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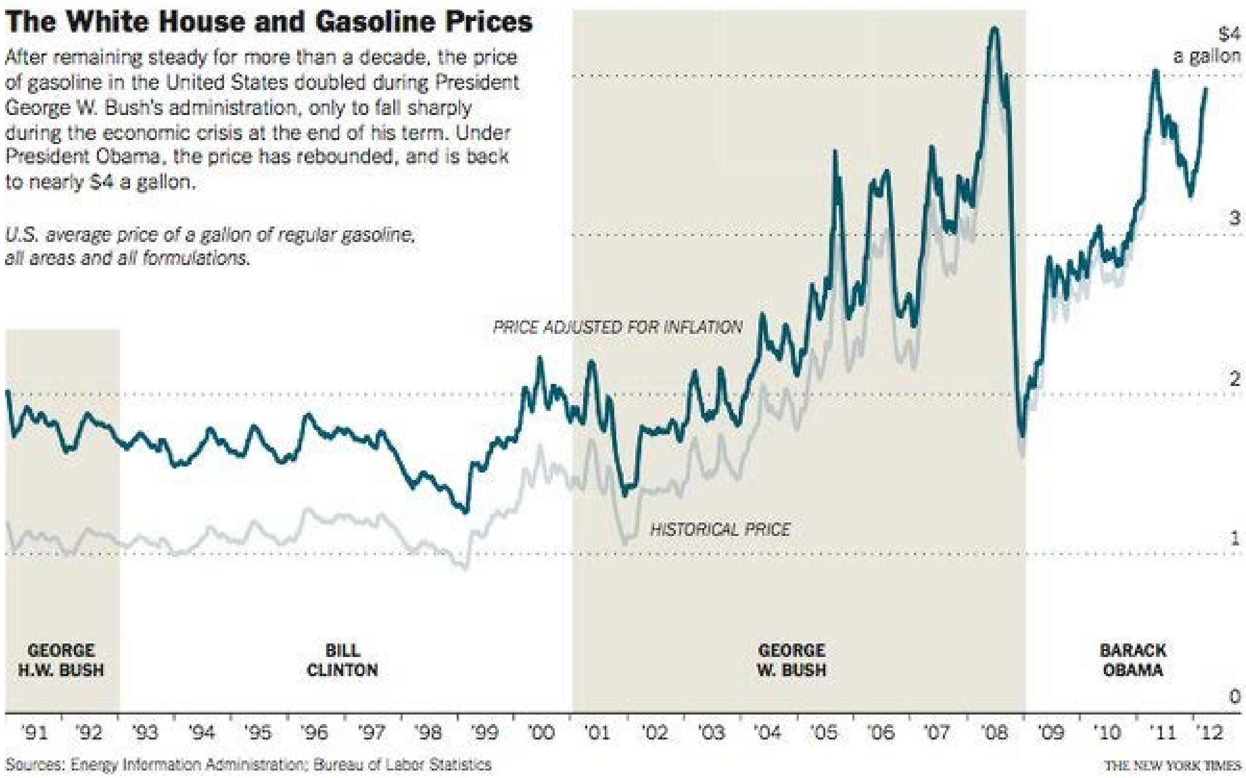
# Why Gas Prices Are Out of Any President's Control

By RICHARD H. THALER




EVERYONE knows it's dangerous to ingest gasoline or to inhale its fumes. But I am starting to believe that merely thinking about the price of gasoline can damage cognitive processing. Thus I may be risking some of my precious few remaining brain cells by writing about that topic.

Here is a one-item test to see whether you are guilty of cloudy thinking about gas prices: Do you believe that they are something a president can control? Many Americans believe that the answer is yes, but any respectable economist will tell you that the answer is no.

Consider a recent poll of a panel of economists conducted by the University of Chicago Booth School of Business, where I teach. (Disclosure: I am a member of the panel; the other respondents are well-respected economists from top universities with varying political views.) The 41 panel members were asked whether they agreed with the following statement: "Changes in U.S. gasoline prices over the past 10 years have predominantly been due to market factors rather than U.S. federal economic or energy policies."

