



Written by [Daniel Sayani](#) on March 11, 2011

## Federal Reserve Policies Drive Up Gas Prices

Rising gas prices, like rising grocery and food prices, are a sign of the times. As the Federal Reserve continues down a path of manipulated, fiat currency and no gold standard, consumers can only expect to see rising prices at the checkout lines and gasoline pumps.

As of Wednesday, U.S. gasoline prices averaged \$3.52 a gallon. These prices, the highest in more than two years, are only expected to rise. As recently as January 2011, analysts predicted that oil prices could rise to unprecedented highs per gallon, [according to](#) the *Huffington Post*:



The price of oil is poised for another run at \$100 a barrel after a global economic rebound sent it surging 34 percent since May. That could push gasoline prices to \$4 a gallon by summer in some parts of the country, experts say.

Flying, shipping a package and ordering a pizza all likely would get more expensive in the new year if that happens and companies pass along higher energy costs. Some economists say rising energy prices will slow economic growth.

The U.S. is the world's largest oil consumer, but prices since spring have been on a roll primarily because of rising demand in developing countries, especially China. China's oil consumption is expected to rise 5 percent next year; that compares with less than 1 percent growth forecast for the U.S.

Gasoline expert Fred Rozell predicts that 15 states — including Alaska, Hawaii, Connecticut and Rhode Island — will see gasoline prices top \$4 a gallon by Memorial Day. "A dollar more per gallon isn't that much — probably about \$750 more per year for each motorist, but there's a psychological aspect to gas prices," he said. "People are going to be up in arms about this."

John Hofmeister, former president of Shell Oil and author of "Why We Hate The Oil Companies," predicts Americans will pay \$5 per gallon for gasoline by 2012. Other experts say that's a long shot.

"That means oil close to \$200" per barrel, analyst and trader Stephen Schork said. "We can see it, but we could also see a global depression, too."

Hofmeister also says that "there is more demand because the economy is recovering. There is much more demand in Asia because the economy is growing rapidly."

The state hardest hit by the rising oil prices is also America's poorest — Mississippi — where, according to new data from the Oil Price Information Service, families spend the highest portion of their income on gas, as gas prices have increased every day except one since mid-February. Texas has also been hit especially hard, as gas prices there have skyrocketed by an average of 12 cents per gallon this week



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and 50 cents since January 1. The average price of regular gasoline at the pump climbed 14 cents to \$3.51 a gallon in the week ended March 6, according to AAA, the nation's largest motoring organization. That followed a gain of 20 cents in the prior period, which was the biggest one-week jump since the aftermath of Hurricane Katrina in 2005.

Imports increased 5.2 percent in January, the most since March 1993, reflecting a gain in oil prices and purchases of business equipment and consumer goods. Exports of American-made goods rose 2.7 percent, helped by the weaker dollar and growing economies in Asia and Latin America.

Ludwig Von Mises Institute economist Sterling T. Terrell has identified the role of inflation in the rise of gas prices, which has occurred intermittently on its current scale and scope since 2008, when the economy [crashed](#):

The result of the Federal Reserve printing too much money is a loss of purchasing power of the dollar: something that cost \$1.00 in 1950 would cost about \$8.78 today. As for gas prices, in 1950 the price of gas was approximately 30 cents per gallon. Adjusted for inflation, a gallon of gas today should cost right at \$2.64, assuming taxes are the same.

But taxes have not stayed the same. The tax per gallon of gas in 1950 was roughly 1.5% of the price. Today, federal, state, and local taxes account for approximately 20% of gas's posted price. Taking inflation and the increase in taxes into account (assuming no change in supply or demand), the same gallon of gas that cost 30 cents in 1950 should today cost about \$3.13.

While some officials fear the rising price of gasoline could blunt the U.S. recovery, bolstering the case for continued central bank stimulus to the economy, others say the price of oil is a warning beacon for inflationary pressures, which they argue may already be building thanks to the Fed's \$600 billion bond-buying program, which has been clearly identified as a cause of continuing inflation, which is driving up oil prices. Still, the Federal Reserve [remains](#) unconvinced that they are the source of America's economic problems, as indicated by this comment of Atlanta Federal Reserve Chairman Dennis Lockhart: "The best course of action is to play out the program as originally planned.... I don't think the situation yet exists that would justify cutting the program off or reducing it."

Fed Chairman Ben Bernanke himself has also indicated that he intends to do nothing to stem the tide of inflationary policies, such as the bond-buying program, that continues to drive up gasoline prices:

The most likely outcome is that the recent rise in commodity prices will lead to, at most, a temporary and relatively modest increase in U.S. consumer price inflation.... We will continue to monitor these developments closely and are prepared to respond as necessary to best support the ongoing recovery in a context of price stability.

Further contributing to the Federal Reserve's role in the increasing oil prices is the fact that the Fed cares mostly about so-called "core" inflation, not overall inflation. Core inflation excludes energy and food prices, which are precisely the ones that have climbed in recent months. There is no inflation data for February yet, but the Consumer Price Index rose by 0.4% in January. Most of that increase was due to food and energy (the role of the Federal Reserve in rising grocery prices was [previously analyzed by The New American](#)).

In addition to inflation, rising oil prices are also attributable to the turmoil in Libya, as protests and military action are disturbing gasoline pipelines and oil delivery, while the reign of Libyan Colonel Moammar Gaddafi is threatened, according to [Bloomberg Business News](#):



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Crude prices have climbed as escalating violence in Libya raised concern about regional supply disruptions. Oil for April delivery touched \$106.95 on March 7, the highest intraday price since Sept. 26, 2008. The contract was \$101.45 a barrel at 12:18 p.m. today on the New York Mercantile Exchange. The U.S. shortfall with OPEC nations widened to \$9.9 billion as imports increased to the highest level since October 2008.

[Oil historian](#) Daniel Yergin commented that the recent increase “forces people into really difficult choices,” adding, “It becomes a thermometer, a register of fear and anxiety.” Nouriel Roubini, the New York University economist who became known for his pessimistic forecasts before the financial crisis, told reporters in Dubai on Tuesday that an increase in oil prices to \$140 a barrel could even cause some advanced economies to dip back into recession.

The steady rise in oil prices has finally earned the attention of congressional Republican leaders, prompted by what is perceived as President Obama’s dismal handling of the matter. Speaker of the House John Boehner said the following, blaming President Obama for the rising gasoline prices, as reported by the [Wall Street Journal](#):

The Obama administration has consistently blocked American energy production. Mr. Boehner didn’t dust off the GOP’s 2008 energy policy slogan, “Drill, Baby, Drill!” But his new energy plan — the “American Energy Initiative” — calls for more domestic oil and gas drilling, faster approval for new nuclear power facilities, and an end to Environmental Protection Agency efforts to regulate greenhouse gases.

Earlier in the day, Senate Minority Leader Mitch McConnell of Kentucky took to the Senate floor to criticize the Obama administration’s energy policy.

“Americans looking at the price of gas at the pump these days are justifiably upset. What they may not realize is that some in the Administration are actively working to prevent us from increasing our own oil production here at home,” he said. Mr. McConnell cited canceled oil and gas leases, and limits on domestic exploration.

While the Obama administration’s energy policies undoubtedly are contributing to the rising gas prices, the inflationary policies of the Federal Reserve nonetheless occupy a significant role in the continuing rapid increase in grocery and gasoline prices.



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