

## Gasoline at \$3.00 a Gallon

*The price of gasoline has increased to its highest inflation-adjusted level in 25 years. An unusual confluence of events has contributed to the recent surge. Higher prices are the signal to everyone who uses gasoline to consume less, and to everyone who produces it to make more. The best policy response is to allow this signal to work.*

The average U.S. retail price for regular gasoline increased to \$2.92 per gallon at the end of April, 60 cents higher than it was just two months ago, according to the U.S. Energy Information Administration (EIA). The inflation-adjusted price is still below the peak reached in 1981, which would be \$3.20 in today's dollars (see chart). Perhaps more relevant for today's drivers, however, is that today's current-dollar price is roughly three times what it was in the late 1990s, when gasoline cost as little as 94 cents per gallon.

There is always a significant seasonality in gasoline prices because demand increases when warmer weather arrives each spring. However, the increase has been larger, and come sooner, than usual this year. Industry analysts have offered various explanations for this.

One factor is the transition from gasoline that is blended with MTBE, an additive that is being phased out due to environmental concerns, to gasoline that is blended with ethanol. Ethanol requires special handling, and the increased demand for it was expected to create temporary bottlenecks in the distribution and storage of both ethanol and gasoline.

Complicating this transition, refiners sped up the phaseout of MTBE after Congress failed to limit the oil industry's liability for legal claims arising from its use. An early version of last year's energy bill included such a provision but it was dropped from the final legislation.

In a memo published in February, the EIA warned that "the rapid switch from MTBE to ethanol could have several impacts on the market that serve to in-

crease the potential for supply dislocations and subsequent price volatility on a local basis...The many changes that must take place to convert production...and to add equipment to terminals not now equipped for blending is a large challenge by itself. In addition, supply of ethanol will be tight...As the summer progresses and demand grows, the tight supply situation is not likely to ease significantly, leaving the market exposed to the increased potential for price volatility in the East Coast and Texas [*the largest areas that still use MTBE—Ed.*]"

Meanwhile the price of oil has increased to more than \$70 a barrel, up from \$60 in February and about \$50 a year ago (and roughly \$10 a barrel in 1999). Although greedy oil companies are a perennial target of blame, previous investigations of "price gouging" have turned up nothing.

As gigantic and profitable as they may be, oil companies do not set the price of oil. It is the interplay of millions of consumers and many thousands of producers, distributors, and retailers that determines the price at which the market clears, *i.e.* a price that results in neither a shortage nor an unsaleable glut. Those who complain the oil companies are overcharging are in fact asking for lines at the gas station and cold houses and offices. Oppositely, if the oil companies charge too much, they will

have more oil than they have storage capacity.

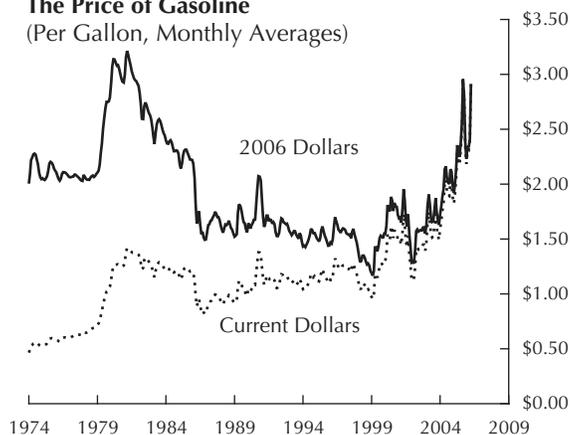
A likely factor in the recent oil price increase is growing global demand, especially from China and the United States. On the supply side, concerns over possible future disruptions to the flow of oil due to geopolitical factors (terrorism, the war in Iraq, the nuclear threat in Iran, violence in Nigeria, the leftish political turn in Venezuela) have increased the "fear factor" and the risk premium built into the price of oil.

Supply concerns also may have prompted private companies to increase their own inventories as a buffer. Since November U.S. stocks of crude have been well above the upper end of their normal range.

