

Gasoline Pricing Legislation

Prepared by Edward Dumoulin



**Harvard Model
Congress Asia**

INTRODUCTION

The price of gasoline is an ever-present issue in American politics, and it is not immediately clear why this is true. Many countries, especially European ones, have gasoline prices that are famously higher than the prices in the United States. American consumers have had many decades to adjust to the possibility of rising gas prices and lowering availability; particularly, shortages in the 1970s made most citizens aware that large-scale **fluctuations** were essentially out of the American government's control. Still, few elections pass where gasoline prices are not an issue, and few politicians are silent about the gasoline market. Why?

First, let us consider why gasoline prices are more important in the United States than in other places. America has more roadway transit than any other nation on earth: with over 225,000 km of roadway, the U.S. is second to none in actual roads laid down, and with 765 motor vehicles per thousand people, has a higher car-to-person ratio than anywhere else, as well. So the reason that Americans are interested in gasoline prices probably has something to do with the heavy road travel in the country.

But why is this? Why does the United States have more roads and proportionally more cars than any other country? Much of this likely has to do with the low **population density** of the country. A large-scale transit system, of the sort that many European countries have, would be outrageously expensive and difficult to plan. Also, many Americans live in suburbs and commute to their jobs in cities nearby, making proposed transit systems sprawling and infeasible.

Although there have been some spikes in pricing, and some shortages, the generally low price of gasoline in the United States has made it possible for many people to own cars and use them for transportation. But there are many political debates about gasoline pricing. Some argue that gasoline prices should be lower. Others argue instead that the prices should be higher. The role of government **regulation**, concerning federal taxes as well as every step of the gasoline production chain, is required for either request to be executed.

This is where the questions we will be discussing begin to arise. Do citizens of rural and suburban America have a point about gasoline taxes--should taxes be kept low because it would be unfair to raise



them? On the other hand, does the government have a responsibility to promote environmentally friendly policies, and must it thus tax the use of petroleum-based fuels? Or is it wrong for the government to try to dictate the course of the market, and should it allow citizens and companies to do this instead? Additionally, what are we to make of the somewhat dependent relationships that have formed between the American government and the leaders of Middle Eastern countries who are responsible for the timely and consistent production of petroleum? Should we think of these relations as instances of healthy international business, or should we be nervous, as many Americans are, that too much of our national livelihood depends on the willing cooperation of a few powerful leaders? Additionally, many people allege that American oil companies are greedy, and make money while normal Americans are suffering. But are the **profits** of oil companies of interest to Congress, and if so, why? These are just a few of the questions that we will be asking. Others include the somewhat **arbitrary distributional** consequences of gas tax increases, the long-term economic effects, and the political pressures that have made this issue a difficult one for many years.

FACTORS THAT INFLUENCE GASOLINE PRICES

Several things that determine what the price of oil will be discussed, and they are subject to congressional action in varying degrees. First, the price that petroleum producers place on their products influences the price of gasoline heavily. Petroleum is, after all, the most important element in gasoline. Second, the prices charged by those who refine the petroleum and distribute gasoline have an influence. American oil companies often receive much of the blame when oil prices rise; we shall return to this criticism later. Additionally, the prices that the owners of gas stations charge have some effect on the overall price of gasoline. Last, and perhaps most important for our view, the American government's taxes have a great effect on the price of gas.

These elements, as one might guess, affect the final price of gasoline in different degrees. We will discuss them separately and try to determine what sort of Congressional action might be applicable to each one.

OPEC and Oil Producers

About 60% of America's oil supply comes from overseas, while 40% of it is produced **domestically**. Most of the nations abroad that sell oil to the United States are members of the Organization of Petroleum Exporting Countries, or **OPEC**. The 12 nations in OPEC compose what is called a "**cartel**," an organization that controls the pricing of some good among its members. The nations in OPEC deliberate together about what the price of petroleum should be, and how much of it should be pumped. Then they act in accordance with the rulings, and, at least in



theory, make themselves more money than they would if they competed against each other.

The structure of OPEC has caused historical frustrations in oil pricing. The most famous incident of this was in 1973, when the Arab members of OPEC declared an oil **embargo** to “encourage” the West to stop supporting Israel. The results were devastating in America. Instead of allowing the price of gasoline to skyrocket, the government rationed oil, and lines at gas stations were famously long. Many citizen’s lives were disrupted, and the matter did not help the escalating economic crisis of the 1970s. Although the American political leadership, particularly then-President James Carter, are often blamed for handling the incident poorly, it is unclear what they could have done to make it much better.

Despite this clear effect on gasoline prices, regulation of OPEC is probably not an option for Congress to pursue. This is primarily because the whim of foreign nations is not easily regulated through **statute**. The sort of power that the nations in OPEC would be affected by—personal negotiations and the like—is likely held in America only by the executive branch.

