

ECONOMICS, LABOR, & BUSINESS

All in all, the authors see no gains from the 1913 changeover to a progressive tax: The tax system is disorderly; incentives to earn and invest have faded; and the federal deficit is larger than ever.

Flunking the Public Utilities

"Public Ownership vs. Energy Conservation: A Paradox of Utility Regulation" by James Q. Wilson and Louise Richardson, in *Regulation* (Sept./Oct. 1985), American Enterprise Institute, 1150 17th St. N.W., Washington, D.C. 20036.

Publicly owned utilities are supposed to champion the needs of consumers. They should promote energy-saving measures and offer lower rates than their privately owned counterparts.

But they do not, say Wilson and Richardson, both of Harvard's department of government.

During the 1960s, economies of scale ruled the day in the electric power industry. This meant low rates for consumers, with big generating plants keeping efficiency up and marginal costs down. State public utility commissions were generally happy, so long as private power plants kept their prices low.

Unfortunately, the Organization of Petroleum Exporting Countries price hike of 1973 changed this rosy picture. Between 1970 and 1975, rising demand for electricity instead drove up the rates by 90 percent nationwide. Plans to boost electricity generation were hampered by delays on nuclear-powered plants, newly mandated pollution control devices, and costly conversions from oil to coal. As a result, many utilities strove to cut energy consumption by customers rather than to expand production.

On the whole, observe the authors, private utilities curtailed demand *more effectively* than did their public counterparts. A study by the Electric Power Research Institute in 1983 found that more than one-half of the nation's investor-owned utilities (versus six percent of those publicly owned) had adopted conservation-oriented pricing systems that encouraged less costly off-peak use.

In 1981, Southern California Edison promoted programs that reduced energy use by 4.2 billion kilowatts. The publicly owned Los Angeles Department of Water and Power made no equivalent effort. In Florida and Texas, the authors found the same dichotomy: Whereas City Public Service of San Antonio simply allowed rates to rise, privately owned Dallas Power & Light spent \$50 per kilowatt on conservation programs to reduce consumption.

Since they are insulated from the marketplace, municipal utilities do not have to scramble when fuel prices go up. Rather than wait for favorable economic conditions to build a new power plant, they can always sell tax-exempt bonds. Moreover, entitled to a share of their utility's gross revenues, cities have little incentive to discourage the use of electricity. Los Angeles drew \$55.3 million from its public utility in 1983; San Antonio, roughly \$73 million.