



Episode 305-Is \$2 Gas the Worst Thing to Happen to America?

Guest: Robert Murphy

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WOODS: Who else am I going to talk to about this, right? It is everywhere. It is so fashionable now to say that cheap gas is a terrible thing. It's terrible, and you can predict why it would be allegedly terrible, but I want to go through and have you argue that cheap gas is actually a good thing in the same way that cheap anything is a good thing. First of all, tell us how it's conceivable that somebody could think it is a bad thing. What's the argument that's being made? And then I'll tell people about the article specifically that we're going through today.

MURPHY: Coming from a free market perspective or just an issue of human welfare, let's say, in the broadest sense, lower prices are a good thing in the sense that it allows human beings to accomplish their ends more easily. If aliens came and just started giving us energy for free, that would be even better, and so if it is a genuinely market-produced outcome that oil and gasoline is cheaper, that's the sense in which we can say that's a good thing as far as consumers are concerned. So it doesn't have anything to do with energy in particular. Just in general things become cheaper, and humans have more options at their disposal. So why would typically progressive leftists be pushing back against this? In general, you would think they would like it if something that impacts people with lower incomes in particular became cheaper and more affordable; you think people would be happy—the people that care about those without a lot of money.

But on this particular case, you're right, Tom. There's just been all this gnashing of teeth over the fact that, oh, gee, it's really bad. Gasoline all of a sudden is really cheap, and of course, because they don't like the fact that Americans drive so much—in their vision of what a proper society would be, people would be taking public transportation more. They would not be driving gas guzzlers. I think there is just this general view among many that Westerners in general and Americans in particular consume too much energy, and it's straining the planet. And they can give you specific things about global warming or whatever, but I think it's more

than just that. I think it had to do with the fact that they think Americans consume too much, and so if something becomes cheaper, in particular gasoline, well, then they do the thing that really annoys them, which is buy big gas-guzzling cars and drive them around a lot.

WOODS: Well, Bob, the article that I sent you that somebody tweeted to us is from SFGate, which after 10 minutes of searching I decided is the website sister site of the *San Francisco Chronicle*. And the article in particular that we're looking at is by Mark Morford, and it is called "\$2 Gas is the Worst Thing to Happen to America." Now, I'll grant you some poetic license and the fact that usually the editor rather than the writer comes up with the headline. I do think that if I were to cast my mind back over the years, I could think of worse things happening to America, but we'll go with the \$2 gas for now. The bio of this guy—because I have never heard of the author before—but what jumped out at you, Bob, in his biographical information?

MURPHY: Well, it says he's an author, first of all, okay, fair enough. You and I are authors—nothing wrong with that—maybe he's a good economist. A columnist, okay, and then it says yoga teacher, and finally, admirer of trees. Now, there's nothing wrong with those two things, but I'm not sure this is going to be a sensible economic analysis in this guy's article.

WOODS: No, it's going to generally be unfortunately just a lot of knee-jerk prejudice rather than analysis. So let's go through and look at examples of this. First of all, he begins by saying that all kinds of good developments have occurred, although there are some bad developments, so things are uneven, but he says that—he's being sarcastic that, "That awful socialist, Obama, obviously hurling us deeper and deeper into a hell pit of, uh, shocking stability and success." So all right, I could have David Stockman on and blast that one to smithereens, but he then goes on to say, "Those gas prices," he says, "for a variety of reasons; Libya, OPEC, record high U.S. production," and then in parentheses, "(Thanks again, hippie Obama, for encouraging so much new domestic oil output. Oil is right now so amazingly cheap as to be, well, sort of disastrous.)" All right, let's back up here. He's, again, making a joke sarcastically that if Obama really were a hippie, we wouldn't have all this wonderful, new domestic oil output. What's the truth about domestic oil output under Obama?

MURPHY: Okay, and you're right. Just to make sure the listeners aren't getting confused here, this guy, Morford, he's starting out and saying, hey, the economy is doing pretty good, which is surprising because Obama's such a socialist, and then now gas prices are way down because, among other things, U.S. oil output is way up. I thought Obama was supposed to be this hippie socialist. What gives, guys? He's trying to say that somehow due to Obama's policies that the economy and recovery are doing so well, and that oil output domestically is way up. So it is true, but if you look at U.S. field production of crude oil, since about late 2010, that's up more than 50%. Okay, so it's very dramatic, and that has been on a gentle downward trend for at

least a decade before then. So that is certainly true that U.S. domestic oil output is way up, and there's various reasons for that.