Nevertheless, there is a route to limiting OPEC’s affects without direct negotiation: limiting the amount of the US’s oil supply that comes from abroad. This could be performed by raising **tariffs** on foreign oil, which would make it more expensive compared to American oil. Another option is placing an import quota on oil from abroad, which would have the same affect, but without raising oil prices (or collecting extra revenue for the federal government).

This sort of solution could be effective, but it could also have disastrous international political effects. Given especially that the Middle East is a **volatile** region, and the United States may currently need support there, any decision to limit the intake of foreign oil could be unwise at this time.

American Oil Companies

American oil companies are often blamed for driving up the prices of gas at the pump, mostly because of the large profits they make even when the prices of oil rise. For example, ExxonMobil, one of the largest American oil companies, has made profits of more than \$40 billion per year. Many people are enraged by these figures, and believe that oil company executives should be held **accountable** for squeezing normal Americans in pursuit of transportation that they need.

This could be one area for Congressional regulation, but the issue is not as simple as it first seems. It is unclear exactly what the problem with the American oil industry is. One possibility is that firms are **colluding** to drive up the prices of gas at the pump. If that is so, new regulation is unnecessary, because the firms are in violation of existing



law. The problem would then not be on Congress's shoulders—it would be a responsibility of the **executive branch** to sort it out.

If the companies are not colluding, however, then there could be deeper questions involved. Specifically, Congress would have to ask if it is wrong for companies that are competing properly and legally to make large profits. Many opponents of regulating oil company profits argue that the profits are very high because the investment required is also high. In other words, **investors** have to stake large amounts of cash and assets to get these enormous returns, which makes the profits less disturbing.

Exactly what Congress should do is therefore a confusing question. If there is a legal problem, it is not Congress's responsibility to do something about it. If there is not a legal problem, Congress has to take an **ethical** position against substantial profits in order to do anything. Additionally, many oil companies make large **campaign contributions** to Members of Congress, and oil companies employ many Americans in some states. All of this explains why oil company executives are often called into Washington to be berated by Members of Congress, but little is ever done about the matter.

Gas Station Prices

Of the four sources I pinpointed, I will spend the least time discussing this one. Regulating local gas stations is not really a matter for the national government, but instead something that would normally be pursued on the state and local levels. Additionally, few Americans think of local gas stations as part of the problem in fuel prices, and there is perhaps good reason for this: many gas station owners make their profits from selling food and other items to people who fuel up their cars, and make very little money on the gas itself. Although there are allegations of collusion in some areas, these are not common claims, and in any case would likely be up to states to regulate.

Gasoline Taxes

This is the real topic at hand. It is likely both the most important part of this issue, and it is also the area in which Congress has the most authority.

Gasoline taxes are low in the United States, which is primarily what makes the price of gasoline lower in the US than in European countries. Gas taxes have historically been low for the reason that one would think: many Americans have to use their cars to get around, and it would present a severe **hardship** to raise the price of gasoline substantially. This is the reason we spoke about the three previous issues: the oil suppliers, American oil companies, and gas stations. They are all cogs in the machine that makes gas prices what they are, and the issue in many elections and debates is how best to reduce gasoline prices.



But some citizens and experts have a different perspective: they want to *increase* gasoline prices! Why? Because if gasoline prices go up, fewer people will buy it, and **alternative energy sources** will be used instead. Even though it might place a hardship on many people in the near future, in the long run, the United States would lower its gasoline use. This would make America pollute less, and it would make citizens less worried about the demands of Middle Eastern nations in the oil trade.

One problem with this view is that the alternative energy sources available may not be a good replacement for gasoline. This is for several reasons. To begin, there are few vehicles that can use alternative energy in place of gasoline without significant and expensive modifications. And even the vehicles that do not require these modifications can only use a few alternative energy sources such as **ethanol**. The energy sources that they *can* use are sometimes no better than gasoline from a pollution standpoint. They put chemicals into the atmosphere that scientists believe cause **global warming** and other environmental problems.

It could be argued, however, that even if alternative energy sources do not come about, taxes would lower the number of people driving, thus reducing the use of gasoline and reducing pollution and oil usage. But this argument seems unfair to people who live in areas with no public transportation. After all, why should citizens in rural areas suffer just because of where they happen to live? It seems unfair to raise the price of gasoline arbitrarily and hope that citizens in some areas adjust their ways of life accordingly.

FOCUS OF DEBATE

The real question is whether the price of gasoline should be made to go up, down, or stay the same, and by what means this should be done. The justification for choosing one of these paths is important as well, and there are a variety of reasons that any of the possible policy options would be chosen. It should be noted that oil and gasoline companies spend quite a lot of money on lobbying and campaign contributions, and many Members of Congress might be hesitant to do anything to hurt them for this reason.