Some analysts say that prices also have been driven higher by speculative trading by hedge funds and other investors. But it is difficult to sort out the impact of such trading from the more fundamental forces that drive oil and gasoline prices.

Whether oil and gas prices will remain high, move higher, or head lower over the next few months or years is anybody's guess. Although many people say that the days of "cheap gas" are over

**The Price of Gasoline**  
(Per Gallon, Monthly Averages)



Note: Data are monthly averages of Motor Gasoline Retail Prices, U.S. City Average, as published by the U.S. Energy Information Administration. To get the 2006 dollars series, we deflated the current dollar series using the Consumer Price Index. Latest data: April 2006, using an estimate of the April CPI.

for good, it is worth remembering that similar predictions have been made before—and have been wrong.

In 1977, President Carter warned that, “Unless profound changes are made to lower oil consumption, we now believe that early in the 1980s the world will be demanding more oil than it can produce.” As it turned out, the price of oil, adjusted for price inflation, was 40 percent *lower* by 1986. It fell further in the 1990s, even as world oil consumption (and production) increased.

Predictions about the supply and demand for oil and gasoline (and other energy sources) are most likely to be wrong when they fail to take into account the role of prices. Higher prices are the signal to everyone who uses gasoline to con-

sume less, and to everyone who produces it to make and deliver more. Higher oil prices make it more economical to produce and use alternative fuels and to extract oil from costlier sources (such as tar sands). In the short run, consumers can adjust to higher prices by driving less; over the longer term, they can choose to buy fewer “gas guzzlers” (which became popular partly because gasoline was so cheap).

This is not to deny that consumers are hurt by higher gasoline prices, especially in the short term. But there is abundant evidence that government intervention in the energy market would create even more problems, as anyone who remembers the misguided energy policies of the 1970s can attest. □

## COMING TO AMERICA: THE BENEFITS OF OPEN IMMIGRATION\*

*With renewed debate about how immigration will affect America's future, it is worthwhile to review the argument for a return to America's past, when we welcomed all who wished to come.*

For centuries, the American culture has been a beacon of hope to the oppressed peoples of collectivist economies and authoritarian or totalitarian governments throughout the world. Why then do the American people—descendants of immigrants, beneficiaries of open and unregulated immigration, whose culture, economy, government, and way of life are so deeply tied to open borders—exude such a passion against free immigration? Why do they wish so desperately to deny late twentieth century immigrants the benefits to which their own eighteenth- and nineteenth-century ancestors were privileged? What do Americans have against open borders?

American immigration policy is a labyrinth of regulations and barriers to free travel and migration. One wishing to enter this country must possess all the legal and “proper” documentation in order to be permitted entry. The poverty-stricken and homeless foreigners

who expect to benefit most from immigrating into the American economy rarely possess resources adequate for legal entry. Hence, they are denied. Such immigration policy is based upon a xenophobic confusion regarding economics, the mobility of labor, the American welfare state, and cultural diversity.

### *Immigration and Labor*

Many Americans argue that free immigration would destroy “working class” Americans’ ability to earn a living. They claim that allowing free and open borders to any and all immigrants would put decent, hardworking Americans out of work. Although the evidence suggests that immigrants have little impact on native workers’ wages, perhaps what these Americans really fear is that someone will emerge from the “immigrant class” who would be willing to work for less than they while producing equal or greater output.

The present immigration policy of the United States amounts to nothing less than a tariff or barrier to entry on the commodity of labor, and harms American consumers in the same manner as tariffs and trade barriers on other capital or consumer goods.

A policy of open immigration would indeed force some unskilled American laborers to compete for their jobs at

lower wages. However, far from being an evil, this is a desirable outcome, one which should form the basis for a new immigration policy. By inviting competition into the American labor markets, artificially inflated low-skilled labor costs could be eliminated and a greater level of labor efficiency could be achieved.

