

Why are Oil Prices High?

New America Foundation

Richard Vague

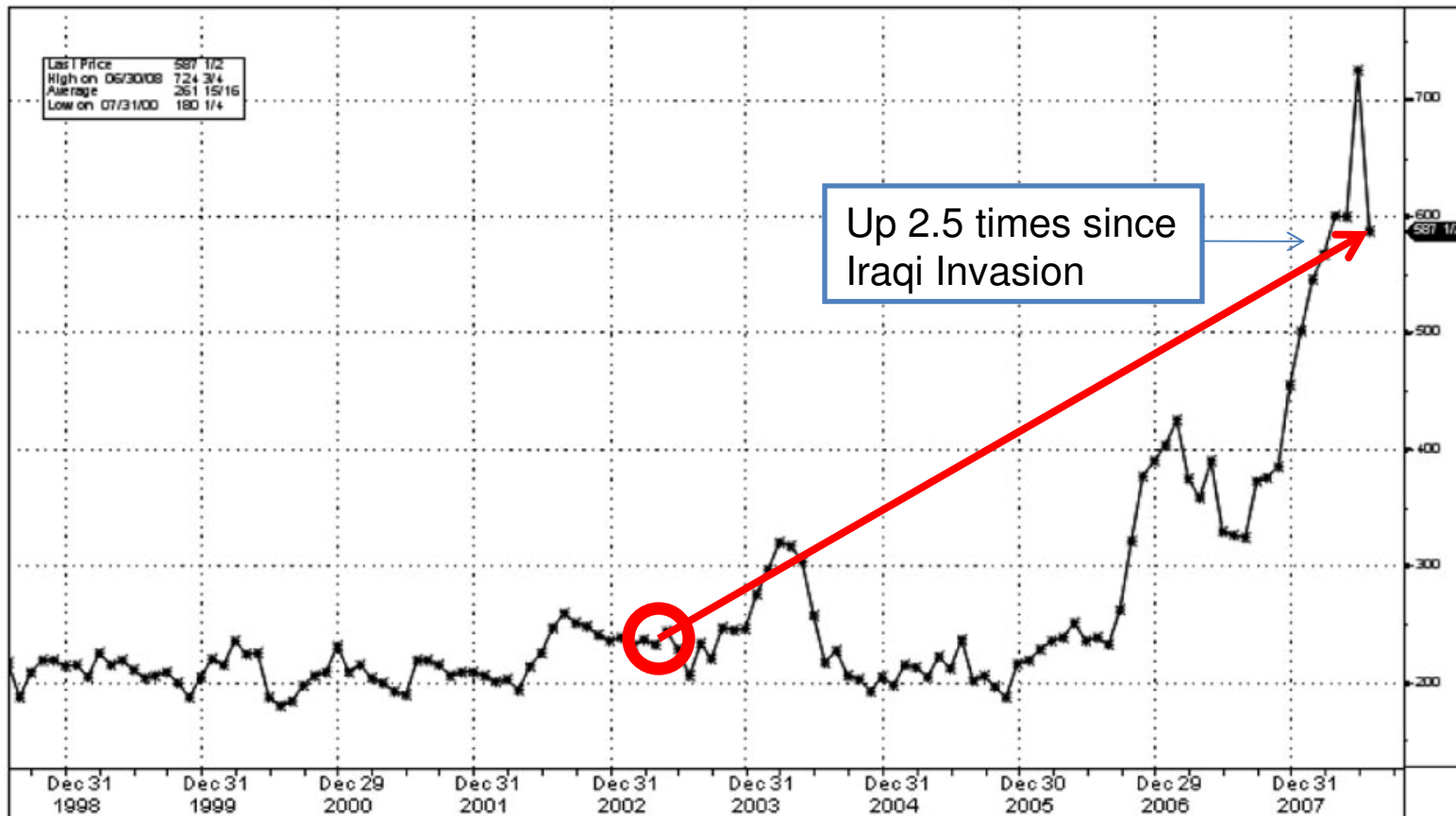
8/21/08

Oil Price Increase

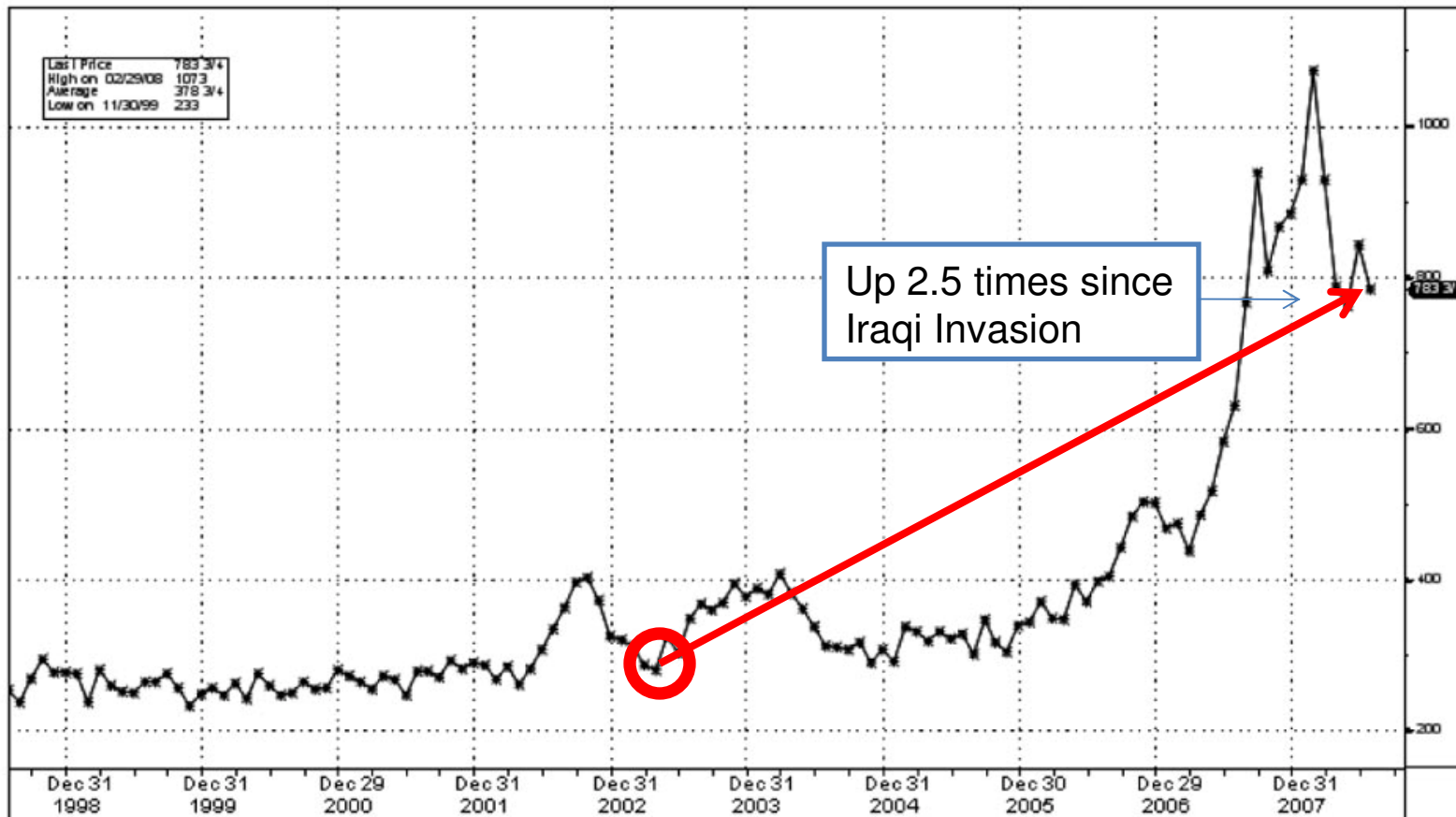


