

FREE-MARKET ENERGY

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ABSTRACT

There should be no governmental energy policy, nor any department of energy, for that matter. All decisions concerning fuel, up to and including nuclear power, should be based on private property rights and the tenets of laissez faire capitalism. This would assure the proper assumption of risk and ideal resource allocation.

Key words: Energy policy, free enterprise, profit and loss, competition, central planning

I. INTRODUCTION

The Fukushima Daiichi nuclear power plant suffered a catastrophic meltdown after Japan's massive earthquake. That event caused a shift in attitudes. Many nations have put a hold on the construction of nuclear power plants. Germany has shut several plants down, and leaders in the U.S. are calling for greater regulations. The decision of our energy future appears to be safely held in the palms of our politicians.² But wait. . . there is something wrong with this image. Since when have politicians been energy experts? In order to get re-elected, they often ally with special interest groups. Energy is the veritable life-blood of our world economy. Methods of acquiring fuel, such as

¹ This paper has been much improved by the suggestions of an anonymous referee of this Journal.

² It is entirely possible that we are overstating the probability that these nations will eschew nuclear power and underestimating the desire, possibly even the ability, to do so. After all, the Japanese situation is a relatively recent one, and, often, hysteria is the first reaction to tragedy.

nuclear power plants, have the power to destroy us, but also to lift us to unprecedented levels of prosperity. So, if democracy is an insufficient way to determine our energy future, what other options are there? A statist economy would be even more arbitrary, for decisions would be based on the whim of a handful of central planning bureaucrats, rather than an entire nation of people. But on the opposite side of the spectrum—on the side of pure, unrestricted economic freedom—decisions are made by individuals. Those who make good choices are rewarded; those who make poor ones are eventually weeded out of the economy. And thus, the free-market emerges as the least arbitrary and most effective way of doing—well, anything! Considering the grave importance of our energy future, it is reckless to allow any system but the least arbitrary and most effective to make our decisions. This point is illuminated when considering the example of nuclear energy.

In section II of this paper we discuss the uncertainty of nuclear power. The burden of section III is to discuss the proper assumption of risk in this context. Section IV is given over to an analysis of the free market system vis a vis energy provision. We conclude in section V.

II. THE UNCERTAINTY OF NUCLEAR POWER

The meltdown in Japan was a sobering reminder of the threats posed by nuclear power. Although there have been no deaths and only a handful of injuries, a serious fear of radiation permeates Japan. Other accidents have also occurred with nuclear energy, such as Chernobyl, and Three Mile Island. But the events at Chernobyl can hardly be considered a strike against nuclear power, as it is well-known that the plant was terribly mismanaged (having been corrupted by Soviet incompetency). Three Mile Island, on the other hand, occurred in the United States and also proved to be somewhat disastrous, taking nearly 11 years to clean up. There were less than 50 known deaths that resulted from Chernobyl, and no deaths attributed to Three Mile Island,³ but that does not reduce to zero the potential risks posed by nuclear power plants. The Union of Concerned Scientists, a strongly anti-nuclear group, had this to say, “An accident at a US nuclear power plant could kill more people than were killed by the atomic bomb dropped on Nagasaki.” Radioactive contamination from nuclear power plants can cause cancer, birth defects, genetic damage, heart disease, and premature aging, if waste is mismanaged or meltdown occurs (Gyorgy, 1979). A major disaster could contaminate large tracts of land, affecting many people. Nevertheless, the actual risks posed by this energy are far from clear. France receives roughly 80% of its electricity from nuclear power and has suffered no major accident. “Nuclear power is safe,” writes Max Carbon, “no member of the public has ever been killed from the operation of American-type plants” (46). It is clear that experts are in constant discord as to the safety-risks posed by nuclear power.

Many people fear that the spent fuel rods of nuclear power plants could get into the hands of the wrong sort of people, such as terrorists, who could use them to fashion crude, nuclear weapons. Carbon (1997) considers this nearly impossible: It is also difficult, but not impossible, to fashion a bomb from the plutonium in fuel rods.

³ According to the famous bumper sticker of the time: “TMI = 0, Chappaquiddick = 1.

Although highly improbable, it is not inconceivable that some malevolent group could get its hands on spent fuel rods and fashion a bomb. But is this minute risk worth doing away with nuclear energy altogether? Who is to decide?

