



# 1819 NEWS

## Allen Mendenhall: The Strait that cleared its throat

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*Ships in the Strait of Hormuz (Picryl)*

There's a body of water, barely 21 miles wide at its pinched and nervous waist, through which the world has long conducted much of its most important business. The Strait of Hormuz – a dark, shimmering needle's eye between Iran and Oman – has always had a theatrical quality to it, the kind of place where history tends to clear its throat before speaking.

Well, it's been speaking rather loudly recently, and I thought it past time I set down, in measured prose rather than my recent television chatter, what exactly it's been saying.

Following U.S. and Israeli airstrikes that commenced on Feb. 28, Iranian forces declared the Strait closed on March 4, threatening and carrying out attacks on ships attempting to transit the waterway.

The crucial chokepoint, which ordinarily shepherds more than 20% of the world's daily oil supply to market, has been reduced to nearly nothing. On one recent day, just three ships made the crossing, a ghost-town fraction of the dozens that normally pass daily. Mariners and ships sit stranded in the Persian Gulf like guests who arrived at a party only to find the host had locked the door.

My colleague Victoria Coates [points out](https://www.heritage.org/middle-east/commentary/saudis-petroline-undercuts-irans-energy-blackmail-and-offers-lesson-america) (<https://www.heritage.org/middle-east/commentary/saudis-petroline-undercuts-irans-energy-blackmail-and-offers-lesson-america>) that Saudi Arabia's Petroline pipeline has reduced Iran's ability to use the Strait as an energy passage, illustrating the importance of investing in resilient, alternative energy infrastructure – something the U.S. should emulate.

The geopolitics of this situation are, I assure you, quite sufficiently covered by people with more appetite for military maps than I possess. What I find rather more instructive – and considerably more predictable – are the economic principles this drama has put on vivid display. Consider it a semester's worth of graduate school, compressed into a few catastrophic months.

First, the matter of scarcity. Resources are finite; desires aren't. Oil and liquefied natural gas were already scarce before a single Iranian mine was laid in the Hormuz; they required extraction, refinement, transport, and an enormous apparatus of human cooperation to bring from beneath the earth.

The Strait's closure did not create scarcity so much as it concentrated it, like a lens bringing sunlight to a burning point. The situation in liquid natural gas (LNG) is particularly extreme: unlike oil, there are no alternative routes to bring Persian Gulf gas to market, and very few strategic stockpiles exist to cushion the shortfall. When the supply of any good is suddenly constricted, the scarcity that was always latent becomes suddenly, uncomfortably visible.

Second, supply and demand. The relationship between these two old friends is as reliable as gossip at a small-town dinner party: reduce supply, and prices rise; it has never once failed to happen in the entire history of commerce.

Since the waterway effectively closed, oil prices have increased by double-digit percentages. U.S. crude oil **closed up** (<https://www.nbcnews.com/business/markets/oil-prices-jump-renewed-tensions-strait-hormuz-rcna340901>), more than 6.8% on a single recent trading day, with international Brent crude rising 5.6% simultaneously. But this is communication, not cruelty: Rising prices are the market's honest, if uncomfortable, way of telling consumers to use less and producers to find more. Any government that suppresses those prices through caps or subsidies would be simply postponing and amplifying the reckoning.

Third, prices. These aren't arbitrary; they are a kind of distributed intelligence, aggregating the knowledge of millions of buyers and sellers into a single, legible signal. Policies like price caps, subsidies, and tax relief blur the linkages between price and consumption and are, effectively, a wager that the crisis will end soon.

But when governments muddy that signal, they blind the very people who need it most. The spike at the pump is not an outrage to be suppressed by legislation but, instead, the price system performing precisely its intended function, whispering – or, in this case, shouting – “*adjust your behavior accordingly.*”

Fourth and finally, comparative advantage and the particular prudence of energy independence. Not merely an academic theory, comparative advantage is why the world is wealthier than it would otherwise be. Nations should produce what they produce best and trade for the rest.

Yet there's a distinction, which is not protectionism but simple prudence, between *trade* and *dependency on a single state supplier*. Germany offers the cautionary tale: having decommissioned its nuclear capacity in a fit of green enthusiasm, it found itself grotesquely reliant on Russian natural gas, a dependency that Vladimir Putin was not slow to notice or exploit. The lesson is not that trade is bad but that concentrating one's vulnerability in a single supplier with a single chokepoint is the geopolitical equivalent of putting all one's jewelry in one unlocked drawer.

The U.S. need not make this mistake, and here's good news: it's magnificently equipped not to do so. America is now the world's largest LNG exporter. We have the resource, the infrastructure, and the comparative advantage. The only serious obstacle to full energy independence has been a regulatory environment so burdened by environmental restrictions that it has, at times, made it easier to import energy than to produce it at home.

Which brings me, at last, to my closing thought. The Strait of Hormuz crisis is many things: a human tragedy, a diplomatic emergency, a military puzzle. But it is also, if one has the patience to look, a rather masterful economics lecture delivered by reality itself, free of charge and completely without mercy.

Scarcity is real. Prices tell the truth. Markets process information better than committees. And a nation blessed with abundant energy resources has been poorly served by policy and imagination, not geography. The Strait, for its part, has been perfectly consistent. It's we who weren't listening to it.

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