Development is not “Poverty Alleviation”, it is About Creating Wealth

by Paolo von Schirach

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WASHINGTON – How an issue is defined goes a long way in shaping the nature of the efforts aimed at dealing with it. For example, the Bush administration’s framing of America’s serious challenge from religious fanaticism as “The War on Terror” has caused people to focus on “terror”, that is the *modality* with which certain hostile policies (acts of terrorism) are perpetrated, as opposed to concentrating the bulk of our energies *on the ideas and beliefs that motivate radicals up to the point of encouraging them to engage in terrorist attacks*. Our real problem stems not from people who do certain things; but from people who think in a certain way. Their actions (terrorism) are the modalities with which they express their psychological and intellectual make-up. If we focus mainly on the acts of terrorism, (how to counter them, how to minimize there incidence, impact, etc.), the war on terror becomes the equivalent of a war on mosquitoes. By definition, it focuses on identifying and eliminating each and every mosquito (terrorist), one by one. Whereas the root causes are in distorted thinking that needs to be somehow corrected. This may not be at all easy, as we do not really understand the thought processes of the radicalized individuals; but that’s where the issue lies. To try and eliminate terrorists one by one is an almost hopeless proposition, as their ranks are replenished rather quickly.

In a totally different context, the broad objective of the international development community vis-avis the third world has been defined as “poverty reduction”, or “the fight against poverty”. The World Bank, the most important multilateral lending institution focusing on development, is “Working for a World Free of Poverty”. Its Mission statement is “to fight poverty with passion…” So, poverty as a condition, rather than what causes poverty, is the focus of our attention here.

To some extent, this emphasis on “fighting poverty, or poverty alleviation” is public relations, the attempt to deflect the critiques of the anti-global movement that, years ago, elaborating its conspiratorial theory that would capture the root causes of the planet’s ailments, bunched together the World Trade Organization, the International Monetary Fund, the World Bank, and multinational corporations as demonic instruments working together to further mankind’s misery in general, and the exploitation of the third world in particular. Hence the desire on the part of the “development industry” to improve its image by presenting to the critics objectives that would humanize their institutions. “Hey, Mr. No Global, we are with you. We are fighting poverty. We just want to help the poor”.

Undoubtedly there are other factors that can help explain this “fight against poverty” focus. At least to some extent, this Good Samaritan attitude stems from religiously derived ethics that have shaped the dominant Christian cultures. Hence, over the centuries, the proliferation of a vast universe of charitable initiatives within Christendom aimed at the poor. The moral obligation to give to the poor is the other side of a parallel moral bias against excessive wealth present in Christianity. The remedy to this inequality is for the rich to give away some of the excess. But giving to the poor in general was not aimed at having a truly transformative impact. It was meant as a good deed that would alleviate the painful conditions deriving from a state of poverty that was, however, considered to be a given for some segments of society.

It is difficult to evaluate the deep motives of modern day wealthy philanthropists who contribute to relief initiatives, whether defined as poverty reduction or not. But it would appear that the likes of Bill Gates fall pretty much in the same category of those who attempted to redress and alleviate. The primary focus on child immunization pursued, no doubt very competently, by the Gates Foundation, noble as it is, taken by itself, is not transformative. (To the extent that Gates and other wealthy donors are now shifting to initiatives aimed at fostering the creation of opportunity in poor countries, for instance through upgrades in education structures, they seem to have appreciated that a new mind set and new skills can and should be the foundations for wealth creation activities. We shall see how profound a shift this may be).

The issue of poverty is unsettling for western Christian culture, to the extent that it has been explained away as a product of bad luck that can and should be somehow remedied through charity. Indeed, in polite company in the western world the poor are often described as “the less fortunate among us”. Let’s think about it. We (the well off) “have” because we have been fortunate, the others, alas, less so. Again, words have meaning. According to this definition, our economic station in life is about having been more or less fortunate, that is random distribution of luck. The poor happen to be poor because, look at that, they have been less fortunate than we have. At some level this is true, especially in the case of children. Some are born in rich circumstances and some are born poor. Clearly those who were born in privilege have and enviable head start. But this is only a slice of reality. Most millionaires in the US are self-made people, as opposed to lucky beneficiaries of inherited wealth. This means that an open system that will not create artificial obstacles allows people to forge a better life for themselves. This has preciously little to do with “being fortunate”. The use of these misleading definitions distracts us from confronting the real issues. Poverty is mostly about the bad combination of lack of opportunity (broadly defined) and lack of entrepreneurial drive –the necessary precondition to create wealth creating activities. If we do not tackle these two issues by creating opportunity and by instilling the will and the ability to create enterprise, we shall continue to provide relief to the poor, without offering a realistic new path. To borrow from the old story about the qualitative difference between giving somebody a fish and teaching them how to fish, the fish hand outs continue, while the fishing schools are scarce.