Not a single member of the panel disagreed with the statement.

Here is why: Oil is a global market in which America is a big consumer but a small supplier. We consume about 20 percent of the world's oil but hold only 2 percent of the oil reserves. That means we are, in economics jargon, "price takers." Domestic production has increased during the Obama administration, but it has had minimal effects on global prices because, as producers, we are just too small to matter much. And even if domestic oil companies further increased production, they would sell to the highest global bidder.

If you're not convinced by economic theory or the opinions of economists, consider some recent history. Presumably, no one would call President George W. Bush unfriendly to the oil industry. Yet the price of gasoline rose steadily during most of his administration. In February 2001, just after Mr. Bush took office, the average price of regular gasoline was $1.45 a gallon. By June 2008, that price had risen to $4.05. Still think presidents and oil-friendly policies can determine oil prices?

It's true that by the end of the Bush presidency, prices had fallen back to $1.69, as oil prices plummeted with the rest of the global economy. But I think we can all agree that a global financial crisis is too high a price to pay for cheap gasoline.

Still, Republican presidential candidates are blaming the policies of President Obama for the current high level of gasoline prices. Mitt Romney has said that the president should fire three of his cabinet members for failing to get oil prices down.

(On Friday, the president moved forward in imposing sanctions that are limiting the supply of Iranian oil in world markets.)

Newt Gingrich, meanwhile, has promised us $2.50-a-gallon gasoline. But if we can suspend the law of supply and demand, why stop with gasoline? Why not $2.50 for one-carat diamonds, steak dinners and 18-year-old Scotch whiskey?

Although the United States cannot unilaterally lower the price of oil, it can reduce its consumption, by using oil more efficiently and by developing alternative sources of fuel. For example, the Obama administration has raised the corporate average fuel economy standards imposed on automakers. If consumers buy more fuel-efficient cars and trucks, demand for gasoline falls, as does the burden imposed by high gas prices. But while such rules help, they are not the best way of achieving societal goals.

A better approach would be to gradually raise the gasoline tax to levels similar to those in Western Europe, where fuel-efficient cars are the norm. N. Gregory Mankiw — the Harvard economist who advises Mr. Romney and is a fellow contributor to the Economic View column — has long advocated such a policy. I agree with him, as do most other economists.

For evidence, note that the economists in that same University of Chicago poll were asked whether they agreed with this statement: “A tax on the carbon content of fuels would be a less expensive way to reduce carbon-dioxide emissions than would a collection of policies such as ‘corporate average fuel economy’ requirements for automobiles.”

On this question, there was just a single negative vote. Yet in our current political climate, making the sensible suggestion that we gradually raise the tax on gasoline — or impose a broader system of carbon taxes — is ridiculed, and no one running for president can safely make such a proposal. At least two of the candidates have shown that they understand the underlying economics. In the past, both President Obama and Mr. Romney have acknowledged that higher gas prices have an upside: they give car owners the right incentives, and if the high prices stem in part from higher fuel taxes, the deficit can be trimmed. But such obviously true statements are now considered almost unpatriotic, equivalent to cheering against the U.S.A. in the Olympics.

THE confused public debate on this topic is representative of a more general problem. The voting public is not very good at attributing credit and blame to presidents. They get too much credit when things go well and too much blame when things go badly. The same applies to coaches, C.E.O.’s, parents and anyone else in charge. Leaders are important but not omnipotent.

So, to evaluate a leader, we must determine the factors over which that leader has a modicum of control. If you hate the Obama health care program and the Consumer Financial Protection Bureau, by all means give the president a big share of the blame. And if you love them, give him some credit. What makes no sense is to blame the president for rising gas prices, where he has virtually no control, but not to give him some credit for rising stock prices and an improved labor market, domains where his policies — along with those of the Federal Reserve and Congress — are more likely to have had an effect.

When we make our choice on Election Day, we should consider that the winner will have an important impact on policies in many areas: health care, distribution of the tax burden, Supreme Court nominations, and abortion rights. The candidates’ differences on those issues should be driving our decision, not the wishful thinking that a president can simply lower the price of gasoline. Or Scotch, alas.

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