Note: Data in this presentation is as of 8/5/08

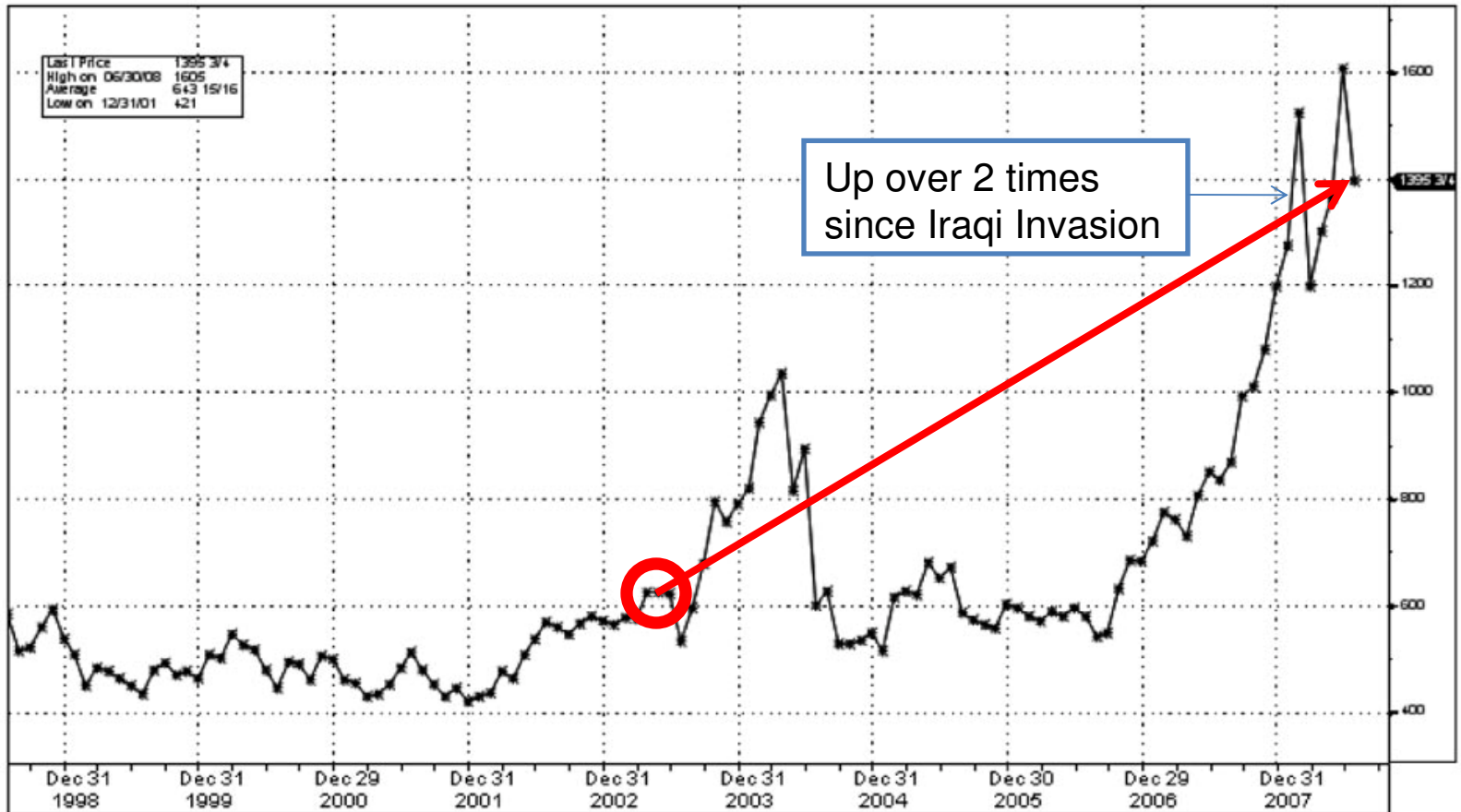
Corn Price Increase



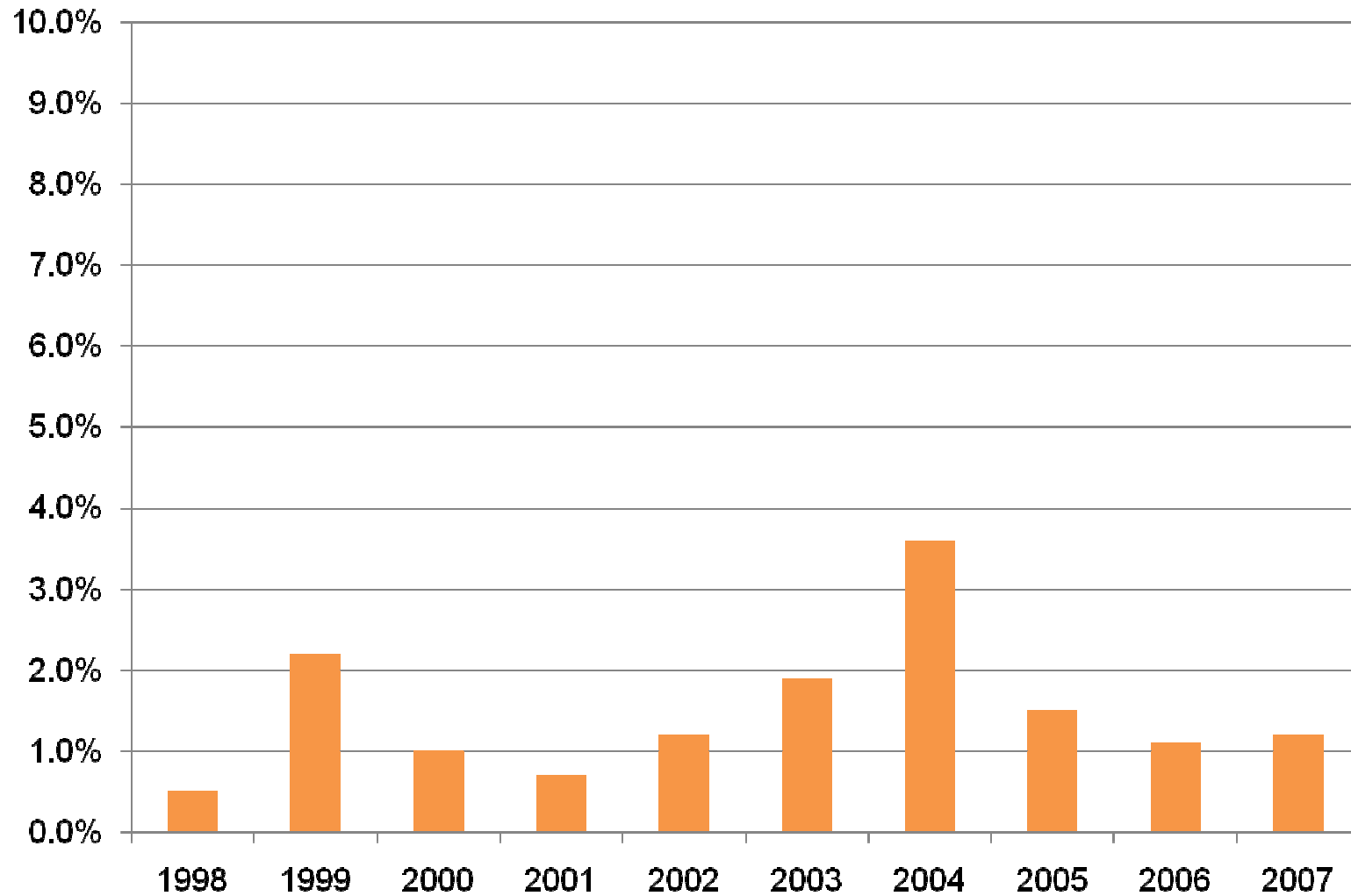
Wheat Price Increase



