The Political Implications of America's Oil & Gas Boom, Part 2

This is part two of a two-part piece. Part one can be found here *[1].* [1]

James Stafford: Most publications and commentators are focused on the supply side of the energy equation. Do you think we should instead focus more attention on the demand side and conservation?

James Kwak: There should certainly be more attention on the demand side. I believe, for example, that we could reduce energy consumption significantly by improving the energy efficiency of our residential buildings, through investments with relatively short payback periods. More stringent building codes could also go a long way. There is also the benefit we could get by overhauling our car fleet with hybrid technology. There are also other obvious policies that would reduce consumption, like a higher gasoline tax (which would make sense for all sorts of reasons, including the externality costs of congestion and accidents).

That isn't to say that this is a complete long-term solution, but it's one of the most obvious things we could be doing today while renewable technology develops.

James Stafford: There have been quite a few doom and gloom articles in the press recently from hedge fund managers and commentators looking at resource depletion, population growth and climate change. What are your thoughts on these types of articles?

James Kwak: When I was growing up in the 1970s and 1980s, there was a lot of the same kind of talk. That doesn't mean that it isn't true today — maybe it was true then — but you have to take this kind of thing with a helping of salt. I'm no expert, but I would be skeptical of doomsday scenarios based on resource depletion or population growth. Population growth, as I understand it, is slowing down. Being more efficient about resource usage is a technological issue, and given the incentives in place, I think that that type of technological development will do well.

I think climate change is more worth being gloomy for the obvious reasons. First, it's already baked into the cake; I believe we're hoping we can limit average global temperature to rise to 2°C or 3.6°F. Second, because actions today don't have

effects until decades into the future, the incentive structures necessary to solve the problem don't work properly.

James Stafford: Chris Martenson [2] has said that the economy, energy and the environment are all coming to a head. Which do you think will give, and how will this affect the other two, and also the entire world?

James Kwak: I think the environment will be the first to give for the simple reason that it has no real political constituency. Sure, there are plenty of liberals in rich countries who care about the environment, and there are hundreds of millions of people in less rich countries whose lives will be seriously disrupted by environmental change, but in the short term, economic growth will always win over environmental protection. The politics are so one-sided that in the United States — supposedly a well-educated, scientifically based society — a blocking minority of the political system denies that anthropogenic climate change is taking place.

James Stafford: China's economic growth is slowing slightly, but has been expanding for several years at an alarming rate. How do you think China's actions over the next decade or two will shape the whole world?

James Kwak: The big question about China is not its economic development, but its political development. China has obviously been a huge economic success story, but there are plenty of reasons to doubt it can continue in the long term in the current political system. Besides the Tocquevillian J-curve (political turmoil comes when people have rising expectations), there is evidence of both corruption among the political leadership and mismanagement of capital by the state-controlled financial system.

I believe, along with Daron Acemoglu and James Robinson, that at some point, China's economic development will require more open political institutions, and it doesn't appear that the country's current leaders are interested in making this transition.

James Stafford: U.S. debt levels are at their highest ever, a level that is actually impossible to pay off. Yet the U.S. is not trying to drastically cut back its spending, so what does this tell us? Does the U.S. effectively have a bottomless bank account? Will it eventually catch up with them, and in what way?

James Kwak: The most obvious way to deal with the debt crisis is the one that is rarely mentioned, except by people like Bruce Bartlett: If we taxed ourselves like an average OECD country, we would run large surpluses and pay down the debt relatively quickly. For decades, however, self-appointed deficit hawks have simply asserted that it is impossible to solve the debt problem through higher taxes and that, therefore, we have to cut entitlement spending.

That said, the higher-tax solution is politically infeasible. The fact that we are not drastically cutting back spending simply tells us that there is no political percentage in cutting Medicare, since Medicare is one of the most popular government programs in American history. The interesting question is why the debt markets

don't seem to care. This is a complicated question, but probably the biggest factor is that the aforementioned "debt markets" (which are really investors) don't have any other safe place to put their money.

In the long term, I think they will find another safe place, which might be Germany, or a reformed China, or something else. So in the long term, I think we will need to do something about the debt problem, or we will start facing rising interest rates and a downward fiscal spiral that will end in severe austerity.

James Stafford: The public expects economic growth anything less is treated as a recession, but is constant economic growth a realistic goal? Is it achievable?

James Kwak: Constant economic growth (meaning, say, three years out of four, given the business cycle) is realistic under normal circumstances. Long-term economic growth, the way we usually measure it, is just population growth plus productivity growth, with changes in capacity utilization (meaning not just factories, but productive assets and people more generally) causing the ups and downs. Even if you focus on per capita economic growth, that should still be positive because of productivity growth, which is based on technology. We could have severe shocks, and energy is one possible cause of such shocks, that could cause contraction for a sustained period, but growth should be the norm.

That said, there's a question of whether we're measuring it the right way. As some people have written on this website, all the costs of energy extraction count toward economic growth. As others have written, things like environmental remediation and lawyers' fees for court cases also count toward economic growth. All health care spending counts toward economic growth, which means that health care inflation is contributing toward economic growth. Even without getting to the happiness question, it's not clear that our definition of economic growth is all that accurate a measure even of people's material well-being.

James Stafford: What opportunities and pitfalls do you see on the horizon?

James Kwak: The biggest issue here in the United States is our long-term national debt problem. I'm sympathetic to the view that right now we need to worry about growth and jobs, but I see that as a short-term problem, and one that will largely take care of itself as long as we don't do anything too stupid.

The opportunity we have is to take a huge wedge out of the long-term national debt by letting the Bush tax cuts expire, by which I mean all of them. To the extent that we need economic stimulus, we should do something like a payroll tax cut, which not only is more stimulative than, say, preferential rates for capital gains, but also has exactly zero chance of being made permanent.

Unfortunately, this isn't going to happen.

To read part one of this two-part series, please click here. *[1] [1]For more information, please visit* *Oilprice.com* [3].
Source: http://oilprice.com/Interviews/The-political-Implications-of-Americas-Oil-Gas-

Boom-James-Kwak-Interview.html [4]

Source URL (retrieved on *03/31/2015 - 4:55pm*):
http://www.chem.info/articles/2013/01/political-implications-americas-oil-gas-boom-part-2?qt-most_popular=1

Links:
[1] http://chem.info/Articles/2013/01/International-News-The-Political-Implications-of-Americas-Oil-Gas-Boom-Part-1/
[2] http://oilprice.com/Interviews/Dont-Fall-for-the-Shale-Boom-Hype-Chris-Martenson-Interview.html
[3] http://oilprice.com/
[4] http://oilprice.com/Interviews/The-political-Implications-of-Americas-Oil-Gas-Boom-James-Kwak-Interview.html