



Consumer Federation of America

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**For Immediate Release
November 3, 2011**

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Oil Speculation on Wall Street Devastates Household Budgets on Main Street

Wall Street Speculators and Big Oil Get Rich, while Record Household Expenditures on Gasoline Impoverish Consumers and Drive the Economy into Recession

Washington, D.C. – Dr. Mark Cooper, CFA Director of Research, submitted the following statement for the record of the hearing on *Excessive Speculation and Compliance with the Dodd-Frank Act*, being conducted by the Senate Committee on Homeland Security and Governmental Affairs, along with CFA's recent report entitled *Excessive Speculation and Oil Price Shock Recessions: A Case of Wall Street 'Déjà vu All Over Again.'*

In the three weeks since we prepared the attached study of oil price speculation, the price of crude oil has increased by over \$17 per barrel, which leads us to conclude that our estimate that U.S. households will spend a record \$2900 on gasoline this year is on the low side.

In the three weeks since we prepared the attached study, big oil (ExxonMobil, Chevron, Shell, BP, Conoco), which always profits from high oil prices, reported an increase of \$50 billion in profits from January to September 2011 compared to the same period in 2010. This underscores the gross inequities and economic distortion that excessive speculation imposes on the American people and the economy.

Market fundamentals cannot explain these price movements or obscene oil company profits. This pricing behavior is the result of the "financialization" of commodities and the failure of regulators to prevent excessive speculation. The shenanigans on Wall Street are devastating Main street. Needlessly high prices for petroleum products will drain about \$200 billion out of the economy. Since consumer spending is the main driver of the U.S. economy, when speculators, oil companies, and OPEC rob consumers of that much spending power, the inevitable result is a dramatic reduction of economic activity and employment.

In the three weeks since we prepared the report the Commodity Futures Trading Commission adopted rules that, while a step in the right direction, are far too timid to control excessive speculation. These hearings must be the start of a process in which Congress demands much stronger and more aggressive measures to reign in excessive speculation and return commodity markets to their proper function, which is to support the real economy.

The complete report is available at www.consumerfed.org/pdfs/SpeculationReportOctober13.pdf

The Consumer Federation of America is an association of nearly 300 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.