Our Leaders have been Weighed in the Balance and been Found Wanting

The West’s leaders have failed conspicuously, yet again, over world oil prices, as they have failed as a group to grapple with almost any serious problem for some years. The latest fiasco is the attempt by the leaders of the democratic world to blame their economic ills on the decline of the world oil price. At sharp points of particular alarm over more than 40 years, our leaders have lamented the rise in oil prices, and have wept Niagaras of tears of sympathy for all who have to put gasoline in their cars or pay for winter heating fuel for their homes. Now that they are getting some relief, the new lamentation is for those who lose from the oil-price decline. The real problem is that in their profligacy and cowardice, our leaders are afraid to cut expenses and have become addicted to bloated taxes on petroleum products. This prevents them from giving full advantage to consumers as these prices are reduced. They shriek like violated banshees as oil prices rise, and in the same stentorian and acoustically irritating volume when they come down. Logically either a rise or a decline in oil prices must be a good thing, but our leaders seek the right to run around screaming for relief as if their hair were on fire whenever the oil price moves sharply one way or another.

The notion of a recession owing to oil-price declines, in non-petroleum-exporting countries, is a complete and scurrilous fraud. The late Canadian government of Stephen Harper, which had a very defensible record in most areas, was thrown out in part because it simply shrugged, dropped its arms like a punch-drunk prizefighter, and mumbled that the declining oil price prevented a balanced budget and reduced resources for vote-buying programs. It suffered the fate of fighters who drop their arms when their opponent is not doing so: Harper is an ex–prime minister and ex–party leader, and the government has become the opposition. This was not overtly the chief issue in Canada, though it was often mentioned, and it need not have happened.

It is not clear, and we will probably never know the relative importance of the factors that contributed to the Saudi decision to cut oil prices and increase production, inundating the world with a comparative glut in supply. It appeared to be an assertion of increased pressure on Iran; a swat at Russia, to make its championship of the Assad puppet regime in the Syrian civil war unacceptably costly; and, at the same time, an attempt to put a rod on the back of American fractional drillers, “frackers,” and investors in heavy oil (which has to be refined from sands), and thus to keep alive the giant sugarplum dream of a permanent American demand for importation of more than half of U.S. oil requirements. It has been a truism for many years that Saudi Arabia could make all the money it needed if the oil price were only ten dollars a barrel, so extensive and accessible are its reserves. Most residents of the country are not citizens, but Filipino and Palestinian and poor Eastern European occupants of menial positions. The kingdom itself is a joint venture built on Danegeld paid by the House of Saud to the extreme Wahhabi Muslim leadership as it spreads an extremist jihadist message through its Saudi-funded Islamist institutions around the world, though the Wahhabis refrain from agitating against the medieval and obscenely self-indulgent despotism operated by the vast Saudi royal family.

Because of Saudi Arabia’s huge and cheaply tapped oil reserves, that country has not had a conventional problem of self-governance: There was always more than enough money to buy off everyone, inside and outside. But in cutting the oil price as it did, and as the United States was reducing imports and confining them almost entirely to Canada and Mexico, and as the Chinese economy was sliding and its petroleum requirements were also in decline, the Saudis have brought a fiscal crisis on themselves. They set out to discipline Iran financially, and up to a point they did. But the Obama-sponsored cave-in to Iran’s nuclear ambitions released a torrent of impounded sanction-money for Iran, and the United States capital markets funded frackers much more abundantly than could have been foreseen as the price came down, and the Saudi action has proved more one of self-flagellation. They did inflict much damage on Russia, which was not their primary target, but Russia, for all its problems, has been a great power for over 300 years, and is not a desert petro-state governed by an unholy alliance of nomadic inheritors and theocratic terrorists. Now Saudi Arabia, with the oil price at its lowest sustained point in decades, is proposing an Initial Public Offering for its state-owned oil company, in the most inopportune times, in both the financial and oil industries, in many years.

