Opening Statement of Senator Charles E. Schumer
Chairman, Joint Economic Committee
Hearing: "Oil Bubble or New Reality: How Will Skyrocketing Oil Prices Affect the U.S. Economy?"
June 25, 2008

Good morning and thank you for coming to today's Joint Economic Committee hearing on the skyrocketing price of oil. We want to explore whether the high price of oil is a bubble or a permanent, painful reality; how it will affect our economy; and what we can do to reduce prices and break our dependence on foreign oil.

We know that gas prices, and the high price of oil and all oil products, is the number one issue in America. Everywhere we go – legion halls, parades, weddings – this is one of the very first things people bring up. **It is no wonder that Congress has held about 40 hearings on oil and energy policy so far this year – and 11 this month alone.**

We're all looking to find the answers to some pressing and important questions so we can shape the right economic and energy policies going forward. I'm hopeful that we'll have some luck answering those questions today from our very distinguished panel, including Dr. Dan Yergin, Pulitzer Prize-winning author of The Prize and one of the world's foremost experts on oil and energy. We eagerly look forward to hearing from him and from Dr. Frederick Joutz (*Yoots*) and Skip Laitner shortly.

I think everyone would like to believe that high oil prices *are* a bubble – but they may not be. Many would also like to believe that there is a silver bullet that can pop the bubble. But if there is no oil bubble, or prices temporarily decline and we put off doing the necessary things we have to do – like conservation or investing more in alternative fuel incentives – we'll be even further behind than we are now from breaking our foreign oil dependence.

It is clear that demand is definitely on the rise – especially in rapidly developing, large countries like China and India. I heard the other day that there will be as many new cars in the developing world as there will be total cars in the U.S. in the next 10-15 years. In fact, the Energy Information Administration is projecting that oil prices will have increased by almost 70 percent from 2007 to 2008, gasoline price will increase by 35 percent, and diesel prices will increase by 50 percent.

I think it is interesting that the big oil companies and OPEC are blaming speculators for out of control prices, when they may be much more of the cause. It isn't as cut and dried to me. Speculation may be exacerbating the demand problem, but if we guess wrong on the cause we will put off the right solutions. There are some things that can be done to curtail the impact of speculation, like raising margin requirements and strengthening regulations; and these may do some good, but they may not solve the problem in the long-term particularly if we think these are the only things that should be done.

The reality is that we need to look beyond quick fixes that will do little for consumers as they pay record prices at the pump.

Many consumers are experiencing stagnant wages, sending a much bigger slice of their paychecks right into their gas tanks. **Americans are spending DOUBLE on gasoline now than they spent in 2001. Across the nation, families are being shaken down for 5 percent of their take home pay – just to pay the Gas-Man.**

Low and middle income families are particularly hard hit – the most recent data from 2006, when gas prices were only $2.50 per gallon, shows that the lowest 20% income levels spent nearly 10 percent of their paychecks on gasoline. That is a scary figure for families who are just scraping by everyday.

For all of the talk about how American families have benefited from the Bush tax cuts, and for all of the emphasis that Senator McCain is placing on making those tax cuts permanent, the simple, undeniable, you-can-look-it-up, no-spin truth is that the average American family is paying for more in higher gas prices this year than they received in Bush tax cuts.

A lot of Americans are wondering what Washington can do to bring down oil prices or reduce our dependence on oil?

Well – let me first tell you what Washington didn't do. **With 7 years under their belt, this White House has taken zero pro-active steps to reduce our dependence on foreign oil. If it wasn't for the Democratic Congress passing a long-overdue, small increase in fuel efficiency standards for cars, President Bush would leave the White House with a spotless record – committing no sins against Big Oil or OPEC.**

With almost 70 percent of all of the oil we consume going into our gas tanks, it is a crime against our future that the White House and the Republican Congress since 1995 have opposed increasing fuel economy standards for so many years.

Even now in the midst of $140 per barrel oil and $4.00 gasoline prices, the only solution many of my friends on the other side of the aisle are familiar with is drilling in the Arctic Refuge. By 2018, ten years from now, ANWR might produce enough oil to according to the Department of Energy, decrease gas prices by only one to four cents a gallon *in 2018*.

The only short term way to increase supplies right now leads directly to the sands of Saudi Arabia. As we see here, OPEC is producing oil well under its capacity, despite record oil prices. Saudi Arabia is the 800 pound gorilla of oil production and even after modestly increasing production this weekend, they still have considerable excess capacity. Most experts believe that they could produce another million barrels, which would have an immediate impact on price. Saudi Arabia is actually producing below their 2005 production levels.

But in the long-term, we must address the demand side of the oil equation.
One good thing that came out of the oil shock in the 1970's was the push for dramatic energy conservation. Why don't we do more of it now? It would reduce prices at the pump and it would probably be the easiest thing to accomplish legislatively. California made Herculean efforts under Governor Jerry Brown during that time to reduce consumption and now they are well below the national average in energy usage per capita. As one environmentalist said, alternative fuels are the sizzle, but conservation is the steak.

Even as someone who supported targeted oil drilling in the East Gulf, I know you can't drill your way out of the problem. If you don't do conservation, if you don't do alternative energy, and if you don't tell the big oil companies they can no longer run energy policy in America, we will not succeed, plain and simple.

There were two main things, in my mind, that really sent our nation way off track on energy policy: First, low prices we were paying made us complacent; and second, the power of the oil, utility, car companies, which has prevented us from enacting real alternative energy programs.

There are a lot of questions – I hope we can get some good answers today from our distinguished panelists.

Witnesses:

Dr. Daniel Yergin, Co-founder and Chairman of Cambridge Energy Research Associates

Dr. Frederick Joutz, Professor of Economics and Director, Research Program on Forecasting, George Washington University

John A. "Skip" Laitner, Director of Economic Analysis for the American Council for an Energy-Efficient Economy (ACEEE)

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