The Real Cause of Rising Prices at the Gas Pump

By Robert Reich
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Gas prices continue to rise, which is finally giving Republicans an issue. Mitt Romney is demanding the President open up more domestic drilling; the super PAC behind Rick Santorum just released a new ad in Louisiana blasting the President on gas prices; and the GOP is attacking the White House on the Keystone XL Pipeline.

But the rise in gas prices has almost nothing to do with energy policy. It has everything to do with America's continuing failure to adequately regulate Wall Street. But don't hold your breath waiting for Republicans to tell the truth.

As I've noted before, oil supplies aren't being squeezed. Over 80 percent of America's energy needs are now being satisfied by domestic supplies. In fact, we're starting to become an energy exporter. Demand for oil isn't rising in any event. Demand is down in the U.S. compared to last year at this time, and global demand is still moderate given the economic slowdowns in Europe and China.

But Wall Street is betting on higher oil prices in the future — and that betting is causing prices to rise. The Street is laying odds that unrest in Syria will spill over into other countries or that tensions with Iran will affect the Persian Gulf, and that global demand will pick up as American consumers bounce back to life.

These bets are pushing up oil prices because Wall Street firms and other big financial players now dominate oil trading.

Financial speculators historically accounted for about 30 percent of oil contracts, producers and end users for about 70 percent. But today speculators account for 64 percent of all contracts.

Bart Chilton, a commissioner at the Commodity Futures Trading Commission — the federal agency that regulates trading in oil futures, among other commodities — warns that too few financial players control too much of the oil market. This allows them to push oil prices higher and higher — not only on the basis of their expectations about the future but also expectations about how high other speculators will drive the price.

In other words, a relatively few players with very deep pockets are placing huge bets on oil — and you're paying.

Chilton estimates that drivers of small cars like Honda Civics are paying an extra $7.30 every time they fill up — and that money is going into the pockets of Wall Street speculators. Drivers of larger vehicles like the Ford Explorer are paying speculators $10.41 when they fill up.

Funny, but I don't hear Republicans rail against Wall Street speculators. Could this have anything to do with the fact that hedge funds and money managers are bankrolling the GOP as never before?

Wall Street isn't bankrolling Democrats nearly as much this time around because the Street is still smarting from the Dodd-Frank Wall Street reform law pushed by the Democrats, and from the president's offhand remark in 2010 calling the denizens of the Street "fat cats."

The Commodity Futures Trading Commission is trying to limit how much speculators can bet in oil futures — a power it was given by Dodd-Frank. It issued a rule in October, but it won't take effect for another year.

Meanwhile, Wall Street has gone to court to stop the rule. It's already won a stay.

As rising gas prices start wagging the election-year dog, the President should let America know what's really causing prices to rise.

Robert Reich is the author of Aftershock: The Next Economy and America's Future, now in bookstores. This post originally appeared at RobertReich.org.

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