

High Gas Prices

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The Problem

During President Bush's term, average gasoline prices have risen 164%

- Gasoline has risen from an average price of \$1.56 per gallon in 2000 to \$4.12 in June 2008, according to the Department of Energy.¹
- Much of this price increase is attributable to the even more dramatic increase in the price of oil, which has skyrocketed from \$28 per barrel in January 2004 to well above \$100 most recently.²

Increasing gas prices disproportionately affects low-income workers. Earners in:

- the lowest income fifth spent nearly 10% of their after-tax incomes on gasoline.
- the middle-income fifth spent about 5% of their after-tax incomes on gasoline.
- the wealthiest income fifth spent 2.5% of their after-tax incomes on gas.³

What has President Bush done?

President Bush waged war in Iraq

- The most significant intervention in the oil market was the war in Iraq, which has destabilized the oil-exporting Middle East region. The destabilization increases the risk premium associated with purchasing oil. That is, if oil purchasers believe an oil field in Iraq or Iran could be destroyed in the near future, they are willing to pay more for oil now so they can be insured for the future. This uncertainty bids up the price of oil, and consequently, gasoline.
- According to the National Security Network, "The invasion of Iraq, with its destruction of petroleum infrastructure, hundreds of uncontained attacks on production and transit facilities, and slowness to return production to pre-war levels has added a significant additional expense."⁴
- The National Security Network suggests that the risk premium adds as much as \$30-\$40 to the price of a barrel of oil.⁵

What has President Bush failed to do?

President Bush failed to invest in alternative energy sources. Such investments could have potentially lowered demand for gasoline, thereby mitigating the price increase. More specifically:

- President Bush opposed the Renewable Energy and Energy Conservation Tax Act (H.R. 5351), which would “extend tax credits to encourage producers and homeowners to employ wind, solar, geothermal, and other renewable energy technologies.”⁶
- President Bush advanced an energy plan that “does little for efficiency or renewable energy,” according to The New York Times.⁷ In fact, of the 105 recommendations, only seven target renewable energy.⁸
- President Bush’s 2003 budget proposed cuts in “funding for numerous clean energy and energy efficiency programs, including funding for bioenergy, wind and geothermal electricity sources,” according to the Union of Concerned Scientists.⁹
- President Bush’s 2007 budget proposal requested funding for energy efficiency, renewables, and energy conservation that was nearly identical to the amount appropriated in 2001.¹⁰ In real terms, the funding request represented a reduction from 2001.
- According to Gristmill, “President Bush’s Fiscal Year 2008 budget [proposed] to cut research funds for wind, eliminate them for geothermal energy, and leave funding for solar stagnant.”¹¹
- In his 2009 budget request, President Bush proposed a 27% cut for the Department of Energy efficiency and renewable energy programs.¹²

President Bush failed to challenge OPEC

- Many observers have criticized the Organization of Petroleum Exporting Countries for using their market power to restrict oil supply, thereby increasing the price of oil, and by extension, gasoline
- President Bush has actively protected OPEC’s cartel, pledging to veto the Gas Price Relief for Consumers Act of 2008, which would allow the Justice Department to charge OPEC with violation of antitrust laws.¹³

President Bush failed to invest in conservation.

- President Bush could have slowed the growth of gas prices by attempting to stymie increased aggregate demand of gas through programs that encourage conservation.
- The President’s 2008 budget cuts a key energy conservation program—the Energy Star Program—by 12%.¹⁴

President Bush failed to institute new commodity market regulations. While oil supply has stayed constant, prices have increased significantly, which means that demand has increased. Part of the increase in demand comes from the rapid growth and industrialization of China and India, but another key source of the increased demand comes in the form of institutional speculators. President Bush’s failure to impose regulations on commodity speculation represents a missed opportunity to slow the growth of gas prices.