Even the most superficial analysis shows that wealthy societies did not become wealthy because of random circumstances, because they won a major lottery. Leaving aside all the defects of capitalism, at a macro level the capitalistic economies have been successful because the institutions created by societies allowed or better yet fostered a reasonably good functioning of the engines of wealth creation mobilized by private initiatives. As a result of the activities created through these engines, poverty, at least extreme poverty, has been eliminated. Prosperity is the outcome of a mind set focused on wealth creation on the part of many inventors and risk taking capitalists. The outcome, consisting in a vastly improved standard of living, has nothing to do with "being fortunate".

Be that as it may, the development practitioners have identified poverty elimination or reduction as the mission of development. In so doing, wittingly or unwittingly, they focus (and make us focus) on the effect of lack of economic development (poverty) and what we can do about it, rather than on a credible way out of it that can only be centered on an economic development agenda. This predominant focus on the manifestations of underdevelopment, rather than on planting the seeds that may foster growth, encourages the misallocation and outright waste of limited resources, all in the name of the "fight against poverty". From this standpoint, for instance, it is considered good to create activities that generate some new income for the poor. However, analysis of the reasonable chances for such activities to be self-sustaining is quite often left out, as the focus is in “doing something” to diminish poverty. As a consequence of this approach that focuses on creating improvements based on wrong or incomplete analysis, very substantial resources have been squandered, although in a well meaning way, in the effort to reduce poverty.

Needless to say there can be a legitimate chicken and egg debate about “poverty as lack of economic development”, versus “the condition of poverty that, as such, prevents building the foundation for economic development”. It is obvious that the sick and the hungry cannot possibly engage in any economic development. Still, if we focus most of our resources in improving what is a very bad, even horrible, environment, without recognizing the absolute necessity to help create and turn the economic wheels as soon as possible, at best we have accomplished relief. And this can have a real impact that will reduce poverty. But we will have not caused any meaningful qualitative transformation; as this can be defined only in furthering societies on a safe path towards self-sustaining economic growth.

Unfortunately, by defining one’s work in the reduction of the extent of a bad condition, we are limiting our thinking and our actions. “Development”, after all, as the etymology indicates, should be about “unwrapping” something, and thus it would suggest an upward movement towards a better situation. Thus, both in terms of proclaimed objectives as well as policy, the focus should be on the tools, the frameworks and the engines of wealth creation, as opposed to reducing something negative. Since the only way up and away from poverty known in history is economic growth, why don’t we say openly that economic growth is the means through which we can achieve sustainable development?

Contemporary examples simply reinforce this truism. Structural change implemented by governments in some key poor countries improved the “enabling environment” for wealth creating activities, with the consequence of allowing hundreds of millions to be more productive *and lift themselves out of poverty*. The different stories of China and India in the past twenty to thirty years have been told many times. The important element is that the activities of donors and aid programs have had very little impact in these gigantic, systemic changes. The key factors that unleashed these positive energies have been economic liberalization policies that encouraged people to be productive, to invest in new enterprises and make money without penalties or fears of being dispossessed. Poverty reduction has been the byproduct of almost unprecedented rates of economic growth; not of policies that identified it as the scourge to be eliminated.

But, somehow, the notion of economic growth as the primary focus of development does not appear to be a noble enough purpose. At least for some, it conveys the images of rapacious businessmen, corrupt practices, wheeling and dealing, profiteering, domestic and foreign exploitation perpetrated by the unchecked powerful and –worst of all– growing economic disparities within societies. All this, unfortunately, is part of the picture, at least to some degree. Economic development, while crucially important, rarely occurs in a linear, harmonious fashion, with gradual, fairly distributed benefits for all. It is a messy affair, especially in developing countries that lack the framework of laws and institutions that should at least limit excesses and protect people from injustices. Efforts to build reliable and fair frameworks, difficult as they may be, have to be part of any economic growth strategy. However, the existence of significant flaws in how economic development occurs does not disqualify the basic proposition of wealth creation as a precondition for any lasting improvement in the human condition. There is no other. Whereas there are many who, contemplating the negative aspects of uneven economic growth, affirm that, unless this process can be properly regulated to ensure fairness, then it is better not to have it all. So there you have it: poor but equally poor.

