**National Capital Area Chapter**

United States Association for
Energy Economics
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news

# *What's Up with Gasoline Prices?*

## *John Felmy, Chief Economist, API*

## Our Next Luncheon at the Library of Congress

**WHEN:** Noon, Friday, May 21

**WHERE:** 6th Floor, Madison Building—Montpelier Dining Room
Library of Congress (enter from Independence Avenue)
1st Street & Independence Avenue, SE
Washington, DC

**SPEAKER:** John Felmy, Chief Economist and Director, API

The Tuesday, May 4 edition of the Washington Post article "Caught Over a Barrel" chronicled consumer reaction to the recent run-up in gasoline prices in the DC area. Since then, gasoline prices have continued to escalate. But why? Crude prices? OPEC resistance to increase production? Refinery capacity? Transportation risk (due to terrorist threats)?

This month we call on fellow NCAC member and Petroleum Guru John Felmy to answer the question: What's Up with Gasoline Prices?

John is Chief Economist and Director of API's Policy Analysis and Statistics Department. His department is responsible for all statistical publications and economic analysis of the Institute. He has over twenty years experience in energy, economic and environmental analysis. He received Bachelors and Masters in Economics from The Pennsylvania State University and a Ph.D. in Economics from The University of Maryland.

*Join us on Friday, May 21 at noon for networking with the lunch-line forming promptly at 12:30 and the presentation beginning at 1 pm so we are done by 2 pm.*

**COST:** $20.00 for members and their guests ($5.00 for student members) and $25.00 for non-members and their guests. Make checks payable to NCAC-USAEE. **RSVP:** By COB Tuesday, May 19 to Leslie Coleman by phone (202/463-9780) or email (lcoleman@nma.org). Cancellations after noon Wednesday will be billed.

## April Luncheon

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## Robert L. Bradley, Jr., Institute for Energy Research
## Energy Alarmism or Energy Realism?

Robert Bradley, President of the Institute for Energy Research in Houston, thinks of himself as reality-grounded—despite being introduced as a "contrarian" in the energy and climate debate. Many argue that global warming is advancing at an alarming rate with potentially devastating impacts on future generations. Bradley's new book, Climate Alarmism Reconsidered (London: Institute for Economic Affairs) counters that notion with quite a different picture.

Why the dire consensus toward energy? Bradley attributes some of it to the large sums of money from well-endowed foundations like the Ford, Pew, and MacArthur that fund alarmist research. The Energy Foundation, based in San Francisco, is a leading example.

Bradley warns against consensus by pointing to Keynesian economics, which once held sway over much of the economics profession. Paul Samuelson's college textbook, Economics, first published in 1948, influenced thinking around the world for decades. Only in the 9th edition, published in 1973, did Samuelson introduce the views of F.A. Hayek and Milton Friedman. Hayek won the Nobel Prize in 1974 and Friedman in 1976, and Daniel Yergin and Joseph Stanislaw in The Commanding Heights concluded that the two were among the top social scientists of the twentieth century.

Samuelson in a 1975 Newsweek article confessed that many of the macroeconomic theories espoused by his generation were falsified by stagflation. A lot of Keynesian concepts are no longer in his textbook, now in its 18th edition. "This is how far off track people can get," said Bradley.

Neo-Malthusians like Paul Ehrlich and John Holdren in the 1970s posited the E=PAT equation where (negative) environmental impact is a function of population, affluence and technology. Such neo-Malthusianism is now the order of the day in the environmental science field. A recent brochure on environmental sustainability with 150 titles demonstrates an "entrenched paradigm" that is uniformly alarmist. Environmental indicators are portrayed as getting worse, and some argue that sustainability cannot be achieved.

"The greatest alarms and lobby groups were established when the world population was between 3 and 4 billion," said Bradley. "We're now past 6 billion, and you would think the world had surely gone to hell.

"But if you look at the statistics—such as in books published by the Cato Institute or the American Enterprise Institute—from infant mortality to the average square footage of new homes—signs seem to be positive." Bradley suggests that economic "realists" like Julian Simon and Bjorn Lomborg—who have been largely ignored and even vilified by mainstream intellectuals—are right. People aren't the problem; they're the solution. Given the right incentives, the average person can improve the environment, not despoil it.

A promising new approach to the sustainability debate, coming out of Johannesburg and other world environmental summits, is the notion that poverty, not affluence, is the number one environmental problem. Bradley believes that basic property rights and capitalist revolution are needed to create sustainability in the developing world.

"What we need to do is to go into these communities, figure out where people are sleeping and who owns what so they can go to the bank and borrow money based on what they actually own," said Bradley. "In that way they can build wealth and end massive poverty in areas around the world." Hernando de Soto is doing this work today.

