

the American way of doing business, with English as the language of the new world order. American-style business practices are rapidly moving throughout all the Americas. In Europe, where they are creating a United States of Europe, leaders say they do not want American-style capitalism, but globalization is giving it to them anyway...

“There are among us these days plenty of reactionary forces determined to at least curb globalization. We saw that in the Seattle riots and in the demonstrations in Davos, Switzerland at the World Economic Forum. The arguments most often used by opponents of free trade are that it will destroy the environment, it will cause abuses toward laborers, and it will create income disparity throughout the world.

“These are spurious arguments. Economically developed countries with open markets are not the ones that have polluted air in their cities, and they are not the countries that tolerate labor abuse. And countries with open markets, as you know, have dramatically higher incomes than those whose markets are closed. The price we pay for having an open and competitive market may be some income disparities, but that is surely better than no income at all.”

**Alan Greenspan:  
The Nation’s Energy Future**

*Alan Greenspan, chairman of the Federal Reserve Board, addressed The Economic Club of Chicago on June 28, 2001 on the nation’s use of energy and the prospects for the future.*

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“The short-term energy problems we are experiencing for gasoline, natural gas, and electric power will be resolved, one hopes, without any further adverse impact on our economy. Nonetheless, the developments of the past couple of years have brought renewed attention to the longer-run prospects for energy markets in the United States.

“In making any assessment of those prospects it is

important to recognize the extent to which market mechanisms have helped to overcome earlier apparent limitations on resources. Largely in response to past oil price increases, the energy intensity of the United States economy has been reduced by almost half from the levels of the early 1970s. Much of the energy displacement was accomplished by 1985, within a few years of the peak in the real prices of oil. Progress in reducing energy intensity has proceeded further since then but at a lessened pace. This more modest pace should not be surprising, given the generally lower level of real oil prices that has prevailed since 1985, and which carried over into natural gas and electric power prices.

“What has changed dramatically in recent years is the production side of the oil and gas markets, where technological changes are taking place that are likely to make existing energy reserves stretch further while keeping long-term energy costs lower than they otherwise would have been. The development of seismic techniques and satellite surveillance to discover promising new oil reservoirs has roughly doubled the drilling success rate for new-field wildcat wells during the past decade. New techniques facilitate far deeper drilling of promising pools, especially offshore. The newer recovery innovations reportedly have raised the proportion of oil reserves eventually brought to the surface from one-third to nearly one-half in recent decades.

“One might expect that, as a consequence of what has been a dramatic shift away from the hit-or-miss wildcat oil and gas exploration and developments of the past to more advanced technologies, the cost of developing new fields and, hence, the long-term marginal costs of new oil and gas would have declined. And indeed, those costs have declined, but by less than might otherwise have been the case; much of the innovation in oil development outside OPEC, for example, has been directed at overcoming an increasingly inhospitable and costly exploratory environment, the consequence of more than a century of draining the more immediately accessible sources of crude oil.

“One measure of the decline in the marginal cost of additions to availability in recent years is the downdrift in the prices of the most distant contracts for future delivery of light sweet crude oil. Spot prices have soared and plunged, but for the most distant futures contracts, which cover a time frame long enough to seek, discover, drill and lift oil, prices generally have moved lower over the past decade. The most distant futures prices fell from a bit more than \$20 a barrel just before the Gulf War to \$17 to \$18 a barrel a year ago.

“The current six year futures contract has risen, on net, over the past year and has been a little above \$20 per barrel in recent days. Arguably, however, this rise is related less to technology and the structure of underlying marginal costs and more to uncertainties about how quickly the new practices will be exploited to expand OPEC’s productive capacity. Going forward, there is concern that OPEC may choose not to expand capacity adequately from their large proven reserves.

“The long-term marginal costs of extraction presumably anchors the long-term equilibrium price and, thus, is critical to an evaluation of the magnitude and persistence of any current price disturbance. Over time, spot prices are inexorably drawn back to the long-term equilibrium price, as the balance between underlying supply and demand is restored. A premium over long-term marginal costs doubtless exists for oil because so much of the world’s crude oil reserves are in areas where disruptive turmoil is always a latent threat.

“The longer-term outlook for natural gas prices is less tied down by history or current practice. Unlike oil, the natural gas consumed in the United States, as you know, is almost solely produced in the United States and Canada, from which last year we imported 16 percent of our 23 trillion cubic feet of demand. The story of gas in the United States, in contrast to oil, is thus largely a domestic one.

