Is the Era of Big Government Back?

James J. Hoecker

A funny thing happened on the way to Election Day, and it happened to us all. While you were focused on the content of the candidates' characters, the content of your 401(k) started to evaporate, the world lost 50 percent of its equity capital, and the investment banking industry in the United States virtually disappeared. Interbank loans seized up. Activity in capital markets constricted to senior utility debt. Major private banking, lending, and insurance institutions were effectively nationalized. Mark-to-market accounting, popular among energy companies that began diversifying their economic interests and competitive activities in the 1990s, is on the ropes. Financial commentators have finally acknowledged what consumers and investors already felt in their bones—that the country had slipped into recession. The market meltdown on Wall Street and around the globe is unquestionably the most powerful and transformational development of recent times, with the possible exception of 9/11.

We have just begun to assess how government, here and elsewhere, will respond. The Congress and Bush administration hastily engineered a $700 billion rescue package for financial institutions, with legislators and members of the executive branch believing that they really had no choice in the matter if financial stability and consumer confidence were to be restored. With average U.S. citizens and the federal government already floating on an ocean of debt and a weakened dollar, the government is now in the business of purchasing massive amounts of bank stocks and guaranteeing bank loans, in competition (as *Forbes* put it [1]) with Warren Buffett and sovereign wealth funds.The prospect of additional stimulus packages looms on the horizon.

Whether blame is laid at the feet of the government for deregulation or allowing Fannie Mae and Freddie Mac to indulge in bizarre risk taking, or at the doorstep of the banks for overreliance on mortgage-backed securities, or the hedge funds for leveraging up everything, or the rating agencies for cheerleading as companies took themselves over the cliff, it can be said that the only thing worse than an economic crisis is an unprecedented economic crisis of this kind. Of course, those of you for whom the California energy crisis is a fresh memory will find in that event a near-perfect augury of the current crisis in terms of novel financial transactions, risky behavior, and even misconduct that went unrecognized for too long.

Looking at this bleak economic legacy, President-elect Obama may want to demand a recount.

Looking at this bleak economic legacy, President-elect Obama may want to demand a recount. It will be his principal initial task to use government's power to sustain modern capitalism in the United States without robbing private enterprise of its vitality. With the free market in intensive care, government's new role in the marketplace has yet to be redefined. I doubt that stimulus packages aimed at encouraging consumers to "go shopping" will produce meaningful results—witness the $168 billion shower of federal dollars distributed over the summer, to no effect. It

James J. Hoecker (james.hoecker@huschblackwell.com) is senior counsel, Husch Blackwell Sanders LLP, and principal, Hoecker Energy Law & Policy (http://helppllc.com). He is a former chairman of the Federal Energy Regulatory Commission.

is even more doubtful that needed structural changes will necessarily come on the heels of federal largesse.

APPROPRIATE TARGETS FOR STIMULUS DIFFICULT TO DETERMINE

The implications of this financial and economic realignment for energy policy and energy costs are complex. Not all the solutions are governmental. For example, domestic energy consumers flexed their muscles simply by ratcheting back demand for gasoline, swiftly driving prices at the pump down by as much as 50 percent. There is an obvious question about whether we will learn this valuable lesson about the effect of price signals on energy conservation and the implications of both for energy independence. Even bigger questions exist with respect to the competition for capital, public and private, among nuclear investment programs, clean coal research, climate-change implementation, and a range of other national priorities. Nevertheless, the crying need for rehabilitating the nation's infrastructure is fortuitous.

In the realm of top-down solutions, there may be no better focal point for a government effort to resuscitate the economy and create jobs than basic infrastructure. For that reason, conservative commentator David Brooks advocates that the next president spend "gobs of money" short-term and long-term on transportation systems, stating that "an infrastructure resurgence is desperately needed" and that it should promote new ideas for congestion pricing, smart highways, rescue plans . . . and technologies."[2] To advocates of energy infrastructure, especially for the electricity system, this will sound familiar.

This is not just guesswork by the popular press, however. As a noted expert recently stated, "This is your father's electric system—but it can't stay that way for long."[3] She was alluding to the demand for renewable energy, clean coal generation, and curbs on greenhouse gases that will necessitate major new investment in power production, digital controls, and transmission facilities. Bankers like Felix Rohatyn and economics scholars like Nouriel Roubini of New York University warn that a recovery from our predicament will depend not on the low-tax, low-regulation philosophy that has dominated U.S. politics and economic thought for a generation, but on massive spending on public works projects. Moreover, they acknowledge that it seems inevitable that new capital will be derived from new debt.

A STIMULUS PACKAGE FOR SOMETHING USEFUL?

Is this a transformative moment? Both politically and economically, it is hard to escape that realization. It appears that the energy infrastructure could be a major beneficiary of a new pro-growth strategy during the new administration. In the intermediate and long term, however, we will find out if the demands of the current crisis will lead to the rehabilitation of the private energy economy as well as the growth of government programs. The public and the pundits will have a chance to revisit the balance we achieve in four years.

Recent interest on Capitol Hill in another stimulus package signals that Washington is not through with its efforts to prop up various financial institutions and lenders. Washington is still expending the $700 billion approved in the days following Wall Street's crisis, primarily by purchasing equity shares in these institutions and infusing the market with fresh capital. The Congress may pass another $100–$300 billion package before Inauguration Day. The White House and Treasury are amenable, at least in the abstract.

This time around, however, the monies are likely to be targeted more to specific industry activities that will create jobs in the short run. In the energy area, for example, we could see a massive push toward electric drive vehicles, research or manufacture of advanced battery capacity, and deployment of the related electricity delivery facilities, including installation of smart grid technologies, to support the electrification of the transportation system. An Alaskan natural gas pipeline, development of carbon sequestration facilities, or a massive high-voltage electric transmission expansion may be high on the list. It will be, however reluctantly, a new Keynesian moment.

This kind of targeted infrastructure program makes great sense in a time of crisis and interest in clean energy supplies. Such a program could be the centerpiece of our economic recovery.

NOTES

1. Malpass, David. (2008, November 10). Containing Washington's growing power. Forbes.com
2. (2008, October 13). *New York Times*.
3. Tierney, S. (2008). A 21st Century "interstate electric highway system"—Connecting consumers and domestic clean power supplies. Washington, DC: Analysis Group.

DOI 10.1002/gas / © 2008 Wiley Periodicals, Inc.