The Daily Dish

# This Time It Is Different

DOUGLAS HOLTZ-EAKIN | APRIL 23, 2018

***Eakinomics: This Time It Is Different***

Ten years ago, oil prices hit $140 a barrel, greatly weakening consumers and the U.S. economy. This is an often-forgotten prelude to the fallout of the financial crisis, and was a repeat of the cycle of high oil prices and U.S. recession that had prevailed since the early 1970s. Now, as oil prices hit $70, it is widely recognized that the oil price dynamics have changed fundamentally. As the United States has become a major oil producer and an increasingly large exporter of oil, the effects of higher prices are not limited to the negative impact on consumers of higher gasoline and heating oil prices. Instead, there are benefits to producers that stimulate additional exploration and production.

These activities generate a substantial demand for mining investment goods — a mechanism that was recognized as an essential part of the recovery from the Great Recession. Notice that this impact will dovetail with the additional investment incentives from the Tax Cuts and Jobs Act (TCJA). This may provide further pressure on inflation and provide incentives for the Fed to normalize more rapidly. But there is no real evidence of an uptick in inflation just yet, and the Fed is well-positioned to keep it from getting out of hand.

The bottom line is simple: higher oil prices may add to upward momentum on the economy. The economics of oil prices really are different.

Over the weekend *The Wall Street Journal* reported "The Trump administration is backing a $13 billion increase in funding for the World Bank, putting aside its skepticism of the big government-backed institutions that manage the global economy, in part because it wants the World Bank as a counterweight to China's growing international influence." This, too, is really different. Republican administrations are notoriously skeptical of the World Bank and its sister organization the International Monetary Fund, believing they are insufficiently appreciative of private-sector solutions and that international policy coordination adversely affects the latitude of U.S. policymakers. Clearly, the desire to counter the Chinese is enough to flip the decision 180 degrees.