

October 31, 2005 Many Americans understandably are upset with the sharp spike in gas prices since Hurricane Katrina hit the gulf coast in August, and are concerned by reports of oil company profits. But we must understand that high oil prices are not the result of an unregulated free market. On the contrary, the oil industry is among the most regulated and most subsidized of U.S. industries. Perhaps we need to ask ourselves whether too much government involvement in the oil markets, rather than too little regulation, has kept the supply of refined gasoline artificially low. Consider Marathon Oil, which operates a refinery in Texas City. Marathon recently announced the construction of new refinery that will bring several hundred thousand barrels of oil online every day- which is exactly what the nation needs. But building a new refinery is a daunting task that requires billions of dollars in capital investment. The process of obtaining federal permits alone can take several years. As a result, we won't see a drop of refined gasoline from the new Marathon facility until 2009. Federal subsidies and regulations are largely responsible for limiting the supply of refined gasoline in this country. The demand for gasoline has risen dramatically in America due to population growth in recent decades, but virtually no new refining capacity has been added. Basic economics tells us that rising demand and a fixed supply will lead to higher prices. No amount of congressional grandstanding about price gouging will change this economic reality. We must increase domestic exploration, drilling, and refining if we hope to maintain reasonable gas prices. We need more competition, which means we need less government. Most Americans agree that the American economy should not be dependent upon Middle East oil. Economist George Reisman, however, explains that our own domestic regulations make us slaves to OPEC: "Today, it is possible once again to bring about a dramatic fall in the price of oil- indeed, one even larger than occurred in the 1980s. And it could begin right away. All that is necessary is to abolish the U.S. government's restrictions on domestic energy production inspired by the environmentalist movement." Reisman also explains how abolishing restrictions on coal production, natural gas production, and nuclear power would further reduce the OPEC stranglehold. By increasing the supply of these other energy sources, demand for oil would decrease and prices would drop. Note that much of the support for unrealistic environmental regulations comes from northeastern politicians and media, who weren't nearly as interested in oil fortunes when the business hit rock bottom in the 1980s. Texas and the gulf coast have always been willing to supply the nation's energy, and it's a bit disingenuous to hear criticism from those who are happy to use oil but don't want refineries in their backyards. Oil is critical, but it is not a magic commodity that somehow is immune from the laws of economics. In fact, it is precisely because oil is so critical to our economy that we must allow the free market to deliver it. Absent government interference in the oil markets, gas prices would rise or fall according to concrete realities affecting supply and demand. High prices would encourage conservation better than any environmental regulations. Entrepreneurs would race to develop viable alternate fuels if gas prices rose too much. Centralized government planning, on the other hand, cannot solve our energy dilemmas. The Nixon-era price controls on gasoline in the 1970s produced nothing but disastrous shortages. By contrast, the Reagan administration's immediate deregulation of the oil industry resulted in an unprecedented boom in oil production and a dramatic reduction in prices. This is the lesson we must remember. What can Congress do to provide Americans with some relief at the pump? First it can suspend federal gas taxes, which would save consumers nearly 20 cents per gallon. In the long term, Congress must pass legislation like HR 4004, which I introduced earlier this month. HR 4004 takes a comprehensive approach by allowing offshore drilling, eliminating regulations that restrict refining, and

suspending harmful tax rules that discourage domestic oil production. If we hope to have a stable, affordable supply of gas, we must allow the free market to operate.