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ECONOMY

3 Smart Ways to Lower Gasoline Prices And Still Punish Putin

By **DAVID CAY JOHNSTON** — April 5, 2022 7 Mins Read

Gasoline prices in Los Angeles; a block away, the prices were $2 less. (Leonard Crook)

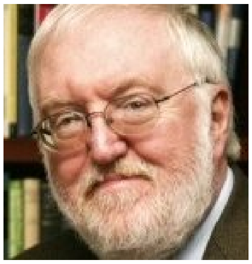
Maverick Economist Tells Congress What the Oil Industry Wishes You Didn't Know

Are oil and gasoline prices being manipulated to create inflated profits? It's easy enough to find out, maverick energy economist Robert McCullough told Congress Tuesday.

It's also easy for our government to adopt temporary policies that will lower costs at the pump by:

- Ripping the dark veneer off opaque market
- Creating incentives for more drilling in the short run
- Taxing away any windfall profits

McCullough is a super smart and jolly old man who runs his own energy economics consulting firm in Portland, Ore.


Robert McCullough

He is hated by the energy and utility industries because his reports cut through the fog of economics and provide clear, understandable insights into the many ways the energy industries manipulate markets and politicians for their gain. And he is big on market incentives to make markets efficient and open.

> *"The most effective policy to curb Russian aggression in Ukraine is to displace Putin's oil exports with enhanced U.S. production while protecting U.S. consumers from unnecessary price increases at the pump."*

There is good reason for our federal government to exercise its authority to help citizens cope with the surge in gasoline prices, which soared 38% since last March. That combined with increased travel as the pandemic wanes means that spending on gasoline has increased 44% in the last 12 months.

McCullough's testimony is the kind of deeply informed plain talk that seldom makes the news or congressional hearings. Instead, self-serving industry talking points infect public discussion of energy markets, just as nonsense about "freak accidents" infects news coverage of worker deaths on the job as we reported this week.

Sen. Maria Cantwell of Washington, the Democrat who leads the committee, is trying to show ways that our government can mitigate the impact of Putin's war on energy prices through smarter regulatory policies.

That's a difficult task in the Congress where the word regulation is treated as if it had only four letters by politicians who mouth ill-informed nonsense about market economics and promote corporate socialism policies that enhance profits and damage the overall economy, largely by draining money out of consumer pockets.

Senator Maria Cantwell

What follows is a summary of McCullough's testimony, edited to remove technical details. All ideas are his.

McCullough told the Senate Commerce, Science and Transportation Committee to focus on three areas: transparency, drilling and windfall taxes.

The first can prevent rigged markets that artificially inflate prices.

The second will temporarily increase oil extraction, which can be done through the carrot of incentives.

The third is a stick to beat windfall profits out of the system, making price gouging pointless.

1. Transparency

Making oil and gasoline markets transparent "is the least expensive and most effective tool in guaranteeing efficient markets." These markets in the United States are "vastly less transparent than competing fuels like electricity and natural gas."

Requiring disclosure of oil and gasoline trades, just as it's required for other commodities, is an inexpensive and effective way to expose price manipulations. Creating "a database of wholesale transactions for oil and gasoline similar to [the existing] database for electricity is critical to discourage anomalous trading."

Requiring wholesale traders to report transactions should help with the well-known "up like a rocket, down like a feather" changes in gasoline prices that don't closely track oil market prices.

California is "prone to mysterious price excursions. In the second week of March, as oil and gasoline prices fell across the U.S., California's gasoline prices continued to increase. There is some evidence that trades which caused this increase" were rigged.

2. Drilling

Because no one knows how long Putin's war will last it makes little to no sense for oil drilling entrepreneurs to deploy hundreds of idle drilling rigs to pump more oil. But there's an easy way to turn this into a smart move.

"The federal government's existing oil inventory could be loaned, rather than sold, into the market. The loan would be repaid with federal contracts to buy oil in the future, thus smoothing prices for small drilling companies and ensuring that a sudden unexpected end to the war would not ruin their finances."

President Joe Biden has taken some steps in this direction by releasing oil from the national petroleum reserve.

That oil should "be with purchases of crude in West Texas Intermediate forward markets [which] will expand liquidity and provide broad incentives for additional production in the Anadarko, Appalachia, Bakken, Eagle Ford, Haynesville and Permian basins:

Despite the Russian invasion that began Feb. 24 the number of active American oil drilling rigs since then has risen by just 11 to 533. Three times that many oil rigs are idle.

The Biden administration has been warning for a year that Russia would attack Ukraine. In the past 12 months the spot price of oil has gone from about $60 a barrel it's about $108 a barrel. Huge price spikes like that typically invite more drilling, but not this time because of uncertainty about how long the Russian war and sanctions on the Russian economy will persist.

Most drillers will maximize profits by staying home and selling their existing crude oil flows into the spot markets. If they spend money to drill anew or to re-open capped wells, that will cost money while also tending to drive prices down. That's why the entrepreneurial drillers are pulling more black gold out of the ground.

DCReport believes them McCullough plan to loan oil from our government's strategic petroleum reserve into the market and then pay it back with guaranteed purchases of future oil production would be a smart and economically efficient way to use incentives to lower the price of gasoline at the pump.

3. Windfall Profits Tax

Gasoline prices and oil industry profits this year "are going to be enormous."

To discourage price gouging and blunt incentives to limit oil production, Congress should introduce a windfall profits tax. That is a concept long understood in economics and in tax policy to discourage harmful economic behavior by eliminating incentives to cheat and artificially inflate consumer prices.

Congress should combine a windfall tax on oil company profits due to the war in Ukraine with a tax credit to those firms which expand oil production. That in turn would help lower prices at the pump.

Such a carrot-and-stick approach could produce tremendous public benefits, but almost certainly would be attacked by know-nothing lawmakers as harmful to the oil industry, one of the biggest financiers of political campaigns in America.

Public perceptions

While Russia is the world's largest oil exporter, and efforts to shrink those exports will drive prices upward, the United States does not need to suffer significantly from economic pressure designed to persuade Putin to withdraw from Ukraine.

"Public perceptions of the United States and its energy balance have lagged behind market developments." Glib newscasters report America is being held hostage by foreign oil producers, including Russia.

"In reality, the United States is now roughly able to supply its own requirements and is not in any risk of reliving the painful days of the 1973 oil boycott."

Expanding American exports of liquefied natural gas would link domestic energy prices paid by consumers more closely to world markets, an issue rarely if ever mentioned by those politicians promoting the mindless mantra of drill, baby, drill.

The most effective policy to curb Russian aggression in Ukraine is to displace Putin's oil exports with enhanced U.S. production while protecting U.S. consumers from unnecessary price increases at the pump. There are dumb ways to do that and smart ones.

Like McCullough, DCReport favors smart.

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