A final issue with nuclear power plants is their cost. There are several factors that contribute. These include outlays for building, interest that the owner must pay on loans taken to finance its construction, cost to operate and maintain the plant, the amount of time the plant operates daily, and its life-span (Carbon, 1997). Heavy regulations also increase the cost of constructing power plants, but for the nuclear power industry, these expenses are offset by large subsidies. Nevertheless, with rising oil prices, “it appears likely that new nuclear plans will produce electricity almost as cheaply as its competitors or even more cheaply if environmental factors enter decisively” (Carbon 86). Thus, even on the issue of cost, experts are at odds. Luckily, there is a system in which all costs and benefits are meticulously weighed, and those who successfully weigh them are rewarded with success, whereas those who fail are eliminated from the market.

III. RISK

The free-market eliminates the need for one man to make decisions for an entire group of people, against the will of the latter. Instead, each individual decides for himself whether a certain investment is profitable or not, i.e., whether a given course of action will yield benefits that outweigh its costs. Those who gauge correctly flourish; those who do not are eliminated from the industry (Hazlitt, 2008). Through this process, the market ensures that industries move towards the most efficient methods of production.

This is opposed to our current system, in which special subsidies and regulations distort market forces that would otherwise drive towards efficiency and satisfying consumers’ desires. One such distortion is the Price-Anderson Act, which is designed to reduce the liability of the nuclear industry in the case of an accident. Any claims against a nuclear power plant above \$12.6 billion, would be covered by the government. So, if Farmer Joe works hard and pays his taxes regularly, and suddenly a nuclear power plant near his property were to suffer a catastrophic meltdown, he would then be paid back with some of the same money that was forcefully taken from him in the first place. Furthermore, this same money encouraged the plant to be built in the first place by reducing the level of risk imposed upon the energy entrepreneur. In this way, the government will have forced Farmer Joe to fund his own destruction. Clearly, this is unjust.

Most people, however, offer indignant rebuttals to anyone who would suggest allowing market forces to improve our energy market. Dissenters most often cite environmental issues as a primary reason to regulate the energy market, unaware that the free-market would force companies to pay for any significant damage they might cause to the environment. Block (1998A) rejects the doctrine of market failure of negative externalities. Instead, he traces smog and pollution, one of the problems most often associated with capitalism and industry, back to the abridgement of property rights, i.e., failure on the part of the government. Because pollution from local factories can emit debris and ash that may settle on one’s property, Block argues, the government should step in to protect the rights of the property owner. The same

principle applies to other pollutants produced by other industries. However, after the 1830s, the courts began to rule in favor of the major industries, regardless of whose property was being damaged by whom. The main reason for this is offered by Block. "... [A] new philosophical principle began to pervade the halls of justice. Instead of the old fashioned doctrine of protecting private property rights, the new vision was to promote the public interest. And of what did the public interest consist, in this new dispensation? Of economic growth." Thus, if government would simply perform their presumably most sacred function—the protection of property rights—there would be a way to force companies to bear the costs of their supposed externalities: by suing, making them pay for their past damages, and obtaining a court-ordered injunction. There are, however, other possible contentions with a free energy market, especially concerning nuclear power.⁴

The risks of nuclear energy may be very great. Is it not possible that the meltdown of nuclear plant could prove to be so great a calamity that the power plant owner is incapable of compensating for damages caused to others? Yes, of course. The market, however, would offer protection against even this nightmare scenario, through insurance. Not only would insurance purchased by the plants ensure that they are more able to compensate for any damages, but it would also generate a price system which would encourage plant owners to locate in regions of less risk. Just as car insurance is less expensive for automobiles which are cheaper to fix, insurance rates would also be lower for plants that are cheaper to clean up after. This means that insurance would be less expensive for plants in Northern Canada than in Central Park, pushing power companies away from building in densely populated and thus high-risk areas. Companies that did not adhere to these price signals would be, one-by-one, weeded out of the industry.⁵

This argument, however, does not completely reconcile the free-market with safety. Suppose a free-market system in which an incompetent businessman has just inherited billions of dollars and wishes to construct a nuclear power plant in the middle of Central Park, which he recently purchased. This would be an economically infeasible place to build an expansive power plant, but, after all, he is a terrible businessman. Naturally, the citizens of New York would become extremely upset. Even though the plant is doomed to business failure, it could still pose a threat to millions of lives. The price communication of the market did not work; this is a "market-failure."

But consider for an instant the situation of the citizens of New York. Here is an unqualified businessman who has constructed a potentially lethal power plant within the vicinity of millions of people. It is not unlike drawing a gun on each individual in the city of New York, or at least pointing one in their direction. By unjustly placing a burden of risk on the shoulders of each inhabitant of New York, the plant owner has, in effect, threatened their very lives. Such a threat is not taken lightly in a system of libertarian law. It is considered an act of aggression. By threatening the citizens of New York with potential nuclear death, the plant owner has initiated violence, and or

⁴ See on this philosophy, also, Rothbard, 1982; Horwitz, 1977.

