

# Who Wins and Loses When Gas Prices Skyrocket?

The G.O.P. faces voter wrath, consumers suffer, and Big Oil hits a gusher. A guide to the pain and gain

By **BILL SAPORITO**

**I**T'S NOT EVERY DAY THAT KARL ROVE GETS A lesson in politics. But the President's ace strategist was brought up sharply at a recent White House meeting with a group of Republican congressional-staff chiefs when he suggested that the best approach to soaring gasoline prices was this: wait. There's no immediate fix available, so let the market work its magic, Rove said. The sky-high pricing will reduce demand soon enough, and \$3-per-gallon gas will soon be a memory. It's basic economics.

And, if you're a Republican politician facing a re-election challenge in November, it's basic insanity. Rove should be the last person in America to have to be told that textbook economics isn't taking the campaign trip this summer with political reality. Not in a country where many people feel that they have a right to drive 70 miles per hour in a 55-miles per hour zone while getting 15 miles per gallon. The voters are getting incensed every time they drop \$75 to fill their SUVs and pickups while oil companies tote up record earnings. "What upsets me more than anything is the Democrats and Republicans keep pointing fingers," says insurance salesman Bob Morris, 59, of Palestine, Texas, whose weekly gas bill for his Camry has risen to \$75. "Now I'm at the point, whoever's in office, I'm ready to vote 'em out."

That's what horrifies the staff chiefs. Until now, Republicans consoled themselves in this

worsening political environment with the belief that congressional elections are local popularity contests. Now that the monthly price of driving to work rivals the mortgage payment, gasoline, more than any other issue, could turn this election into

**Gasoline, more than any other issue, could turn the midterm elections of 2006 into a national referendum.**

a national referendum. With the G.O.P.'s popularity gauge already down a couple of quarts, Rove was told that if the White House didn't do something, anything, about energy costs, Congress could put the President in the position of using his first veto to kill a windfall-profits tax on oil-company earnings. Says a G.O.P. strategist: "People just want the oil companies whacked."

So the Republicans turned on Big Oil, an industry they normally treat like a good neighbor—or an ATM. In a particularly delicious bit of irony, the party led by two oil guys that is pro-business, antitax and antigovernment meddling was talking loudly about greedy petro-executives, IRS audits of oil-company tax returns and withdrawing \$2 billion in industry-specific tax breaks over 10 years. That's about a month's worth of profits for ExxonMobil, which announced quarterly earnings of \$8.4 billion. "Listen, we've got people like this that are working for a living, who are paying higher prices for their gasoline—it's like a tax," said President George Bush, standing next to local resident Michael Wade at Fayard's service station in Biloxi, Mississippi, where a gallon of regular sold for \$2.96. "The first thing is to make sure that nobody is getting cheated."

The President visited the service station to discuss a number of largely ineffectual remedies

for pulling down prices, some of which Rove had previously discussed in the staff chiefs' meeting. Bush suspended additional deliveries to the Strategic Petroleum Reserve to divert that crude to the market. He called for more tax incentives for hybrid cars, fewer environmental hurdles for refinery builders, drilling wells in the Arctic and congressional authority to raise mileage requirements on cars. Senate Majority Leader Bill Frist, who earlier in the week had advised voters to drive slower and get a tune-up, was fronting a Republican proposal to send a \$100 rebate to most taxpayers—which they could return to the oil companies next time they filled up.

### ■ THE POLITICS OF PETROLEUM

HANDED THE ISSUE THAT COULD WIN BACK THE House, congressional Democrats steered en masse to service stations. Following a carefully strategized plan of photo opportunities organized by the Democratic Congressional Campaign Committee, they staged press conferences in filling stations around the U.S. to denounce the Republicans and promote their equally ineffectual solutions. Said John Cranley, who posed near a price sign at a service station in Cincinnati, Ohio: "These gas prices represent the failure of my opponent, Steve Chabot, and George Bush to fight for the middle class. The Republicans and Steve Chabot are giving [Big Oil] \$14 billion in your money." The Democratic handout proposal was even more generous. The Democrats want to rescind the gasoline tax for a while—which would stimulate demand.

The high price of oil has been a great opportunity for hardworking guys who run countries that are on less than chummy terms with the U.S. Hugo Chávez and Mahmoud Ahmadinejad, the Presidents of Venezuela and Iran, respectively, have benefited from the rhetoric of U.S. foreign policy. The Administration's confrontational response to

Iran's nuclear policy and Venezuela's anticapitalism are actually making those countries richer and their rulers more popular by driving up the price of oil, a commodity they possess in large amounts.

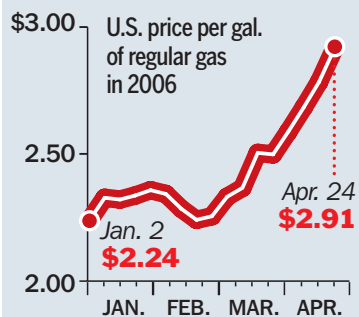
When oil traders in New York City's Mercantile Exchange hear Iran threaten to stop pumping in a market that is already tight, they immediately bid up the price of contracts for future oil delivery. Nor do the fundamentals of global oil offer much hope for lower prices over the long run. The growth in demand is exceeding the growth of supply by 400,000 barrels a day, fed by the rapidly expanding Chinese and Indian economies.

Americans, however, are the original gas hogs. The U.S. uses more oil per day than any other country—4.5% of the world's population guzzling 25% of the planet's petroleum output. But voters viscerally blame their petrodependency on the man and the party in charge. In a recent CNN/Gallup poll, 75% of those surveyed said a President could control oil prices; 71% said this President wasn't doing enough to bring them down.

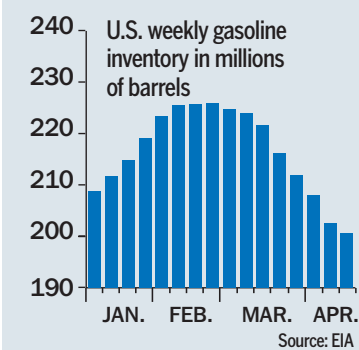
Conversely, many analysts argue that the best way to create new energy sources and encourage conservation is to raise gasoline prices, not lower them. Fadel Gheit, senior energy analyst with

Oppenheimer & Co., defends Exxon Mobil while blasting politicians and consumers. "We're a bunch of crybabies. They pay the equivalent of \$6 a gallon for gas in Germany," he says. But with elections looming and consumers fuming, the Republicans can't ignore what every TV news show is headlining: the Pain at the Pump. The cost of gas may be high now, but for the Republicans by November, it could be a lot higher. ■

#### COST OF GAS RISES ...



#### ... AS SUPPLY FALLS



#### Questions

1. How have Republicans responded to demands that they do something about energy costs?
2. What solution have Democrats offered to counter the high price of gasoline?