Let's Blame Speculators

Here's a non-rocket science question: If you expect a reduced harvest of wheat, corn, rice or any other commodity some time in the future, what would be the wise thing to do about your consumption today? I bet that the average person would answer: Consume less now so that more will be available in the future.

But how in the world can people be encouraged to consume less now? Enter the futures market, which consists of a worldwide group of millions upon millions of traders, often called speculators. Speculators, betting on a future shortage, buy up wheat, corn and rice today in the hopes of making money selling it for a higher price when the bad harvest hits. As speculators buy more and more wheat, corn and rice, they drive up today's prices. As today's price gets higher, people consume less, but more importantly, people do the intelligent thing without bureaucratic edicts. The vital role of the futures trader, or speculator, is to allocate goods over different time periods. And, it's not just wheat, corn and rice that must be allocated over time but all commodities including oil.

There's no guarantee that speculators will make money. They might guess wrongly. For example, they might buy wheat now at $8 per bushel, expecting to make a killing in November at $12. Weather predictions might have been wrong and instead of a reduced harvest, there's a bumper crop driving November wheat prices down to $4 per bushel. That would make the speculator's $8 investment worth $4.

If we don't like commodity speculation, we could easily outlaw it. That way, for example, even though there might be every indication of a reduced fall wheat harvest, today's price of wheat wouldn't rise. We could consume wheat today and not fret about fall.

President Obama has asked the U.S. Department of Justice to investigate whether Wall Street speculators could be manipulating oil markets. If Obama could convince other nations to put an end to worldwide oil speculation, we might be able enjoy $2 per gallon gas and ignore Middle East conflicts that might impact heavily on future oil supplies.

White House and congressional attacks on oil speculation do not alter the oil market's fundamental demand-and-supply reality. What would lower the long-term price of oil is for Congress to permit exploration for the estimated billions upon billions of barrels of oil off our Atlantic and Pacific Ocean shores, the Gulf of Mexico and Alaska, not to mention the estimated billions, possibly trillions, of barrels of shale oil in Wyoming, Colorado, Utah and North Dakota.

Some politicians pooh-pooh calls for drilling, saying it would take five or 10 years to recover the oil and won't solve today's problems. Nonsense! I guarantee you that if permits were granted to all of our oil sources, we would see a reduction in today's prices.

Why? Put yourself in the place of an OPEC member knowing there's going to be a greater supply of U.S. oil in five or 10 years, which might drive oil prices to a permanent $20 or $30 per barrel. What will you want to do now while oil is $120 per barrel? You would want to sell.

OPEC's collective efforts to sell more would put downward pressures on current oil prices. The White House, U.S. Congress and environmental wackos, by keeping our oil in the ground, are OPEC's staunchest ally. I wouldn't be surprised at all if we discovered OPEC reciprocity in the forms of political contributions to congressmen and charitable donations to environmental groups.

In the wake of higher gasoline prices, the only intelligent thing that Obama has called for is an end to $4 billion in annual taxpayer subsidies to oil companies. To get that done, he has an uphill bipartisan fight on his hands. Oil companies buy off both Republicans and Democrats in order to receive government handouts and special treatment.

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