



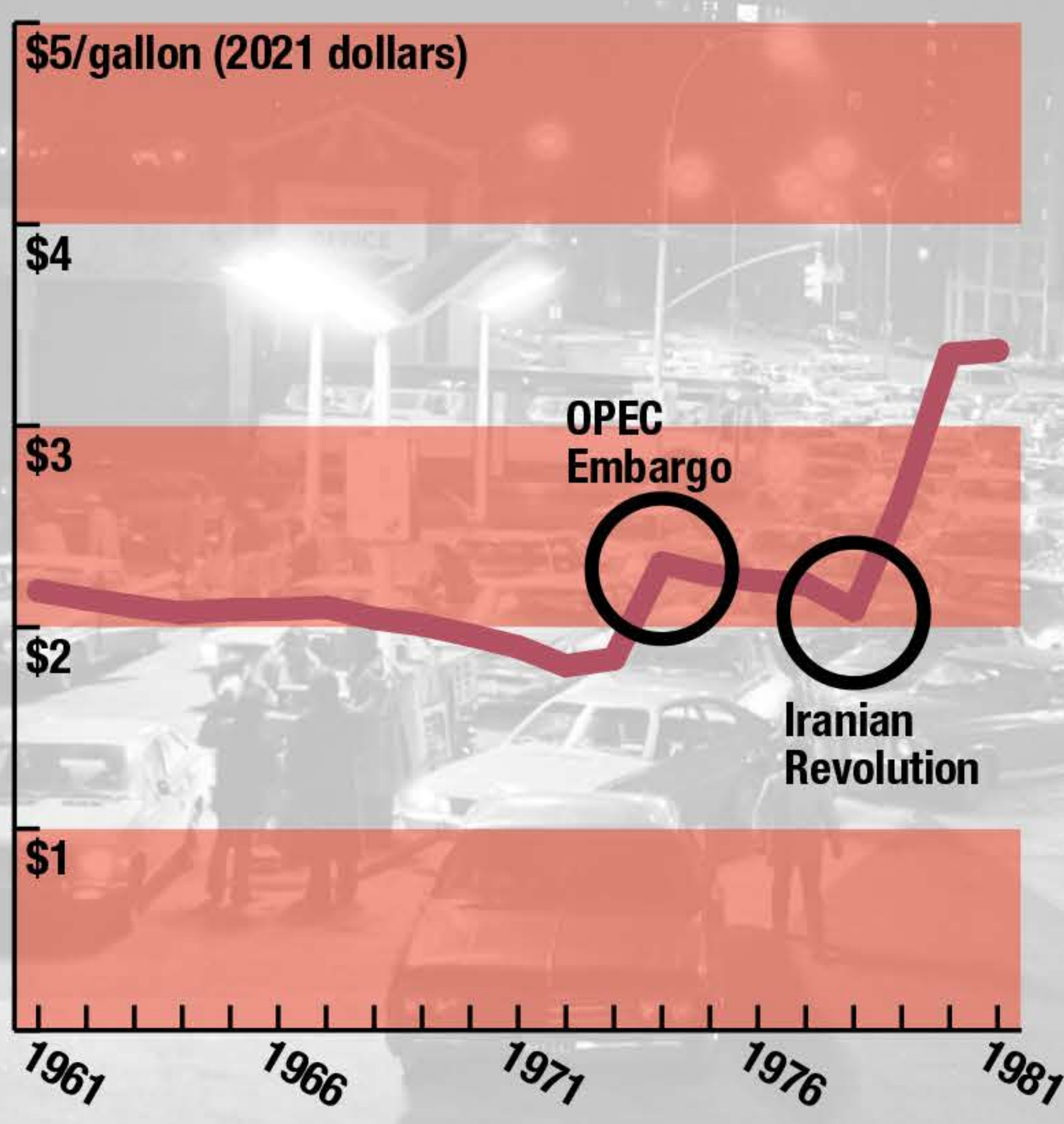
How High is the Price of Gas?

When adjusted for inflation, gas prices are either worse than the 1970s or better than the George W. Bush era. **By Jeffrey Winters**

When gasoline prices jumped in the United States in 2021, it was taken as a sign of runaway inflation—and a return to the bad old days of the 1970s. There is certainly some support for that view: According to data compiled by the Energy Information Administration, regular-grade unleaded gasoline averaged \$2.97 per gallon over the first 10 months of 2021, and in October 2021 it was a whopping \$3.38 per gallon. Considering that the same grade of gas averaged less than \$2.00 a gallon in the spring of 2020, that could feel like the start of an out-of-control cost spiral.

It would be premature to jump to that conclusion, however. For one thing, the May 2020 prices were depressed by the widespread shutdown of economic activity at the beginning of the COVID-19 pandemic. More importantly, though, while the nominal average price of gas in the United States is high, adjusting the price for inflation tells a different story. Compared to prices from 10 years ago, gas is pretty cheap, though not as much as it was in the 1990s.

