Ferguson: Energy Matters
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Adjusted for Inflation

Wednesday the benchmark NYMEX crude oil price jumped $2.32 per barrel to close at $75.88, approaching the all time record of $77.03 set last August. Nary a word of this news appeared Thursday in the business section of my local paper, the Santa Rosa *Press Democrat*. Apples's iPhone profits were judged much more important.

When record oil prices *are* discussed, the media are quick to point out that $77.03/bbl really wasn't a record because, when adjusted for inflation, prices during the oil "crisis" of the '70s and '80s would be something like $100 in today's dollars. In fact, when adjusted for inflation, last year's $77.03/bbl would be about $79.10/bbl in this year's more worthless currency.

I freely confess to being an energy junkie and don't expect the rest of the world to share my interest. Nevertheless, there is something fundamentally wrong when profits from the latest techno-gadget are more important business news than the rapidly rising cost of crude oil. The global economy is utterly dependent on oil, not on iPhones.

The media do pay attention to the price of gasoline, of course. When fuel prices jump, we are deluged with whining stories from people paying $75 to fill up their gas guzzlers in order to commute 100 miles to work. No mention is ever made that, when adjusted for inflation, $75 isn't what it used to be.

Is it too much to expect media moguls to connect record crude oil prices to the price of gasoline?

At the turn of the century, just seven and a half years ago, the U.S. price of crude oil was about $25/bbl, $50 less than today's price. The U.S. burns about 20 million barrels of oil per day. Do the math, and you see that we are paying about $1 billion *more every day* for oil than we were on January 1, 2000. At a price of $75/bbl, our oil addiction (to use W's term) would cost over $0.5 trillion annually.

Could it be that U.S. inflation is connected to this fact? Or should we, like the Federal
Reserve, focus on "core" inflation while dismissing the rising cost of energy and food as "volatile"?

Since the turn of the century, the buying power of a dollar has dropped by 23 percent according to the Fed. Meanwhile, the value of a euro has increased 38 percent compared to the dollar. Golly, do you suppose this has anything to do with the dollars we spend every year to support our oil habit?

On top of this comes the cost of the war in Iraq. No serious analyst doubts that oil is the real reason we are spending something like $1 billion per day over there. When the Iraqi "parliament" decided to take vacation in August, the main U.S. objection was the delay in passing an oil law that would give U.S. companies access to Iraqi oil. To give Halliburton et al. this access we are spending almost as much as we do on all the oil we burn. Could that fact have something to do with the value of the dollar?

One of the Saddam's last acts was to require payment for Iraqi oil in euros rather than in dollars. I continue to believe that thumbing his nose at the almighty dollar—which has been the standard global oil currency for a century—was one of the last straws for the gang in the White House.

As it turns out, Saddam was not the only one getting tired of having increasingly worthless dollars set the value of oil exports. Since the beginning of the war, oil transactions in other currencies have been increasing. It is not far-fetched to believe that our addiction to oil will be responsible for the end of the dollar's hegemony in global commerce.

I take no comfort at all in the fact that today's oil prices are not really records, when adjusted for inflation.

[Note – As I send this column to *Energy Circuit's* editors, the September crude oil contract is trading on the NYMEX at $77.15/bbl, a new record high price—
if you don't adjust for inflation.]

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