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Leave the Oil Companies Alone **by Sheldon Richman**

The chiefs of the oil companies were summoned to Congress to account for why gas prices and corporate profits are so high.

They should firmly decline and explain that, this being free country, theoretically, they have more important things to do than to be used as props before a Grand Inquisition designed to score points for aspiring presidential candidates and other unsavory characters.

Why does the price of gasoline get so much attention? Sure, most of us need gasoline and buy it more than once a week. But the same goes for milk. Yet milk prices are rarely sneered at by cable-news anchormen or darkly referred to in conspiratorial terms.

The difference is that gasoline prices are displayed on street corners. Since we're human beings, we notice the price rises, but not the price falls. That's why the news media are jumping on this story with pronounced vehemence just as the price is plunging all over the country. (Did the previously alleged oil conspiracy fall apart?) "Record" profits by the major oil companies have made this story especially juicy for ratings-hungry news organizations. We love to hate the oil companies.

It's a bit tiresome to have to repeat the reasons that the price of gas has risen recently: growing world demand (hello, do you see what's going on in China?) and the refinery hits from the Gulf storms are two pretty good reasons that prices rose. Problems in Iraq and Venezuela are also relevant. There's really no mystery here, unless the words "supply and demand" have vanished from the language.

But what about those profits, which ignorant newscasters and others call "obscene"? I could point out that oil profits are mostly reinvested in risky ventures, which should interest anyone who wants gas prices to fall (even more). I could also point out that, when oil companies get richer, a lot of people of moderate income benefit, since they own stock through their pension funds and 401(k)s.

But those undeniable truths won't satisfy everyone. Let's face it, there's a strong sense in this society that oil profits are unearned. That's why politicians favor a windfall-profits tax. We

all know (or think we do) what a windfall is. It is the unexpected and the undeserved (unless it's one's own). The oil barons don't deserve those profits because they didn't do anything to earn them. They just happened to be holding oil when various factors conspired to push the price up. Of course, they didn't "just happen" to be holding oil. They made risky decisions that resulted in that circumstance. Companies fail — even oil companies. (Ask George W. Bush.) Oil companies spend money to hold inventories to be drawn on when changing circumstances, such as natural disasters, create supply shortages. Who would do that if there were no chance for profit? Would we prefer that they not hold emergency inventories? Here's a sure way to stop that: impose a windfall-profits tax.

The attack on the oil companies betrays a basic ignorance about economic value. Before the birth of modern economics, people thought that value was an objective component of things. From Adam Smith to Karl Marx, economists believed that the value of an thing was determined by how much labor went into producing it. This view was overthrown by later economists who understood that value means that human beings have decided a thing is useful and are willing to give up something to obtain it. This insight meant that market prices could change if people's evaluations changed. If an entrepreneur risks his capital to produce a thing, he is as entitled to the profits if the price goes up as he is "entitled" to the losses if the price goes down.

Such a way of looking at the world bestows two worthwhile things on mankind: prosperity and freedom.

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