National Taxpayers Union

Statement of John Berthoud, Ph.D.
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before the

Economic Matters Committee
Maryland House of Delegates
Annapolis, Maryland

on
HB 127, Business Regulation – Motor Fuel – Below Cost Sales

January 31, 2006

Chairman Davis and Members of the Committee, my name is John Berthoud. I am President of the National Taxpayers Union (NTU), a nationwide grassroots lobbying organization of taxpayers with 350,000 members, including 6,700 in Maryland. You can learn more about NTU – and our educational affiliate, the National Taxpayers Union Foundation – on our website: www.ntu.org.

I come here today to offer testimony in favor of House Bill 127, Delegate Warren Miller's "Business Regulation – Motor Fuel – Below Cost Sales" legislation.[1] Delegate Miller's bill would remove the price floor for retail sales of gasoline. As Members of the Committee may know, in 2001 the Legislature enacted a law to prohibit retailers from selling gas below a statewide average "wholesale price." Maryland's Comptroller is charged with investigating alleged violators (i.e., retailers whose prices are "too low") and can punish them by revoking their registration.

Normally, when government seeks to meddle in markets, price regulation takes the opposite direction, as limits are set on how high prices can go (price controls). NTU believes that both price controls and price floors constitute poor policy and are punitive for consumers.[2] Quite simply, government should not be in the business of setting prices. In the current instance, we agree with Delegate Miller in his observation: "Greater competition among gas stations means lower prices for Marylanders."[3] This 2001 law should be repealed immediately.

Some might argue that this law is needed because without it, large retailers such as Sheetz or Wawa could corner the market and then act in ways that hurt the consumer. We find this argument unpersuasive, as there is little evidence to suggest that the ability to compete freely on prices has ever been a catalyst to create monopoly conditions.

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Many decades ago, Nobel Laureate economist George J. Stigler studied regulation by government and found that while it is perhaps begun under the banner of helping consumers, ultimately, the regulated firms are able to take control of the process and it ends up being beneficial to them.[4]

Clearly, this is what has happened here. The State of Maryland decided to involve itself in consumer matters, but in the case of gasoline, the regulation benefits the regulated industry (the vast bulk of gas retailers), while it harms consumers by keeping gas prices higher than they would otherwise be.

Thank you, Chairman Davis, for allowing us to testify today. And again, on behalf of our 6,700 Maryland members, NTU is pleased to offer our support for Delegate Miller's important measure.

Notes

[1] http://mlis.state.md.us/2006rs/billfile/hb0127.htm.
[2] NTU recently released a letter, which was signed by 257 economists (including two Nobel Laureates), condemning energy price controls. The letter is available here: http://www.ntu.org/main/letters_detail.php?letter_id=378.
[3] "Delegate Warren Miller Submits Bill to Lower Gasoline Prices," press release, January 20, 2006.
[4] George Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science*, Vol. 2, No. 1 (Spring 1971), Pages 3-21.