



COMMON SENSE

With Paul Jacob



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Paul Jacob has offered "Common Sense" since 1999, and his words of wisdom and common-sense provocation can be heard on more than 150 radio stations throughout the United States, as well as on computers and iPods around the world. The easiest way to get "Common Sense" is by email. And it's free! Subscribe today at ThisIsCommonSense.com

Gas Price Fears

Fear stinks.

Literally, yes; but figuratively, too.

Moved by fear, we tend to get a bit irrational. Whenever something unpleasant happens to us all, there's this tendency for mass irrationality.

I bring this up just as much to remind myself as to remind you. We're all affected. Even something as mundane as gasoline prices can send the collective intelligence down a few IQ points.

Recently I wrote a column at Townhall on the widespread belief that prices will always and only go up.

I suggested that gas prices would likely go down soon. I'm not an economist. But I do remember a bit of history . . . some of the history that has occurred in my own life!

Why would prices plummet? Well, oil is such an important product that not only can it "drive us crazy," but when the prices go high enough, it can cause recessions — that is, economy-wide business and project and plan failures. So, during recessions, demand goes down. And when that happens, prices have to go down, to follow. As Alan Reynolds of the Cato Institute reminds us, this has happened nine times since World War II. The drops ranged from 44 percent to 76 percent.

And, as Reynolds points out, even small-but-persistent demand drops, even without a recession, can cause the downturn in prices.

So the last thing we should do is let our gas price fears drive us to seek solutions from politicians.

This is Common Sense. I'm Paul Jacob.

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