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FORUM

Some things to know about high gas prices

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THIS DRAMA seems to have all of the elements of a canned Western: a few potential villains intruding from the outside (OPEC and the oil companies), a hired group doing their bidding (gasoline retailers), a mysterious force behind the scenes (government), and a set of helpless victims (consumers). But how true is the casting in this hypothetical film? Who are



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the villains in this epic? Let's open by setting the scene with a little context: Gas prices today are high, but not that high. Since 1973, including taxes and accounting for inflation, we had our highest gas prices in 1980-1981: averaging \$2.74 per gallon in today's dollars. In fact, gas prices were higher every year from 1974 to 1984 than today. Gas prices in 1990 were also higher (\$1.63) — due to the Persian Gulf War. We had our lowest gas prices ever in February 1999 (\$1.04), but of course, they've jumped up a few times since then. (And the cost of gas today is even lower if one considers our higher average income and the greater fuel economy of our vehicles.)

So, are there any villains?

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"tighter supply" low inventories, and pipeline problems among reasons for higher recent prices.

What about the government? Legislators threaten investigations into price-fixing allegations, but as noted above, such schemes are unlikely. (That said, such threats are a nice way to score some political points!) Another reason noted in the DOE memo was the impact of new EPA regulations. Two factors are at work here. First, stricter regulations involve higher costs to producers, and thus, higher prices to consumers. In a word, for better or worse,

will "be the first to throw a stone" (John 8:7)? To note, who among us has not sought lower prices or a higher income? What is the difference between these pursuits and the profit-maximizing behavior of suppliers?

There are two other popular critiques of oil companies. First, people will point to the absolute level of their profits. Of course, the more useful number is the rate of return on their investments. Likewise, if my retirement account gained \$5,000 last year and yours gained \$10,000, we wouldn't be able to decide who had made the wiser investment until we knew how much each of us had invested. In a word, larger investments yield larger dollar returns. Second, people will com-

siderably between geographical markets.

Finally, one should note the role of government in terms of excise taxes (per gallon) and sales taxes (per dollar) of gasoline. Taxes account for 42 cents of the cost of a gallon of gas. Thus, government is a heavy contributor to the high price of gasoline. Moreover, it is ironic that some in the government would accuse some in the private sector of "gouging" customers, when the government does nothing to produce gasoline but profits far more per gallon than anyone else in the chain of production.

The plot in this drama has more complexity than your

plain about the "windfall profits" of oil companies. These occur because some of the oil and gas which are now sold for higher prices were bought at lower prices — yielding a short-term, above-normal rate of return. But this is a natural occurrence in a fluctuating market. Likewise, oil companies will incur "windfall losses" when prices decline, since they will have bought some oil and gas at relatively high prices. And again, who among us, in a similar position, has done or would do the same? If I buy at a low price, but have the opportunity to sell at a much higher price, should I relinquish that opportunity?

In fact, the market for gasoline has many of the characteristics one would expect to see

average film. In the minds of the consumers, the producers are the bad guys. But they're doing what all of us look to do — seek favorable prices and maximize our incomes for the same level of work. Meanwhile, the government looks to play the part of savior while contributing to the problem through environmental regulations and taxes on gaso-

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