Hope and anxiety

Rising oil prices suggest hope for the world economy, but could they also limit its recovery?

Shutterstock

The price of a barrel oil went past $68 during the day on Monday June 1st, the highest level in seven months. Although this remains less than half the peak of last July, prices are likely to remain above the norm of the past few decades, lifted with every bit of cheery economic news and as the dollar weakens. Some economists are now again talking of the approach of "three-digit oil prices", in part as large emerging economies, such as China, India and Brazil, which are energy-intensive, appear to emerge from the worst of the downturn. In the longer term, prices could be pushed upwards thanks to demand from the emerging world and because of difficulties increasing global supply.

Consumers have not forgotten the pain of high oil prices in 2008, when a barrel of the black stuff peaked at $147. In rich countries commuters squealed especially, not only because of the expense—rich-world consumers found that they were forced to spend a larger, if still low, share of their income on transport—but also because of the volatility of the price and the sheer speed of the increases. As higher oil prices nudged up transport costs and energy bills, inflation began to rise. Carmakers were affected too, as demand for new vehicles slumped. The suddenness of the price rise left little room for consumers, companies or governments to adapt smoothly.

In many poorer countries higher oil prices caused greater hardship. For oil-importers, at least, higher prices played havoc with government finances, cutting into budgets for other kinds of spending. For poorer consumers, the associated rise in food prices affected a larger slice of their spending, provoking social unrest in many countries. Along with the rise in the oil price, food prices have again been creeping upwards recently.

Many poorer countries would also be affected if rising oil prices hamper global trade. For economies that depend upon being within global supply chains, making or assembling goods that are then shipped to rich-world consumers, rising transport costs are particularly unwelcome. Given the vast numbers of people employed by export-oriented firms, from Cambodia to Bangladesh, any repatriation of production closer to final markets could prove painful. For some poorer countries, most obviously oil-exporters, rising commodity prices would be beneficial.

Worries about the broader macroeconomic impact of higher oil prices centre on the possibility of the return of stagflation, the combination of high inflation and declining output that marred the periods of the 1970s after the two oil shocks of 1973 and 1979. For now that seems most unlikely, given the wider concerns about deflation in the rich world. Olivier Blanchard, now the chief economist of the International Monetary Fund, and economist Jordi Gali, in 2008 looked

at the response of industrialised economies, particularly America, to oil price shocks since the 1970s. They doubted that higher oil prices would mean the return of stagflation, concluding that inflation, unemployment and output were markedly less responsive to oil prices during the two big oil price hikes since the 1980s, which began in 1999 and 2002.

Part of the explanation may be that the original 1970s stagflation episodes were the result not just of oil price shocks, but of other simultaneous shocks and mistakes by policymakers. In Europe and America, the economists argued, wages have become less rigid than they were in the 1970s (perhaps because unions are weaker). All this makes it easier to adjust to oil price increases.

So the world may have less to fear from an oil price rise in terms of overall macroeconomic stability than it used to. But the world economy has to be guided out of the biggest rut it has been in since the second world war, with eventual recovery likely to be slow and shallow. So it was probably wise of OPEC to decide recently to hold off more production cuts: too rapid a rise in oil prices could at least batter consumer confidence further, hampering recovery.

HOPE and anxiety. **The Economist**, New York, June 1, 2009. Disponível em: <www.economist.com>. Acesso em: 2 jun. 2009.