⁵ For the importance of the insurance industry in the free society, see Block, 1998B; Hoppe, 2006; Murphy, 2002; Semmens, 1995

the threat thereof, and can therefore be forced to stop his actions. Any individual in the city would be able to go to court with a case against this incompetent plant owner, citing the danger posed by the plant owner as an aggressive action. Thus, even if a loose cannon billionaire decided to construct a plant—which we are assuming is a meltdown waiting to happen—in a heavily populated area such as New York City, an accident is easily avoidable. All it requires is adherence to the non-aggression principle.

This is not to imply that the irresponsible billionaire would first be allowed by law to build his nuclear plant, get it running, and then, only later, would his neighbors be enabled to stop him. No, not a bit of it. There is such a thing as an injunction in law, and as soon as the people in Manhattan got wind of this maniac's plans, they would soon enough apply for one, and nip this threat in the bud. Right now, people are allowed to store dynamite – safely, and *far* removed from population centers. Injunctions would be summarily granted, and properly so, for any other type of storage arrangements. The same goes, in spades, for nuclear reactors.

One might suggest that considering potential accidents a threat to human life would bar too many activities from the realm of acceptable, non-aggressive actions. For example, car accidents are known to cause thousands of deaths per year—virtually all of which are unintentional. Does this mean that every single other driver on the road can be considered a threat to driver A? What about airplanes, which can crash and kill innocent bystander in the crash zone? First, a distinction must be made between those who consent to be put at risk and those who do not. In the first example, each driver on the road is aware of the risks he faces in his daily commute, bearing in mind that the costs of any damages that may occur rest with the perpetrator of the accident. In the second example, there are both consensual parties and non-consensual parties. Those traveling in the airplane have voluntarily put themselves at risk by choosing to travel. No mode of transportation is entirely safe, nor is any airplane pilot infallible. For those on the ground, however, the situation is more challenging. They did not consent to bear any risk. To them, the airplane may as well have been a missile—they are dead either way. So what differentiates an airplane from a threat of violence? Unfortunately, the answer is somewhat vague and unsatisfying. Block and Block (2000, 295) suggest adhering to the standard of the “reasonable person,” stating that “no reasonable person would ever come to any such conclusion. Yes, airplanes sometimes crash, but . . . they cannot by any stretch of the imagination be considered as weapons.” In determining what amount of risk is acceptable to place on non-consenting victims, it may help to view this issue as a continuum problem (Block and Barnett, 2008). Examining how great the risk truly is, and how many non-consenting risk-bearers it involves would be the key to determining where to draw the line.⁶ For example, throwing away an apple core would certainly be a permissible action, even though it may pose a threat to somebody who is allergic to apples by possibly falling from the garbage truck into that person's face. On the other hand, storing a nuclear bomb in one's basement in a crowded neighborhood, regardless of the owner's intent, would pose too great a risk to one's neighbors to be permissible. The line of permissibility would be drawn somewhere between these two extreme examples.

⁶ For libertarian analyses of the proper assumption of risk, see Evers, 1977; Higgs, 1994; Lemieux, 2001; Rothbard, 1982, pp. 135-136

With a low risk of meltdown, but catastrophic consequences if such an event were to occur, a power plant might decide to locate in a moderately desolate area. Price signals, through insurance costs, have driven this plant away from more populated areas. In a worst case scenario, if this nuclear power plant were to melt down, it would pose a grave threat to the few neighbors of the surrounding area. How would the nuclear plant deal with such an event? Perhaps it would hush it up, to avoid a lawsuit—just what one could expect from the proverbial greedy businessman?⁷ On the contrary, their greed would be their saving grace. There would be an immense monetary incentive to preserve as many lives as possible. In June, 2009, Air France flight 447 crash landed somewhere in the Atlantic Ocean. Since then, this company has been held responsible for reimbursing each victim's family between \$137,000 and \$1.6 million.⁸ This statistic suggests that the current value of human life is quite costly, and it is likely that in a libertarian society, because of the importance of the non-aggression principle, that the price per human life would be much higher. Thus, in the event of a catastrophic meltdown, nuclear power plant owners would attempt to save as many lives as possible. More to the point, they would make every effort to ensure this calamity did not occur in the first place.

