



Big Oil Dog Pile

By John D. Colyandro
Brent D. Connett

Politicians routinely remind us why the government should have only a minimal role in the operation of the marketplace. Nearly a month after the beltway dog pile on leading international oil companies, including Texas-based ExxonMobil, it is a good opportunity to learn a valuable lesson about politics and economics.

The ostensible purpose of the congressional hearings held on November 9, 2005 was to get to the bottom of the high price of gasoline. For most of the year, the average price per gallon in 2005 for regular unleaded was \$2.25 compared to \$1.81 in 2004, \$1.52 in 2003 and \$1.31 in 2002.

Conventional wisdom (which should really be re-labeled conventional imbecility since conventional wisdom is nearly always wrong) was that the oil companies were mercilessly gouging consumers to gorge themselves with record profits just in time for the holiday season.

It is true that gasoline prices had spiked to historic highs and the oil companies earned record profits. Released in late October, ExxonMobil's third-quarter report detailed an increase in earnings of 75% to \$9.92 billion, up from \$5.68 billion a year ago.

Of course, in the fantasy world that is Washington, D.C., the rising prices had nothing to do with the laws of supply and demand. It had nothing to do with the incredible surge in energy consumption in China and India; steady domestic demand *despite* rising prices; the shortage of domestic refining capacity; or, lost production because of one of the most active and devastating hurricane seasons on record.

No, in the shallow of world of populist economics made famous by Huey Long, the primary reason for high gasoline prices was corporate greed. And oh what fun it is to haul CEO "fat cats" before a congressional committee for a good verbal lashing.

Senator Pete Domenici (R-NM) castigated the energy firms with the loud echo not of President Reagan, who ran for office on the fundamental premise that government

intervention in the marketplace is generally adverse to the interest of consumers and taxpayers, but of Samuel Gompers:

There is a “growing suspicion that oil companies are taking unfair advantage,” said Sen. Domenici. “The oil companies owe the American people an explanation.”

His colleagues weren't to be left out of the fun. “People are concerned about fairness and justice at a time of sacrifice. Your sacrifice appears to be nothing,” said Sen. Barbara Boxer (D-CA). With a dabble of sadness, Sen. Daniel Inouye (D-Hawaii) added, “in the midst of pain, in the midst of suffering, the public sees headlines about record profits.”

Since the hearings, gasoline prices have fallen dramatically across the state and nation. The national average price for regular unleaded gasoline dropped each week, going from \$2.34 the week of November 7th to \$2.12, the week of November 28th.

Someone might infer the decline is a consequence of the Nov. 9th hearings – that the political brow-beating forced the greedy companies into rectifying their behavior.

But the price for a gallon of gasoline had dropped precipitously in the weeks *prior* to the hearings. The national average price per gallon for regular unleaded gasoline was \$3.04 for the week of September 5th and has fallen steadily since. The November 9th Senate hearing on profits and prices came after two months of weekly price decreases, proving that politics can't keep up with the rapid, natural fluctuations of markets.

Additionally, who are these suffering people about whom Boxer and Inouye had such sodden eyes? The Labor Department's report released on Friday, December 2nd shows that 215,000 new, non-farm jobs are on payrolls in November and the unemployment rate is holding steady at 5%. In the past decade, the unemployment rate has gone down more than up. In 1992, unemployment peaked at nearly 8%. Despite a spike to just over 6% in 2003, the unemployment rate has leveled at 5% in both October and November of this year.

Despite the rise and fall in gasoline prices, the economy continues to hum along. Americans are at work, and corporate America keeps adding new jobs. Even the sputtering airline industry, which is acutely sensitive to any change in the price of jet fuel, is seeing signs of life. Southwest Airlines, for instance, just added new non-stop service to St. Louis and Kansas City from Love Field in Dallas. Importantly, domestic consumption of gasoline was unaffected by the rise in prices showing that gasoline is relatively price inelastic because there is a high degree of necessity for the product.

Listening to multi-millionaire senators howl about suffering and pain at the hands of the headmasters of American capitalism shows just how pointless and counterproductive hearings on prices for a specific good and service really are. The price of gasoline had already begun a dramatic fall before the hearings. They continue to fall today. The market is working, while politics manifests its fundamental dysfunction.

And about those record profits? Exxon has several options: increase dividends for shareholders, employ more people, spend more on research and development, increase salaries for its current employees, pay more taxes, increase corporate charitable giving, and save and invest the money. Which is of those options is bad either for the company or for the economy and its consumers?

The answer is none. No matter what Exxon does with its cash horde, some one (in fact, many people) will benefit. And that's the real lesson: trust the marketplace and hope Exxon keeps on doing its job as well as it does.