How Obama Is Causing Gas Prices To Rise

The two major factors in the rising price of oil are increasing worldwide demand and the unprecedented expansion of the money supply by the Federal Reserve to cover unprecedented government debt. The solution to increased worldwide demand is, of course, to drill for more oil—a solution which Obama has been doing his best to block. The solution to the unwarranted expansion of the money supply (inflation) is to slash the federal budget so that the Federal Reserve does not have to increase the money supply—but neither Obama nor most legislators of either party are willing to do that.

Over the last few years Ben Bernanke, the clueless chairman of the Federal Reserve Board, has pumped trillions of dollars in new money into the economic system. It is *not* money backed by gold or anything else of value; it is money created out of thin air via bookkeeping entries. When the supply of money increases but the amount of goods and services does not increase at the same rate, prices naturally increase. But prices do not go up uniformly. For example, the price of new golf clubs may not increase dramatically because most consumers can live without new golf clubs. *But they cannot live without food or gasoline* and, as a result, that is where consumers are seeing the dramatic price increases. (Of course, they are also seeing dramatic price increases in things that are subsidized by the government, such as health care and college tuition, and it is those subsidies themselves that contribute to those price increases.)

Obama and Bernanke *wanted* their intentional inflation to impact both the stock market and the housing market. Why? Because Americans automatically *assume* that business is booming when they see the Dow Jones Industrial Average going up, and because rising home prices are seen as good news for homeowners with mortgages that exceed the value of their property. (Rising home prices are obviously bad news for people trying to save money to buy a home, but they make up a smaller voting bloc.)

Obama and Bernanke bet the (taxpayers') farm on their strategy, but they got only half of what they wanted: a rising stock market. In reality, the last few years of rising stock prices are more a reflection of inflation—*the declining value of the U.S. dollar*—than any increasing value in the worth of the companies' stocks. (That is, your stocks are not worth more; your dollars are worth less.) The inflated stock market does give many people the impression that the economy is improving, but everything else they see around them convinces them otherwise. Obama can point to a rising stock market and declare that the economy is on the upswing, but most voters know better and are not being fooled. Even if they do think the economy may, in general, be improving, they likely do not see their own particular situation improving. (Obama may also brag, "If it weren't for me, your 25-year-old son would not still be on your health insurance policy." But the voter might respond, "I don't want my son on my insurance policy. I want him to get a job and his own insurance policy!") There is perception and there is reality. One can win an election on perception; but reelection depends more on reality.

So Obama and Bernanke got only half of what they wanted: a rising stock market. They did not get rising home prices because the millions of Americans who are unemployed or underemployed (working part-time because they cannot find full-time employment) are not buying houses. Also not buying houses are the millions of Americans who have jobs but who are fearful that they may lose them. If there were full employment, inflating the money supply *would* cause home prices to rise—along with the price of almost everything else. But we do not have full employment. Consumers therefore set priorities, and food and gasoline take precedence over a new set of golf clubs—or a new house. Obama and Bernanke made the mistake of assuming that printing new money would result in its being spent where *they* wanted it to be spent. They forgot that Americans (and even many Democrats) are self-directed individuals. (Barry and Ben thought, "If we buy the old *bad* mortgage debt from banks and investors, that will free up cash for new *good* mortgages!" What they neglected to consider was that the money might be used for something else.)

Unfortunately for Obama, Bernanke cannot control and direct inflation as much as he believes he can. The Federal Reserve pumps new cash into the economy by buying debt from the U.S. government and by buying bad debt (like mortgage-backed securities) from banks and investment firms. Those purchases give the government new money to spend and others new money to invest. Bernanke and Obama *want* that new money to go into housing and job creation, but that is *not* what they are getting. The reason is that investors are frightened to death by what Obama will do next. They look ahead to 2013 and 2014 and see the costs of ObamaCare being forced onto businesses, higher tax rates from ObamaCare and the expiration of the Bush tax rates, and the continuing pile-on of expensive new regulations by Obama's red-tape czars. Seeing all that in the near future, investors naturally avoid putting their money into the creation or expansion of businesses. Instead of taking such risks with their money, they instead invest it in what they consider safer bets—in the stock market and in commodities, like oil, wheat, corn, copper, silver, gold, etc.

In a sense Obama is correct that oil prices are rising partly because of speculation. *But it is he and Bernanke who are responsible for that speculation!* Anyone investor with an ounce of common sense knows that Obama and the current Congress will not slash federal spending. That means enormous deficits will continue. That means Bernanke will continue to print money to buy U.S. debt. That means inflation. That means investors will put their money into stocks and commodities that they hope will help keep them ahead of inflation. Only a fool would put money in the bank to collect interest that does not even keep up with the inflation rate, and only a fool would put money into a new business that has the odds of success stacked against it by ObamaCare, higher taxes, and expensive and burdensome regulations. So, the money naturally flows into the stock market and commodities. It does not go into investments that will create jobs, *because Obama has added too much risk for those investments.* Obama wants investors to act foolishly, but they are not cooperating.

Obama and Bernanke are doing the exact opposite of what they should be doing. In Bernanke's case it is a result of stupidity. In Obama's case it is a result of economic ignorance coupled with a socialist ideology that prevents him from permitting capitalism to flourish.

If you want gas prices to go down, the solution lies not in demanding higher taxes on the oil companies and declaring that you have a pocketful of magic beans that will—after the election—miraculously turn algae into gasoline. The solution lies in getting Obama and his many anti-business advisors out of the White House, and electing a president and legislators who will promote domestic oil drilling, slash federal spending, and pull the plug on Bernanke's printing press.

Until that happens, don't invest in a company that manufacturers golf clubs.

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Note: Under Obama there has been a significant sharp decline in fossil fuel production on *federal* lands, where output recently hit its lowest point in nine years. Obama can brag, "Under my Administration, domestic oil and natural gas production is up," only because oil production on *private* property has increased. According to the Heritage Foundation, the Obama administration "Withdrew areas offered for 77 oil and gas leases in Utah that could cost American taxpayers millions in lost lease bids, production royalties, new jobs and the energy needed to offset rising imports of oil and natural gas," "Cancelled lease sales in the Western Gulf of Mexico, the Atlantic coast and delayed exploration off the coast of Alaska and kept other resource-rich areas off-limits," "Finalized rules, first announced by [Interior] Secretary [Ken] Salazar on January 6, 2010, to establish more government hurdles to onshore oil and natural gas production on federal lands," and "Withdrew 61 oil and natural gas leases in Montana as part of a lawsuit settlement over climate change." The Institute for Energy Research observes, "The big picture is clear that government policies undertaken by the Obama administration have produced a significant decline in offshore oil production on federal lands in fiscal year 2011. That is certainly not a way to increase domestic production of oil and keep oil and thus gasoline prices in check."