People talk about the shale boom and fracking and that sort of thing, but it is true that U.S. oil output is up such that the U.S. is the world's leading producer at this point, but the question is, is that because of the Obama Administration's policies or in spite of them? And I think I sent you a pretty shocking graphic, Tom, from an IER article that my colleagues put out showing that oil output on federal onshore/offshore lands, crude oil production, is slightly down since 2009, whereas the U.S. total and the production on non-federal lands is the one that has gone up significantly since then. So what does that mean? It's saying that, yes, private enterprise has figured out how to extract a lot more oil barrels per day in the United States on precisely those lands where the federal government doesn't directly have jurisdictional authority, but [CHECK] on those areas where the federal government really wanted to turn open the spigots could do so immediately, you've actually seen a small decline in total output during this huge boom in U.S. output. So clearly this is happening in spite of the Obama Administration, not because of it.

WOODS: I'm going to put a link to the chart that you're talking about in the show notes. The show notes for this episode will be TomWoods.com/305. We'll have a bunch of useful links there to navigate you through this thing, including a link to the offending article itself. Now, in the next paragraph he says, "Let's just say it outright. There is nothing good about cheap gas in America." He says, "All the wrong corporations ultimately benefit; big oil (shares dip, but influence surges)." Let's pause there for a minute, because apparently big oil just can't win when they are faced with people like this. If prices are high, well, then they have record profits. Prices are high means they're gouging everybody, and they're smoking cigars that are made out of \$100 bills, or whatever. Whereas if prices are low, they're also sucking the life out of all of us. They can't win. No matter what happens, they are the villains.

MURPHY: Right, and it is funny that on the way up everyone likes to blame speculators and big oil, and oh, my gosh, markets don't work. Everyone is getting screwed. And economists like me would try to explain it in terms of supply and demand, and oh, you stooges, and then when prices drop like \$40 a barrel in just a few months, then we can explain it in terms of supply and demand, but oh, nobody cares about that anymore. No one is blaming big oil for pushing prices, and no one is blaming those evil short sellers for interfering with financial markets and commodity markets. Thus guy complains both ways, so I guess there is some consistency there, but you're right: when oil prices are high, people would worry about oil companies having so much influence, and now apparently when they have less money, somehow they are more influential. Here I can't even get inside this guy's—

WOODS: Yeah, I have no idea what he means by shares dip and influence surges. I can't even begin to imagine what that would mean. So all the wrong corporations ultimately benefit. That

would be big oil, big auto, plastic manufacturers—yeah, man, I spend all my time thinking about the terrible people who make plastic. “The same powers that be that have lorded over the American economy since just about forever.” You know, it’s just funny to come across somebody who is so different from me. I think about the Fed as being a power that lords over the economy since just about forever, and he’s worried about a profit-making enterprise, you know, that if consumer demand should shift, it would suffer. Whereas no matter what we do, the Fed does not suffer. We’re coming at this from different first principles, I guess.

MURPHY: I imagine in other contexts he would want firms to do well so they could hire more workers and things like that, but when it comes to particular enterprises that he doesn’t like, then all of a sudden that all goes out the window.

WOODS: And let’s talk about what the right ideas are. He says, “The right ideas get re-shunned and scoffed at anew. The right ideas are: alternative energy, efficiency,” yeah, everybody hates efficiency, “conservation, the environment, the general social good.” So if you want inexpensive gas that allows people to get around and to get things that they need, you are opposed to the general social good. I bet this is the sort of guy who in other areas lectures people about being judgmental, and yet here he is making sweeping moral judgments about the priorities of people who just want to engage in, I think, basically harmless human activities. But alternative energy: let’s start there. Alternative energy is one of the right ideas, but yet every person I’ve had on—now, granted, there’s a selection process that you go through to be on the *Tom Woods Show*—has made it pretty clear that most of the time when you’re talking about alternative energy, you’re not talking about an idea that’s, well, slightly off, but only if you could get a little subsidy to get off the ground, maybe it would work. Alternative energy of the sort that he’s talking about is so grotesquely inefficient, so grotesquely wrong as an option as to be basically beyond saving.

