

Steady As She Goes

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We will never run out of gas.

The argument that we are going to run out of oil, and of fuel in general, is essentially a Malthusian one. Malthus argued that, due to the fixed quantity of arable land and the law of diminishing returns, as population increased, we would one day be faced with a situation where there would not be enough food to support the world's population. In capitalist societies, Malthus has been proven wrong (Malthus' model actually works quite well for Communist societies; we'll discuss that later). The argument that we are running out of oil is based on similar logic. There is a fixed quantity of oil existing in the earth. If we keep using it, and especially if we accelerate our consumption of it, as we are doing, someday we are going to run out. In fact, the argument for oil would seem to be even more compelling than that for food, as it doesn't even need to rely on diminishing returns; there is simply a set amount of oil in the world, and once we use it all up, it's gone. And in a very narrow sense, this argument has some merit. There very likely *will* come a time when it will no longer be feasible to power our autos and homes with fuel refined from petroleum pumped from the earth. But that time will be much farther off, and the consequences will be much milder, than the alarmists predict. The reasons for this are essentially the same as the reasons Malthus was wrong about food.

The first reason is simply the nature of the price mechanism in a market economy. Basic economic theory states that as the price of a good increases, quantity demanded will decrease. This works in both a simple way: people simply use less of the good (in the case of oil, drive less, buy more fuel-efficient cars and energy-efficient homes, or move closer to their place of work; in the case of food, eat less or cheaper food and have fewer children because it costs more to raise them)—and in a complex way: people find substitutes for the good (natural gas, coal, or solar to power their homes; ethanol to power their vehicles. The analogy to food breaks down here somewhat, of course, because there is no substitute for food, but people will choose cheaper, more plentiful food—grain over meat, for instance). The substitution argument can even be carried a step farther: As the price of oil increases,