The inability to put economic growth front and center in the framing of development agendas in part can be explained by the cultural make-up of the practitioners. The development environment is populated mostly by public “donors”: states and multilateral institutions; along with large, religious or lay private charities. Programs are quite often administered by an ever growing number of not-for-profit entities. Most of the actors in this system are civil servants and functionaries. Being part of large, public bureaucratic institutions depending on public funds, as a rule they do not like, know or understand business and what it takes to make it happen and flourish. For many of them, fighting poverty is a noble endeavor for the good of mankind. Pushing people to make a profit in a competitive environment – the indispensable lever for economic growth– is about promoting self-centered and egotistical drives, therefore not at all laudable if not morally questionable.

However, lacking a clear focus on growth as the paramount strategic objective, the goal of achieveing development through poverty reduction is likely to be an endless task. True, with all these efforts, the poor may become less poor, but they will not know much about getting richer through competitive enterprise.

Asia has reduced poverty largely through the eliminations of barriers to economic activities. On the other side of the divide, we have the sad story of Africa as the paradigm of what has gone consistently wrong, despite decades of well meaning efforts aimed at reducing poverty and improving overall conditions. Whatever has been tried, it failed to create (with few exceptions, of course), an environment in which enterprises could flourish, with the attendant outcomes of wealth creation and consequent diminution of poverty. This massive failure, by itself, should provide enough material for reflection on the validity of the current approach. Still, as yet, this reappraisal has not taken place.

America Addicted to Oil?

by Paolo von Schirach

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WASHINGTON – President George Bush admonished America to shake its "addiction to oil". Still, judging by the remedies that he proposes, it would appear that this amounts to a rather minor issue, something like being addicted to chocolate. "You know, too many calories, cut down a little". Judging by what George Bush proposes, this is an issue, something to worry a bit about; but hardly a matter that requires drastic changes now –and certainly not an emergency.

In truth, we do not have an oil emergency, in the strict sense of the word. For the time being, we have high prices, largely due to increased global demand. However, in some measure, current high prices are also the result of decreased output not due to oil depletion but to political problems, that is *non economic reasons*. Economic sanctions against Iran and consequent under-investments in the oil sector and the continuing mess in Iraq are examples of how political turmoil causes cuts in production, thus contributing to higher prices.

And here we begin to see the nature of our problem. What are we going to do in case supply is not just diminished because of political turmoil here and there (this is our current predicament); but drastically cut due to a major crisis? Nobody really knows. Our addiction is serious. We produce only 30 to 35 per cent of the oil we consume. We have created a situation in which uncontrollable contingencies (political events or natural disasters) can instantly transform our dependence/addiction to oil into a real emergency.

(I am purposely sidestepping here any discussion about global warming concerns that should drive us to dramatically lower our carbon consumption, because of the dire environmental consequences of greenhouse gases. Global warming is a valid concern; but it is a much more complex issue, requiring multiple interventions and concerted international action at many levels over a number of years in order to produce results in terms reduced emissions. The focus here is exclusively on coming to recognize that our strategic vulnerability requires drastic measures to cut consumption now).

Even the superficially informed know that we import a lot of oil from unstable regions of the world. Yet, if anybody is seriously worried about this dependence, current gasoline consumption patterns do not show it. If the American public somehow believes that, in case of a serious emergency causing supply disruption, we should not be too concerned because the government has a plan for such contingencies, well, then they should be told the truth. We do not have a remedy. True, we have a strategic petroleum reserve and more crude oil is being added to it. But it is limited. In case of a major, prolonged disruption, we would be in serious trouble, as nothing at present and for quite some time can replace oil and oil products, gasoline first and foremost. But nobody seriously discusses the consequences of possible disruptions.

Widespread complacency may be due to the fact that, while people see that gasoline has gotten to be very expensive, it is not scarce. There is no rationing; while many may hope that, in a while, prices will go back to “normal”. Given these misperceptions, until there will be real disincentives regarding the use of gasoline, (the major component of our "oil problem"), people will treat our acknowledged "addiction" to oil just as we treat our food overindulgence. We cannot really price food out of the market in order to make millions of overweight Americans get serious about diet and food over consumption. But for our oil addiction, as painful and unpleasant as it may be, significantly higher price is the only way to both cut consumption and speed up the process leading us to new types of fuel. A substantial, revenue neutral, gasoline tax should be the main driver of any serious energy policy.

