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## **Price Controls Can Be Deadly**

**by Jacob G. Hornberger**

Who would ever dream that the economic fallacies to which U.S. officials subscribe could turn deadly? Yet that's what recently happened in Baghdad, where an American GI was shot dead while guarding long lines of angry and disgruntled consumers at a gasoline station in Baghdad.

Why are there long lines at gas stations in Iraq? According to U.S. and Iraqi officials, there are several possible explanations: terrorist attacks on oil facilities, damage to Iraq's electric power grid, antiquated refineries, and the importation of a large number of new cars. One Iraqi citizen theorized that the U.S. government is secretly taking Iraq's oil back to America.

None of these explanations holds water. There is one — and only one — reason for the shortages and long lines, and it's the same reason the United States had gas shortages and long lines during the 1970s: government-imposed price controls.

Whenever the governing authorities pass laws requiring an owner or supplier to sell an item for less than the market price, the result will be a shortage. It's just a law of economics. And contrary to what government officials throughout history have believed, no government can repeal a law of economics any more than it can repeal the law of gravity. The artificially low price has a twofold effect: it causes supplies to be withheld from the market and it induces people to consume more than they ordinarily would. There's only one solution to the shortages and long lines: eliminate the price controls.

In Iraq, U.S. occupation officials are selling gasoline for about five cents a gallon. How do we know that that price is below the price that would be established by the free market? Not only because of the long lines but also because a black-market price, which is the true free-market price, has formed in response to the government-set price. What Iraqi entrepreneurs are doing is filling up their cars at the gasoline stations, siphoning the gas into cans, and then illegally selling the gas for about five times the officially set price.

It shouldn't surprise anyone that both U.S. and Iraqi officials are railing against these "price gougers." Sounding much like government officials in China, where economic crimes are a key part of the socialist system, U.S. occupation official Dan Senor exclaimed, "Black-market

manipulations continue to be a problem.” His words were echoed by Mouwafak Rabii, one of the U.S. government’s appointees to the Iraqi Governing Council, who complained, “This is the ugly face of capitalism.”

American and Iraqi officials do not intend to permit such an “ugly capitalist face” to go unpunished. According to the *Washington Post*, “U.S. soldiers and Iraqi police officers are taking a tougher posture with black-market vendors and the gas station owners who sell to them, arresting them en masse and threatening some with 10-year jail sentences.”

Of course, the gasoline-shortage crisis in Iraq is not as simple as it was in the United States, given that the oil industry in Iraq is government-owned. When the federal government finally lifted its price controls here in the United States, the price quickly rose to the free-market level and the lines disappeared. In Iraq, simply lifting the price controls would not solve the problem because the central planners would still be faced with the problem of constantly guessing what the free-market price should be in all the government-owned gas stations. There would still be, in the words of Ludwig von Mises, “planned chaos.”

In post–World War II Germany, the Allied occupation officials imposed an extensive set of price controls on the German economy. When Ludwig Erhard, the free-market leader of Germany, asked the officials to lift the controls in order to relieve the economic plight of the German people, they refused, claiming that an immediate lifting of controls would produce chaos. One Sunday morning, to the surprise of everyone, Erhard issued a public announcement lifting the controls. It was that action, more than anything else, that led to what became known as the German “economic miracle.” Too bad that so many U.S. officials today have failed to learn both economics and history.

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