

Yahoo! My Yahoo! Mail Make Yahoo! your home page

**YAHOO!** FINANCE **Sign In**  
New User? [Sign Up](#)

Search the Web

[Finance Home](#) - [Help](#)

## How Not to Ruin Your Life

by Ben Stein

### High Oil Prices: Don't Shoot the Messengers

Monday, May 15, 2006



Here are a few ways of looking at the disgraceful and useless attack on the oil companies, sparked by the skyrocketing price of gasoline across the world.

First, the oil companies are only the messengers. They don't set the price of oil. That price is set on world markets by traders in suspenders making huge, immense wages (and paying very little tax) for trying their best to guess which direction oil is going. The traders set their bids and asks, depending on terrorists in Nigeria, sabotage in Iraq, edgy leaders in Iran, storms in the Gulf of Mexico, Chinese industries growing like mushrooms, and Americans unable to drive small cars (and frankly, I'm one of them -- I like my big car a lot).

There's a gigantic oil market stretching across the globe. The behavior of Russian President Vladimir Putin towards his country's vast oil reserves, the antics of Venezuelan President Hugo Chavez, the posturing of Bolivia's new leader, Evo Morales, the Corporate Average Fuel Efficiency Ratings of U.S. carmakers -- all of these go into the making of oil prices.

#### A Message of Shortage

The energy companies -- by and large and with some exceptions -- just go out into the market, like you and me shopping at the grocery store, and buy oil, process it, and then sell it with a small markup to pay them for their efforts and to reward their stockholders for risk. This profit is pennies compared with what stock brokerages, software makers, and other major U.S. companies earn on a percentage basis of sales.

In other words, the oil companies are just messengers announcing to energy-consuming Americans the news about oil prices.

The energy outfits are telling us the worldwide consensus is for an oil shortage, and the fuel will be rationed by price, as always happens in a free-market society. We should be very grateful that it's rationed that way, because otherwise, we might pull into the filling station and find that there was no gasoline there at all. (That happened in the early 1970's, and it was horrible. That was before there was a worldwide market in oil.)

To blame the messengers is cruel to the messengers -- oil companies with hundreds of thousands of employees trying desperately to keep us supplied with oil, 99.99 percent of them paid very modestly. The blame game also does us no good in terms of rationalizing our response to the oil shortage. This frenzy of finger pointing only caters to the envy and ignorance of certain sectors of the population.

#### Americans and Big Cars

Next, if we want to blame anyone -- and frankly I'm not sure there's anyone to blame -- maybe we should blame ourselves for the oil pinch. I offer my humble self as an example. The first new car I ever bought was a 1972 Subaru FF-1. No air conditioning, no cruise control, no FM radio, no power windows. Four on the floor, four tiny little cylinders, and no power at all.

It got about 40 miles to the gallon. My girlfriend Pat would put \$2 worth of gasoline into that car, and we could drive to San Francisco from Santa Cruz for the weekend and still have gas left over when we got back. (Gasoline was 25 cents a gallon at the Gas-O-Mat on Soquel Boulevard.) In other words, I was sensible.

Now, I drive a Caddy. It's a great car, and I feel like a prince in it. But it gets very poor mileage indeed with its mighty V-8 engine with supercharger. True, I hardly ever drive it, so on a daily basis I hardly buy any gas at all (I like to make that point over and over again to soothe my conscience).

But I'm an American. I like my big cars, and they burn a lot of gasoline. Likewise, I like my air conditioning and my pool heated. So, I play my part in using a ridiculous amount of hydrocarbons. I could spend less by having a smaller car and sweating in the summer. But I don't. I just pay more and suffer financially.

#### Tread Carefully with Investments

This kind of craziness on my part, extended to the whole industrial world, explains a heck of a lot about the fierce oil demand. (But note this well, natural gas trades in a different domestic market from oil. And while we're still demanding immense amounts of natural gas, its price has fallen drastically from Hurricane Katrina levels. This could well happen to oil at some point, too. Inelasticity in the market doesn't last forever.)

Back to my oil greed. I think my mighty Caddy makes me a bit typical. If people really wanted to avoid the pain of higher gasoline prices, they could buy cars with far better gas mileage than many now have, be less insulated against climate, and smile all the way to the bank.

Finally, if you think that oil is on a nonstop trip to the moon, maybe you should buy the iShares Goldman Sachs Natural Resource ETF ([IGE](#)), which tracks an index of commodities prices heavily weighted towards energy, the Energy Select Sector SPDR ([XLE](#)), a sector ETF heavily invested in energy, or something else. Or if you are at Fidelity, you can buy the Fidelity Select Energy Fund ([FSENX](#)).

As for me, I question if the commodities boom can go on forever. I have some of the funds I just mentioned, but not a lot. Commodities booms come and go -- historically, they've never gone on forever.

If you think this one will, here's a hint. When people say, "Hey, this nonstop boom has never happened before," and someone responds, "This time it's different," hold onto your wallets. "This time it's different" is one of the most frightening phrases in economics. It's entirely possible that the next move for oil is a long step down. Then won't we be sorry for shooting the messengers?

The columns, articles, message board posts and any other features provided on Yahoo! Finance are provided for personal finance and investment information and are not to be construed as investment advice. Under no circumstances does the information in this content represent a recommendation to buy, sell or hold any security. The views and opinions expressed in an article or column are the author's own and not necessarily those of Yahoo! and there is no implied endorsement by Yahoo! of any advice or trading strategy.

---

Copyright © 2006 Yahoo! Inc. All rights reserved. [Terms of Service](#).

To learn more about Yahoo!'s use of personal information, please read the [Privacy Policy](#).