

Our View

Regulatory-Created Market Distortions

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I wrote the following words in 1981 regarding US oil price controls:

The form of price controls established in the United States discourages firms from increasing supplies to satisfy market demands during periods of disruptions (and in some cases the regulations even encourage firms to divert oil to other markets).¹

While economists and most policymakers railed against price controls, few bothered to dig into the details and distortions they created. The program was so pervasive that at one point the Secretary of Energy used it to create an incentive (more like a bounty) for traders to divert heating oil from Europe to the United States when supplies were short globally. Soon after, European leaders met with President Carter at a summit in Japan with less warmth than President Trump gets from them today.

In January 1981, Ronald Reagan ended the nightmare of petroleum market controls by abolishing them. Those of us who had opposed the program breathed a sigh of relief and hoped the experience would prevent ignorant, small-minded bureaucrats from ever again getting the power to arrogantly inflict billions in economic damage on American consumers. Alas, we were wrong. As philosopher George Santayana wrote, “Those who cannot remember the past are condemned to repeat it.”

The United States is repeating the price control experience with its Renewable Fuel Standard (RFS). President George W Bush opened this regulatory Pandora’s box in 2005 when he called on Congress to improve the nation’s energy security by expanding biofuel use to replace imported oil.² In a talk at an Ohio research institute, he advocated increased consumption of “domestically produced ethanol and biodiesel as transportation fuel through a flexible national renewable fuel standard and credit trading system.”³ Once again, the US blundered into a regulatory program that would ultimately distort market incentives and be manipulated by special interests for their own good.

In this case, the special interests are farmers who produce corn and soybeans and the large agricultural companies that process them into petroleum substitutes. Lobbyists for these interests

¹ Philip K. Verleger, “The Role of Petroleum Price and Allocation Regulations in Managing Energy Shortages,” *Annual Review of Environment and Resources* 6 (November 1981), pp. 483-528 [<https://tinyurl.com/yc6kzssa>].

² “Fact Sheet: Developing Renewable Fuels and Clean Diesel,” The American Presidency Project, May 16, 2005 [<https://tinyurl.com/4xu5v4z6>].

³ “Fact Sheet: Securing Our Nation’s Energy Future,” White House press release, March 9, 2005 [<https://tinyurl.com/4yn3u3t8>].

and farm-state political representatives strongly support the program. The latter have used it to obtain increasing government subsidies for their constituents, all paid for by American consumers.

Today, twenty years into the RFS program, renewable fuel regulations are creating the same distortions we witnessed with price and allocation rules in the 1970s. Recently, the president of a major independent refining company told an industry publication that “if the RIN [renewable identification number] bank is not large enough, and refiners cannot acquire enough RINs, they could be forced to throttle gasoline supply.”⁴

The “RIN bank” is or was an Excel spreadsheet maintained by EPA bureaucrats to track RFS compliance. To satisfy their renewable volume obligation (RVO), refiners and marketers can blend ethanol or other biofuels into their gasoline to earn the required RINs or purchase them from other firms that have surplus RINs earned by blending biofuels in volumes that exceed their RVO.

Today, the EPA has ordered specific volumes of renewable diesel to be injected into the market. Renewable diesel is made primarily from soybeans that can be mixed with regular diesel. However, the EPA neglected to consider that profit-oriented firms might not produce enough renewable diesel to ensure RINs were available for purchase by the firms that needed them. As a result, the current lack of RINs limits how much gasoline the latter can sell to the market.

This brings to mind the following Ben Franklin aphorism:

For want of a nail, the shoe was lost;
For want of a shoe, the horse was lost;
For want of a horse, the rider was lost;
For want of a rider, the battle was lost;
For want of a battle, the kingdom was lost,
And all for the want of a horseshoe nail.

The missing RINs could have the same impact. The resulting constraints on diesel and gasoline supplies could slow the arms production needed to replenish America’s exhausted munition stores. The lack of munitions could cause the United States to lose battles and see its stature on the world stage diminished. All for the want of a RIN.

Refiners, however, will do fine, just as they did under price controls. The RFS regulations do not apply to exports in general or to fuels other than gasoline and diesel, such as jet fuel, domestically. Not surprisingly, exports and jet fuel output are up. To avoid rising RVO costs, refiners will divert more products to other countries. Ironically, Canadians could see lower gasoline prices thanks to our higher exports—all for the want of a RIN—as President Trump boosts tariffs on their country.

By my calculations, US consumers now pay around \$0.50 more per gallon for gasoline and diesel because of the complications of the RFS. It would be even more ironic if Canadian farmers end up enjoying discounted diesel fuel exported by US refiners while American farmers suffer higher costs.

⁴ Janet McGurty, “US refiners face RIN crunch as biofuel mandate outpaces supply,” S&P Global, August 12, 2026 [<https://tinyurl.com/2pdandmf>].

Having watched regulatory programs for more than fifty years, I can safely say that this result is to be expected.