

Anonymous Comments if Paper is Published (MS # 1539)

This analysis would represent a more interesting contribution if the arguments could be tied more closely to the voluminous literature evaluating the relationship between oil prices and the economy. The simple charts and multiplier effects suggest that oil production and household debt have a role, but one really does not know their extent until one evaluates both past and recent trends with econometric studies over multiple countries. If oil production is the dominant effect, one should expect that economic growth rates in Europe and Asia should be gaining more than North America from the oil price collapse, holding other factors constant.

The puzzle has always been why energy's small share of the total economy could have large macroeconomic effects in the past. The most convincing arguments usually focus on what happens outside the energy sector. Many past oil price shocks have happened when inflation has already been high with serious wage-price spirals that complicate monetary and fiscal policy responses. They have also caused major shifts between sectors causing large adjustment costs, such as those that have occurred within the automobile manufacturing industry.

The past empirical literature also suggests strongly that oil price decreases (such as what recently has happened) may be irrelevant for economic activity and that what matters is when oil prices rise suddenly and the above conditions apply. In addition, most cross-country studies reveal that oil-producing countries suffer pretty much the way that oil-consuming countries do.