As the cost of labor (itself a cost of production) decreased, entrepreneurs and producers could produce more efficiently, enabling them to offer products and services at lower prices as they compete for consumers’ dollars. Lower prices in turn increase the purchasing power of the American consumer, and thus enhance living standards for everyone. This is happening even now as some small business owners use “illegal” immigrant labor to lower their operating costs and thus lower consumer prices: “... small-business executives do agree that some of their competitors who knowingly or unknowingly hire illegal immigrants use the cheap labor to undercut prices of business owners who play by the rules.”<sup>1</sup>

This is good for both consumers and the economy at large. As immigration makes the American labor market more competitive, costs of production are reduced and prices decline. In the long run, even the domestic laborer who is forced to lower his wage demands is not any worse off, since what he loses in terms of lower nominal wages he may well regain in terms of lower prices on the goods and services he purchases as a consumer. Meanwhile, everyone else benefits, and no one is privileged at the coerced expense of anyone else.<sup>2</sup>

### *Immigration and Welfare*

Another argument used in favor of immigration controls concerns the American welfare system and its potential abuse by immigrants who migrate into America merely to feed at the public trough of social services. The claim is made that the welfare system, not potential economic freedom, is the lure which draws immigrants into the American economy. Immigrants—unproductive, slothful, and indigent—constitute a deadweight loss on the American economy, and further increase the tax burden on productive Americans. Therefore, we must police our borders and keep out the undesirables.

This argument is statistically and theoretically flawed. Contrary to pre-

\* By Thomas E. Lehman. This is an updated version of an article that originally appeared in AIER’s *Research Reports*, January 15, 1996 and in *The Freeman*, December 1995, published by the Foundation for Economic Education (FEE), Irvington-on-Hudson, New York. This version includes minor changes made by the author and is published with his permission. Dr. Lehman is Associate Professor of Economics, Indiana Wesleyan University, Marion, Indiana.

vailing public opinion, current immigrants do not “abuse” the public welfare system, even in the areas where immigration (legal or illegal) is most concentrated. In fact, immigrants have little effect on the current system of taxation and wealth redistribution. As Julian Simon relates:

Study after study shows that small proportions of illegals use government services: free medical, five percent; unemployment insurance, four; food stamps, one; welfare payments, one; child schooling, four. Illegals are afraid of being caught if they apply for welfare. Practically none receive social security, the costliest service of all, but 77 percent pay social security taxes, and 73 percent have federal taxes withheld. ... During the first five years in the United States, the average immigrant family receives \$1404 (in 1975 dollars) in welfare compared to \$2279 received by a native family.<sup>3</sup>

Some may disagree with these statistics. Others would no doubt argue that if immigration controls were eliminated and borders completely unpoliced, a massive number of immigrants would enter the United States and overload the welfare system, causing taxes and the budget deficit to skyrocket. Certainly this is a possibility. But, even if we grant this argument the benefit of the doubt and concede that unrestricted immigrants would indeed flood the welfare system, the answer to the problem lies not in closing off the borders or “beefing up” border security. The answer lies in eliminating the American welfare state, and prohibiting anyone, native or immigrant, from living at the coerced expense of another.

### *Immigration and Culture*

A final argument against immigration comes surprisingly from those generally supportive of liberty and the philosophy of the limited state. These critics are concerned for the preservation of what they see as a distinct American culture and its traditional heritage of Western-style limited government and market economies.<sup>4</sup> Their fear is that this traditional culture is being sabotaged by an influx of immigrants who are unfamiliar with and perhaps even hostile toward its institutional framework. They contend that immigrants of the late twen-

tieth-century variety do not possess the same ethnic characteristics of earlier immigrants, and therefore do not have an appreciation for the “American way of life.” Such an argument suggests that recent immigrants who hail from developing nations controlled by regimes of despotism have no understanding of the traditional institutions that have made America great. Allowing these immigrants of vastly different culture and ethnic heritage into the United States will result in a grave polarization of our society into racial enclaves that will run roughshod over our most sacred political and economic institutions.

