

Marketplace

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Look at the benefits of higher gas prices

Are these rising gas prices a crisis, or are they really a blessing in disguise? Economist and commentator Justin Wolfers says we're being compensated for these higher gas prices -- we just don't realize it.

TEXT OF COMMENTARY

BOB MOON: Are these rising gas prices a crisis, or are they really a blessing in disguise? We're seeing American driving fewer miles -- 1.4 billion fewer highway miles in April than we did in April 2007. And buying smaller cars: Sales of midsize SUVs dropped 38 percent last month compared with May of last year. Economist Justin Wolfers says we're being compensated for these higher gas prices -- we just don't realize it.

JUSTIN WOLFERS: Gas at \$4 a gallon is causing a lot of despair. But I'm not quite sure why.



Justin Wolfers (Wharton School of Business, Univ. of Pennsylvania)

Let me explain. To an economist, a higher gas price is really two things: First, it's a shift in the relative price of gas versus "other stuff." Second, it's also a rise in the average price level.

Let's begin with the shift in relative prices: The fact that gas is more expensive relative to other stuff is what's called a "relative price shift." Now, I can understand being upset that buying a gallon of gas now requires doing without more of this other stuff. But look on the bright side: each gallon of gas you conserve now buys you more "other stuff." Stated this way, it sounds like a much better deal.

Of course, relative price shifts do create winners and losers. Political discussions always seem to focus on the noisy complaints of those who lose, such as the McMansion dweller whose increasingly expensive commute is undermining his home value. What's missing is the picture of the smiling urbanite, who's earning a handsome return on her investment.

Perhaps, instead, our despair reflects higher average prices: When average prices rise, and incomes don't, then we have less spending power, and we get less gas, and less other stuff.

But I have some good news: When average prices rise, then typically wages also rise. It might be a few months later, but our spending power typically remains unchanged.

So why the concern?

One explanation is simply that we fail to understand that wages rise in tandem with average prices. Behavioral economists tell us that when each of us gets our annual raise, we think that this is a reward for our hard work, rather than something as trivial as a cost-of-living adjustment. So each year we think that our employer realizes we are ever more brilliant, even as rising gas prices steal more from our paycheck.

The truth is more mundane: You aren't that brilliant.

But you are going to be compensated for those higher gas prices.

MOON: Justin Wolfers is an associate professor at the University of Pennsylvania's Wharton School of Business.

COMMENTS

By Patrick Kelly
From Ft. Myers, FL, 06/20/2008

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I am not quite sure where Justin is getting his information, but it seems to be lacking "real" perspective. It would be great to have a job in which an annual increase is a given, but for many of us in this economy our companies have down sized and are looking to trim as much fat from the budget as possible so annual raises and paid vacations are falling by the way side. This becomes an even greater burden if you happen to be part of the trimmings. What we need right now are programs that create good paying jobs. The time to switch to alternative energy is now. Solar, tidal, geo thermal, wind, magnetic. If we can retrofit existing houses and buildings with energy gathering technology and tie them together into an all encompassing grid we can help unburden large centralized power companies. This will not only provide a more stable power delivery network but also make our power grid safer from possible terrorist attack. In so doing we will need to build new infrastructures and retool manufacturing plant. We need to give incentives to businesses to manufacture to stay at home. More jobs will be created and direct cross over jobs from old tech to new tech so no one needs to fear about being out of work. We need to work together to raise this great country from her knees and the I got mine attitude will not do it. Greed has fueled our nation for far too long. The economic gap between the classes is the greatest it has ever been and is still growing daily. It seems our politicians and the "haves" and "haves more" seem to forgotten about those of us below there standing. How many high priced ticket items need be purchased for us all to feel that good old boy trickle down, it does not work. So Justin should remove his rose colored blinders and get out of the office more.

By Donald Allmon
From Kansas City, MO, 06/20/2008

Wolfers claims that "wages rise in tandem with average prices...."

For a very specific segment of the population, those people whose incomes are closely tied to profits in oil, that may be true; but it is certainly not true for the vast majority of workers in the U.S.

Yes, of course, I get a wage increase of ~2% every year (and no, I do not, as Wolfers suggests, believe it has anything to do with performance). But that 2% occurs every year regardless of any increase or decrease in the price of gasoline. Consequently a dramatic increase in gasoline prices has the effect of reducing my income.

The only way his claim could be true is if, when it's all averaged out, the income of the segment of the population who profits from oil sales has increased so dramatically that statistically it overwhelms the decline in income of the millions of workers whose pay increases at a rate independent of the price of oil.

I can't say that that would surprise me, but neither can I say that it's a cause for celebration.

By Jeff Schukow
From Sheboygan, WI, 06/20/2008

Who is this guy trying to kid. Wages are not keeping up with gas price increases not to mention health care etc. Employers are rewarding people these days with raises which are then completely eaten up by increased health care co-pay. This story sounds like it represents employees in government, not the public sector, a complete misrepresentation of reality.

By Kevin Dwinnell
From Hilliard, OH, 06/20/2008

Justin has a clear failure to recognize not everyone is in the employ of an institution or corporation.

Mental health counselors in private practice have not seen an increase in hourly compensation in over 10 years. If anything, insurance providers are reducing reimbursement rates.

Additionally, those of us who are self employed and working to build a new business don't have the luxury of an annual bump in pay. Hopefully, this career path will result in longer term rewards but does not minimize the short-term pain.

This editorial feels shallow and lacking in its assessment - not what I would have expected from Wharton.

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