Is there reason for energy alarmism? "Looking at the statistics, oil prices in the last year or two have not been too different than what they were in the 1920s, and a good deal lower than they were in the 1970s and early 1980s, adjusted for inflation," argues Bradley. "Gasoline prices have actually risen less than crude oil prices, on a percentage basis." Even with updated information, gasoline prices are still within the $2.00/gallon range, which is less than it has been in other periods of our history.

As for future supply, it has been estimated that only 1.4% of the total carbon energy base have been produced, which means that the carbon energy age could be quite young, argues Bradley. Natural scientists are always looking at a fixed glass. Economists, who realize that resources originate from the mind, not the ground, don't see the glass as either half full or half empty. There is no glass! Human ingenuity is an expanding resource, not a depleting one, which explains why depletable resources have been expanding in economic terms.

Air pollution has also been a major concern of the Neo-Malthusians. There was a lot of alarmism in the 1960s and 1970s, and the results speak for themselves, added Bradley. Even Paul Ehrlich in his most recent book reversed an earlier dire view, and acknowledged that air quality in Los Angeles had improved, despite a higher population and more cars. "We are consuming much more oil, gas and coal and have less pollution," adds Bradley. In the question and answer period, Bradley confirmed that regulation, not only market incentives, was behind this result.

Carbon dioxide, of course, poses a different issue. $CO_2$ concentrations in the atmosphere have continued to rise, and the debate has focused on climate change. In the 1970s there was concern over global cooling, simultaneous warming and cooling, and global warming. A number of scientists didn't know how this would play out, but they feared any human influence on climate. Since the mid-80s, global warming has been the main concern.

The hidden assumption of climate alarmists is that the natural climate is optimal, which makes all man-made influences negative. But is that true? A book by Virginia Postrel, The Future and its Enemies, coined two terms that Bradley finds useful. *Stasism* argues that a good future must be the product of central planning or a return to an idealized past, while *dynamism* argues that the world is in a constant state of creation and competition. Those who embrace dynamism are not fearful of change, but embrace its possibilities. Business people embrace dynamicism more than intellectuals do in many cases.

Bradley cites many positive aspects of $CO_2$ emissions. Climate change toward warmer and wetter is seen as positive; increased sea level, on the other hand, is negative. But how much sea level rise has occurred over the last century or more? There has been around a 7-inch rise overall, and at least some of this is natural, says Bradley.

Robert Mendelsohn and James Neumann co-edited a book, The Impact of Climate Change on the U.S. Economy, which is the most careful, bottoms-up study of the impacts of global warming on agriculture, water, recreation, and other areas of the economy, according to Bradley. The book's chapters found more positives than negatives for the next 100 years, indicating the beneficial effects of a moderately warmer and wetter world with carbon fertilization.

There will be winners and losers from climate change, natural or anthropogenic, of course. Wealthy countries like the U.S. will win because they will have the resources to adapt to change, and developing countries will the losers, because they won't have the resources to adapt. And that gets back to the wealth question—how to help countries create wealth as the best way to ensure a better future.

An example of a top-down approach to climate change economics is exemplified by Joseph Boyer and William Nordhaus' Warming the World, which estimates costs and benefits of the human influence on climate and concludes that the "optimal" carbon tax of $5-$10 per ton. But you have to look at the assumptions that Boyer and Nordhaus had to make to reach this conclusion—perfect government policy and a frictionless global trading market.

Even then, their optimal (regulatory) path out a hundred years results in a temperature change is less than a tenth of a degree. So untaxed carbon will make very little difference to the environment.

Economists have trouble justifying a carbon tax of any amount because of discounting. A dollar of benefit 50 years from now, at a 5% interest rate, is worth less than a dime today. "So if benefits are in the future, but costs are in the present, you have to discount your future benefits to compare your present costs." A dollar's worth of benefits 100 years out is worth less than a cent today, he added.

The question of future supply is one of political access, not natural depletion. On a bigger plane, "the major energy sustainability issue now and in the future is forced greenhouse gas stabilization, where there are present costs but virtually no benefits. Energy is only made more expensive, less reliable, less plentiful," said Bradley.

A "new energy era" based on renewables is a throw-back to the old days. Renewable energy once had a 100% market share before the carbon energy age. "There were good reasons why we moved away from renewables over a century ago and those reasons remain today," said Bradley.

"The real energy sustainability issue, for me, is poverty," said Bradley. "It's a moral imperative for the 1-2 billion people in the world who do not have access to modern energy, what they should have is not a wind turbine or solar panel, where the lights flicker and they'll have to

pay more for it. They need the dirtiest oil turbine, and let them then go to cleaner fuels. If they stop burning wood and dung in the home and go to any carbon-fuel technology, that's still a step up—both for them and the environment."

Bradley argues that a plethora of data suggest that the world is getting better, not worse. He argues that the energy economy is becoming more sustainable, not less. Government directed energy transformation is what is unsustainable—both politically and economically.