

GALLINGTON: Slim pickings?

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COMMENTARY:

Gas pump prices are the issue du jour for most Americans and oilman [T. Boone Pickens](#) says prices will continue to rise. However, there is a lot of fuzzy thinking about what causes them to do this and whether anything can be done about it. And, like most complex issues, it is hard to determine who is being objective and who is simply out to make money.

The price of something "fungible" like oil is generally set in a free market by the intersection of supply and demand - there are external political factors that influence the equation as well. But over the longer term, it is supply and demand.

I remember a conversation I had in the 1960s with the owner of a small gas station chain in the Midwest: He told me that often they didn't know what to charge for their gas because they bought it from various sources and at various prices, sometimes varying substantially. His company, for example, had a special cash price for gas sold on Friday evenings: Ten gallons for a dollar. It was his monthly bottom line that was most important to him, so they had tremendous flexibility to compete in local "gas wars," where small private stations aggressively undercut each other's prices in order to lure customers.

But what sticks in my mind is what he said about the world oil market: "You know, when you don't know how much of something there is or you can get, it's hard to set a price that makes much sense." And, at that time, most of the discussion about oil prices dealt with the uncertainty of the accuracy of the estimates of world oil reserves.

Then, there was the first "oil crisis" in the 1970s. Remember that one? That time there wasn't enough gas, many small company stations closed; there were long gas lines and even rationing. I remember seeing various government estimates that predicted the world would be effectively "out of oil" by the mid-1980s, this based on the known oil reserves.

But, guess what, the crisis went away in just a few years. The reason? We were told it was really just a refining capacity problem and that our cars were not as energy efficient as they needed to be. This caused a consumer flight away from the big, eight-cylinder American "land boat" car to smaller four-cylinder autos. And Detroit underwent a massive retooling to compete with foreign cars, which were more fuel-efficient. Then, with increased refining capacity, it was the availability of reasonably priced gas into the 1980s and '90s that encouraged Americans to rediscover the "land boat," this time as the SUV.

Now, we have "gas crisis" No. 2. This time, however, there are several additional factors, all of which should give us pause before we conclude we are not simply being scammed by profiteers who have found new ways to exploit oil consumers.

(1) While it seems incompatible with spiking prices, there doesn't seem to be a shortage of oil, whether it is caused by a lack of production capacity or refining capacity. You can tell this by how the oil sheiks react when pressed to increase production, something they clearly could do but choose not to - quite simply because it would bring the price down.

(2) What would the "discovery" of vast "new" oil reserves do to the world market price? This leads me to believe this information is more tightly held than nuclear weapon secrets. The Russians, for example, will keep the size of their vast reserves secret at all costs to keep the market price high - so would a lot of other large producers who were able to keep this information secret. If there are vast new oil sources, we will probably never hear about them.

(3) While our members of Congress may have cars they drive to work and park in the underground garage, most of their transportation is by chauffeur-driven cars, Defense Department or private planes - paid for by the taxpayers or someone else. These people (our lawmakers) mostly millionaires in their own right, do not care much about the "price at the pump." In fact, they probably don't know how the pump works.

(4) "Alternative energy people," whoever they are and whatever they advocate also have an agenda, whether honorable or not. For example: I heard a solar power advocate say "alternative energy nirvana was the point at which the price for it intersected the price of oil." If you think about this, what he really means is that he hopes to charge as much for his energy as the sheiks do for theirs. This is not good news for

consumers. You can bet no new alternative energy source or discovery will be seriously advocated or financed by people getting rich from high oil prices - what motivation could they have? So, left to the market place, it just won't happen.

What's the answer? It might be quite simple, and you would think that with congressional popularity in the single digits - the lowest ever - they would want to do something about it. Not only that, the solution seems to be squarely within the primary expertise of our Congress: throwing money at something - what they do best! What our Congress must do is spend several trillion dollars on American technology to find new, and cheap sources of energy - enough so "big oil" feels threatened and brings its prices down.

In short, we have to get "wartime serious" about finding new energy technologies that oil must compete with. Let's get our Congress going on it.

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