To political conservatives, and even some libertarians, this argument may appear compelling at first blush. However, it is flawed. First, preserving “tradition” merely for the sake of tradition is pointless. The idea of tradition is meaningless unless we define the essence of that tradition in terms of the ideas that comprise it. Tradition alone is not what has made America great. Rather, it has been the reciprocal relationship between a limited state and economic and social liberty that has made the American way of life so coveted—in other words, the philosophy of liberty underlying the American tradition.

Expanding the power of government in order to preserve tradition is a sure path to the destruction of liberty. Americans ought to be particularly aware of this fact since the American tradition is bound together so tightly with the philosophy of freedom and limited government.

Yet, it is not the first time Americans have been down this road. U.S. public education began as a concerted effort to preserve the Protestant “traditions” of the American culture against the perceived threat of Catholicism. By subjecting the education establishment to the decisions of legislators and bureaucrats in local, state, and eventually national governments, Protestants hoped to stem the tide of Catholicism flowing into America on a nineteenth-century wave of immigration. As Samuel L. Blumenfeld relates,

There was another reason why the Protestant religionists decided to join the secularists [socialists] in promoting the public school movement. They shared a common concern with, if not fear of, the massive Catholic immigration to the

United States during that period .... [It was] argued that Protestants had to put aside sectarian differences and unite to defend Protestant republican America against the “Romish designs.”<sup>5</sup>

By making schools public rather than private, Protestants sought to use the power of the state to exclude the teachings and influence of Catholicism on their children, thereby preserving the Protestant “tradition” in America by way of majority vote. In retrospect, the bankruptcy of the American public education system ought to serve as a somber reminder that expanding state power to preserve “tradition” is a sure path to statism.

There is another flaw lurking in the argument that open immigration leads to the decline of a nation’s cultural and institutional framework. Contrary to the anti-immigration position, the American traditions of limited government and free market economies are not based upon ethnic or racial origins. They are based upon ideas. Western cultures cannot suppose themselves to have a monopoly on the philosophy of liberty, nor can Americans argue that the political values of the limited state cannot be inculcated in non-American immigrants. The ideas of freedom that have created the American tradition can apply to any ethnic or racial makeup.

But what happens if, over time, America absorbs so many immigrants that, through their influence, the ideas of limited government and the free market economy become diluted? What happens when our political system falls victim to immigrant forces that seek to expand government power? These are good questions. The fact remains, however, that these fears are now being realized, and the foes of liberty in America are largely homegrown. Twentieth-century Americans have turned their backs on the philosophy of the limited state.<sup>6</sup> They have generally refused to acknowledge the advantages of a laissez-faire market economy. It is not the foreign element, but rather the domestic element that we should fear. Before we begin to castigate potential immigrants for the damage they may do to our freedoms, we need to acknowledge the damage we have already done on our own.

The answer is to return once again to a government “of laws and not of men.” In other words, the state must be radically limited in power and scope, with

only minimal duties which are explicitly defined. This will put state power beyond the reach of those individuals or voting blocs that would seek to exploit it for personal gain. We then would have no reason to fear immigrants, regardless of their ideological or political persuasion. Their ability to “sabotage” our freedoms would be removed not because we expand state power to keep them out, but because we diminish state power in all areas and allow them in.

### Immigration and Freedom

Immigration policy should not be viewed differently than trade policy: free, unregulated, unpoliced, open borders, devoid of taxes, tariffs, or any other barrier to entry. This is the policy of freedom to which America owes her heritage. Unilateral free trade, free immigration, and free emigration, where individuals possess unobstructed and unregulated mobility and trade, is a cornerstone of a free society. In fact, the free movement of peoples is no less important than the freedoms of speech, expression, and association. Liberty is indivisible; the laws of economics apply equally to all peoples.

Americans must begin to accept the fact that free trade and open borders are to their utmost benefit. By embracing the philosophy of free immigration and free labor mobility, we benefit from the productivity, ingenuity, and entrepreneurship not only of those within our borders, but also of those from without. Expanding the division of labor into the international marketplace makes available a vastly enlarged array of resources, thus enhancing the living standards of everyone. □

<sup>1</sup> John S. DeMott, “Immigration Policy’s Double Impact,” *Nation’s Business*, December 1994, p. 28.

