

## **Economic Law and Order**

Violate an economic law and face the punishment. Economic laws, like the laws of physics, have no court of appeals. The law itself is police, Commonwealth's Attorney, jury, judge and executioner. Test the law of gravity and you will fall. Toy with the law of supply and demand and prices will go up. Ignorance of the laws of physics or economics is no defense.

Neither the sudden rise of gas prices, nor the steady increase in natural gas, should surprise anyone. When demand increases faster than supply the cost goes up. When you step off a building you fall to the ground. So, supply is down with terrorists in Nigeria, Katrina-damaged oil rigs in the Caribbean, disruptions in Iraq and the summer swap to ethanol and changing additives. Demand is up and going to stay up for the rest of the century, unless there is a huge catastrophe, with growing economies in China and India. The price of petroleum products is going to go up, up, up until the supply increases.

This is an almost perfect example of economic laws at work. There are about 1000 producers. There's no monopoly. The 'Big Oil' companies make less than 9 cents a gallon. No matter what. If the price per gallon is 1, 2, 3 or 4 dollars, the oil distribution companies make 9 cents on each gallon. The Federal Government makes 18.4 cents a gallon. The Commonwealth makes 17.5 cents a gallon. Virginia's tax was raised in 1986 – for a 'permanent' solution to transportation funding. Virginia's Republican Senators want to raise the gas tax another 6 cents for a more permanent, 'permanent' solution.

If a one dollar increase in gas equals about \$25 more a week for the 'average' family or \$100 a month (\$1200 @ year), then half of Virginia's families pay more, often much more. If there are 3 million Virginia households (2.7m in 2000 census), then \$3.6 billion is going out of the Virginia economy. Also, the additional costs contribute to inflation. Inflation is a tax. Inflation robs the middle class and punishes the poor.

In 2004 Virginia's Republican Senate majority and 17 Republicans in the House of Delegates voted to take \$1.4 billion out of the economy in new taxes. Meanwhile, property taxes are increasing. So, the economic law at work here dictates that taxes mean "every dollar that government spent on public works one less dollar was spent by the taxpayers to meet their own wants<sup>1</sup>." Likewise, for "every public job created one private job was destroyed<sup>2</sup>."

Good economic law and order dictates increasing supply. Virginia's one oil refinery near Yorktown can double its capacity. The Governor and the General Assembly should be working with the company to move out on the construction. Look at building new refineries. Explore for oil and natural gas in the Atlantic. Provide tax cuts for alternative fuels research, development, production and distribution. Encourage zoning for higher density and mixed housing and business to reduce the need for vehicles – and some demand for oil.

Likewise, better economic law and order would be served by a roll back of the surplus-producing tax increase of 2004. Get the money back to Virginia's families and pumping

through the economy.

The economic laws aren't lax. Price controls create shortages. Windfall profits taxes raise prices. Taxes kill jobs. Public sector jobs kill private sector jobs. Minimum wage increases kill jobs. Inflation is the worst tax. Lowering taxes creates jobs. Lowering taxes increases tax revenues.

Look at what happened after the Kennedy-Reagan-Bush II tax cuts. Long periods of economic growth followed. New jobs and real wealth were created. The rich got richer and poor got a much higher standard of poverty – by every measure. Our economy is still cooking because of the Bush tax cuts.

Lest anyone doubt the validity of economic laws, let them be made subject to the laws. Put a 6% tax on every newspaper that advocates higher taxes. Slap a 6% tax on legal services for all the legislators who love taxes and are lawyers. For our retired-from-real-day-jobs legislators, tax their retirement income and property an additional 6%. Consider the 6% increase for every tax and spender an investment on a permanent source of infrastructure building – for Virginia.

The only way for our Republican legislators, like Senators Norment and Williams, to learn the Rule of Economic Law is through the ballot box. They will learn by our votes when they have violated the rules good economic law and order, or not. Next exam is the 2007 primaries.

1,2. Economics in One Lesson, Henry Hazlitt

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