Economists Trash Dems' Fuel Price Control Proposal: 'Can't Believe They're Dumb Enough To Do This'

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Several economists slammed a Democratic proposal making its way through Congress that would enable energy price controls amid record high fuel costs.

Such a policy, which prohibits private companies from increasing prices regardless of market conditions, would have catastrophic consequences including energy supply shortages and increased inflation, the economists argued in a series of interviews with The Daily Caller News Foundation. Democrats have alleged in recent weeks that inflation is being driven by corporate price gouging and that Big Oil is using the Ukraine crisis as cover to raise prices and boost profits.

"I just can't believe they're dumb enough to do this," Benjamin Zycher, an economist and senior fellow at the American Enterprise Institute, told TheDCNF in an interview.

"If prices are controlled at below-market clearing levels, then you get shortages because the quantity demanded is greater than the quantity supplied at the legal maximum price," he continued. "And that's why you get gasoline lines and allocation controls."

The House Rules Committee announced that it would review the Consumer Fuel Price Gouging Prevention Act — a bill that enables the president to issue an emergency declaration banning energy prices issued in an "excessive or exploitative manner," according to its sponsors — on Monday before reporting it to the floor. House Speaker Nancy Pelosi, who told reporters last week that oil and gas companies were exploiting consumers, promised that there would be a floor vote on the legislation this week.

The average cost of gasoline nationwide increased to an all-time high of $4.48 a gallon on Monday, according to AAA data. Natural gas prices have also surged to multi-year highs.

But just 23% of economists agreed 1970s-era price controls would reduce current inflation levels while 58% either disagreed or strongly disagreed, a January poll from the University of Chicago's Initiative on Global Markets (IGM) showed. Former President Richard Nixon implemented price and wage controls in 1971 and again in 1973 using powers Congress granted him, leading to gas lines, according to libertarian think tank Cato Institute.

"Just stop. Seriously," Austan Goolsbee, one of the economists surveyed, wrote in response to the IGM poll.

Goolsbee, an economics professor at the University of Chicago, chaired the Council of Economic Advisers during the Obama administration.

"This is kind of obvious. It's a terrible policy. Go find some of those gorgeous pictures from the 1970s of long gas lines," economist John Cochrane, a Hoover Institution senior fellow, told TheDCNF in an interview. "Lesson one of economics is: don't try to transfer income by screwing with prices. But control the price of a thing and there's less supply and there's more demand. You get long lines and you get a lot of chaos."

"It is insulting to the intelligence of the electorate to think the way you make stuff cheaper is simply by passing commands from on high. That doesn't work," Cochrane said. "The only way you make stuff cheaper and more available is by allowing oil producers and gas producers to invest and compete with each other and give us stuff more cheaply."

Institute for Energy Research senior economist David Kreutzer echoed Cochrane's remarks, arguing that energy price controls would lead to lower investment in oil and gas projects. He also noted that prices are going up in part because of the Biden administration's anti-fossil fuel messaging.

"What's going on here is we're not having quite as robust or as immediate a response from the oil producers in the U.S. as we saw a decade ago when prices skyrocketed," Kreutzer told TheDCNF. "Part of that is the threat that they won't be able to collect revenues down the road because the administration is talking about shutting down the oil industry."

"An important function of prices is to tell investors where to direct capital — where do we need to have more stuff produced? And when you put price controls on petroleum, it messes up that signal," he added.

In addition, Cochrane noted that examples of price control failures can be seen during the Roman Empire. In 301, Emperor Diocletian issued an edict setting prices on hundreds of goods and services leading to the complete decline of supplies and worse inflation, according to Forbes.

Economists, meanwhile, have also rebuked the argument that oil companies are price gouging amid the Ukraine crisis.

"[Retail gas stations] don't necessarily drop their price as rapidly as what wholesale prices and oil prices are doing," Garrett Golding, a business economist tasked with analyzing energy markets at the Federal Reserve Bank of Dallas, told TheDCNF in an interview. "Some people want to call that price gouging because it's not in lockstep with where wholesale prices are. But the fact of the matter is, what they're doing is making back the money that they were losing on the way up and that's how they stay in business."

Golding and fellow Dallas Fed economist Lutz Kilian published a May 10 paper laying out why gasoline prices haven't risen and fallen in lockstep with oil prices over the last few months. They said pump prices are also affected by operating expenses such as rent, delivery charges and credit card fees, and that prices are set by retail gas stations, not oil drillers.

Democratic Reps. Kim Schrier and Katie Porter, the sponsors of the Sponsors of the Consumer Fuel Price Gouging Prevention Act, and Pelosi didn't immediately respond to requests for comment from TheDCNF.

Democratic Massachusetts Sen. Elizabeth Warren introduced similar legislation Thursday that would implement a federal ban on "unconscionably excessive price increases." House Democrats, led by Illinois Rep. Jan Schakowsky, unveiled a companion to Warren's legislation.