President Bush, pursuing his soft approach to get us out of this predicament, counts primarily on technology to do the trick and move us away from an oil based economy. But the incentive to invest massive resources to develop new technologies is in attractive returns. If current high prices are sustained, (60 to 65 dollars per barrel, gasoline above 3 dollars a gallon), then the alternative energy proposition becomes more appealing, as many of the alternatives currently being worked on become economically viable around these prices. The fact is that new ventures in this risky field need the reassurance that there will be large markets many years down the road. High fuel prices guaranteed by a gasoline tax would constitute such an incentive. At the same time, consistently higher prices will at least begin to curb the growth of domestic demand which translates in larger imports and increased strategic vulnerability in case of supply disruptions.

Whereas the administration, after having warned against the danger of our addiction to oil, is pursuing what turns out to be a very soft campaign to diminish it, through woefully insufficient policy measures. Increased fuel efficiencies for automobiles may yield some gasoline savings in a few years, if we are lucky. This is tinkering, just as subsidizing this or that renewable fuel is tinkering. Corn derived ethanol, very questionable in terms of cost effectiveness, is good business for many as it makes farmers and refiners rich; but it cannot radically transform the automotive fuel equation. Federal investments in new forms of energy, though real, are modest. They indicate that energy is an important issue; but not a national priority.

The one measure with a real chance to get America focused on devoting substantial resources to quickly finding economically viable alternatives to oil is a real (a dollar, as a minimum, phased in progressively) additional tax on oil products, first and foremost gasoline. Of course, gasoline is already taxed at many levels in the United States. But, for the time being at least, existing taxes and historically very high prices have yet to force all players to seriously engage in finding a commercially viable alternative based on renewable sources (or on new ways to extract fuel from old, domestically abundant, sources like coal, assuming a successful solution to the additional emission problems).

Many have already put forward this idea of a substantial gasoline tax. Such a tax would be revenue neutral, via tax relief in other areas. People would have the same overall tax burden. But very high prices at the pump would send a clear message: "Dependence on foreign imports of oil creates an intolerable degree of vulnerability for the US economy and for our national security. The Government wants to engage the whole country in devising and adopting alternatives as soon as possible. In the meantime, we have to cut back on consumption, hence imports".

The public will be unhappy. Higher prices will cause unpleasant disruptions at multiple levels. But the gain down the road, once meaningful alternatives will have been adopted, will be in regaining greater control over our destiny, an immensely desirable goal.

But no political leader, from either party, dares to articulate this message. The assumption is that it would be politically suicidal to provoke the anger of the public by hitting Americans in the use of the automobile. Indeed, if the White House engages in half measures, in the early stages of this already vivacious presidential campaign there is no serious talk about a real gasoline tax increase; or, for that matter, about any other really drastic approach to oil dependence coming from anybody, regardless of party. This can be for two possible reasons: either political leaders believe that our dependence on imports does not really amount to a serious strategic vulnerability; or they maintain that the public, if told about the seriousness of our predicament, would just not believe it and would react angrily by shooting the messenger that would propose to mess with the sacrosanct right to gas guzzlers.

A gasoline tax would achieve two objectives: cut consumption by forcing consumers to save and provide a powerful incentive to develop commercially viable new fuels and/or propulsion systems. At the very least, higher gas prices will force people to buy cars that consume less and hopefully find a way to drive less.

In an op-ed piece written last year, Paolo Scaroni, the CEO of ENI, The Italian energy conglomerate, ("To Extend the Age of Oil, We Must Save Fuel Now", The Financial Times, October 16, 2006) noted that, should Americans drive the same average size cars as the Europeans, (more compact vehicles, far fewer SUVs and light trucks in the mix) this alone would cut US oil demand by four million barrels a day, equivalent to the entire oil production of Iran, the world's third largest oil exporter.

And this would be only a start. Europe's fleet of cars is more fuel efficient relative to the US (13 km per litre in Europe, 7 km per litre in the US). But today there are vehicles that achieve an average of 20 km per litre. A hefty gasoline tax, by forcing consumers to shift to low consumption models, could drastically reduce consumption and thus dependence. Such cars are available; but the demand for low mileage models is still too high; largely because the gasoline price, as high as it is today, clearly is not high enough to cause a real shift to more fuel efficient vehicles. The public is obviously not sufficiently focused on the addiction and its ramifications.

