

Oil and Global Recession

A Political Appraisal

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In the distant past,
Six blind men described an elephant:

The first felt its swarthy side; it was "very like a wall".
The second, its sharp, smooth tusk; it was "very like a spear".
The third grasped its sturdy trunk; it was "very like a snake"
The fourth felt it near the knee; it was "very like a tree",
The fifth chanced to touch its ear; it was "very like a fan"
The sixth seized the swinging tail; it was "very like a rope".

The six blind men, they all disputed, they argued loud and long.
Each had his own opinion, and held it very strong.
Each blind man was partly right; they all were fully wrong.

*The Parable of the Blind Men and the Elephant*¹

There is a *die-off*² vs *solutions*³ argument which, though interesting, seems to be blinding us to the changed nature of our times, our elephant.

A quick run-down:

1. Record numbers of people are being layed off in almost every industry (in the US, but also in most other countries).
[Why-this-is is where the *die-off* people can and have provided the seeds of an **explanation** that is much more acceptable now.]
2. People everywhere are paying more at the pumps and for heating oil and electricity, at the same time as oil and gas companies are reporting increased profits.
3. In the US, there is pressure on President Bush to deliver on Greenhouse because of the strength of world and popular opinion concerning the Kyoto protocol, coupled with global concern about climate change.
[The only way to solve Greenhouse is by reducing the demand for fossil fuels, the source of Greenhouse gases.]
4. No-one knows when or if the stock-market indices are going to bottom out.
[In the US, Mr Greenspan of the Federal Reserve (the Fed) is reducing interest rates to try and re-stimulate growth, but who knows whether this will work, or lead to 'stagflation' ?]

All this is new. Governments everywhere are facing difficult multi-faceted challenges.

¹ The parable of the blind men and the elephant, with apologies to John Godfrey Saxe
<http://www.kcmetro.cc.mo.us/pennvalley/biology/lewis/blindmen.htm>

² So called in recognition of a much visited web site, www.dieoff.com which sees collapse of civilisation, a relapse to barbarism, and die-off as inevitable when the peak of oil production is reached. They see the only course open as being to prepare for apocalypse.

³ *Solutions* people see the consequences of the oil production peak but are promoting alternative energy resource and technologies to take up where oil leaves off. There are too many sites to name.

Now, a Task Force has confirmed the link between oil ‘spikes’ and subsequent recessions (The CFR Report⁴), (a link economists, describing the elephant, can’t see). With this report we now have an authoritatively endorsed **explanation** for the changed and increasingly common experience of people — across the globe:

Oil Price ‘spikes’ since the late 1940’s have always been followed by recession.

Recession hits people (in the ‘hip pocket’) and hence, governments (at the ballot box). As it will every time there is an oil price ‘spike’.

But the *die-off* focus has been on the ultimate “inevitable” crunch, on population overshoot and return to barbarism — hardly attractive to the body politic.

No wonder those who'd like a “solutions” focus get frustrated by the certainty of the *die-off* people... and no wonder the *die-off* people disdain the *solutions* people who can’t see the obvious. But elephants are complicated.

Vice President Cheney’s Energy Task Force is considering the hard realities, so graphically portrayed in the CFR Report, confronting run down energy industries.

The extent of the challenges is covered fully. Unfortunately the “solutions” on offer are more of the same political fix. A heroic call to arms — to find what we now know to be not there.

The Earth can no longer yield what fuels the current (Industrial Capitalist) paradigm.

[Matthew Simmons⁵ who, significantly, is a member of both Task Forces, exhorted delegates to the recent Offshore Technology Conference to prepare for a “World War II” scale operation to meet forecast energy demand. Only an operation of this scale could solve the “energy crisis” — “crisis” being defined as “when a problem or series of problems turn from being troublesome to extremely severe. (Or as some would say, when a problem suddenly becomes terminal.)”]

What is not adequately appreciated is the pressure on Vice President Cheney and his Task Force to get something together that *will work*, at least for the President’s term of office. It doesn’t matter how much President Bush sabre-rattles; he is expected, and, no doubt aspires, to manage the economy to deliver prosperity.

How? That’s VP Cheney’s problem.

It doesn’t matter, if it’s true, that President Bush is indebted to cronies and campaign contributors (many from the oil and gas industry, which is his own background and shapes his disposition), and would like them to prosper.

