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ECONOMIC NEWS UPDATE

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Several readers have complained of late that my reviews of the American economy, its current state and its outlook, have been too inconclusive for their tastes. Too much thesis and antithesis, and not enough synthesis, one reader said.

I can only plead, by way of extenuation, that (1) I try to present enough information so that the reader can reach his own conclusion; (2) there are plenty of analysts who know, with a high degree of certainty, just what next quarter's growth rate will be, where the dollar and share prices are headed, making it unnecessary for me to add to their number; and (3) a close reading will reveal that there are some things of which I am indeed quite certain, and quite clear.

The American economy may have periods of rapid and less rapid growth, but in the long-run the entrepreneurial nature of our capitalists, our insistence on competition and attacks on cartels, and our relatively – only, relatively – sensible tax regime assure success. I hope I have been equally clear that the European social

model dooms the continent to slow growth and high unemployment.

But if you want a real dose of certainty, consider my unequivocal conclusions about the outlook for the energy sectors of the world's economies.

Nuclear power is about to make a comeback. Fear of global warming, some of it whipped up by the likes of Al Gore and his apocalypse-in-a-decade power point and cinema presentations, will be one driving force. Another will be a belated recognition by most countries that they will miss their Kyoto targets by a smaller margin if they build some nukes. But make no mistake: government subsidies will be necessary. Even the we-don't-need-subsidies nuclear lobby concedes that no one will risk the capital needed by these capital-intensive facilities without, at minimum, specially designed, government-promoted, long-term contracts to insulate the plants from the vagaries of the spot market. There will also be a host of other incentives, several already on offer to companies willing to restart America's nuclear construction industry.

The consumer will pay, with the cost concealed in his overall electricity bill. Count on it.

We also know, with certainty, that none of the new technologies being touted by everyone from corn farmers to the President of the United States will markedly reduce the demand for gasoline, and hence for oil. Whether global demand will increase from 86 million barrels per day to 118 million by 2030, as the Department of Energy is predicting, is less certain. But increase it will, as the Chinese trade their bicycles for cars, and Americans refuse to junk their existing 230 million cars and trucks before the end of their useful lives. There will be some hybrids, and some cars that run on non-oil based fuel, but for the next decade at least they won't have enough impact on demand to affect the worldwide demand-supply balance. Count on it.

We know, too, that there will be periodic supply scares. God chose to put most of the world's crude oil in places that are governed by such as Hugo Chávez, Iranian mullahs, kleptocratic African governments, and Middle Eastern regimes that see Western investment as a bane rather than a boon. There are exceptions: Canada and its tar sands being the most notable, but they are few and far between.

We can also be confident that the shift in the balance of world power from oil consumers to oil producers will have important geopolitical effects. Vladimir Putin and his otherwise inconsequential economy will remain important players because he can threaten Western Europe with cold, dark winters. China is extending its political influence by twining its quest for oil supplies with promises of political support and

supplies of weapons. Nothing to be uncertain about here.

Nor is there any reason to doubt that the political duplicity and irrationality that have characterized energy policies will continue. OPEC's cartelists will continue to pretend that they are willing and able to expand oil production to prevent prices from soaring. China will continue to pretend that it is not providing zero- or low-cost capital to its oil companies as they compete with Western oil companies for new supplies. And the environmental lobby will continue to pretend that some combination of economic conservation and renewable energy makes it unnecessary to build any of the plants they hate: coal plants (dirty), or nuclear plants (dangerous), or wind farms (unsightly). Count on it.

Meanwhile, politicians in Britain will pretend that nuclear power needs no subsidies, rather than doing the honorable thing, and arguing that such subsidies might be needed in order to obtain "energy security", whatever that term means. They will also insist that it is necessary to force homeowners to conduct expensive "energy audits" before being allowed to sell their houses to willing buyers. Count on it.

America's politicians will continue to pretend that the nation can kick what President Bush calls its "addiction to oil" without major new taxes on oil or gasoline. They will also insist that burning carbon-laden coal and natural gas to produce biofuels will somehow reduce greenhouse gas emissions. Count on it.

Germany's politicians will continue to lead the cheering section for Kyoto while authorizing the construction of eight coal-fired power plants in the next five years. Count on it.

There you have all of the certainty that any reader can reasonably want in a few hundred words. But lest you conclude that economics is more of a science than it is, remember that when we talk about energy we are dealing with a sector in which we know something about the effects of price on demand and supply, and in which we can reasonably predict the policies and actions of the various players.

Don't try that with macroeconomic phenomena. Poor Ben Bernanke and his fellow monetary-policy makers can only guess at the effect of their actions. Yes, they know that higher interest rates will cool the housing market. But by how much, and when, is another matter: that remains only dimly visible through the glass of their crystal ball, and then, darkly. All the President's men may know, or think they know, that tax cuts will increase the flow of funds into the Treasury's coffers, but whether by enough to offset the deficit-enhancing effects of those cuts they know not, or would rather not think about.

I do hope that the lusters-after-certainty among my readers will feel they have gotten their money's worth this week.



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