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David L. Smith Speaks to Association of Edison Illuminating Companies *Warns of "clouds in the silver lining."*

October 15, 1999 -- The Greenbrier, West Virginia. Speaking to 200 Chairmen and CEOs attending the 115th annual meeting of the Association of Edison Illuminating Companies, economist and futurist David L. Smith warned of "clouds in the silver lining" of the U.S. economy. Mr. Smith followed an earlier presentation by former commerce secretary, Mickey Kantor.

Referring to the "ideal" current state of the "Goldilocks" economy, Smith observed that "Productivity is high, thanks to the technological revolution that is now underway, keeping inflation low. . . interest rates are low by historical standards. . . stocks are soaring, and there is the perception that the stock market is going to keep rising forever."

"What could upset the apple cart? What are the 'clouds in the silver lining' that we are confronting?" Smith enumerated seven such "clouds":

1. A dollar devaluation, triggered by a surplus of dollars in foreign hands, due to huge trade deficits
2. A stock market crash, as overvalued stocks return to earth
3. An outbreak of inflation due to excessive additions to the money supply by the Federal Reserve Bank
4. A credit crunch caused by excessive personal and corporate debt loads taken on during the expansion
5. Foreign military and/or financial crises in an increasingly unstable global economy
6. A third oil shock, caused by either an interruption of oil supplies from a major oil-producing region, or, as expected by respected geologists, a peak in the global oil production curve, followed by an irreversible decline in oil production.
7. A Y2K problem (which he dismissed, saying "it is going to be rather trivial.")

Smith advised the audience, comprised of presidents and chairmen of the board of over 100 electric utilities to recognize the consequences of any one of these events, let alone a domino-effect, and be prepared to make strategic decisions calculated to profit from them while avoiding loss. He gave as an example, his recommendation to buy oil in 1998, when it sold for \$10 a barrel. "I would have imagined it would have been a good strategy to lay in as much -- either financially or through acquisition -- to lay in as much of those reserves as possible in order to secure for yourselves a low-cost source of energy for the long-term future."

Taking a long-term view, Smith cited examples of "sunrise sectors" of the economy holding enduring promise including: high-tech in all its forms, info-tech, communications, automated manufacturing, advanced medicine and education, tourism, energy.

He concluded his presentation by envisioning the Hydrogen Age -- a relative certainty, given the finite diminishing supply of fossil fuels and the abundance of the element, hydrogen. "It is my hope that hydrogen will come to the rescue. Imagine a world that is powered by hydrogen. Essentially, there would be no pollution. Hydrogen fusion would generate the heat, which would generate the steam to turn the turbines, which would create the electricity that would separate out hydrogen from water by electrolysis and so on. All of that would be done without pollution. In addition, you would convert your power lines to water lines, because if you supply as we now do, hydrogen to burn -- to do your cooking, say -- the end product of combustion of hydrogen is water, once again. And so, you will be in the water business, interestingly enough.."

"So in concluding, let me simply say that if this does come to pass, as I hope it will, what more fitting way to honor the legacy of Thomas Edison, and for the inheritors of that legacy to become the environmental heroes of the day. Would it be nice if you were delivering not one, but two critical essential resources needed for human existence -- electricity and pure water? . . . all without pollution of any kind, and indeed, enriching the atmosphere of this beautiful earth, that we call home. A home that will reach the level, I might add, of six billion people as of this month. So I hope you and I will be around too, when that day arrives. And, if it does, that you'll invite me back to celebrate the occasion with you here at the Greenbrier."

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Six of the seven "clouds in the silver lining" cited by Smith did indeed come to pass, and the seventh – a Y2K problem – he dismissed as trivial turned out to be just that.