MURPHY: Right, and this is something that I didn’t know until I got immersed in the energy policy debates as a part of my role as the economist for the Institute for Energy Research is they—and I sort of assumed there are people out there—yeah, they are probably trained in economics. But I could see how they would like these alternative sources, and you know, there’s a *prima facie* concern about burning fossil fuels—fair enough. But what made me realize that’s not really what’s going on, at least for some of the more zealous activists in this area—which is why I really do think it’s just they don’t like consumption, period, and so cheap, affordable energy allows Americans to consume too much—is you’ll see things like they’ll have renewable portfolio standards, state by state. So it’ll be like a requirement: X-percentage of the electricity produced in this state has to come from so-called renewable or alternative sources. What I saw is that in states where they could get some of their power from hydro because they were near a waterfall or some river or something like that, all of a sudden, that didn’t count. It

was only in areas where you really couldn't get much from hydro that hydro counted. And certainly in these places they don't want to include nuclear power even though that's zero emissions. And so what I'm saying is I think it is—what they really mean by alternative is *unprofitable*. If you try to nail them down and say, wait a minute, why in this context did they not include hydro? Why did they include it over here? The one common element in all of this is if something were viable in the market without being supported by government mandates or subsidies, they would be against it.

WOODS: I am going to make sure in the show notes at TomWoods.com/305 I'm going to link to a couple of previous episodes. One of them will be my talk with Alex Epstein, author of *The Moral Case for Fossil Fuels*. I'd love to hear his thoughts on this, incidentally. Secondly, I want to link to the episode I did on Denmark, because last year there was this thing in major press around the world that Denmark was the world's happiest country, and they said that Denmark also has a substantial welfare state. Therefore, why do you think these people are happy, Bob? Well, likewise, this guy says, look, the fact is a lot of other countries have much more expensive gas than we do: \$6 a gallon in Japan, Norway pays more than \$10 a gallon, and they are one of the happiest nations on Earth. So we're going to take on that happiness research. I will put that in the show notes here, too.

But he's saying, look at the positive direction we were heading in when gas was more expensive. We were interested in more efficient cars. We weren't as interested in producing gas guzzlers, but now people want the gas guzzlers again and the automobile manufacturers are accommodating them, and this is a terrible thing. Now, Bob, doesn't it seem in the abstract that it might be a good thing to move beyond gas guzzlers? Or is it not? How do we make sense of all that?

MURPHY: Well, again, just to clarify for people who may be getting lost here. The argument in this article is saying, oh, geez, it keeps lamenting that gas now is so cheap because with high gas prices, that was pushing consumers to switch to a type of vehicle that this guy wishes everybody were driving, like the dinky, little cars people in Europe drive, not the big SUVs that Americans drive—rah, rah, rah. And so, first of all, let me just note, Tom, that I love it when it comes to this issue. This is the one area where progressive leftists think that people respond to incentives. Anywhere else, you talk about, oh, you could have a top marginal income tax rate of 90%, and that wouldn't affect the willingness of rich people to work whatsoever, and we can look at the 1950s and '60s, and so this is the one area when it comes to environmental issues where for some reason having a high price people think it induces all sorts of behavioral responses among the public. Anywhere else, they think government tax policy doesn't do anything like that. So it's refreshing to at least see that in this area.

But what people should do is respond to the correct market price. So if gasoline really is going to be \$5 a gallon for whatever reason, and that's the market price, well, then, yes, consumers would respond to that, and they would begin to get more fuel-efficient cars and so on, and people that really cared about that or were really conscious, people would carpool more and so forth. But the point is, if the price of crude falls, then people should respond to that information as well, so it's not that I—it's not that I'm so much in favor of low prices if that really weren't the correct price. Really what I'm in favor of is letting markets, through the price system, communicate genuine realities about scarcity to everybody so they can make proper planning decisions. This guy is lamenting the fact that people are now driving cars that he doesn't like, and okay, that's his personal preference. You're right: before, he was talking about the social good. He doesn't seem to realize he is just imposing his vision of what the social good is on everybody else.