<sup>2</sup> See the compelling example offered by Jacob G. Hornberger in “The Case for Unilateral Free Trade and Open Immigration,” *Freedom Daily*, November 1994, p. 6.

<sup>3</sup> Julian L. Simon, *Population Matters: People, Resources, Environment, & Immigration* (New Brunswick, N.J.: Transaction Publishers, 1990), p. 265.

<sup>4</sup> Perhaps the most developed argument from this position can be found in Peter Brimelow, *Alien Nation: Common Sense About America’s Immigration Disaster* (New York: Random House, 1995).

<sup>5</sup> Samuel L. Blumenfeld, *N.E.A.: Trojan Horse in American Education* (Phoenix, Afiz.: The Paradigm Company, 1984), p. 27.

<sup>6</sup> For those who would argue that the decline in American liberty during the twentieth century is related somehow to immigration and open borders, the reality is otherwise. Twentieth-century America has never practiced open immigration to

the extent I am suggesting. Further, twentieth-century Americans have become more nationalistic than their eighteenth- and nineteenth-century

ancestors, thus reflecting, at times, an extreme degree of suspicion or even hatred toward foreign peoples.

## How to Stop “Harmful” Immigration

Despite evidence to the contrary, a significant portion of the public today apparently believes that, on balance, continued waves of immigration to the United States threaten the well-being of the current population. From a historical perspective, however, most of the proposed political solutions to this perceived problem would seem naive. Despite their evident appeal, neither a “Maginot line” of trenches and fences stretching thousands of miles across our southern and northern borders, nor a shorter “Berlin wall” located at the most heavily favored corridors for illegal immigration, seem practical. Moreover, they are vastly at odds with American traditions.

Nor are proposals to monitor the population electronically (via a National Identity

Card or some other device) apt to succeed. If the current reported trade in forged “identities” is any indication, the introduction of sophisticated new products into this market probably would simply enrich the suppliers.

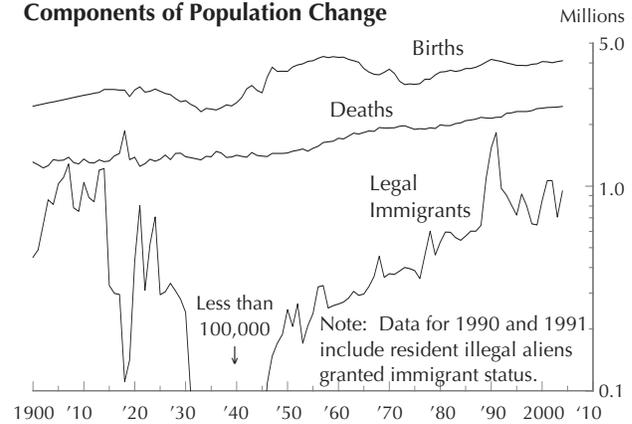
As noted in the accompanying article, even curbing welfare and other public assistance available to newcomers might have negligible effect on incentives to immigration, because immigrants generally are *not* lured mainly by the promise of public benefits. (In this respect, it is worth noting that even U.S. residents who might be better off elsewhere rarely emigrate to those “egalitarian” countries where public benefits are more generous — and taxes higher — than here.)

At bottom, net immigration to any country or region is an indication that more people believe opportunities are greater there than those who believe that opportunities may be greater elsewhere. Above all, immigration is an indication that the host country enjoys a relatively robust economy — a fact reflected in historical patterns of migration to the United States. From this perspective, the logical way to curb immigration (outside of precipitating world war) would be to adopt policies that run the economy into the ground.

The data seem to confirm this view. As shown in the Chart above, outside of wartime there was one and only one historical episode when immigration to the United States came to a virtual halt: the Great Depression. Apparently the bread lines, dust bowl devastation, hobo camps, and other images that marked the Depression era were sufficiently discouraging to keep the foreigners out.

It is not surprising that the immigration debate has yet to be cast in such terms. But fundamentally that is what it is about.

Components of Population Change



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