As with any issue, the “liberal” and “conservative” views do not apply to all liberals and conservatives, although they are common among people who classify themselves this way. Also, this issue is particularly vulnerable to regional biases rather than **ideological** ones.



Liberal View

Most environmentalists are liberals, and environmentalists tend to think that something should be done about the massive pollution that comes from gasoline use. This could be any one of the solutions I have discussed above. This group, however, would probably favor a higher gasoline tax more than any other, given that it would be an effective means of lowering the use of gasoline. The hardship that it would impose on some citizens might be seen by hard-line environmentalists as a secondary concern.

In general, liberals who are not hard-line environmentalists still desire to reduce the use of gasoline, but they usually wish to do so without the imposition of serious hardships. Members of this group might support spending government money to research alternative energies so that the long-run price of fuel can drop without any severe present hardship, while the use of gasoline is reduced by some means.

Without alternative options that are viable, however, liberals who are not staunch environmentalists would likely have a problem raising gasoline taxes because it would affect so many people adversely.

Conservative View

Some conservatives do not accept the scientific claim that global warming is caused by man; thus, they see no environmental reason to stop using gasoline or other petroleum products. Many conservatives also favor drilling for oil domestically in places like the **Arctic National Wildlife Refuge** (ANWR) to increase the supply of oil and thereby lower the price of gasoline. Most liberals have serious problems with this solution.

Conservatives are opposed generally to taxes and government regulation of markets, and would thus have a problem with taxing or regulating the gasoline market. They would describe it as a “big government” policy, which many conservatives find unacceptable.

There are also conservatives, however, who believe that global warming is a problem and think that taxation is the best way to get people to use less gasoline and promote alternative energy sources. In this way, they are quite similar to some liberals.

Economic Activity

Additionally, there are people on all sides who think that increasing gas prices might lower the amount of economic activity in America at this time. This view sometimes overcomes other priorities, but sometimes does not.



INTEREST GROUP PERSPECTIVES

There are specific interest groups that have very strong perspectives on this issue, which I will try to describe.

Agricultural Groups

Since the closest acceptable substitute for gasoline right now in America is corn ethanol, most agricultural groups are in favor of anything that will get people to use less gasoline. When gasoline recently became more expensive, many fuel stations started using mixtures of 15% ethanol or 85% ethanol, thus decreasing the cost for consumers and giving farmers a willing market for corn. Agricultural groups, then, would generally like to see gasoline prices rise greatly.

Oil Company Lobbying Groups

These groups are among the best funded in Washington, and they oppose any tax on gasoline that would make oil companies lose revenue. This position is important given their power over many elected officials because of campaign funding they supply.

Environmental Groups

Environmental groups want to do whatever is necessary to lower pollution. They are generally in favor of seeking alternative energy sources, and also raising gas taxes in the meantime so that fewer people use fuels that are also pollutants.

CONCLUSION

It should be clear at this point why it has been difficult for America to come to a national consensus about what to do with gasoline prices. The government's hands are tied because of national security risks, economic risks, and environmental risks, as well as the reality that most people in America currently rely on their cars to earn money. Nevertheless, the richness of the topic should lead to valuable debate and some conclusion about the wisest path for the United States given all of the competing interests that must be considered.



SOURCES

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GLOSSARY

Fluctuations—Changes over a brief period of time.

Population density—The ratio of people to land; the United States has a very low population density compared to many other countries.

Regulation—Government rules that control a practice or market.

Profits—Money a company makes after it has paid all of its expenses.

Arbitrary—By chance; not chosen deliberately or fairly.

Distributional—Relating to how things are divided up among people.

Domestic—Produced within the United States

OPEC—A cartel that controls the price and quantity of oil pumped from its 12 member states.

Cartel—An organization that controls the pricing of some good among its members.

Embargo—A penalty that one country places on another by reducing the usual amount of trade between the two nations.

Statute—A written law passed by a legislature.

Tariffs—Taxes placed on goods imported from another country.

Volatile—Becoming dangerous or violent easily.



Accountable—Responsible.

Colluding—Illegally working together to prevent competition that would normally occur.

Executive branch—The branch of the American government that enforces the laws.

Investors—People who spend money in the hopes of receiving more money later.

Ethical—Relating to morals or standards of right action.

Campaign contributions—Money given to a politician to pay for advertising or staff during an election.

Hardship—Difficulty.

Alternative energy sources—Energy sources other than gasoline that can provide the function that gasoline does.

Ethanol—An alternative energy made from vegetables such as corn or sugar.

Global warming—The rise of world temperatures. Many scientists claim that global warming is caused by pollution.

Ideological—Relating to principles of belief.

Arctic National Wildlife Refuge—A wildlife sanctuary in Alaska which contains a significant amount of oil.