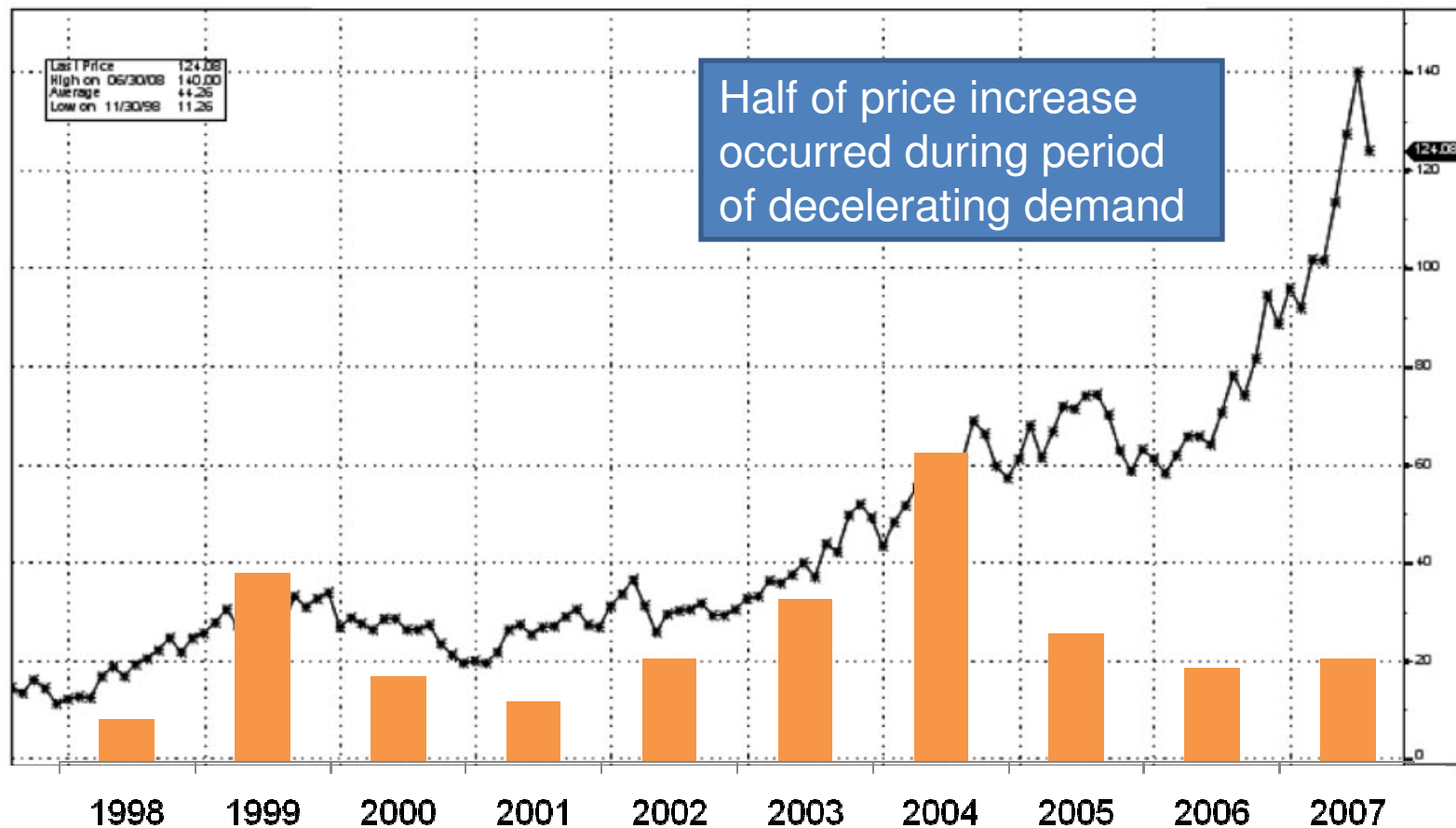
Soybean Price Increase



Oil Consumption Increase



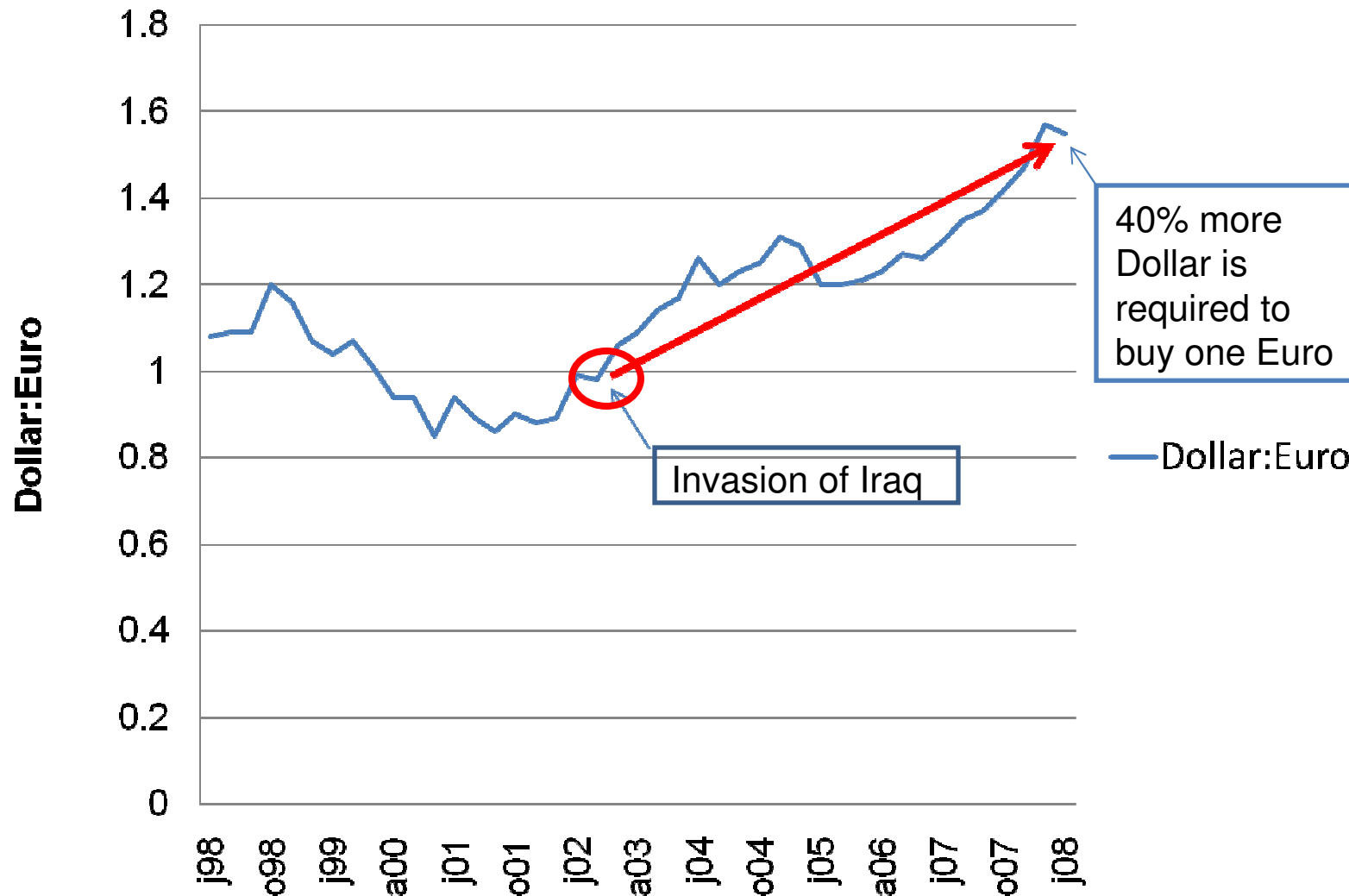
Oil Consumption and Increase



Why Prices Are Up

- Weak Dollar
- Risk Premium
- Short-term Inflation-Driven Demand

Rise of the Euro vs. the Dollar



Oil Price in Euros



Why the Dollar is Weak

- Expansionary monetary policy
 - Comparable to 1970s
 - Negative real rates
 - Financing war without tax support and with low nominal rates (War only stimulative in the most short-term sense)

Inflation

- Money expands more rapidly than economy
- CPI lag
- Wage pressure is a result not a primary cause
- Recurring strategy for financing war—defers tough decisions