The background for all this is the first recession in history ostensibly caused by declining oil prices. There have, of course, been recessions provoked by increasing oil prices, especially in the mid Seventies, early Eighties, and early Nineties. But ultimately, the oil price declines, because the demand for it is so great that there is always pressure for alternative sources or greater supply. Oil prices have fallen 70 percent in 18 months, essentially because American and Saudi supply has increased, and Chinese demand has declined. This has saved consumers worldwide almost $8 billion per day. The OPEC cartel has collapsed, not least because shale is everywhere and can be got at cheaply, though the profit margins for frackers are not high. But raising supply is not the capital challenge that it was for many years of gigantic offshore and oil-sands projects. This casts a pall over the entire industry, public and private sector, and makes controlling the oil price much more complicated than it has been since the initial OPEC boycott following the Yom Kippur

War of 1973.

As was pointed out by Donald Luskin in the *Wall Street Journal* on January 8, frackers are to oil what Uber is to taxi license-holders, and our governments are suffering from the pressures on the traditional provider-corporations, while failing to capitalize on the bonanza to the public. This is political stupidity, because although the oil industry ramifies widely, it is not as omnipresent as the consumers of the product. There should be two votes favorable to the governments taking credit for the fall in oil prices (whether they deserve any credit for it or not) for every vote seriously threatened or inconvenienced by the decline of the oil industry. The portion of leveraged bank-consortium loans to the energy industry that is considered doubtful has almost quadrupled in the last 18 months, to about 15 percent, and earnings of the whole energy sector in the U.S. have declined by 76 percent in a little over a year. Almost nowhere have prices to retail customers of gasoline or oil fallen more than about half as far as the world prices have, mainly because our elected leaders, in their greed, have often tied taxes to volumes rather than prices, or a combination of the two, and have addicted themselves to the resulting tax revenue in its fullest amounts. The result is this horribly demeaning and irritating spectacle, as in the Canadian election in October, of governments’ failing to cut their take proportionately to the decline in the world price of what they were taxing. They then ululated like angry Tuareg women about the decline in revenues they have endured, but not passed on to the voter-consumers, as they should have.

Recent fiscal events in the United Kingdom have illustrated once again how much money is simply wasted when governments go for the kudos many taxpayers give them for boosting public services by sheer spending increases. In Britain, departments whose budgets have been cut have fared much better than those that were protected from reductions. The grants to local government, a long-notorious sinkhole of wasted money, have been cut by 40 percent, but polls have not recorded dissatisfaction at any cut in services, a strong indication of the profligacy of the previous regime. Public servants, like almost all people, can be resourceful: There has been a sharp reduction in the British education budget (it is a national-government jurisdiction there, with administration overseen locally), but new secondary schools are opening in larger numbers than in decades. The police budget has been cut by over 30 percent in five years, but crime has fallen more steeply than that, despite the statistically irrelevant antics of terrorists. The British have also demonstrated that defending government departments from budgetary cutbacks does them no favor. The National Health Service, rivaled only by the British Broadcasting Corporation as the most overindulged and overrated sacred cow in the entire British public service, has failed to produce improved service despite having been given a steadily increased budget, with further promise of a nearly 20 percent budget increase in the next five years.

The failure of democratic governments to reap the political benefit for declining oil prices while adjusting their fiscal coats to fit the available cloth is just another indication of the generally low aptitude to govern of most of those who are leading the principal Western nations now. At least when their sense of political self-preservation is as low as it now seems, we can be reasonably confident, as Canadians were last autumn, of a change of government. This is particularly apposite in the week where Donald Trump responded to Hillary Clinton's accusation of sexism with the reflection that Bill Clinton was the greatest abuser of women in American political history. We are a few weeks from Iowa and a month from New Hampshire and he appears now to lead every poll. Twenty years of bipartisan, inter-branch, governmental failure can lead to such a result, and not just in the United States. Almost throughout our civilization, our leaders have been weighed in the balance and they have been found wanting. First they go, and if their chosen successors can’t make the system work, the systems go, and not always gently.

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