WOODS: And, of course, it's not that we don't favor conservation. It's just that it's completely morally and economically arbitrary to single out one or more things and say those things should be conserved, when the fact is, everything needs to be conserved. Everything needs to be stretched out as much as it can be. With everything we have to be the best stewards we can possibly be. The price system helps us decide in which areas we need to conserve the most. But on the other hand, he could come back at you and say, Bob, that for all your talk about the price system, the costs of pollution are not fully captured in the price of gas, and so maybe it is that we are overdriving in the sense that we're not being forced to internalize the cost of the pollution that we are emitting.

MURPHY: Right. Somebody who is conversant with standard, mainstream economics could believe understandably that, yes, there should be a carbon tax, and they think that's a reasonable thing to do. I have an article in *The Independent Review* where I go through and just step-by-step explain why I think that standard, mainstream case for carbon tax is dubious, and in fact, using a lot of the cutting-edge, peer-reviewed research in the area, I think you could make a plausible case that the optimal carbon tax is \$0 per ton. But again, if somebody were just making a generic argument about that that would be fine. But the thing is here the falling gasoline prices really shouldn't matter then, and you see what I'm saying. If you thought there was this negative externality from carbon dioxide emissions, then on the margin if you thought before whatever gasoline was a year ago, if you thought there should be an x-dollar surtax on carbon emissions, and that would translate with such and such cents per gallon gas, on the margins, that recommendation wouldn't change too much if gasoline all of a sudden got cheaper. You see what I'm saying? It's still the externality of the externality, and you should just augment whatever the market price is at that margin. But this guy doesn't seem to think that at all. He thinks it's like an absolute shame now that people are going to be driving so much more, and so it seems like he's not really being consistent if we did offer the benefit of the

doubt, using that out of saying, oh, he's really just talking about a negative externality that the market price isn't correctly accounting for.

WOODS: Well, likewise he says that communities benefit too when gas prices are high because then you're stuck in whatever lousy location you're stuck in, and you have no choice, and now it's easier for local merchants to rip you off, and he calls that community. But I call that a curtailment of my choices. In the old days—I may have said this in an earlier episode—when I was more on the conservative side than the libertarian side, I thought it was in a way kind of cool that Russell Kirk, the old traditionalist, said he never himself drove around. He had people drive him around on the highways and stuff, and he called the car a mechanical Jacobin because it uproots you from your traditional locale. But some locales you need to be uprooted from. You want to get out of there. So in other words, now people have fewer opportunities to get out, and his response is: this is great for community. Yeah, it's great for a place that you're trapped in, but it's not great for an individual. In other words, individuals initially wanted to do certain things that they considered to be liberating, and instead they are now stuck in a rut that they don't want to be in, but this is supposed to be freedom now.

MURPHY: Right, and again, we shouldn't fall into the trap of confusing freedom for endorsing the particular value judgments of everybody in a free society.

WOODS: No, of course not.

MURPHY: So it's true. I understand people who say, "When Walmart comes in and puts all the mom-and-pop shops out of business, I kind of don't like it." And that's fine. And, you know, people who say buy local—as long as it's voluntary and people don't seem like they are really going over the top and not being hypocrites about it, okay, fine, I am not going to get too bent out of shape.

WOODS: Right, absolutely.

MURPHY: So when he's lamenting that cheaper gasoline is now going to allow people to do things that they would prefer to do, which he wishes they didn't, that's kind of obnoxious.

WOODS: All right, he says, continuing along, "California is on track to hit 50 million residents by 2049, which means millions more cars and a massive strain on the already congested highway system. High-speed rail might help if it ever gets built but will do exactly zero to alleviate regional travel." Do you have any comments on this?

MURPHY: Well, sure, this guy is going to be overjoyed when someone sends him this podcast because there's a solution to this. The solution is the California government and any local governments should privatize all of the rails and highways and local roads they have, give them

to private businesses, and then they can set pricing there based on the time of day and so forth, and that will alleviate all these traffic jams. And we can send this guy a copy of Walter Block's work on this, and I'm sure he'd be relieved to see that there doesn't need to be a congestion problem anymore. So problem solved. I think he'd be happy to hear that. Don't you?