It does matter, however, that, by Matthew Simmons rough estimate⁵, the cost of the proposed “World War II” operation to solve the energy crisis will exceed \$5 trillion “with vast chunks of this badly needed expansion still to be added to the total bill.” The CFR solution won’t work. It’s too big, it’s too expensive; lead times are too long, and the return on investment is uncertain.

[By way of confirmation, people in and close to the oil industry are reporting that increased drilling is not resulting as yet in increased supply]

It matters critically, however, that (like all leaders) President Bush undoubtedly wants to go down in history as a great President, not as having presided over the coming Great Crash.

⁴ “Strategic Energy Policy Challenges for the 21st Century” (The CFR Report), was released on April 10, 2001. The Task force was sponsored by the James A. Baker III Institute for Public Policy of Rice University and the Council on Foreign Relations. http://www.cfr.org/public/pubs/Energy_TaskForce.html

⁵ Matthew Simmons, “Solving Our Energy Crisis: The Important Role Which the Offshore Oil & Gas Industry must Play”, April 30, 2001 <http://www.simmonsco-intl.com/research/default.asp?viewnews=true&newstype=2>

Those responsible for the CFR Report have not discussed the significance of its confirmation that

Oil Price ‘spikes’ since the late 1940’s have been followed by recession.

Yet it implies that our economies, as currently structured, have been and are vulnerable to wild card disruptions in oil supply, “*Shocks*”.

[Think of the Middle East and one has cause for concern, or of a terrorist attack on a pipeline (in Alaska, Iran, Iraq, Turkey) or of a fire in an oil refinery.]

Economically, socially and politically a policy of maintaining, expanding and securing oil supplies to *anywhere* simply makes no sense. No matter how powerful the US or any other country is, infrastructures simply cannot be adequately safeguarded. Oil price rises are beyond the President’s control (or OPEC’s or the Oil Companies’ for that matter); blame can always be shifted elsewhere.

But electorates expect their governments to deliver prosperity, or at least avoid recession.

(They are very unforgiving when they *don’t* deliver. Remember President Carter, or in Australia, Mr Whitlam following the 1973 Oil Shock?). And so the energy crisis has to be solved — or *dis*-solved — in a way that reduces rather than increases the hip pocket problems that shape the way people vote.

So President Bush (and his VP) are faced with a dilemma, not dissimilar to that faced by Presidents Kennedy, Johnson and Nixon in relation to Vietnam: how to get out of an unpopular and unwinnable war the US had stumbled into. And it was Nixon who got America out. Realities cannot forever be obscured, even by the most hawkish of Presidents.

Very hard decisions **are** made (albeit with much ceremonial face saving).

Governor Davis of California faces a similar challenge. Electricity demand cannot be met, *now*.

Silicon Valley, of all places, as well as the rest of the State, is experiencing brownouts. Blame is cast on those that neglected to build more power plants, on deregulation, on environmental regulations, and so on. Prices are rocketing, and allegations of price gouging are legion.

Everything is being done to build more plant, but however much red tape is cut, new plants have long lead times, and *right now*, there is insufficient supply to meet demand.

[As there soon will be in other States, and countries, including Australia.]

Quietly (no-one seems to have noticed) Governor Davis has brought in new standards⁶ requiring new buildings, and non-residential buildings up for retrofitting, to comply with energy conservation measures requiring, *inter alia*, “superwindows” and daylighting. The potential electricity savings (“nega-watts”) to be gained by adopting these “emergency” standards are huge.

Face will be saved by building more plants — probably to end up as surplus to requirements.

And just as well: the gas to fire them is in short supply.

The reality confronting VP Cheney is that the oil industry is in decline. Jettisoning environmental restrictions, as proposed by President Bush, will not save it. It can no longer fuel growth; only recession, and layoffs everywhere.

The oil industry has become a political pariah because of high profits and high prices. It is in no state to, nor can it, increase supply to meet projections of increasing demand.

[Read the CFR Report, as no doubt Vice President Cheney’s Task Force members have. Some of them contributed to it.]