IV THE FREE-MARKET

How, then, would the question of which fuel source is to be utilized, and in which proportions, be solved in the free enterprise system? It would be done in precisely the same manner in which the issue of what ice cream flavors, and in what proportions,⁹ is addressed: these decisions would be left up to the private decisions of millions of buyers and sellers, employers and employees, retailers, wholesalers, manufacturers and customers. The prices of each fuel, wind, water, solar, coal,¹⁰ gas, oil and, yes, nuclear, would be determined by the free interplay of supply and demand. The government would have no energy policy whatsoever. The energy department would be abandoned, and no new department for ice cream flavors or any other such thing, would be set up.

The apparatus of the state would not place its big fat thumb on the fuel scales in *any* direction. Just as it does not now subsidize chocolate ice cream, and tax vanilla,¹¹ it would not show fear or favor toward any of our fuel choices. It would not help out the “green” fuel sources, nor penalize the non politically correct ones.¹²

⁷ In this context, think of Mr. Burns, of Homer Simpson fame.

⁸ http://www.france24.com/en/20100312-air-france-insurer-axa-appeal-brazilian-compensation-ruling-aviation?quicktabs_1=1#

⁹ Or, colors of cars, or types of breakfast cereals, or the choice between row boats made of plastic, wood or metal, or, the allocation of any number of other goods in the economy.

¹⁰ The Financial Times (editorial, June 2, 2011) fears for the effect of this phase out on carbon emissions. It is likely to increase them...” And, with good reason. Apart from the danger, and the challenges of providing a safe haven for the waste, nuclear power is clean “burning.”

¹¹ We hope and trust Obama will not seize on any of these ideas, and implement new interventionist policies based on them. But, we do not trust him not to do so. Well, everything, not just nuclear power, comes with a risk.

¹² Sometimes, as in the case of tobacco, it does both.

For example, it would open up offshore areas to oil drilling. It would not prohibit wind farms in the Cape Cod area, the pleas of the Kennedy clan¹³ to the contrary notwithstanding. It would not fashion matters in such a way that no new nuclear facilities have been built since the 1970s. It would not look askance at allowing imports from Canada from their oil sands operations.¹⁴

Of course, matters are, to be sure, a bit more complicated in this industry than in many others. There is that little matter of externalities, particularly external diseconomies. “No fear or favor” means, if it means anything at all, that *none* of these competing industries can slough off its costs on innocent bystanders. But apart from that, all should be treated equally, and, would be left alone, under *laissez faire* capitalism.

But suppose the market becomes unbalanced? Posit that even under these conditions of *laissez faire*, we have, for example, too much coal produced, and too little investment in solar power. How would the market handle this? Simple. Markets would address this issue in precisely the same manner as if there came to be an imbalance between, say, shoes and tennis rackets. Suppose it were somehow determined that we had too much of the former, and too little of the latter. This would imply that profits would be low, or negative in foot wear¹⁵ and high, or at least greater, in that sporting good. But, if so, then there will be a natural tendency for entrepreneurs to depart from the shoe industry, and enter the one providing tennis rackets, thus alleviating the initial imbalance. Ditto for coal and solar energy.

V. CONCLUSION

The market has the power to remedy nuclear power uncertainty by rewarding those who accurately determine the costs and benefits of investing in nuclear. Perhaps, when environmental costs and those of risk are included, market forces will demonstrate that nuclear is the most efficient source of energy. However, it is entirely possible that this industry would disappear altogether. Most likely, we would have a more diverse system that grants geographical factors greater import in deciding which methods of power-creation to pursue. For example, nuclear power plants might locate in less population dense areas in Alaska or Wyoming, whereas solar would locate near sunny cities such as New Orleans.

The Obama administration recently requested authority to grant \$36 billion in loans to the nuclear power industry.¹⁶ If this method of creating energy were any good, however, then the free-market, through price signals, would ensure its success. When private property rights are strictly enforced, the market allows costs such as environmental damage and level of danger imposed on others to become internalized, which influences companies to reduce activities that cause pollution or risk to others. Compare this to our current system, which guarantees loans, and reduces the level of

¹³ <http://newsbusters.org/blogs/ken-shepherd/2010/04/29/wapo-buries-kennedy-opposition-cape-code-wind-farm-paragraph-14>

¹⁴ <http://www.topix.com/forum/business/oil-gas/TH70E8QFNJAOMDSSA>

¹⁵ What else can “too much” mean in this context?

¹⁶ <http://nuclear-news.net/2011/04/05/world-must-embrace-nuclear-power-says-areva/>

risk that nuclear power plants might otherwise face—all with money it has robbed from its citizens, the very people they are harming with these policies in the first place. The government has bitten the hand that feeds it for too long. Let us implement a system that will allow clean, safe, cheap, harmonious, and victimless production of energy: the free-market.

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