



The Daily Dish

How to Benefit from Higher Gas Prices

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Eakinomics: How to Benefit from Higher Gas Prices

Sometimes the events of greatest economic drama have the simplest of explanations. As [noted](#) by AAF's Philip Rossetti, the United States has become the world's largest crude oil producer, beating out Russia for the first time in two decades (see the [U.S. Energy Information Administration](#)). Why? Oil is no different than red wine, Twizzlers, or other global commodities: If the price rises, people will be willing to produce and sell more.

The recent history is illustrative. The key innovation is the technological advances that enabled shale oil production, which now makes up [over half of total domestic oil production](#). But the rapid increase in U.S. production between 2010 and 2016 caused global oil prices to slide by over 70 percent. That decline hurt Saudi Arabia, other members of the Organization of Petroleum Exporting Countries (OPEC), and Russia, all of whom then agreed to cap production. This, along with developments in Venezuela and the Middle East, constrained supply and caused prices to increase to around \$70 per barrel. The nimble U.S. shale oil producers responded to these increased prices by increasing their own production. The result has been domestic oil production overtaking that of Russia and Saudi Arabia.

This development has changed the macroeconomics of oil price shocks, which historically had been quite damaging in the United States. For example, it is often forgotten that oil prices reached roughly \$140 per barrel in the summer of 2008, greatly weakening the economy in the run-up to the financial crisis. The impact of higher gasoline prices, however, is very different when you own the gas station. Now when global oil prices rise, some families are hurt by higher energy costs, but many benefit from higher incomes. It is no longer a one-sided, bad event.

The same lesson applies to energy more broadly. Yes, higher natural gas prices are bad news for consumers. But they provide important incentives to expand supply. Higher electricity prices, ditto. If policymakers make the mistake of imposing price controls, the cap on prices will rule out any response of higher supply and guarantee that things will get tighter as demand grows. In the end, the best energy policy is just the best economic policy: Rely on markets and permit price signals to work.