⁶ <http://www.nfrc.org/press/caladds.htm>

With the Industrial Capitalist system — until now apparently invincible and delivering all manner of goods — facing a dire threat to its viability, perhaps it would be useful to draw on the insights of the *die-off* people, and the proposals of the *solutions* people, and marry them. That way we may begin to address the elephant in all its complexity. This would involve putting aside the blind man’s focus on special issues (without in any way denying their relevance) so as to:

- acknowledge the factors that have given rise to them (and other issues such as Greenhouse); and
- seek and evaluate immediate bridging solutions to preserve the possibility of prosperity without oil dependency.

Stimulated by the 1974 Oil Shock, Amory Lovins and his colleagues have been working for more than twenty years on the practicalities of a sustainable, low energy, low pollution, high quality economy that treats the natural environment, including people, as though they matter. They have recently published Natural Capitalism — Creating the Next Industrial Revolution.⁷

Lovins talks and writes with characteristic optimism about this book, and how everything *is* changing towards a new utopia. His thesis makes sense, just as the *die-off* thesis makes sense — but in a totally different way. Where the *die-off* thesis has explanatory power, Lovins’ thesis, by contrast, reveals a new way of envisaging the future.

He espouses four principles of “Natural Capitalism”:

- 1) Increase resource productivity.
- 2) Shift to biological models of production (Bio-mimicry).
- 3) Move to a solutions-based business model.
- 4) Reinvest in natural capital.

He forcefully observes that the elimination of waste is an untapped and vast source of wealth, in terms both of money and wellbeing. Whether or not the particular technologies promoted by Lovins are the best is beside the point. His thesis fits in with the way things run in today’s economic rationalist world. It is feasible. And most importantly, it offers hope.

Oil price ‘spikes’ since the late 1940’s have always been followed by recession

- There certainly will be future ‘spikes’ as the peak of oil production approaches; and
- There is no evidence to suggest that we can avert repeated (and worsening) recessions whilst remaining dependent on oil.

However, dependence on oil (and gas and electricity) **can be**, reduced, *and profitably*, by focusing on *waste*, and then on alternative energy sources and technologies that lie waiting in the wings.

[See the Appendix — Elements of a Viable Policy]

It doesn’t matter which energy sources and technologies win out. What is important is that there are many ideas, projects and processes out there, all being vigorously and competitively promoted as *solutions*. Eliminating waste would buy time. The winners could come to the fore, less impeded by the current powerful hold of oil.

The central *die-off* argument is that the use of non-renewable hydrocarbons as our primary energy source (and feedstock — for other products such as fertilisers) has enabled world population to grow to unsustainable levels. We have overshot the resource capacity of the planet — die-off is inevitable.

⁷

Paul Hawken, Amory Lovins and L Hunter Lovins, Natural Capitalism, Creating the Next Industrial Revolution 1999, Earthscan Publications, London (<http://www.natcap.org/>)

See also A Road Map for Natural Capitalism, Amory B. Lovins, L. Hunter Lovins and Paul Hawken, *Harvard Business Review*, May-June 1999 (<http://www.natcap.org/images/other/HBR-RMINatCap.pdf>)

This may be so, and it is serious. But the fact that demand for the remaining hydrocarbons and other vital natural resources can be dramatically reduced through focusing on *waste* introduces a new dimension. The waste focus buys time. (And this grim prognosis could also be averted.)

The challenge of recession is immediate; the energy crisis is immediate. The immediate refuses to be ignored.

Geologists have their fingers on the pulse regarding the global availability of oil. For years they have been warning that our dependence on oil was folly. Whist our economies were blooming and everyone was taking the credit, (It is the immediate that matters.), their warnings went unheard, or were scorned. Except by the *die-off* people...

In a poster [Are we running out of oil?](#)⁸, Les Magoon of the US Geological Survey portrays the problem from the geologist's point of view:

- “Q Are we running out of oil?
A Wrong question! The question is
When is THE BIG ROLLOVER?
Q What's THE BIG ROLLOVER?
A It's when demand for oil outstrips the capacity to
produce it.
Q Has THE BIG ROLLOVER occurred before?
A On a smaller scale, yes! The US ROLLOVER
occurred in 1970...
Q Does this mean we are running out of energy?
A Not exactly! It means we are going to be running out of a
very convenient form of energy, one that propels our
Planes, Trains and Automobiles. Until now, it has been a
buyer's market but after THE BIG ROLLOVER, it will be
a seller's market.”
Q So when is THE BIG ROLLOVER?
A Nobody is sure, but those willing to forecast say
somewhere between 2003 and 2020. Most everybody
seems to agree that it will most likely be within our
lifetime, and possibly quite soon.
Q What should we do to prepare for
THE BIG ROLLOVER?
A Hang on tight. If we don't recognise the problem soon
and deal with it, it's going to be quite a ride!”

