surge in electricity rates.

The enemies of the free market should not be allowed to get away with blaming the free market for the consequences of their anti-free-market policies.