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## Assault on the Market

Before we forget 2008 and move full pace into 2009, a few more observations are in order. Last year the market was battered. We're not just talking about the uranium market, the oil market, or the financial market, but the notion that the market is a vehicle for the efficient allocation of goods and services. Probably the clearest example of the presumed failure of the market is U.S. President-elect Obama's recent statement that only government intervention can overcome current economic woes.

In his opinion piece, "From Market Economy to Political Economy," syndicated columnist Charles Krauthammer notes the trend to a more politicized economy and the "massive market inefficiencies" that it will bring. More and more market decisions would be made not by market players but by policymakers. An example Krauthammer brings forth in this regard is U.S. Senator Charles Schumer dictating the type of automobile that Detroit makes.

Closer to home, energy economist Richard Gordon warns against greater government involvement in energy markets in a report, appropriately titled, "The Case against Government Intervention in Energy Markets Revisited Once Again." While Gordon is writing mainly about the oil market, which is the most politicized energy market, much of what he has to say is relevant to all energy markets. In particular, he talks about government failure as well as market failure, noting that government rarely has sufficient information to make efficient decisions. As those of you that have read these pages for a while know, on several occasions we have discussed market failure with respect to uranium, linking that failure primarily to past government involvement in the market.

One of the major and more immediate ways in which governments can impact the uranium market is DOE's disposition of excess inventories. This is not so much an intervention in the market as it is extrication from the market (or at least from holding inventories accumulated in previous periods). However, following Gordon's observations, any actions by DOE are likely to lead to suboptimal results. To put it another way, an organization that is not continuously active in the market is not going to have sufficient information to make optimal decisions about marketing. This is especially true in the case where that organization does not have the same flexibility to act as do other market players.

One of the factors that have motivated government involvement in the energy market is a reaction to the activity of speculators. In addressing this point, Gordon comes to the defense of speculators, pointing out that they are present in the market because of their ability to anticipate price trends. Obviously, not all speculators have equal ability in this area, and the good ones persist while those less able do not. Speculation by hedge funds was seen as the bane of the utility industry during the period when prices were pushed to extremely high levels. However, we would contend that speculators would never have been induced to enter the uranium market had supply and demand not appeared to be so lopsided, a dichotomy that was due in large part to past government involvement in the market. Further, hedge funds' bets may have paid off to a greater degree had it not been for the dramatic ramp-up of production in Kazakhstan and, more recently, the onset of the financial crisis, which will serve to dampen future demand.

Before closing, we should note that it is somewhat ironic that the World Nuclear Fuel Market is holding its annual meeting this year in Edinburgh, the resting place of Adam Smith, who might well be rolling around in his grave by now given the recent assaults on the market. It is also ironic that Smith was considered a pioneer of political economy, which at the time referred to the study of how goods and services get distributed within a political state, a precursor of what we now refer to as economics. The political economy that Krauthammer is talking about is an economy driven by political, not market considerations, the antithesis of Smith's invisible hand.

At this point, it is not clear what the implications of this trend away from reliance on markets are for nuclear fuel. Clearly, the uranium market has experienced its share of volatility, and there has been a desire on the part of some, if not many, for it to behave more "rationally." While little may happen on the micro level, it is clear that there will be a push to influence the economy on the macro level through fiscal policy. To the extent that this affects interest rates, exchange rates, and especially inflation, it will impact nuclear fuel markets, possibly in unpleasant ways.

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