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Tech

Exploding Gas Prices Are Killing The U.S. Economy. What Measures Can Trump Take T Lower Gas Prices And Save American Familie

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Rather than re-invent the wheel here, I'm going to focus on the actual question, which concerns short-term gas prices, and then briefly touch on the longer term. Paul Unterberg links to a post with ten ways the U.S. can lower gasoline prices.

1. **Eliminating the federal gas tax**: The U.S. collects 18.4 cents per gallon of gasoline sold in this country. It could reduce that to zero. This would roughly cut 5% off the retail price of gasoline assuming retailers didn't merely leave prices the same.

2. **Release oil from the Strategic Petroleum Reserve:** The reserve, set up for national-defense reasons, can be used a temporary market-manipulation tool. How temporary? Well, really temporary. There are seven hundred million barrels in the reserve and the world uses around ninety million barrels daily. The U.S. itself uses about twenty million barrels. The good news is that by sending relatively small amounts of oil onto world markets that come from this somewhat exogenous source, the effect on prices can be more pronounced. That said, the effect is short-term in nature and *has little to do with the current issues in the U.S. (see below)*.

3. **EPA could create a uniform gas standard:** Some may not know this, but not all gas in the U.S. is the same. There are different blends in different states -- and even different seasons -- to try to limit emissions. Not all states have the same base standards, and the rules on seasonality are not consistent. This is one reason why gas in California is so pricey. It's not that the gas is inherently a ton more expensive, it's that it's a bit more expensive and refined and sold only in California. So we here exist in our own market. A broader, more uniform market would lower the price for everyone as all gas would be able to be sold anywhere in the U.S. The speed this could be achieved is another matter, but even an EPA mandate to immediately allow other western gas to be sold in California -- if not challenged in court -- would lower gas prices in the Golden State almost instantly.

- **Uncertainty around Iran and the Strait of Hormuz:** Sanctions on Iran are hurting its economy and the country has threatened to close the strait through which most Middle East oil flows. Despite our massive naval superiority, *Iran can likely accomplish this via mining*. They don't have to stop all tanker traffic, they merely have to convince tanker operators that a tanker might blow up if it crosses the strait. This is doable. Markets do not care for uncertainty and the price of crude oil has gone up as tensions have escalated. You want to end uncertainty around Iran? What's your plan? Let's consider the options: (1) War.. guaranteed supply disruptions and higher prices (2) end all sanctions. While many people favor (1), virtually no one favors (2) without also favoring (1).

- **Refinery capacity in the U.S. is tight, and the smallest interruptions in it are rapidly magnified at the pump**: The stuff the Saudis, Kuwaitis, Qataris, et al. pump out of the ground is really easy to refine relative to most of our domestically and regionally produced oil. It used to commonly be called "Light Sweet Crude." Our own "West Texas Intermediate" is a bit messier. Regardless, all of it needs to be refined if you want to fill up with a relatively high-octane blend of gasoline at your pump. The U.S. has one hundred and forty eight oil refineries. Occasionally, one in the continental U.S. gets modernized or upgraded or a small addition gets made. How occasionally, well, it *has* happened four times in the last thirty years, most recently in 2008 and twice in the 1990s. The last time a full-fledged refinery with meaningful capacity opened in the continental U.S.? Try 1977 in Garyville, La. On the one hand, that's not as devastating as it sounds; U.S. gasoline consumption was one hundred and fifteen billion gallons in 1980 and "just" one hundred and seventy five billion in 2006. But, well, that's a difference of sixty billion gallons. To make up the shortfall, we actually important "finished product" in the form of gasoline most years. Not in 2011 however, when U.S. demand was still low due to the slow economy primarily. The U.S. was a heavy importer of crude still, but a net exporter of refined petroleum! Anyway, what does it all mean? It means refining capacity is on the razor's edge. When too much of it is offline at once, there is not enough gasoline in the proverbial pipeline and prices rise. And right now, too much is offline: http://online.wsj.com/article/BT...

- **Incidentally, the controversial Keystone pipeline that is partly back on track is focused currently on this refining problem**: The so-called souther section of the pipeline is about getting U.S.-produced crude where it's currently backlogged to refineries in the southeast. I'm not wading into the environmental debate here, but regardless, this kind of thing has zero short-term implications. In the long-term, any bottleneck in the chain that could lead to higher prices that one can remove is probably a good thing -- if it's not going to lead to tons of pollution.

- **Oil markets love speculative frenzy:** Whenever the price of oil starts to rise on uncertainty, traders like to try to profit by buying futures, trading derivatives, doing what traders do. *This tends to exacerbate upward moves to the upside (and downward moves to the downside, although perhaps somewhat less).* People tend to move hot money into a "winner," and right now oil is a winner. The price of crude is probably higher than intrinsic economic forces suggest it should be. There will be calls for the heads of "speculators" and demands for "an investigation." This is the markets at work. *It happens every time*. Stop whining about it.

- **Spring has sprung early**: Remember that stuff about gasoline blends and seasonality? Guess what, the "spring/summer" blends are hitting the market. It's warm in America. Changing product when refining capacity is already tight and the market price of the underlying commodity is rising, oh boy.

- **And, oh by the way, the ethanol subsidy got killed**: There was, a 45 cent per gallon discount on the ethanol that comprises 10% of most of the "gasoline" in this country. It's gone. Since 10% of your gas was probably ethanol, about 4.5 cents of your price increase was that subsidy. It was a stupid

> subsidy, and both parties agreed it was dumb. It's gone. Taxpayers "saved" $6 billion by killing it. Now, you're paying 5 cents more for all those gallons of gas you're buying. See how you "saved" the money, taxpayers? Oh, wait, you didn't.

As this issue resurfaced as the 10/16/12 presidential debate, it's worth mentioning something: President Obama should have said to the person asking, "No, the Dept. of Energy can't control gas prices. Gas prices are set on global markets by the price of a barrel of oil. The only reason we pay less for a gallon here than they do in Europe is that in Europe they add more taxes. But every time oil prices go up, gas prices go up here -- and in Europe. Countries that subsidize their own gas prices do so to keep their population distracted from how terrible the government is, like Iran, Venezuela, Nigeria. The unfortunate fact is, even if we stop importing oil from anywhere but Canada and Mexico -- even if we produce every single barrel we consume -- the price of oil in the U.S. will be set on world markets. And that means the U.S. can't control the price of gasoline without interfering with the ability of U.S. businesses to respond to markets. Neither I, nor Governor Romney, nor anyone that believes in free markets would ever accept such interference in the affairs of corporations and small businesses that drill for and produce oil.

"Over the coming decades, China, India, and others are going to have more people demanding more cars and will ensure that over the long-term the price of oil will go the same way it *always has* -- up! So while we absolutely should continue to expand domestic production of oil, we'd be foolish not to start looking beyond oil for supplies of energy that are renewable, have prices we can predict, and will ultimately be cheaper. It's going to take a long time before any of those sources become more important than gasoline or coal to our economy, but if we don't keep focused on developing them now, we're going to simply keep paying more and more and lose any chance of leading the world in developing those next generation energy sources."

California is almost the only State that can solve it's gas price crisis. It can reduce the gas tax, reduce the blending