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To the point!

Cross-Asset- and Strategy-Research

No new oil crisis: we are not in the 1970s anymore

Any financial support must be socially targeted and temporary

The brutal war in Ukraine has further pushed up energy prices. After a period of extreme volatility, there is now some relative calm in the oil market. This is consistent with our forecast of a decline in oil prices to \$90 by year-end. Nevertheless, comparisons of gasoline prices at the pump have replaced comparisons of Corona figures as the dominant topic of conversation.

No recession due to high energy prices

In recent days, the oil crises of the 1970s have been dragged out as a horror story, sometimes colored by those of us old enough to have witnessed it with sentimental memories of bike rides on motorways.

However, today's situation is not comparable. An oil-price induced recession is very unlikely. The energy intensity of our economy has been drastically reduced over the past 50 years. Today, we can compensate for the possible loss of Russian oil more easily - if it were to happen - than the oil embargo imposed by the market-dominating OPEC in the 1970s.

Financial support must be timely, targeted and temporary

In Berlin, popular disgruntlement over high energy prices has been clearly heard. At present, the political parties are trying to outdo each other with proposals that in some cases seem rather improvised. But politicians must react prudently if they want to give financially strapped private households a helping hand.

When taxpayers' money is involved, targeting the design of efficient transfer programs is of utmost importance. Who does one actually want to help and for how long?



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March 18, 2022

Today's economy is much less oil-dependent

No half-baked quick fixes, please!

In most cases, the core of the discussion is about gasoline prices. But that falls short. Yes, they are high in absolute terms. But their relative price is by no means unprecedented at present.

The graph nearby indicates over time how many minutes a typical wage earner had to work for a liter of gasoline in the past. At the current €2.20 per liter, a good 6.5 minutes. That's about as long as it took in 2012. Yet, today people drive 5% less on average than they did back then, and cars have become more energy efficient. The effective burden is therefore rather less today than it was 10 years ago.

Focus scarce budget resources on poorer households

The government cannot and should not absorb all price increases. It would be a mistake to try to provide relief now with tax cuts or general "fuel rebate stamps". This would be unnecessary, expensive and would reduce the desired effect of prices discouraging the consumption of fossil fuels. But it would also be socially unbalanced: a millionaire with an SUV would benefit more than a low-wage earner who is anyway more likely to take the bus.

But prices for gas and heating oil have also risen. This affects all population groups, and disproportionately the less well-off. As a rule, they have to pay a higher proportion of their disposable income for heating and electricity and often cannot afford a car.

It would therefore be better to introduce a one-off flat-rate energy payment per household, preferably for those, only, with below-average incomes. That would be socially fair, easy to administer, and not place an undue burden on public budgets.

How many minutes does an average wage earner in Germany have to work to buy a liter of petrol?



Sources: LBBW Research, Destatis, Wirtschaftsverband Fuels und Energie e.V.

A one-off energy payment for needy households is affordable and socially balanced

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