“Compared to oil, the industry is relatively new. Natural gas is more difficult to transport in its gaseous form through pipelines and particularly

challenging in its cryogenic form when transported as a liquid. It’s the latter problem that has kept liquefied natural gas imports at negligible levels.

“Drilling technologies for natural gas have mirrored those for oil, and through much of its history you could not tell whether a successful drilling hit would turn up valuable crude oil or natural gas, which was often flared for lack of transport facilities. But with many of the transportation hurdles surmounted, demand has surged over the past two decades, reflecting the myriad of new uses for natural gas in industry and as a clean-burning source of electric power.

“At times in recent years, supply has not kept pace with the growth of demand. The inventories of natural gas held in underground storage caverns were drawn down to record low levels late last year. As a consequence, spot prices of gas quadrupled, engendering a huge surge in domestic drilling. But the very new technologies that have improved our drilling success rate have also enabled us to drain newly discovered gas reservoirs at an increasingly fast pace. Data for Texas, for example, shows that in recent years, more than 50 percent of recoverable reserves were extracted from wells in the first year of operation, compared with roughly 25 percent in the 1980s. As a consequence, to achieve a rise in net-marketed gas, gross new discoveries and the drilling activity associated with them, have had to accelerate...

“Such inevitable tradeoffs have stimulated renewed interest in a greater expansion of coal, nuclear power and nonconventional sources of energy. For example, the nation has large reserves of coal, and, in terms of thermal equivalents, we produce more of it than either natural gas or petroleum. Moreover, rapid technological improvements in coal mining have resulted in productivity gains in this industry that have exceeded those for the economy as a whole by a wide margin and led to sizable declines in the relative price of coal.

“Still, the use of coal has been restrained by environmental concerns over emissions from coal-

burning power plants. Technology has already alleviated some of those concerns and, given the realistic range of alternatives, coal is likely to remain a significant factor in our energy future.

“An obvious major alternative to coal in electric power generation is nuclear power. Low prices for competing fuels and concerns about safety have been a drag on this industry. Still, its share of electricity production in the United States has increased from less than 5 percent in 1973 to about 20 percent in 2000. Given the steps that have been taken over the years to make nuclear energy safer and the obvious environmental advantages it has in terms of reducing emissions, the time may have come to consider whether we can overcome the impediments to tapping its potential more fully. Up front, of course, is the challenge of finding an acceptable way to store spent fuel and radioactive waste. If this problem can be resolved and if some of the long-deferred research and developments to make nuclear power more economical were to bear fruit, the potential for nuclear power could doubtless be enlarged.

“The remainder of our domestic energy production comes from a variety of renewable energy sources, the most prominent of which are hydroelectric power from dams and the energy generated by recycling of waste and byproducts from industry and agriculture. Solar and wind power have proved economical in some small-scale and specialized uses, but together they count for only a tiny fraction of renewable energy...

“To be sure, energy issues present policymakers and citizens with difficult decisions and tradeoffs to make outside the market process. As always, national security and environmental concerns need to be addressed in setting policy. But those concerns should be addressed in a manner that, to the greatest extent possible, does not distort or stifle the meaningful functioning of our markets. We must remember that the same price signals that are so critical for the allocative process in the short run also signal profit opportunities for long-term supply expansion. Moreover, they stimulate the

research and development that will unlock new approaches to energy production and use that we can now only scarcely envision. I look forward to a future that is bright in more ways than one.”

**Catherine Bertini:  
Afghanistan, A Turning Point?**

*Catherine Bertini, executive director of the United Nation's World Food Programme, addressed The Economic Club of Chicago on December 16, 2001, on Afghanistan.*



“Afghanistan’s people are desperately poor. It is second to last in the list of all the countries in the world, for instance, in its rate of child mortality. It is one of the lowest, has one of the lowest levels of literacy for women, and even for men, in the world. Not only are the people poor, but they have been ravaged by war for decades. In the World Food Programme’s perspective, we’ve built many projects. Many of these are food-for-projects, where we exchange food for people’s labor. And by the Summer 2001, we were the largest employer in Afghanistan, employing, with food as payment, 2 million people. And they were about half of the 3.8 million people that we were reaching with food in this country.

“When the Taliban took over five years ago they said that women can’t work, girls can’t go to school, women can’t leave the house, unless they’re in the company of a male blood relative, women and men can’t talk to each other unless they’re in their homes and they’re related. Our first reaction, of course, was that we thought this was a joke. But then, unfortunately, we found out that it was very real. And we had the first problem of having food for children in school and not being able to reach girls anymore at school. So, we informed the Taliban that this was not a life-saving