Because of a gasoline tax, the push to develop other fuels and/or propulsion systems hopefully will produce results more quickly. As new technologies will take over, the demand and thus the dependence on oil will lessen and eventually disappear. Meanwhile, as we discourage the excessive use of the private automobile, alternative transportation options, such as mass transit, should be adopted. There are proven, reliable and affordable alternative ways to get around and do what we need to do with reasonable ease, speed and comfort, other than via the individually operated vehicle. In urban environments, fewer private cars on the road and a seamless network of dedicated bus lanes could provide the same advantages of underground mass transit systems at a fraction of the cost. (Broader adoption of these alternatives will also help diminish air pollution, not to mention wasteful congestion that has reached apocalyptic levels in most large metropolitan areas).

Whereas, so far, we see only timid policies focusing on subsidies. A raft of subsidies to the low hanging fruit options, such as corn derived ethanol, may be popular with certain constituencies, but they do not constitute a robust policy aimed at introducing as quickly as we can affordable and environmentally sound alternatives to oil. Subsidies are bad energy policy.

While it is true that our hope to get out of the oil dependence rests on devising new technologies, we should not support anything in particular, simply because we have absolutely no idea which technologies may prove to be truly viable in the long run. The purpose of a gasoline tax is to create a floor that tells markets at what cost an alternative source becomes viable, i.e. profitable. This is what new enterprises need to elaborate their strategies and get to work, hoping to make money with the alternatives that they are working on. We just do not know which solution or combination of solutions will make most sense. Picking winners now through subsidies or other targeted incentives may lead us to back the wrong technologies. This is wasteful and patently unfair. It rewards political skills more than ability. Clever lobbying on the part of those who get the subsidies does not necessarily translate in good energy policies.

On this, let us consider a little history about the notion of picking winners. In the 1990s, in a different context that involved a fresh look at macroeconomic policy approaches, America looked at and discussed “industrial policy” models, whereby elites made of government, enterprises, interest groups and labor unions would come together and decide where it would be smart to allocate scarce capital; so that we would eliminate wasteful investments and maximize returns for all: corporations, workers and society in general. We looked at this model of “national economic strategies” supposedly practiced by the (then) best world performers –Japan and Germany. But nothing was done to transform policies in order to adopt their model.

True, in 1992, then presidential candidate Bill Clinton openly flirted with this notion. In a campaign taking place in the midst of a modest downturn the need for a “national economic strategy” became a key policy component in Clinton’s speeches. (Remember the “It’s the economy, stupid” refrain?) However, in practice, as president, Clinton did little to implement industrial policies. By default at least, as a nation we concluded that top down decision about economic choices would lead to the squandering of resources. What applied then and applies today to economic policies in general, applies to finding alternatives to our energy sources.

Clearly there is a formal contradiction in being against subsidies but for dramatically higher taxes in order to discourage the use of a product. It is easy to object that, if it is appropriate to do away with market distorting subsidies, then we should not engage in other types of market manipulation through heavy taxation.

In principle this is a valid objection. If market economics work, higher prices due to scarcity eventually should lead to new solutions priced by the market. However, the problem for the US, at the same time the largest consumer and importer, (but for other consumers as well), is that, along the way towards a market solution, energy flows may be drastically reduced for reasons that have nothing to do with the dynamics of demand and supply.

The scenario, (outlined a million times, but curiously not acted upon) is that major political events or natural catastrophes can suddenly and drastically reduce the availability of oil. Not enough oil (whatever the price) to keep the world economies going is a terrifying, rather extreme, yet quite possible scenario. As we Americans are by far the largest consumers in absolute as well as per capita terms, serious disruptions are likely to have devastating consequences internally, while restricting our ability to conduct an active foreign policy. Which is to say that oil is different from T-shirts or auto parts.

Let us restate what we all know but seem not to take into account when we talk about our oil imports. All the major energy crises that we have experienced were not caused by market forces; rather by political and (very recently, with Katrina and Rita in 2005) natural events. The 1973 oil embargo was a political decision. The 1979 Iran Revolution caused a disruption in oil production and thus oil flows. More recently, hurricanes in the Gulf of Mexico region caused significant (albeit only temporary, in this case) disruption in the ability to receive, transport and refine oil, oil products and natural gas. These disruptions had nothing to do with market forces. (Of course there are similarities with other non economic phenomena that have an impact on markets. A freeze in Florida that destroys oranges will cause the price of orange juice to go up. But in the case of oil there is clearly a lot more at stake than some financial losses and inconvenience for the consumers. Orange juice is optional; until we find something else, oil is vital).

