May 8, 2006 The burning issue in Washington today is high gas prices, and it won't go away anytime soon. Americans are not happy about paying $3 per gallon at the pump, and they want something done about it. But price controls won't work, and allegations of price gouging and "windfall profits" amount to nothing more than congressional grandstanding. No government official or politician is fit to define a "fair" price for gas or a "fair" profit for oil companies. This is not the Soviet Union. The last thing we need is centralized government planning when it comes to our precious energy supplies. The price of oil, like everything else, depends on supply and demand. What we really need to focus on is how government keeps the supply of refined gasoline too low. This is not as easy as demanding price controls, and does not fit into 30-second sound bites. But as with so many issues, we must peel away decades of government interference to really understand the problem. Most people understand that federal restrictions on exploring, drilling, and refining domestic oil have made us dependent on various questionable Middle East governments. We should expand this into a greater understanding of how American foreign policy increases gas prices here at home. Before the war in Iraq, oil was about $28 per barrel. Today it is over $70. Iraq was a significant source of worldwide oil, but its production has dropped 50% since 2002. Pipeline sabotage and fires are routine; we have been unable to prevent them. Furthermore, the general instability in the Middle East created by the war causes oil prices to rise everywhere. The sooner we get out of Iraq and allow the Iraqis to solve their own problems the better. Soaring gasoline prices are one giant unintended consequence of the war, pure and simple. Even so, many war hawks are seriously agitating for an attack on Iran—another major supplier of worldwide oil. They are not concerned one bit about the impact such an attack would have on the wallets of average Americans; their obsession with regime change in Iran trumps all common sense. But let me be clear: An attack on Iran, coupled with our continued presence in Iraq, could hike gas prices to $5 or $6 per gallon. We also must understand the effect monetary policy has on gas prices. The price of gas, like the price of all things, goes up because of inflation. And inflation by definition is an increase in the money supply. The money supply is controlled by the Federal Reserve Bank, and responds to the deficits Congress creates. When deficits are excessive, as they are today, the Fed creates new dollars out of thin air to buy Treasury bills and keep interest rates artificially low. But when new money is created out of nothing, the money already in circulation loses value. Once this is recognized, prices rise-- some more rapidly than others. That's what we see today with the cost of energy. If we want to do something about gas prices, we should demand greatly reduced welfare and military spending, a balanced budget, and fewer regulations that interfere with the market development of alternative fuels. All subsidies and special benefits to energy companies should be ended. We also should demand a return to a sound commodity monetary system. And in the meantime, let's eliminate federal gas taxes at the pump. That alone would save Americans 18.4 cents per gallon. By contrast, oil companies only make about 10 cents per gallon. So maybe it's government that's being greedy. Oil prices are at a level where consumers reduce consumption voluntarily. The market will work if we let it. But as great as the market economy is, it cannot overcome a foreign policy that is destined to disrupt oil supplies and threaten the world with an expanded and dangerous conflict in the Middle East. And it cannot overcome a monetary policy destined to inflate our dollars into oblivion.