

US gasoline prices: the “free market” and the November election

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27 September 2006

Government figures released on Monday show that gasoline prices in the United States continued their sharp decline last week. Over the past six weeks, the average price of gas has fallen 66 cents, from over \$3 a gallon, to \$2.38.

And the November mid-term elections are just under six weeks away.

The connection between these two circumstances is obvious. Certainly this is the view of a substantial section of the American population—42 percent of which, according to a new Gallop poll, believe that the Bush administration has deliberately manipulated the price of gasoline to improve the chances of the Republican Party in the coming elections.

In investigating the forces behind the very rapid decline in prices, the first question to ask is, “Who benefits?” An article in the September 24 edition of the *New York Times* (“With Prices Falling, Gas May Lose Its Electoral Punch” by Danny Hakim) quoted Ed Patru, a spokesman for the National Republican Campaign Committee, as stating, “Virtually every newspaper in America is reporting on their front page that gas prices are plummeting. That denies Democrats another issue that they’re trying to use to nationalize the election.”

The *Times* cited a survey by the Pew Research Center showing that between May and September, the percentage of people listing high energy prices as the nation’s most important problem fell from 14 percent to 7 percent.

Large energy companies certainly feel they have an interest in maintaining Republican control of the government. Not that they have anything serious to fear from the Democrats, but there are divisions within the ruling elite and no administration has been so closely tied, personally and financially, to the interests of the

energy giants as the current one.

The ties between oil companies and various administration officials and other high-ranking members of the Republican Party are too numerous to list exhaustively. It is worth recalling that both Bush and Vice President Cheney are former energy executives. Cheney held meetings early in the administration’s tenure, in which the oil companies were invited to help formulate energy policy and plan for the war in Iraq. In 2001, the administration helped block any measures that would ameliorate the California energy crisis, through which companies including Enron reaped billions while fleecing the consumers and businesses of the state.

More recently, several government auditors have charged top Interior Department officials with blocking efforts to collect millions of dollars from energy companies—money that the auditors say was fraudulently withheld from royalties the companies must pay to the government for extracting oil from the Gulf of Mexico. Earl Devaney, the inspector general of the Interior Department, told a House committee, “Short of crime, anything goes” among senior officials at his own department.

The dispute within the Interior Department is part of a broader issue of government leases in the Gulf of Mexico. Administration officials have written off any attempts to get energy companies to pay \$1.3 billion in royalties that the government has lost as a result of the interpretation that energy companies have given to contracts signed in the late 1990s. Republican leaders in both the House and Senate have stalled legislation that would pressure companies to renegotiate these contracts.

These are no doubt only a sampling of the ways in which the financial interests of energy companies are

tied in to ensuring that the Republican Party retains control of Congress. There is also the issue of price gouging itself. When investigations were held following the sharp rise in gasoline prices after Hurricane Katrina last year, oil executives testified that there was no price manipulation involved. The Republican leader of the House Energy committee, Ted Stevens, insisted that this testimony not be held under oath.

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Notwithstanding the spinelessness of the Democratic Party, there can be no doubt that energy executives see their own interests as bound up with a Republican victory. Certainly they have invested more heavily in buying off Republican legislators than they have their Democratic counterparts. The profits given up as gasoline prices decline may be considered merely another form of investment.

Do energy companies have the ability to manipulate prices in this way? The workings of the energy market are highly opaque; however, the number of companies involved has decreased substantially over the past decade, due to consolidation. Companies such as ExxonMobil—whose executives routinely move in and out of government posts—have enormous leverage over world supply of oil and gasoline, and a few of the companies acting together could have a serious market impact.

The various reasons given in the media for why gasoline prices are declining so sharply now are generally as unconvincing as the reasons given for why they went up so sharply a year ago. There are references to changing political conditions, but these are always post facto rationalizations. For example, one of the reasons for the present drop is supposedly the lessening of fears of economic sanctions against Iran. If prices had risen over the past week, however, this would no doubt have been attributed to the remarks of Venezuelan President Hugo Chavez at the UN, in which he sharply denounced the Bush administration. Venezuela is, after all, one of the principal suppliers of oil to the world market.

Others point to speculation in the oil and gasoline futures market. This may be a factor—prices rise and fall according to the profit considerations of various big investors. Here it is interesting to note that, according

to *US News & World Report*, “Major energy trader Goldman Sachs embarked upon a massive liquidation of its position in gasoline futures—shifting to other energy investments instead. Gasoline prices fell sharply, and pulled crude oil prices down with them.” Henry Paulson, the Bush administration's treasury secretary, took up his current position in 2005 after serving as chairman and CEO of Goldman Sachs.

Regardless of the exact forces behind the present decline in gasoline and oil prices, one can bet that by January or February prices will be back to their “normal” exorbitant levels.



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