



A Rational Forecast for 2016

BY RICHARD W. RAHN

ECONOMIC AND NUCLEAR THREATS ARE LIKELY TO GRIND ON

The economist and philosopher F.A. Hayek warned us about the limits to knowledge and forecasting. What we do know, however, based on past behavior is that some future events have a much higher probability of occurring than others — so, now for 2016:

There will be a major disruption in the global oil market, leading to higher prices, and this is why. The Russians and the Iranians are both taking major economic hits to their respective economies due to very low oil prices. As late as 2014, oil revenues accounted for about 50 percent of the Russian federal budget, and as much as 70 percent of their foreign exchange. The Saudis, being no friend of either Russia or Iran, have a political motivation to weaken their economies. The Saudis, being a low-cost oil producer, would also like to drive their higher-cost global competitors, such as U.S. oil and gas frackers, out of business. Hence, they are producing enough oil to keep prices very low. If

Saudi or other major producers had their production and distribution impaired, the Russians and Iranians would cheer.

President Vladimir Putin has already shown that he will go to great lengths to suppress potential oil and gas competitors. In the period from 2010 to 2014, he succeeded in stifling potential gas competition in Europe by indirectly bribing European politicians to disallow fracking and other production in their own countries. The Russians also indirectly funded U.S. environmental groups to strengthen their ability to delay or kill the expansion of U.S. oil and gas production. The reduction in potential competition and the resulting higher prices greatly benefited the Russians.

If Saudi oil infrastructure, including refineries, pipelines or oil tankers, suffered severe damage without the world directly seeing Russian or Iranian fingerprints, I would not at all be surprised.

There will be another financial crisis, and global economic growth will be less than the most recent International Monetary Fund (IMF) forecast, and this is why. Global government debt-to-gross domestic product (GDP) ratio is at a record high, and in most advanced economies much higher than it was when the great global recession began. As debt, particularly government debt beyond a certain point, increases as a percentage of GDP, economic growth tends to slow. Government debt-to-GDP ratios in excess of 100 percent appear to be a real downer, and now stand at approximately 98 percent of GDP in the United States, at 104 percent of GDP in the eurozone, and at a whopping 220 percent in Japan. Japan and other very high-debt countries, such as Italy and Greece, have been economically stagnant or worse in recent years. All of the major developed economies, with the exception of Germany, are on an irresponsible fiscal path six years after the bottom of the recession, where debt continues to rise as a percentage of GDP. Any significant disruption to the world economy, such as my first forecast of a big jump in oil prices or a major terrorist attack, could easily throw the world back into recession, and this time it will be impossible to even try to spend back to recovery. (Almost every year, the IMF forecasts a higher economic growth

rate than actually occurs, in part, because it believes its own consistently flawed models.)

Iran will let the world know that it has a nuclear bomb while publicly denying it. The Iranians clearly understand they may be at risk of retaliation if they announce they have a nuclear bomb after President Obama leaves office, but if the world thinks they have the bomb before Mr. Obama leaves, nothing will be done.

The scenario is as follows: The Iranians want all of the sanctions lifted, so they will continue to deny they have the bomb — and Mr. Obama needs those denials in order to save face. Given the limited inspection provisions in the agreement, the Iranians could easily cheat since it is generally acknowledged that they have only been weeks away from the bomb for some time. So it is likely the Iranians will follow the Israeli example of never acknowledging they have the bomb while letting everyone know they have it.

The Iranians can accomplish this by setting off an underground nuclear explosion, before next fall, for which they will either blame an earthquake or a conventional weapons' blast. The experts, of course, will know whether or not it was a nuclear explosion, but the Iranians will provide a cover story for those who have a political agenda to deny it (i.e., Mr. Obama), again as an excuse for inaction. By the time a new American president is elected, it will probably be considered too late to take military action, since Iran is understood to be a nuclear power. Iran will be home-free.

If I am wrong about these events, best you forget. And if I am right about 2016, I will not hesitate to remind that I was prescient. Happy New Year!

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