Joe the Plumber and oil prices

Here is what Joe knows: he has been paying on average US$ 110 per barrel of oil for the first 9 months of this year, or 66% more than last year's average price of US$ 66 per barrel. Moreover, he has been paying three times more than long term average prices of oil of US$ 35 per barrel – in today's dollars – since 1946. He also understands that in the long term, when there is enough technological flexibility to use any source of energy, whether it be oil, natural gas, coal, nuclear power or hydroelectricity or any other renewable marginal one, energy prices move in tandem. And to his own merit, he does not expect the oil and gas cartel to defend his consumer interests; to the contrary, he is a bystander witness that no one has dared until now to confront obvious anticompetitive practices in this crucial economic sector.

He obviously feels bad about this. But after looking at recent energy production and consumption figures[1], he got even angry. What they showed is that during 2007 the world consumed 11.099 million tons of oil equivalent (mtoe) in energy; that the US domestically produced 70% of what it consumed; the EU, 43%; Japan, 16% and China, 89%; and that 65% of their aggregate energy demand deficit was now being supplied by net energy supply countries such as Russia and the Middle East, not necessarily the best long term partners our modern world would like to have.

Moreover, Joe's family was shocked when they estimated the total expenditure in energy using oil prices and oil equivalent units. It turned out that in 2007 the world paid in energy approximately US$ 5.4 trillion, or 10% of its GDP at current US$; that at the annual trend of the first 9 months of this year this figure would have reached US$ 9 trillion, or 16% of its GDP; and that under a now historic long term price trend after WWII, energy expenditure would have been equivalent to US$ 2.8 trillion, or 5% of its GDP.

Sure, there has been a free market structural transformation in the world economy for the last 20 years that promotes its growth everywhere and at higher rates than in the past. That 1% improvement over 2.5-3% long term growth rates in world GDP is a blessing for everybody, particularly the poor ones. But it also implies that it takes time for the wealth creating machine to respond efficiently at higher development speeds. And this explains why under a new long term scenario, energy prices will remain most probably and for some time higher than past ones – US$ 50 a barrel of oil as opposed to US$ 35? -, until a sustainable energy supply is capable to respond to this dynamic world. Excesses over these prices seem to be more influenced by economic cycle strength characteristics and the no less important persistent anticompetitive practices.

But Joe is an American consumer, not a producer. In his case, it is useful to remind that the US consumed 21% of world energy in 2007, at an approximate cost of US$ 1.1 trillion, or 8% of its GDP. And in 2008 it was going to spend US$ 1.9 trillion –14% of its GDP-, or US$ 800 billion in excess compared to an already painful 2007 energy price scenario. Given his country produces 70% of its energy demand, the owners of its equity and the state and federal budgets would be then rewarded with higher profits and taxes. But as for Joe that would be a trickling effect over his living standard to be gradually seen in the coming periods, but not at the weekly pump site. As for the remaining 30% of that energy, Russia and the Middle East would basically be the final beneficiaries. Remember Georgia or the elimination of the Jewish state?

By now, it should be clear that the excessive energy tax of 2008 of US$ 800 billion – compared to 2007 – or US$ 1.1 trillion - compared to new long term oil prices at US$ 50 per barrel of oil – are in the range of one third of the US Federal Budget of US$ 2,9 trillion. Reversing this huge tax, as it is actually occurring with oil prices hovering around US$ 70 per barrel, is by far the biggest and most efficient fiscal package Joe could count on, and he needs no votes for it. Just hold on those fiscal expenditure sorcerers and their wealth spreading magic, because their work is already under way before they arrive.

Just keep saying and acting on “Drill, baby, drill” and do not miss the opportunity to worldwide develop a hidden asset you have now as it is civilian nuclear energy, and face once and for all cartels everywhere. Competitive markets will always benefit Joe, even in the stagnant plumbing area he serves right now.

And by the way, these gross energy expenditures and temporary taxes dwarf by far any financial loss you might have heard of in the last months, or the so called US$ 700 billion fiscal package to buy toxic mortgage assets and bank equity participations.

From one Joe to another one: the financial stress we are endearing right now is much smaller than this oil and energy stress that is unraveling on its own.

And as Cato the Elder would every time remind his Roman citizens of the need to destroy Carthage, Joe: keep liquidity running, in the literal and monetary sense.

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