WOODS: Yeah, I think he's going to be really excited to see that this would be obviously the most efficient way to allocate resources so that you don't have millions of people just driving their cars on a "free resource," which we know from economics 101 means it will be overused and so on. Yeah, he'll be super-excited, I'm pretty sure.

MURPHY: If we could be less sarcastic about it, make sure, in case you have a few listeners who don't get what we're saying here: when there is a traffic jam, what does that mean? Well, among other ways to describe it, there is a shortage of the resource in question. More people are trying to use the road at that time of day than there is road to go around. So just in any other market, what does that mean? It means the price is too low. The point is, they don't charge enough. They don't have enough congestion pricing. If they just charged higher tolls, that would smooth it out. But the thing is, to really make it efficient to serve the public, you need to privatize it so that entrepreneurs would come in and realize, oh, geez, maybe we need to build another double-decker highway here or something and give them the freedom to do that, and so you don't have the absurd situation where every day you've got thousands upon thousands of people sitting in bumper-to-bumper traffic going to work and then going home again. If you want to get rid of unnecessary carbon dioxide emissions, that's an obvious no-brainer thing to do.

WOODS: All right, let's look here where he says that another good thing caused by high gas prices is that it encourages car companies to want to produce more fuel-efficient cars, because the consumer is concerned about the high price of gas and would like to have a car that he doesn't have to fill up as much. So he won't have to buy as much gas. Well, that seems like a good thing, and that would be encouraged under a high gas price regime. So is this not something we should be cheering?

MURPHY: Well, again, the proper thing to do is to have the market price be the correct market price, and obviously, entrepreneurs make mistakes, but we mean to say let the free flow of information go through and let entrepreneurs set prices the way they think it's going to maximize profit, and then let consumers adjust to that. Let producers adjust to that. And so there's one tradeoff I think people need to realize, and as this author himself gets into it, he praises the fact that in 2025 there's going to be more fuel-efficient standards kicking in. That the problem with government coming in and arbitrarily mandating fuel economy standards is that—just think about what that means. If it's going to have any teeth at all when the government enforces minimums for fuel economy, that means it's making people buy cars that are more fuel efficient

than they otherwise would have wanted to purchase. Then you have to sit back and say, well, gee, are people that stupid? They're telling me people can't appreciate the fact that a car gets better mileage, and that someone would, in the choice between two vehicle models, pick the vehicle model that gets worse fuel efficiency? Why would they do that? And the answer is that there are other factors that go into a car besides how much its fuel economy is.

And so, for example, when automakers have to comply with these standards, they have to make the car lighter. They can't put as much metal on it because that's one way that they can make it more fuel efficient and comply with these standards. And there have been reputable studies like, for example, by the Brookings Institution that has said that they can clearly see that the CAFÉ standards that the U.S. has put in place since the '70s have resulted in thousands more highway fatalities. And so the logic is, the government imposes these fuel economy standards. In response, the automakers make cars that are lighter, and so if you get into an accident with somebody, other things equal, you're driving a dinky little car as opposed to a big heavy car, you're more likely to die or to get seriously injured. And this isn't penny ante stuff. The estimates are that this is causing, and they give ranges, of course, but it's around 2,000 deaths annually that they can attribute to these fuel economy standards. So as with most things in economics, there are tradeoffs involved, and this guy is acting like it's just a win, win, win thing where the only possible reason consumers with low gas prices are going to buy big gas guzzlers is just the fact that they are all stupid, and they don't appreciate the benefits of efficiency and conservation the way this guy does. Well, no, maybe they also recognize that if you're driving with kids in the back seat, you have a big SUV that's going to do much better in a crash than some little, dinky economy car.

