Gas Prices Moving to All-Time High

The prices that Americans pay for gas at the pump may reach an all-time high this summer. The average price is $3.70 per gallon, which is an increase of 30 cents since July and the climb in price from July to August was 9 percent. The increase is particularly concerning because a reduction in global demand, caused by a persistent world-wide recession, has kept demand for gas relatively low. Some have predicted that the price of gas will reach $3.90 per gallon before Labor Day. Gas prices have risen each month for seven straight months this year.

Rising gas prices are often cited as one of the reasons that Jimmy Carter was not reelected in 1980. Prices have actually risen more this year under Barack Obama than under the last year of the Carter administration. This is one of the “core” consumer expenses that can be reduced only by a certain amount because people need to drive to work, go to the grocery and the doctor, and travel some in their communities.

Americans in the Midwest have been especially hard hit. Supplies of gas in that region have been reduced because of cuts in production at four refineries in the area. Gas prices in Illinois and Michigan have risen to $4 per gallon or even higher. Wildfires in northern California have also affected refinery production, pushing gas prices up by 40 center per gallon.

Scott Anderson, an economist at the Bank of the West, noted: “The $4 threshold is when you see sticker shock and marked changes in consumer behavior and spending patterns. When prices come down, that really revives disposable income. The longer we see these highs, the more impact you’ll see on consumer spending.” The rise of gas prices has also pushed consumer spending higher. The Department of Commerce reported that July consumer spending rose by 0.8 percent, which is the largest gain in five months.

What are the causes of these rising prices? Despite serious impediments to oil and gas exploration caused by federal environmental regulations, the market has responded to the higher price of oil and the oil industry has been increasing proven reserves of oil and gas, as well as increasing production in the United States. Federal regulations have increased the cost per BTU of oil and gas to be produced, but that ought to be offset, in some part, by the increase in the supply.

The oil and gas industry, however, involves more than the exploration and production of these hydrocarbon fuels. Oil has almost no value until it is refined. Refinery capacity is tightly constricted today. This is not something that can be fixed overnight. Refineries are very expensive capital investments and the workings of refineries, as anyone who has ever visited one knows, are complex and require constant testing and attention.

Political uncertainty caused by international tension, federal commitment to so-called “reneweable energy,” and the prospects of litigation by environmental groups or the EPA all have to be factored into the equation before a corporation decides to make the major investment into a new refinery.

Transportation systems are another factor. The Keystone Pipeline is a solid economic investment, if political considerations do not impede on decision-making. However, the Keystone Pipeline has become a political football and so it is not being constructed. This means years down the road that our petroleum transportation infrastructure will not grow as a natural part of the oil and gas industry. The absence of an adequate transportation system for oil and gas means that the decisions in areas of production or refining are influenced by the availability of pipelines and not by what natural economy and efficiency would cause.

Gas prices are also affected by high levels of consumption taxation on gallons of gasoline sold. High taxes increase the cost to consumers without correspondingly increasing revenue to the producer. This is a "worst of all worlds" in which consumers suffer because of high price and scarcity, but the resources which producers need to build infrastructure and to explore and produce is largely taxed away.

Photo: Gas prices sign reading prices pass $4.50 in the US via ShutterStock