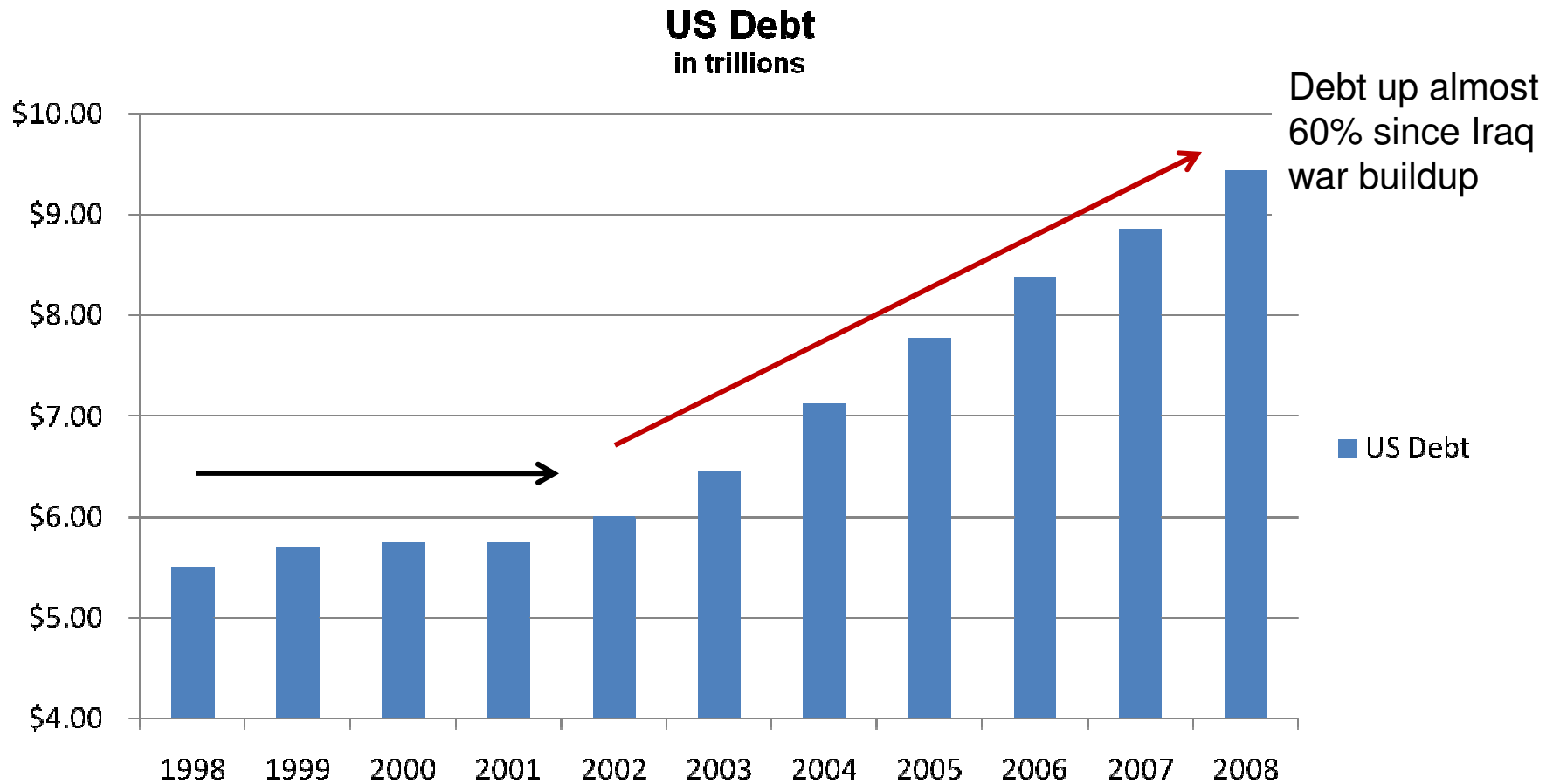
Cost of U.S. Wars

in billions of 2007 dollars

• World War II	3200
• Iraq/Afghan War (thru FY2008 request)	820
• Korean War	691
• Vietnam War	650
• World War I	364
• Civil War (Union and Confederate)	81

Source: OMB

U.S. Debt



How Do We Reduce Prices?

- Reduction in Federal Spending
- Disciplined Money Supply Growth