THE DANA VIEWPOINT

THE BLAME GAME

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First it was the current administration being a tool of big oil. Then it was the oil companies gouging the public. Then it was OPEC (Organization of Petroleum Exporting Countries) controlling the price of oil, and now it is the speculators. Congress says it is Intercontinental Exchange, the futures market operator, that is to blame for high gasoline prices. The exchange says that an increasing number of its customers are American businesses that need to manage oil price risks. These companies would be oil refiners and airlines in particular. Now Congress wants to regulate the exchange. Even George Soros, the billionaire who supports many environmental issues, spoke up when he said, "Regulations may have unintended adverse consequences. For instance, they may push investors further into unregulated markets which are less transparent and offer less protection."

There certainly is plenty of blame to go around, just as there is in any economic crisis, but usually the bulk of the blame can be laid at the feet of Congress (both parties). Now, we do not doubt the good intentions of Congress, but as the man said, "The road to the graveyard is paved with good intentions." In order to avert a financial panic in the 1930s, the Hoover administration increased tax rates on upper incomes and passed the Smoot Hawley Tariff Act, both of which helped lead us into the Depression. The Federal Reserve then compounded these two errors by tightening the money supply, thinking it would halt speculation in stocks (talk about closing the barn door after the horses are out). Instead, these three acts reduced economic stimulus at a time it was most needed. Lest anyone think times are tough now, remember unemployment reached 25% in the early 1930s and over four thousand banks were forced to close. We are not even in a recession now and the market gets skittish over a 5.5% unemployment rate (the average unemployment rate over the last fifty years has been about 6.1%).

The oil crisis is having the most negative impact on the economy today. The mortgage crisis and the credit crunch will straighten themselves out and are not causing as much pain as increasing oil prices, and the people that can least afford it are being hit the hardest. A recent chart in the June 9 issue of the *New York Times* shows a map of the US and indicates what percent of personal income is spent on gasoline. While California has some of the highest gas prices, its residents spend a smaller fraction of their income for gasoline (in most areas 2-4%). Whereas the highest percent of income spent on gasoline is in Wilcox County, Alabama (16.0%) and Holmes County, Mississippi (15.6%). Add on to that the increasing cost of food due to

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ethanol mandates, and you have a recipe for a major economic slowdown. We need action not good intentions or finger pointing. We wrote at length last month about the vast amounts of recoverable oil in ANWR (Alaska National Wildlife Reserve), in the Colorado Rockies and offshore. These oil fields would provide us with over a trillion barrels of oil, and coupled with more nuclear plants (we currently have 104 operating in the US), we could be energy independent for the next fifty years, and by that time, no doubt, alternative sources of energy will be found.

Some politicians are getting it. Texas governor Rick Perry and Texas Senator Kay Hutchinson have both called for a freeze on ethanol mandates. It seems the cattle ranchers in Texas have been forced into bidding wars with ethanol plants for corn to feed their cattle.

Now, to compound the oil problem, we have this specter of inflation looming over our heads. Make no mistake, the rising price of gas and food is not the cause of inflation, but the effect. An excessive supply of money is the root cause of inflation. Any time you have too much money chasing too few goods (gasoline), you have inflation. Germany in the 1920s is a classic example as they printed money like crazy to pay off war debts. We have been printing money excessively since we went off the gold standard in 1974. Part of the problem today is not a lack of money for economic growth (as in the 1930s) but an over supply of dollars that is holding down the value of a dollar in relation to other currencies. As oil is priced in dollars, it is inevitable that too many dollars chasing too little oil will push the price of that commodity and others skyward. We definitely need some form of monetary discipline, but that's a subject for another time.

Lest anyone think we have turned negative on the economy, we have not. Our problems like problems throughout our history are solvable. As long as the free market exists, there will be solutions to problems. We have been here before with energy problems. Many thought the sun was setting on the US in the late 1970s also, but consumers adjusted their lifestyles, and we came up with solutions.

Random thought for June:

Money isn't made out of paper; it's made out of linen.

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