WOODS: Well, let's look at what he ultimately recommends as a result. What do you think he recommends? Higher gas taxes, of course, but he says that there is an even more awesomely helpful and radical idea, which was—the less awesome idea was to increase the gas tax by 15 cents or so. No, no, no—a \$5 per gallon tax increase. He says, “Make it \$6, all of it earmarked for alternative energy and transport,” so boondoggles that everybody knows don't work, “environmental protections,” okay, but, again, there's a lot that could be said about that, but we look at the trend in environmental protection, it's pretty substantially up already, “our busted educational system,” where from the early '70s to the early 2000s, the amount spent on education has roughly doubled, vastly more than is spent on countries that do vastly better. I don't know why anybody thinks that's just a matter of money as opposed to culture and all kinds of intangibles that can't be affected by money. “And our multi-trillion dollar debt.” Yeah, where did the multi-trillion debt come from? It couldn't be from any of the programs advocated by our author here. But in other words, there won't be any consequences of the increase in the gas tax other than brilliant and wonderful ones, and let me read them to you: “Can you imagine the dramatic upheaval? The wild spurts of innovation? The furious new trends toward super-

efficiency? More public transport, less sprawl, more efficient verticality, local business flourish, improved air quality, electric mopeds and bikes and so on and on. What's not to like, and then bonus, less foreign oil, and we won't have all these wars." All right, Bob, what do you think would be the consequence?

MURPHY: Well, of course, he's right that those things would happen, but that wouldn't be optimal. That's what's really annoying to me in these debates: people are acting as if all of the response to an artificially high price is necessarily a good thing. You could do the same thing and say, why doesn't the government put a huge, 300% tax on electricity generated from wind power, and imagine the innovation that that would induce among the wind producers. They'd have to get a lot more efficient. So wouldn't that be a good thing? Or maybe we should put a tax on every time *Saturday Night Live* criticizes a Republican, maybe they should pay \$1,000 to the government, and that would be a good thing because now their jokes will be really, really funny because they'll only do it once in a while, but really be good jokes. Would the liberal, progressive bloggers be in favor of that sort of thing? It's the same thing here. Yes, it is true if you slap a \$5 or \$6 a gallon tax on gasoline, that's going to make consumers really more conscious about how much they spend on that. They are going to do all sorts of other things. But it doesn't make them better off. It takes away their options in responding to it, and in any other area, a progressive leftist would get this. If the government came along and slapped a huge tax on food, I think people would get how that might hurt poor people, right? But you wouldn't say, oh, look at the innovation now! Mothers have come up with clever ways to feed their kids with less food. Instead of having three meals a day, they'd only have two. Wouldn't that be great? Think of how much it'd bring families together because their stomachs are growling, and they'd commiserate with each other.

WOODS: Well, that is in effect what he's saying, because there's a paragraph in here in which he says, look, I'll admit that when oil prices peaked in 2008, "it was no fun adapting and changing our habits, but we did it. We changed our wasteful behaviors. We paid more attention to how we quite literally move through the world. We get less lazy and more creative." Yeah, because I think of that. I think of a single mom who is trying to balance two, three jobs and being a mother. I think of her as basically lazy because she drives to work, and she really needed a more creative way to do this. Ride a bike. Walk. Exhaust yourself further. Thank goodness she's got creativity. Whereas before, she must have been so bored being in that rut she was in. I'm sorry, Bob, it's the end of the year, right? I need you to be the good cop, and I'll be the sourpuss jerk. I'm out of energy. I can't pretend to be nice anymore the last few days of the year.

MURPHY: Well, right, and this wasn't our fault. Someone tweeted this at us, and we just had no choice but to do a whole show on it.

WOODS: That's right.

MURPHY: So yes, there are, like I say, I don't want to paint with a broad brush, there are people that could come up with perfectly plausible, even though I think they were mistaken, reasons for thinking the market doesn't correctly price itself. But his line is such a giveaway where he says make it a \$5 per gallon tax increase, and then he says, hell, make it \$6, and so that's just showing you that this isn't some careful quantitative analysis he's doing. He's just throwing stuff at the wall because he doesn't like Americans using so much oil, and so he says, well, how are you going to use less? We'll tax it. So, again, this is the one area where they do seem to realize that the cause-and-effect relationship works, and so you would think hopefully by consistency, next time someone wants to raise taxes on income, then he would say, oh, maybe that means people would generate less income in response. But I think he'll say there that nope, incentives don't matter in that realm.