

Economic Prospect

Screaming Headlines

John Addison Teevan

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PG&E Neglect Sets Fatal Wildfires! The screaming headlines are about a greedy California utility corporation putting profits ahead of repairing aging power lines that caused deadly wildfires. The details are more accurate and more interesting. As a utility the profit margin is approved by a state board which also mandates various kinds of spending and other features such as diversity quotas.

The state of California has mandated that one third of electricity be provided by renewables by 2020 and 60% by 2030. This requires a shift of capital expense away from the current electric grid. PG&E donates a half billion annually on mandated low-income household discounts. PG&E is also spending \$130 million on electric car charging stations mandated by the state which did not want such stations or others of these expenses in the state budget. (WSJ October 26, 2019)

The budget for line replacement and cleaning up trees and brush under the lines is constrained by the state board. Plus, the state bans deliberate and controlled fires as they are not 'natural'. This aggravates the impact of any fire and makes PG&E lines all the more likely to start a serious fire. So, there are backouts, bankruptcy and a similarity to the failed Puerto Rico state provider of electricity. Bankruptcy? Yes, PG&E is liable for all the fire started by its equipment regardless of negligence. It is now bankrupt. Welcome to stakeholder capitalism.

We've Stolen the Bounty of the Earth! The screaming headline is corrected by a book, by Andrew McAfee, *More From Less*. "While we believe that we are stripping the world of its assets we are actually reducing our use steel, aluminum, copper, fertilizer, water, timber, and paper even as our GDP continue to soar."

As we grow our economy, we are consuming fewer resources. As for pollution poverty is the biggest polluter. Today soda cans, for example, weigh roughly a half ounce; the first ones weighed almost 3 ounces. We've already reduced particulate air pollution and cap and trade has reduced carbon fluorides to zero. While the U.S. accounts for 25% of the world's overall economy, we contribute less than 1% of seaborne trash. By contrast China has 15% of world GDP and contributes 28%." California, if it's population and pollution were to suddenly go to zero, would have an impact on global climate and pollution concerns of 1%. Something to scream about?

Just Two Cents! While there is ample political screaming these days, the screaming at Senator Elizabeth Warren's campaigns is for accountable capitalism. She is proposing a 2% tax on the super wealthy. This is appealing to the 99.99% of Americans who do not have to pay this tax. But Sen. Phil Graham (WSJ Sept 11, 2019) suggests that she is coming after retired people as well.

Graham notes that households of people age 65 to 74 have an average net worth of just over \$1 million. Similarly, "72% of the value of all domestically held stocks is owned by pension plans, 401(k)s, and individual retirement accounts" or life insurance companies' annuities.

Warren's plan to rewrite the charter for every corporation with gross receipts of more than \$1 billion is also going to have a significant effect on corporate profits. She imagines that current profits will go to the government as taxes, but it's more likely that companies will shrink. If any plan like this becomes common (in August, 181 CEOs signed a problematic stakeholder charter recently) it will seriously affect pensions. Her "plan for 'accountable capitalism' redefines private capital as a community asset." This, according to Graham, will destroy wealth rather than send it to Uncle Sam.

Kill the Incandescent Lightbulb! You may remember Al Gore's plan to make the incandescent lightbulb illegal. Those old lightbulbs will certainly fade away some day, but not soon. The energy department extended the regulatory deadline so their production will continue. People will make the change away from incandescent bulbs by choice over time without state mandates.