The Geologists' (and the *die-off* people's) difficulty in getting the warning heard is because they don't know when THE BIG ROLLOVER will be — 2003? 2020? soon? (It's not *now*)
And, of course, it is only the immediate that matters.

In spite of all this, the Bush Administration is still contemplating following its preferred course of action — a redoubling of effort (a “World War II” operation) to sustain dependence on oil.

Yet now we have it authoritatively confirmed that

Oil price ‘spikes’ since the late 1940’s have always been followed by recession

What can be done?

As Les Magoon says in connection with THE BIG ROLLOVER, “talk about it, talk about it, talk about it. You can't solve a problem unless you know you have one.”

⁸ L B Magoon, “Are We Running out of Oil”, USGS, November 2000 <http://www.oilcrisis.com/magoon/>

Appendix — Elements of Viable Policy (excerpts from The Energy Equation⁹)

Profit is the difference between two very large numbers, total earnings less total costs, so any reductions in costs (whatever the balance sheet item) can significantly contribute to profit, and to shareholder value.

Thoroughly addressing and eliminating system-wide wasteful practices, through application of the four Natural Capitalism principles, delivers reduced costs across many such items— including energy costs — and contributes ‘significantly to profit and to shareholder value’.

This issue of *waste* opens a great opportunity for Political leadership.

Far from people being asked to do more with less, business and people could be urged and inspired — led — to share in the common purpose of systemically eliminating waste — profitably for both.

How many of the following seem to be unreasonable suggestions as modest proposals to help us all to envision new futures?

- ❑ What about a real ‘War’ on waste on the part of business commencing with our captains of industry offering real evidence of increasing shareholder value through operational innovations that deliver value also to the communities their shareholders and their families live in?
- ❑ What about company balance sheets and National accounts being required to report on the usage — and wastage — of natural resources?
- ❑ What about Funds Managers routinely and systematically reviewing the earnings potential of Natural Capital projects and developing a dedicated portfolio category specifically to provide their investors access to informed choices with Natural Capitalism investments?
- ❑ What about Universities, think tanks and Research & Development Organisations, such as the CSIRO (in Australia) and similar consultancy organisations, having their Charters amended to include provision for investing in Natural Capitalism projects?
- ❑ What about some inspirational leadership from our politicians to reveal pathways to sustainable futures through policies and initiatives which focus and resource the abundant and creative potential of our greatest assets - Nature and People?
- ❑ What about a Governmental review of tax relief and other incentive structures to revise any found to be distorting the market and encouraging wasteful practice by restructuring them to penalise wasteful practices and promote increasing resources productivity?
- ❑ What about a review of standards (eg in the energy, construction, automotive and manufacturing industries) with a view to establishing integrated design principles utilising current and emerging technologies and materials as the norm, and resource productivity the goal?
- ❑ What about a clearing house on Natural Capitalism issues and project information to establish and maintain the focus?

The scope for corporate profit through the elimination of waste is huge. As Lovins observes:

“... (Y)ou can make a good case that probably half the GDP is pure waste, spent either to pay for or to remedy the effects of waste that shouldn’t have occurred in the first place. Economists’ attempts to estimate net welfare suggest that Americans are little if any better off now than they were around the early seventies. Their GDP growth went largely to subsidies and remedial costs. That’s why so many people have the sense that they’re running harder to stay in the same place.”

In other words, in the US at least, depending on how clever we are, up to “probably half the GDP” is waiting to be turned into profit.

The field for growth of the Natural Capitalist economies growth is vast. — limited only by lack of will, vision and ingenuity. (By contrast, the field for growth of Industrial Capitalist economies is in question — limited acutely by lack of oil.)

⁹ The Energy Equation. Understanding Thinking, it really matters, available on request jprice@bigpond.net.au