

OTHER OPINIONS

Alternative to gas price gouging is worse

BY JAMES V. KOCH

While \$3-per-gallon gasoline makes some people unhappy, \$6-per-gallon gas makes many people as mad as a home owner whose tax bill has tripled. Mad enough, indeed, for some to allege that "price gouging" has occurred. A half-dozen state governors, numerous legislators and even President Bush have called for investigations of possible price gouging in gasoline markets.

Price gouging is hard to define, but those who complain about it appear to have in mind a high price they deem to be blatantly unfair. If gasoline sold for \$2 per gallon yesterday, then many individuals believe it shouldn't sell for much more than that today.

But this reasoning is economically shortsighted. Attempts to curb what some define as price gouging only serve to make

things worse.

Suppose an approaching hurricane or other disaster stimulates many drivers to fill their gas tanks. You and I are operating a gasoline station, have only 1,000 gallons to sell and we're not likely to receive more gasoline for some time. What's the best way to allocate that scarce gasoline to the mile-long stretch of drivers who are begging to get to our pumps so they can leave town ahead of the hurricane?

Our gasoline station could sell all the gasoline at \$2 per gallon, in which case nearly every driver will fill his car's tank to the very top. After perhaps 150 drivers have filled their tanks, our station will run out of gasoline and have to close. The rest of the drivers in the long line are out of luck.

However, if the gasoline is priced at \$6 per gallon, more than a few drivers won't fill their tanks. This means many

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more drivers are going to be able to pump some fuel. Which is better? Would John Q. Public rather have the opportunity to purchase some gasoline at \$6 per gallon, or no gasoline at \$2 per gallon? Which pricing scheme helps the most people?

Some commentators seem disturbed that some stations have sold gasoline for substantially higher prices than they paid for it. However, these are the same sages who would think nothing of selling their own home for double the price they paid for it two years ago, even if they haven't made a single improvement to that property.

Using the commentators' logic, should we demand that

everyone agree to sell their homes for the prices they paid for them?

The point is this: What someone paid for goods at some point in the past isn't a very good guide to what it should be sold for now. Peter Minuit, after all, paid \$24 for Manhattan Island a few centuries ago. That's irrelevant today.

Two hurricanes, burgeoning international demand by China and India, continued difficulties in the Middle East and long-standing structural problems in oil refining in the United States have combined to push gasoline prices upward, though after accounting for inflation, those prices still aren't much higher than they were 30 years ago.

Unfortunately, we haven't constructed a new oil refinery in the United States for about 30 years. Thus, our ability to expand our production of oil and refine it into gasoline is alarmingly limited. Now, when even

a minor disturbance hits oil and gasoline markets, prices tend to spike upward because there is so little slack in the system.

Columnist Robert Samuelson hit it on the head recently when he observed that "cheap gas is a bad habit." Low gasoline prices may make us happy and are politically popular, but they entice us to consume too much gasoline, shy away from fuel efficient cars, avoid public transportation, forget about conservation and neglect alternative energy sources. This is

a recipe for long-term societal failure.

Ultimately, most of the rhetoric about price gouging is populist claptrap that solves no problems (except those that are political) and only serves to make things worse. We deserve better from our elected officials.

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