GAS PRICE FLUCTUATION 1961-1981



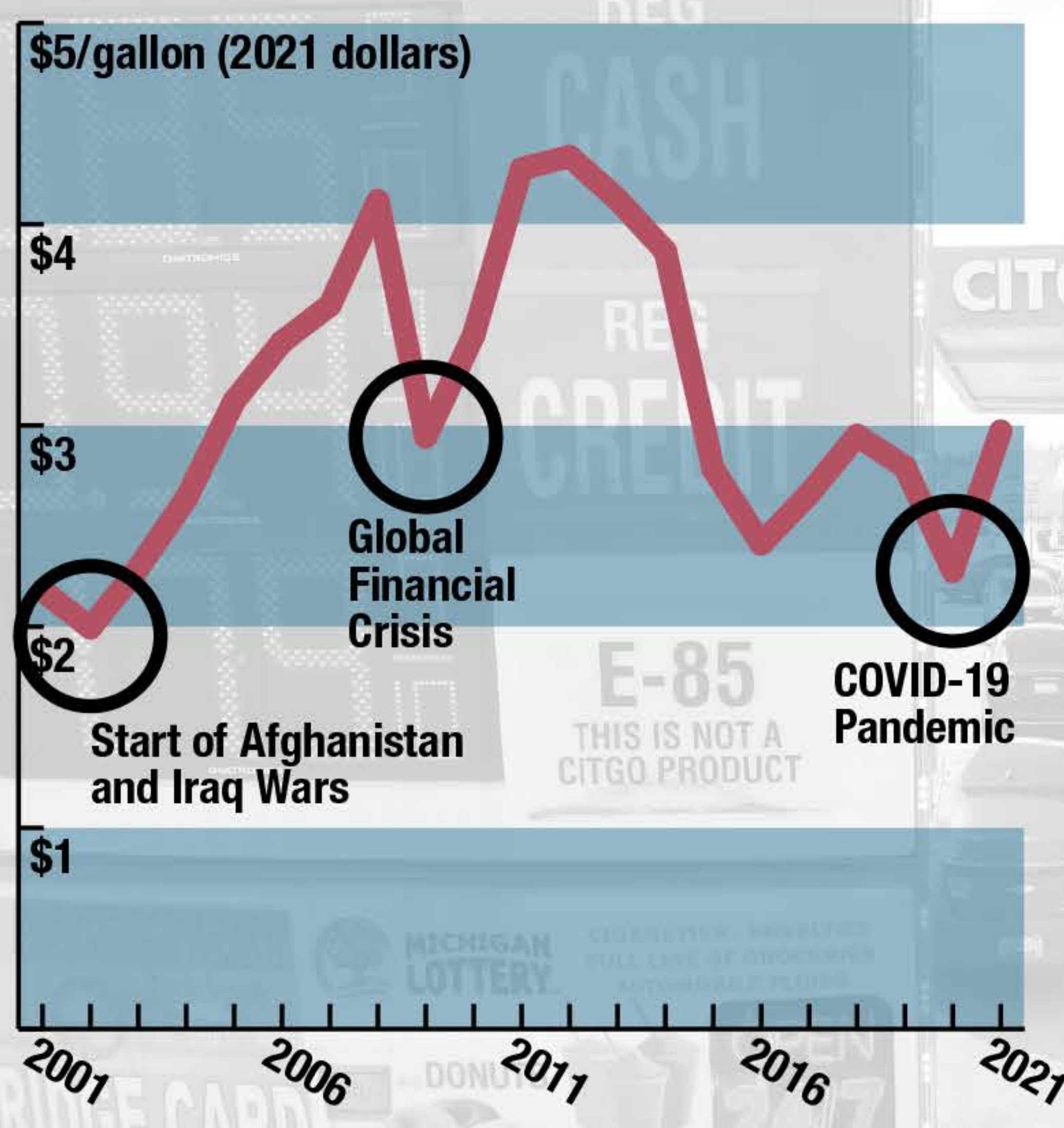
To look back even earlier, the era from 1961 to around 1978 was remarkably stable. Even the OPEC oil embargo of 1974 only moved the inflation-adjusted price from \$1.84 to \$2.31. The disruption created by the Iranian Revolution was much more consequential, lifting the price in 1981 to an inflation-adjusted level it wouldn't repeat for another 25 years.

GAS PRICE FLUCTUATION 1981-2001



While high gas prices felt like they were going to remain a fact of life, they started falling the very next year and by 1986 they were once again under \$2.00 a gallon. The next 15 years saw very stable gasoline prices despite robust economic growth. It was in this era that American drivers started to shift away from fuel-efficient cars and started purchasing sport utility vehicles and pickups.

GAS PRICE FLUCTUATION 2001-2021



The last 20 years have been marked by instability in inflation-adjusted gas prices. The years after 2001 saw steadily increasing prices due to the economic growth of China and wartime disruption in the Persian Gulf region. Even the Global Financial Crisis of 2008 created only a temporary dip in prices. But the widespread adoption of hydraulic fracturing and other unconventional oil production techniques saw an influx of oil onto the market; between 2012 and 2016, gas prices fell by nearly half. Motorists are waiting to see if 2021 was a one-year blip or the start of a new era of high gas prices.