Of course, we know that after the oil shocks, oil consumption was reduced due to new efficiencies created by the deployment of new technologies and prices shifted lower again. Likewise, in the aftermath of devastating hurricanes the infrastructure was eventually repaired. Yes, of course. We did all this.

But, please, note: reasonable success in dealing with the effects of past disruptions is no indication of the ability to get out of the next one. We have no guarantee that future shocks will be of a manageable size, something that would still allow us the opportunity to retrench and reorganize, as we have done in the past, albeit at a high cost.

Relatively speaking, our predicament is worse today. Due to the rapid depletion of domestic oil resources, our dependence has grown significantly during the past twenty years. What if the next oil shock is of a magnitude that we cannot cope with, so that our economy would be not just badly hurt but choked and devastated? Again, let us not forget that all we have is the strategic petroleum reserve and agreements about crisis management with other consumer countries. This is fine for a short crisis lasting no more than 120 days. For a long one we have nothing.

There is a long list of oil producing regions affected by political turmoil. The Middle East (where most of the known reserves are located) is of course the text book case, because of the bad mix of endemic conflicts and the appeal of radical politics. (Clearly, if all the Middle Eastern oil reserves would have ended up in peaceful Canada, the vulnerability issue would be a lot less pressing). Within the region, insurrectionists and terrorists of all stripes in Iraq have targeted oil facilities, terminals and pipelines since the very beginning of the occupation, thus limiting oil production. There have been terrorist (so far failed) attacks against Saudi oil facilities. Elsewhere around the world, we have the inextricable mess in the Niger Delta that has already caused a significant production cut in Nigeria. Hugo Chavez in Venezuela is an unpredictable populist determined to use oil for his political ends.

Existing political troubles (that is not due to market forces) *have already caused significant production cuts.* So far, these troubles are limited in scope. They have caused tighter supply and thus higher prices. Still, oil is flowing. However, bigger upheavals could make oil, irrespective of price, simply unavailable in the amounts necessary to run the economy.

In this context of tight supply, finding and bringing more oil to market as soon as possible is important, in as much as it recreates a minimum of slack in a very tight environment. But welcome as they are, new finds will buy us some time, nothing more. Unless we can envisage fantastically large new discoveries in peaceful parts of the world –something that would radically transform the oil supply geopolitical picture– marginal addition to supply is not a long term solution for the world in general and certainly not for the highly dependent US.

On a different level, it is important to observe that oblivion about the impact of oil dependence includes little discussion about the economic impact of the cost of all these imports. Perhaps it is easier to avoid dealing with vulnerability and the implications of major oil supply disruptions. After all this is a terrifying prospect, not a present crisis. But the issue of the colossal and growing cost of our national oil bill -and this is part of our day to day reality– for mysterious reasons gets very little mention.

While Washington policy makers and commentators tell us daily that our trade deficit is the result of China’s wicked policies, we forget that the price of our imports of unchanged quantity of oil has quadrupled since 2002. Because of the price explosion of the last few years, in 2005 the cost of oil was almost as high as the trade deficit with China (175, and 200 billion respectively), while the price keeps going up, thus contributing more and more to a deteriorating trade imbalance. This is US money going abroad to pay for our gasoline bill. This is money that cannot be used for capital investments at home. (A gasoline tax would keep the oil bill high; but the proceeds would stay at home.)

Much has been said about the sustainability of a large and increasing trade deficit. But we hear almost nothing about the monetary cost of our “oil addiction”. Sure enough, our merchandise trade deficit is easily politicized, because of its more direct correlation to domestic job losses. Oil imports, whatever the price, do not displace US workers. But this does not mean that they have no economic impact.

As abstract as the issue may appear, it is not impossible to explain to the general public that, by using scarce capital to pay for oil imports, this money is no longer available for productive investments, while the oil is burnt and we have to keep buying more from abroad just to keep things going. This forces us to give up other expenditures and investments.

So, there we have it: “addiction to oil” means a strategic vulnerability with potentially devastating effects which comes at a very high and increasing economic price. This should call for drastic action, starting with a substantial tax on gasoline. Whereas, for the time being, the few measures taken, such as subsidies for corn derived ethanol have amounted to an increase in the price of corn with ripple effects on a series of products and ultimately higher food stuff prices for the consumers, with negligible effects on our addiction to oil. This is the result of a largely ineffective band aid approach motivated by the fear of upsetting a nation unaware of the full implications of our addiction.

Our oil dependence is a serious matter. Time has come to stop tinkering and half measures and get serious about it.