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81

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NASDAQ	2669.00	2.49 ▲
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Russ 2000	852.69	0.38 ▲
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NYSE	10108.31	32.92 ▲
30 YR BOND	52.35	-0.47 ▼

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Editorials

Price laws mean more pain at pump

Posted: Friday, June 29, 2007 12:33 PM CDT

With the summer travel season underway and Texas consumers watching the cost of filling up their gas tanks steadily increase, they may believe that oil companies are getting rich at their expense. This is an understandable but common misconception whenever prices seem to inflate inexplicably.

Unfortunately, some federal policymakers are all too eager to seize on this frustration and propose so-called solutions like price controls to stop so-called "price gouging." Phrases like these should raise red flags, because no matter how well-intentioned or politically motivated, history and basic economics teach us that price caps ultimately produce harsh unintended consequences, including supply shortages and unnecessary economic hardships for consumers.

Anyone who remembers the long lines, gas shortages and inflation from the 1970's price controls on gasoline knows that this is not a legacy to fall back on.

Despite previous lessons learned and the overwhelming evidence that price controls simply do not work, Congress is again looking to shelve the requisite leadership needed to implement sound energy policies based on supply and demand. Rather than helping to increase domestic refining capacity and reduce our dependence on foreign oil, they instead have chosen a purely political strategy void of economic fundamentals.

Of course, there is no sense in taking the hard road to address increasing gas prices or the nation's broader energy challenges when pointing fingers is so much easier.

Consumers should note that while such lawmakers seem preoccupied in their misguided pursuit to label "culprits" in the court of public opinion, they might ask their elected officials to look in the mirror. On average, American consumers already pay 42 cents per gallon in combined federal and state taxes on gasoline.

Spikes in fuel prices during the devastating 2005 hurricane season have been the primary motivation for "price gouging" legislation and investigations, including here in Texas. Suspicions hold that producers were profiting from tragedy, but the economic reality is that fluctuations in fuel prices serve as basic signals to producers to either increase or decrease supplies. This holds true both in times of crisis and normal operations. Because of the massive damage that occurred in the Gulf Coast, where 30 percent of production was estimated to be knocked offline, energy supply and distribution was severely

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interrupted throughout the nation. In response, gasoline prices rose to most efficiently allocate the available supplies to the areas they were most needed.

Following these hurricanes, the Federal Trade Commission (FTC) investigated allegations of price manipulations, but found no evidence of widespread "price gouging." In fact, over the last several decades, the U.S. Department of Energy (DOE) and the FTC both have investigated numerous instances of regional price spikes. The conclusions have been the same: gasoline price increases were due to basic supply and demand economics and that price variances corresponded directly to available supplies.

Yet, had "price gouging" legislation now being supported in Congress been in place during Hurricanes Rita and Katrina, the ultimate result would have been higher costs for consumers and tighter supply. A recent American Council for Capital Formation (ACCF) economic study reviewed investigations of past gasoline price increases. In every case, the price increases were due to the operation of supply and demand and not from withholding supplies.

The study also estimated costs associated with price controls as defined under current legislative proposals. Had they been implemented during the supply disruptions caused by Katrina and Rita that occurred between September and October 2005, the cost would have totaled \$1.9 billion. Price controls would have made shortages worse by reducing supplies available to consumers. Imposing criminal charges for price increases would discourage suppliers from seeking replacement supplies — which might cost more — therefore limiting consumers' access to gasoline supply. Further, the very expectation of price controls would tend to discourage refinery investment, resulting in tighter capacity at all times.

No one likes to pay more at the pump. Yet, while such misguided and ineffective "price-gouging" laws may play well for politicians in the short-term, they will ultimately harm the very consumers they are purportedly meant to protect.

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