The price of gasoline fluctuates like crazy, tracking the price of oil. In a recent blog post and an earlier paper, my colleagues at the business school have put forward a really innovative proposal: a minimum price for gasoline. When oil costs go below a certain level, gas prices would stay stuck at that point. Studies show that consumers base their car purchases on the current price of gas. So if gas is really cheap, they buy more gas guzzlers, fewer hybrids. A floor price for gas would also help insulate the electric car industry from the effects of these same fluctuations.

According to economists, the price of gasoline is artificially low anyway, because consumers aren't paying for the harms ("externalities") created by their activities. The most obvious externalities are air pollution and climate change. Less obvious, but equally significant, are the increased traffic congestion and accident risks that come with the additional miles driven on a gallon of gas. Economists tell us that these costs are well above the current U.S. gas tax. Raising the gas tax would be the best approach, but if that's impractical, a price floor would help.

What should we do with all the extra money that consumers are paying? The easiest solution is to just dump it in the gas tax trust fund to use for transportation infrastructure. That would help pay for road repairs, bridges, and mass transit.

Politically, this is probably not the ideal time to impose the floor, since prices are so low and consumers would see a jump in prices at the pump. Instead, it might be better to wait until prices have risen significantly above the floor level, so people wouldn't see it as an immediate raid on their pocketbooks.

Apparently, China has already adopted such a scheme. We shouldn't let them get ahead of us.