

Richmond Times-Dispatch

June 11, 2007

The Glut

For someone who does not exactly qualify as a lifelong Democrat, Virginia Sen. Jim Webb certainly has shown a talent for epitomizing the least admirable facets of that honorable party. Shortly before the Memorial Day holiday he issued a press release calling for "increased government action to reverse spiraling gas prices." He suggests the Federal Trade Commission (FTC) investigate gasoline price hikes, and blasts the oil industry's "record profits" of \$120 billion in 2006.

In one short burst, Webb managed to mix cheap pandering with mangled economics and further muddle an issue where clarity is sorely needed.

If Webb is not already aware, then he should know that the FTC has investigated gasoline price spikes time and time again. Indeed, just about every time gasoline prices have shot up, the FTC has been asked to determine whether some sort of anti-competitive collusion or awful price-gouging is to blame. And every time, the FTC's thorough research has found one simple answer: no.

Six years ago, when prices spiked in the Midwest, the FTC

found "No Evidence of Collusion": "There is no evidence that the price increases were a result of conspiracy or any other anti-trust violation. Indeed, most of the causes were beyond the immediate control of the oil companies."

Two years ago, the commission explained that "in no other industry does the FTC maintain a price monitoring project such as its project to monitor retail gasoline and diesel prices." And what does that monitoring find? It has found "market factors to be the primary drivers of both price increases and price spikes."

Two days before Webb's office sent out his pandering press release, this newspaper reported: "Record-high U.S. gasoline prices appear to be a result of refinery outages, increased demand, and decreased imports, the Federal Trade Commission said. William Kovacic, a commissioner with the FTC, said in written testimony to a House Energy subcommittee that those three factors were the lion's share of the increases."

The reason gasoline prices have risen is simple: Refinery capacity is maxed out, yet

demand continues to rise. And that demand seems to be largely inelastic: Americans refuse to give up their behemoth SUVs or even change their driving habits in response to higher prices. **Sterling Burnett of the National Center for Policy Analysis counts more than 60 vehicles on the market that get more than 30 miles a gallon -- 40 of which get more than 40 mpg. "And none of them," he says, "are top sellers." Surveys just prior to the Memorial Day holiday found few vacationers making major changes of plans because of gasoline prices.**

If Webb truly were as gutsy as he likes to portray himself, then he would tell his constituents to quit whining about gasoline prices and do something about them -- like, say, drive less.

But what about those supposedly awful oil-company profits? Put aside the fact that profits are supposed to be good in a free economy -- pensioners can't rely on bankrupt companies -- and take note of this: While the major oil companies make a profit of 13 cents on each gallon of gas (or about 4 percent on a \$3 gallon of regular), the federal government collects 18.4 cents in taxes.

What's more, the average state tax on gasoline is about 20 cents. (Virginia's is 17.5 cents.) Add local levies, and the total amount government collects on each gallon of gasoline approaches 50 cents.

In fact, in the past three decades the major U.S. oil companies have reaped less than half in profits what federal and state coffers have collected in gasoline taxes. If Webb really wants "government action" to lower the price of gasoline, he could start there. Before doing

anything, though, he should at least renew his acquaintance with the law of supply and demand -- and remember that politicians often look cheap because when it comes to pandering pols who prey on ignorance, there is a glut on the market.