- Over the last five years, the increase in speculator demand is almost equivalent to the increase in demand from China.¹⁵

- Index speculators have stockpiled 1.1 billion barrels of oil on the futures market.¹⁶
- In his testimony to the Senate Committee on Homeland Security and Government Affairs, hedge fund manager Michael Masters said: “Index speculators’ trading strategies amount to virtual hoarding via the commodities futures markets. Institutional investors are buying up essential items that exist in limited quantities for the sole purpose of reaping speculative profits.”
- Legislation that closes the swaps loophole—which exempts swaps transactions from “speculative position limits”—could “curtail Index speculation” and, in turn, help bring down the price of oil.

¹ “Motor Gasoline Retail Prices: U.S. City Average,” *Department of Energy*, June 2008.

http://www.eia.doe.gov/emeu/mer/pdf/pages/sec9_6.pdf

² \$115 per barrel as of August 28th, 2008.

<http://www.msnbc.msn.com/id/12400801>

³ “Quintiles of income before taxes: Average annual expenditures and characteristics” *Bureau of Labor Statistics*, October 2007

<http://www.bls.gov/cex/2006/share/quintile.pdf>

⁴ “Americans are Paying at the Pump for the Failed Foreign Policies of the Bush Administration,” *National Security Network*, July 1, 2008.

<http://www.nsnetwork.org/node/894>

⁵ “Americans are Paying at the Pump for the Failed Foreign Policies of the Bush Administration,” *National Security Network*, July 1, 2008.

<http://www.nsnetwork.org/node/894>

⁶ Weiss, Daniel. “Renewable Energy Subterfuge: Bush’s Sleight of Hand,” *Center for American Progress*, March 4, 2008.

http://www.americanprogress.org/issues/2008/03/sleight_of_hand.html

⁷ NYT Editorial, “A Misguided Energy Proposal,” May 18, 2001

<http://query.nytimes.com/gst/fullpage.html?res=9C0DE1D9113AF93BA25756C0A9679C8B63>

⁸ Weiss, Daniel. “Renewable Energy Subterfuge: Bush’s Sleight of Hand,” *Center for American Progress*, March 4, 2008.

http://www.americanprogress.org/issues/2008/03/sleight_of_hand.html

⁹ “Bush Budget Slashes Funds for Renewable Energy Sources,” *Union of Concerned Scientists*, February 6, 2003.

http://www.ucsusa.org/news/press_release/bush-budget-slashes-funds-for-renewable-energy-sources.html

¹⁰ “President Bush’s Budget Cuts Environmental, Natural Resource, and Energy Independence Programs,” *Democratic Policy Committee*, February 8, 2006

http://dpc.senate.gov/dpc-new.cfm?doc_name=fs-109-2-19

¹¹ Romm, Joseph. “Bush’s Sleight of Hand,” *Grist Magazine*, February 5, 2008.

<http://gristmill.grist.org/story/2008/3/4/14329/49036>

¹² Center for American Progress, “Bush’s Energy Budget: Proposals Not Consistent With Claims,” February 2008.

http://www.americanprogress.org/issues/2008/02/energy_budget.html

¹³ Bush, Darren et al. “A legal case against the OPEC cartel,” *The Christian Science Monitor*, June 23, 2008.

<http://www.csmonitor.com/2008/0623/p09s02-coop.html>

¹⁴ “The Bush Administration’s Budget Proposal.” *League of Conservation Voters*,

<http://www.lcv.org/president-and-congress/president/bush-rollbacks/the-bush-administrations-fy-2006-budget.html>

¹⁵ Masters, Michael. “Testimony before the Senate Committee on Homeland Security and Governmental Affairs,” May 20, 2008.

http://hsgac.senate.gov/public_files/052008Masters.pdf

¹⁶ Masters, Michael. “Testimony before the Senate Committee on Homeland Security and Governmental Affairs,” May 20, 2008.

http://hsgac.senate.gov/public_files/052008Masters.pdf