



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

[fff@fff.org](mailto:fff@fff.org) [www.fff.org](http://www.fff.org)

## **Central Planning of Electricity Must Fail** **by Sheldon Richman**

Central economic planning was discredited in the old Soviet Union and every other country that attempted it. What the great economist Ludwig von Mises showed in theory in the 1920s was then demonstrated in practice in subsequent decades: central economic planning is impossible.

Most people will agree when the issue is economywide planning. But many forget the lessons of failed socialism when it comes to individual markets and industries. Thus we are told that the free market is fine — except for agriculture, the electronic media, medical care, banking, insurance, steel, textiles, securities, natural gas, pensions, and many other things. And, oh yes, electrical power.

Since the historic blackout, politicians and commentators have hastened to declare — even before they knew what caused the outage — that deregulation, that is, the free market, was the culprit. The verdict and execution come first. The trial? Perhaps we'll have time for that later.

There's one tiny problem with this rush to judgment. The free market has an airtight alibi. It was nowhere near the scene of the crime.

The free market has not been allowed to operate in the generation, transmission, and retailing of electrical power. Many people think it has lately, but they are wrong. As the Cato Institute's Jerry Taylor and Peter VanDoren wrote in the *Wall Street Journal*, "While regulations pertaining to the generation and retail sale of electricity were loosened somewhat, regulations pertaining to the transmission grid increased — not decreased — as part of the reform exercise."

California, the land of alleged power deregulation, is often used to indict free markets. There the authorities froze retail electricity prices even when wholesale prices were rising. (Other stifling regulations were also imposed on every stage of the industry.) Anyone with a smattering of economics would know this is the way to cause shortages — in this case, blackouts. If retail prices cannot move freely in response to changes in demand and other conditions, misleading signals are transmitted in all directions. When higher demand would have raised prices, signaling to end-users that they should conserve, government price controls kept those users from getting

the message. Demand continued to rise, squeezing utilities, whose prices were not capped, until a crisis hit. In the name of keeping consumer prices low and preventing profiteering, the controllers made a vital service unreliable.

Call it what you like, but controlling retail prices while wholesale prices rise in an industry burdened with restrictions is not a free market.

In the 19th century a great debate occurred between economists in Austria (most notably Carl Menger) and the German historicists (led by the socialist Gustav Schmoller). The crux of the debate was whether there are timeless economic laws that operate independently of the will of would-be planners. The Austrians insisted there were. The historicists said no. While the discipline of economics survived that debate, many policymakers and commentators are of the old Historical School, whether they know it or not. They believe that governments can ignore economics with impunity. (I doubt that the blackout will prompt them to abandon that discredited belief.)

When economists say that prices send critical signals to producers and consumers about the supply of and demand for scarce resources — and warn of disaster if government squelches those signals — our modern-day historicists (including some with doctorates in economics) scoff and insist their decrees can override the laws of economics. When the economists demonstrate that private property, free exchange, and the resulting price system are indispensable to the success of a modern economy, the anti-economists sniff that no economic theory should be allowed to limit the prerogatives of enlightened planners, who know better than the collective wisdom represented by the free market.

Well, the anti-economists have had their way in the electric-power industry for many years. It's the same industry they now claim is inadequate for 21st-century America. But what do they blame? The free market, of course. And what do they propose? A more intensive form of the very central planning that got us into this pickle.

Sheldon Richman is senior fellow at The Future of Freedom Foundation in Fairfax, Va., author of *Tethered Citizens: Time to Repeal the Welfare State*, and editor of *Ideas on Liberty* magazine.

**This article was originally published in August of 2003.**