

Enrichment Activity

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Prices

Rationing During Scarcity

There are some economists who assert that under certain circumstances, government rationing of necessary products or commodities is essential to limit hoarding and price gouging, and to ensure that the vital product or commodity is shared fairly, to the greatest degree possible. Other experts contend that no matter what the situation, rationing is antithetical to the free enterprise system of capitalist economics.

Read the following description of the steps taken in the 1970s to distribute gasoline to the American population.

Reading: The 1973 Oil Embargo

In the 1970s, the United States was heavily dependent on Middle Eastern oil. The oil-rich nations of the Middle East decided to form an organization to enable them to better control the price and export of their oil. The organization is called the Organization of Oil Exporting Countries, or OPEC. Normally, using criteria of supply and demand, OPEC determined an oil price that it deemed fair and that yielded a good profit for member nations.

In 1971, President Richard Nixon decided to abandon the gold standard, which pegged the U.S. dollar to a set amount of gold. The gold standard made the value of the dollar stable in relation to other currencies. When the gold standard was abandoned, the dollar fell in value. This greatly angered the OPEC nations, which were paid for their oil in U.S. dollars. With the dollar worth less, they were paid less and realized lower profits.

To "punish" the United States for taking this unilateral action in devaluing the dollar, OPEC met and its member nations decided to enforce an oil embargo on the United States beginning in 1973-74. That is, they refused to sell oil to the United States, which depended heavily on OPEC oil to run its economy (though it did get some oil from non-OPEC countries). All sectors of the U.S. economy were affected, from industry, to trucking, to everyday folks who drove to work or for pleasure.

Of course, because the supply of oil was severely limited, its price soared. Yet beyond its exorbitant price was the danger that vital industries, as well as individuals, would not get the oil they needed. There was always the threat of hoarding, price-gouging, and other illegal activities that follow when a vital product is in very short supply.

To make sure that oil was distributed fairly to everyone who needed it, the government instituted a program that entailed a type of rationing for car owners. Odd-even rationing was introduced for motorists. The system worked like this: If the last digit on your license plate was an odd number, you could buy gas only on odd-numbered dates (days with odd numbers, such as January 1, 3, 5, 7, etc.). If the last digit on your license plate was an even number, you were only allowed to get gas on even-numbered days (e.g., January 2, 4, 6, 8, etc.).

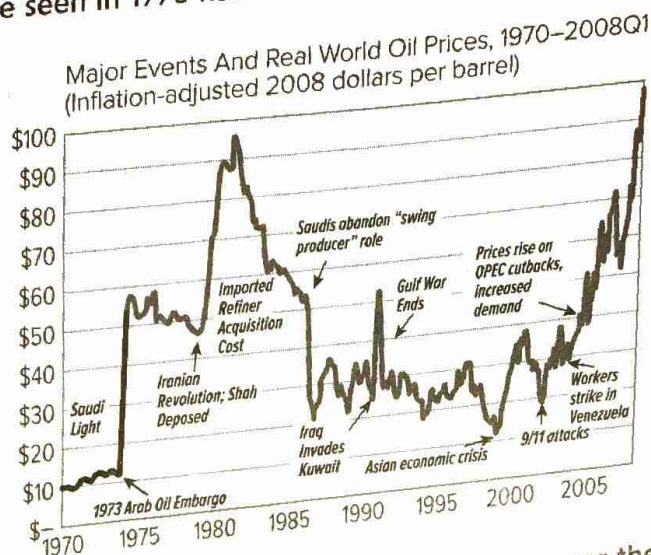
In some cases, the amount of gasoline one person could buy was limited. That's mainly because gas stations quickly ran out of gas. Typically, mile-long lines of cars lined up for hours to wait to get to a gas station. Sometimes, even after waiting hours, by the time some cars at the end of the line got to the station, all its gas was sold. Gas stations began putting up color signal flags to show their "gas status." A green flag meant the gas station still had gas, a red flag indicated that the gas station was out of gas.

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The American public was outraged and furious at having to wait in long lines to buy a few gallons of overpriced gas. Another OPEC oil embargo was imposed in 1979, and again this type of rationing was imposed. Although some people then felt that OPEC was declaring "economic war" on the United States, and that embargoes would become a regular periodic form of economic warfare, no OPEC embargoes have been imposed since. However, other world events have caused gas prices to fluctuate. But rationing of the type seen in 1973 has not been used again.



Directions: Using the information from the reading and graph, answer the following questions.

Questions

- Explaining** What caused OPEC to impose the oil embargo? Do you think they had any justification for their action? Why or why not?

- Identifying** What was the U.S. government's reaction to the oil embargo? Why was this policy imposed?

- Evaluating** How well did the type of rationing imposed by the U.S. government work? What evidence do you have to support your answer? What other measures might have been taken to distribute fairly the limited amount of oil being imported into the country during the embargo?

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4. Analyzing Ethical Issues Was the rationing program instituted as the U.S. response to the embargo in accord with its free enterprise capitalist economic system? In what ways, if any, was this rationing program justified? In what ways, if any, did it betray the ethics of the free enterprise system?

5. Comparing The chart shows other periods when oil prices, based mainly on oil supply, were affected by world events. What other events have caused drastic fluctuations in the price of oil?
