

“Basic Economics”

by Walter Williams

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With all the recent hype and demagoguery about gasoline price-gouging, maybe it's time to talk about the basics of exchange. First, what is exchange? Exchange occurs when an owner transfers property rights or title to that which is his.

Here's the essence of what transpires when I purchase a gallon of gasoline. In effect, I tell the retailer that I hold title to \$3. He tells me that he holds title to a gallon of gas. I offer to transfer my title to \$3 to him if he'll transfer his title to a gallon of gas to me. If this exchange occurs voluntarily, what can be said about the transaction?

One thing we know for sure is that the retailer was free to retain his ownership of the gallon of gas and I my ownership of \$3. That being the case, why would we exchange? The only answer is that I perceived myself as better off giving up my \$3 for the gallon of gas and likewise the retailer perceived himself as better off giving up his gas for the \$3. Otherwise, why would we have exchanged?

Exchanges of this sort are called good-good exchanges, namely "I'll do something good for you if you do something good for me." Game theorists recognize this as a positive-sum game -- a transaction where both parties are better off as a result. Of course there's another type of exchange not typically sought, namely good-bad exchange. An example of that kind of exchange would be where I approached the retailer with a pistol telling him that if he didn't do something good for me, give me that gallon of gas, I'd do something bad to him, blow his brains out. Clearly, I'd be better off, but he would be worse off. Game theorists call that a zero-sum game -- a transaction where in order for one person to be better off, the other must be worse off. Zero-sum games are transactions mostly initiated by thieves and governments.

Some might argue that there's unequal bargaining power between me and the gas retailer. That's nonsense! The retailer has the power to charge any price he wishes, but I have the power to decide how much I'll buy, including none, at that price. You say, "Gas is a necessity, and we're forced to buy it." That too is nonsense. If I voluntarily purchase the gas, I do so because I deem it better than my next best alternative. Of course, at a high enough price, I wouldn't deem it as such.

In the wake of the spike in fuel prices, many Americans demand that politicians do something. You can bet the rent money that whatever politicians do will end up harming consumers. Despite a long history of their

economic calamity, some Americans and politicians are calling for price controls or, what amounts to the same thing, anti price-gouging legislation. As Professor Thomas DiLorenzo points out in "[Four Thousand Years of Price Control](#)," price controls have produced calamities wherever and whenever they've been tried.

Economic ignorance, misconceptions and superstition drive us toward totalitarianism because they make us more willing to hand over greater control of our lives to politicians. That results in a diminution of our liberties. Think back to the gasoline price controls during the 1970s. The price controls caused shortages. To deal with the shortages, restrictions were imposed on purchases. Then national highway speed limits were enacted. Then there were more calls for smaller and less crashworthy cars. With the recent gasoline supply shocks, we didn't experience the shortages, long lines and closed gas stations seen during the 1970s. Why? Prices were allowed to perform their allocative function -- get people to use less gas and get suppliers to supply more.

Economic ignorance is to politicians what idle hands are to the devil. Both provide the workshop for the creation of evil.

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