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Real price gouging

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PRICE GOUGING		
Percent Increase in Price		
	Not Inflation Adjusted	Inflation Adjusted
Increase in Federal Government Spending (1984-2006)	212%	60%
Increase in Federal Taxes per Capita	186%	57%
Federal Spending on Education (1984-2004)	309%	150%
Salaries of Members of Congress (1984-2006)	128%	17%

Mark Twain quipped that "America's only native criminal class is Congress." Once again last week, Congress proved Twain right when they passed a bill to forbid gasoline "price gouging" without, of course, bothering to precisely define the term, other than to say raising "prices unreasonably."

Prices normally rise when demand increases faster than supply, which is exactly what is happening with gasoline. The gasoline price depends on the global price of the raw material -- petroleum -- and the availability and costs of refining it into gasoline. The current price spike is due to the lack of refining capacity. So, why has not more domestic refining capacity been built?

Now ask yourself: Would you invest in the gasoline refinery business, knowing: Congress mandated the domestic supply of oil will continue to decline because it has prohibited production where the big new fields are, namely the North Slope of Alaska (ANWAR) and off the coastlines of much of the country. Further, Congress, state and local political authorities have made it almost impossible to build new, economically competitive refineries because of excessive environmental and other restrictions. Congress has decided to subsidize competing fuels, such as ethanol, thus putting your product -- gasoline -- at a further disadvantage. And when the market cycle occasionally allows you to charge a high enough price to recoup your multibillion-dollar investment, Congress imposes implicit price controls and threatens you with jail if you charge the market price. Moreover, you know battery technology is developing rapidly enough so that over the next couple of decades most cars will be powered by electricity rather than gasoline.

Over the last 30 years, gasoline refining has been a low-margin business, even though, at the moment, it is very profitable. But for the above-mentioned reasons, investors know higher profits will not last long enough to justify the tens of billions of dollars needed to build new refineries. If that were not so, you would see the rich liberals -- the Kennedys, the Kerrys, the Pelosis, George Soros, etc. -- all running to invest in the gasoline refinery business to gain the "unreasonable profits" rather than demanding price controls.

Over the last two decades, prices on average have about doubled due to inflation (which is caused by government -- the Federal Reserve Board, to be precise). Yet, many prices have fallen in real terms. Computers and telecommunications double in performance every couple of years, yet their prices fall. Most food and clothing items cost far less in real terms than 20 years ago -- three cheers for the American farmer, the Chinese worker, and all those who work for Wal-Mart and their competitors who have made the world much more efficient. Even autos have fallen in price in real terms, particularly considering the enormous improvement in performance, reliability and safety in recent decades.

Yet, some prices have risen far faster than general inflation, and as the data show, you find in most cases the culprit is government -- and often the U.S. Congress. (The table shows what Congress has produced over the last couple of decades. I arbitrarily started with 1984 because the congressional debate over "price gouging" reminded me of the newspeak in George Orwell's book "1984" -- but almost any other sets of dates would have shown the same pattern.)

If the federal government operated as efficiently as the American private sector,

there would have been no real increases in taxes per capita (which are now more than \$8,000 for each American or \$32,000 for a family of four).

For instance, take education, where federal spending in real terms has risen about 150 percent over the last couple of decades. Do you think there has been a 150 percent increase in performance from the government-managed schools?

If you look at those areas of the economy that had the biggest price increases -- such as education, medical care, public transportation -- coupled with the least improvement in performance, you almost always see the inefficient or corrupt hand of government.

The oil industry is very competitive globally, yet there is price and cost manipulation, almost all of it by governments -- the Organization of Petroleum Exporting Countries and all the rest. The U.S. Congress has been complicit in OPEC's artificial supply reductions; so if Congress wishes to make "price gouging" a criminal offense, I say "hooray" -- provided we first apply it to the real price gougers, namely, the folks who passed that anti-gouging law.

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