

## Don't Blame the "Speculators"

Jonathan H. Adler • April 21, 2011 11:21 pm

Jerry Taylor and Peter Van Doren explain why evil oil "speculators" are not behind the recent rise in oil prices.

There is no need to repair to conspiracy to answer the question about why gasoline prices are going up. The loss of Libyan crude—about 2% of global supply—has reduced the amount of oil available in the market and gasoline prices track global crude oil prices.

Prices must necessarily rise to reduce global oil consumption because we can't consume what isn't there. How much do prices need to rise to reduce oil consumption by 2%? It takes a big increase in gasoline prices to get us to drive even a little less. Economists estimate that prices must rise anywhere from 10 to 20 times the percentage reduction in quantity to reduce demand enough to equal the lower supply. Thus for a 2% supply reduction, prices must rise between 20% and 40%. Average gasoline prices have risen 20% since early February, on the low end of what economists predict.

There's every reason to believe oil prices will rise even higher in the coming months, and gasoline prices will follow. In fact, gasoline prices could rise even faster, particularly during the summer months, when various boutique fuel requirements effectively balkanize the domestic gasoline market, making it more vulnerable to supply disruptions. No need to find look for sinister speculators hiding in the wings. The causes of gasoline price increases will be easy to find.

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