Our View: Oil Economic Terrorists Have Been Neutralized

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It is now clear, based on developments since 1973 and especially since 2010, that society can accelerate its move away from fossil fuels without suffering recession or depression. The warning rants of oil company executives, oil-exporting nation ministers, and proponents of other fossil fuels, as well as analysts and reporters, regarding the inadequate investment in hydrocarbons can also be disregarded. The threat to economic growth from energy supply shortages has been shown to be empty.

The roots for neutralization lie in central banks' greater understanding of the global economy's interrelationships and the willingness of governments to intervene aggressively with fiscal support for consumers to mitigate the impact of supply disruptions. In 1973, the role of energy and oil was not understood. By 2022, though, these banks and policymakers were well aware of the impact of higher oil prices and developed tools to address it.

The breakdown of multinational oil firms and the entry of entrepreneurs have also helped dampen and will continue to diminish energy crisis effects. The actions of entrepreneurs on the level of Steve Jobs and Elon Musk have removed the venom from the OPEC sting so viciously administered by Sheik Yamani in 1973. Simply put, Western and especially American intellectual superiority has nullified the need for the Middle East's and Russia's vast hydrocarbon reserves. Innovative individuals have defeated the purveyors of these commodities.

Higher oil prices were once seen as a threat to economic growth. That danger and the perception of it seem to have declined since 2010. The EU survived a record increase in natural gas prices in 2022 thanks to the skillful application of macroeconomic interventions, actions by the European Central Bank, and increased taxes on energy company windfalls.

A close examination of developments from 1973 to 2022 in the United States illustrates how the United States has neutralized the threat of energy disruptions. The analysis carries over to Europe, Japan, South Korea, and other developed nations and, most likely, China, too.

The recession that began in 1974 following the Arab oil embargo and the 1980, 1990, 2000, and 2008 recessions were all associated with sharp gasoline price increases. However, the equally large 2011 price increase tied to the collapse in Libya's oil production and the recent 2022 price rise, which stands as a record, were not. How does one explain the disparity, especially since the 1973 and 1990 episodes are generally attributed to energy price rises that seem less severe?

The absence of government intervention in the early episodes is a primary factor. The 1973 Arab oil embargo that led to long lines at and closures of gasoline stations shocked officials in the United States,

Europe, and Japan. The policymakers at the time focused on addressing energy supply and protecting the financial system.[1] They offered no stimulus programs to help stabilize the real economy.

Changes in consumer spending, particularly on autos, highlight the differences between the various crises. Spending declined in each of the early episodes. In 2011, however, no spending decreases occurred despite the substantial gasoline price increase. There was also no real reduction in 2022 at the time of very high prices, although auto sales did drop in the first six months due to pandemic-related supply chain issues.

The absence of an auto sector impact in 2011 and 2022 in the United States can be linked to the Federal Reserve's quantitative easing and the economic stimulus programs implemented after the 2008 financial crash and during the Covid-19 crisis

There also was no economic recession in 2022 despite the record rise in gasoline CPI**.** On the contrary, 2022 was notable first for the overall inflation rate and second for the record-low unemployment rate. High gasoline and energy prices were a total afterthought, although consumers complained

Fiscal and monetary intervention, then, combined with the strategic reserve oil releases, neutralized the impact of rising gasoline prices in the United States. Europe's even greater fiscal stimuli and monetary easing offset the impact of rising natural gas, coal, and oil prices there. The success of these interventions demonstrates that energy supply disruptions no longer pose a risk to economic activity **when policymakers take proactive action**.

Addressing the Energy Transition

The success of the economic policies in 2021 and 2022 in defusing the impacts of energy price rises should guide thinking now regarding the transition to net-zero emissions. The evidence shows that the transition can be accelerated despite protestations from major fossil fuel producers, particularly oil companies, who continue to counsel taking it slow.

The clear message, then, is that the energy transition can be accelerated without a serious economic disruption if economic policymakers implement properly designed fiscal and monetary measures. A second message is that fossil fuel producers, particularly oil producers, will fade away because they have lost the support of investors, who now demand a return **OF** their capital[2], and because they have shed the labor force they need to expand.

[1] John Williamson, "The International Financial System," in Edward R. Fried and Charles L. Schultze, *Higher Oil Prices and the World Economy* (Washington, DC: Brookings Institution, 1975).

[2] In this case, investors see oil as declining and seek to recover the funds invested initially.