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## Obama's Blame of Speculators, Forming of Gas Task Force Misguided

Posted By [Nicolas Loris](#) On April 22, 2011 @ 3:30 pm In [Ongoing Priorities](#) | [9 Comments](#)

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Maybe President Obama should start investigating John F. Kennedy's shooting in his spare time, because he's not going to find a satisfying conspiracy in gas prices.

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Better yet, he could pick up an economics textbook and turn to the chapter on Supply and Demand.

His [finger-pointing at speculators and formation of a gas task force](#) <sup>[1]</sup> to investigate prices at the pump ignore the real cause of rising gas prices. Further, President Obama's blame of speculators is a costly barrier to fixing bad government policy that restricts oil and gas exploration onshore and offshore here at home.

Oil futures markets can affect prices at the pump by changing the amount of gasoline delivered to gas stations. If producers anticipate higher prices in the future, they might take some oil off the market today and wait to sell it later. But that doesn't seem to be happening.

Speculators could marginally increase the price of gasoline if it led to oil inventories building up while sellers waited for higher prices—but even then it would be only in the short run, because businesses have to unload these inventories. That doesn't seem to be the case right now. The Cato Institute's [Jerry Taylor and Peter Van Doren explain](#) <sup>[2]</sup>:

If this is going on we would expect to see some sort of inventory buildup. While crude inventories in the U.S. are increasing, they always increase at this time of year, and this year's increase is well within the normal range. More important, gasoline inventories are decreasing and decreasing much more rapidly than normal. Hence, there's no evidence that speculators are reducing the supply of crude or gasoline through increased storage.

Producers, however, could react in the same way to higher futures prices by decreasing current production to allow more future production at higher prices. Alas, we see no evidence of suspicious reductions in producer output that might give this story credence.

Yet the allegations of speculators manipulating the market occur every time gas prices rise. They have been investigated numerous times by the Federal Trade Commission and others and found to be without merit, but few critics are ever convinced. Several [Federal Reserve studies](#) <sup>[3]</sup> found no correlation between speculation and the price of any commodity. Yet President Obama remains unconvinced and seems to believe this time the speculators are getting away with something.

In fact, speculators can also help lower costs in the near term, and one way for that to happen is to increase supply, signaling lower future prices. As [my colleague David Kreutzer points out](#) <sup>[4]</sup>, "A better solution is to increase access to new energy sources. If new sources of oil are allowed to be used, futures markets and speculators will lower the future cost of oil, which will translate into lower fuel prices at the pump."

The reality is oil prices have been rising steadily for a year as the global economy is on the mend and countries are using and demanding more oil. A [weak dollar](#) <sup>[5]</sup> is also playing a role. While "Drill Here, Drill Now" is not a panacea and won't bring gas prices down dramatically, increasing access to oil reserves in the U.S.—both onshore and offshore—would help offset rising demand, increase jobs, and stimulate the economy. Unlike the President's solutions of increasing biofuel production and bringing more electric vehicles into the market, drilling can be done without the taxpayer's help. Subsidizing uneconomic sources of fuel and transportation is a bad deal for the consumer and the taxpayer and will do nothing to offset high gas prices.

Blaming speculators and creating unnecessary task forces is a good way for the Administration to signal it is "doing something" about high gas prices. But the truth is that the federal government is merely diverting attention away from its bad policies.

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URLs in this post:

[1] finger-pointing at speculators and formation of a gas task force: [http://www.cbsnews.com/8301-503544\\_162-20056205-503544.html](http://www.cbsnews.com/8301-503544_162-20056205-503544.html)

[2] Jerry Taylor and Peter Van Doren explain: <http://www.forbes.com/2011/04/19/oil-futures-prices.html>

[3] Federal Reserve studies: <http://www.federalreserve.gov/pubs/feds/2009/200929/200929pap.pdf>

[4] my colleague David Kreutzer points out: <http://www.heritage.org/research/reports/2008/07/oil-speculators-help-consumers-at-the-gas-pump>

[5] weak dollar: <http://af.reuters.com/article/investingNews/idAFJOE73L01J20110422>

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