



## Weekend Open Thread (and a link to HO v. Econbrowser)

Posted by [Prof. Goose](#) on April 30, 2006 - 12:45am

Topic: [Policy/Politics](#)

Tags: [oil](#), [peak oil](#) [[list all tags](#)]

[Here is a link to the HO and JDH interview today.](#)

**[Editor's note]** This is a brand new open thread. However, our "The Politics of Oil: The Discourse Must Change" is also under the fold of this post. Our position paper is also available as a [PDF press release](#). Please take this .pdf and print it out/give it to others, or send this link ([right click here](#) for initial post address) to anyone you think needs the information contained therein. Politicians, media, blogs, you name it...it all helps. It is only through these small actions that the discourse can be changed. Thank you.

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Leaders of both political parties are expressing concern about the high price of gasoline. President George Bush [announced yesterday](#) that he was suspending deliveries to the Strategic Petroleum Reserve in order to make more oil available to consumers as well as putting on hold the traditional regulations requiring additives to make fuel burn cleaner during the summer driving season.

Meanwhile, Democratic leaders have had their own response to rising gas prices. Senate Minority Leader Harry Reid [has announced his support for the Menendez Amendment](#), which would "provide more than \$6 billion in relief directly to the American people by eliminating the federal tax for both gas and diesel for 60 days." Senator Charles Schumer [recently called for a federal investigation](#) to determine whether oil companies are withholding gasoline production, and House Minority Leader Nancy Pelosi [has blamed high gas prices](#) on the administration's cozy relationship with the oil companies, price gouging, and royalty relief.

The editors of The Oil Drum are ideologically diverse. Over the last year, we have created a forum at [www.theoil Drum.com](http://www.theoil Drum.com) to encourage an open, rational, and fact-based discussion of energy issues. While individual editors frequently express an opinion on a subject, we have never felt it necessary to take a unified position on any specific issue. That is, until today.

We strongly feel that the leaders of both political parties are not only headed in the wrong direction with respect to gas prices, but we also worry that they fundamentally misunderstand the factors behind the current situation at gasoline stations around the US.

Public statements by political figures over the past several days would seem to suggest that oil companies and their record profits are the sole factor determining the price of gasoline. Not only is this untrue, but it is dangerous to give the American people the impression that only oil companies are to blame. The American people need to understand that the phenomenon of high gas prices cannot be attributed to a single source. They also need to understand that no one political party will be able to fix our current woes.

The major factor that determines gas prices is the price of crude oil from which gasoline is derived. When crude oil prices are high, so are gas prices. The following are just a few factors that

1. Oil companies do not single-handedly determine the price of oil. The price of oil is set on the [crude oil futures market](#). Simply put, these prices are affected by supply and demand because, at present, oil trades in a global commodity market where increased demand or reduced supply in one place instantly translates into price shifts everywhere. A variety of publicly available information sources show that supply is relatively static at the moment, while world demand continues to grow as economies grow.
2. We have provided evidence many times at The Oil Drum that the output of major oilfields is declining and that [we may now have reached a peak](#) or [plateau](#) in global oil supply. Oil companies have not been able to increase production for a number of years, and it is unclear that OPEC is accurately reporting their reserves. Even if there were significant sources of high quality oil remaining, it is getting increasingly difficult and expensive to drill. These factors, along with aging infrastructure for oil exploration and a [retiring workforce](#) are also contributing to high oil prices.
3. The geopolitical situation is volatile, and an astute citizen may notice that every time there is news from [Nigeria or Iran](#), the price of oil goes up because of the potential and real effects of these situations on world oil supply. Again, oil traders are fearful that the supply will not remain stable forever.
4. Countries like China and India are industrializing at a great pace, and while we are accustomed to obtaining oil at a comfortable quantity and price, it will be impossible (and immoral) to deny similar resources to these countries. China is working furiously to secure new oil supplies, and they're content to negotiate with countries we're reluctant to deal with, like Iran and the Sudan.

These points demonstrate that disruptions in the supply of oil that affect the price of gasoline at the pump are not just a temporary glitch. For various reasons--decreased discoveries of new oilfields, geopolitical instability, international competition for oil supply--we can no longer assume that we will be able to consume as much oil as possible, or ever get it again for \$1.50 a gallon.

Demagoguery and grandstanding are not strategies for addressing our energy problems. As an alternative, the editors of The Oil Drum put forth the following recommendations:

1. It is nonsensical for political leaders of both parties to eliminate the gas tax temporarily or permanently as this will only worsen our dependence on oil by disincentivizing the innovation of oil alternatives and oil conservation efforts.
2. Both mainstream American political parties are doing their country a disservice by accusing convenient scapegoats of price gouging or price fixing instead of educating the public about how the price of gas is actually set.
3. Right now, governments should be focused on helping us cure our "addiction to oil." The answer does not lie in lowering gas prices, which will only encourage people to drive more and further waste our valuable resources. As the Department of Energy funded [Hirsch Report on Peak Oil](#) laid out, the consequences of not taking steps to transition away from oil could be dramatic to our economic system. Appropriate solutions include large-scale research, development, and implementation programs to improve the scalability of alternative sources of energy, other projects geared towards improving mass transit and carpooling programs across the country, providing incentives to buy smaller and more fuel efficient vehicles, and promoting a campaign to increase awareness about conservation.

The political discourse on this topic is simply so devoid of fact, and constructive discourse so buried and out of the mainstream, that we felt we needed to raise a voice of reason. Public officials will continue to misinform and obfuscate if we allow it.

The only solution is to educate the public about the most important problem we face as a generation. We, the citizens of the US and the world, must move our attention to this the issue of energy more than any other. We must hold our representative governments accountable for having an open and honest debate on the subject.

Simply put, we must learn more about where our energy comes from.



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