

Ferguson: Energy Matters

March 21, 2008

Wall Street Hubris v. Reality

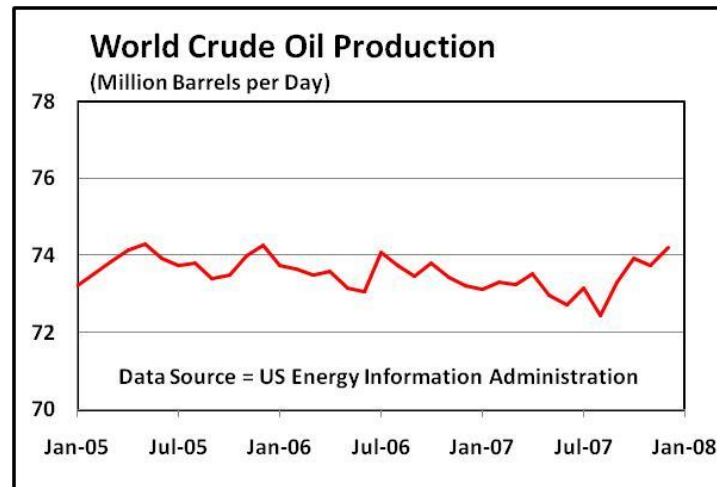
Most of us watching the Wall Street fiascos unfold must admit to experiencing more than a little *Schadenfreude*—deriving pleasure from others' misfortunes. There is something satisfying about seeing the rich and arrogant get their comeuppance.

The downside is that you and I will end up paying for the inevitable bailouts, but what the heck. The money Uncle Sam has been printing lately is increasingly worthless, so what's a few hundred billion dollars more?

I'll be the first to admit that I don't understand high finance. Even the concept of money is pretty vague in my mind. To me, money is just something needed to pay the utility bill, buy groceries, or put gasoline in my car. The notion of accumulating money for its own sake is madness.

Nevertheless, it's what Bear Stearns and the others do, and nobody in Washington seems to mind how crazy it has become. The Ponzi schemes cooked up by Wall Street plutocrats were bound to collapse. With so much easy money rolling in, connection with the real world—a world in which hubris has consequences—got lost.

Here's what the real world looks like:



Unlike money, oil is tangible physical stuff. It's real.

Our daily lives are utterly dependent on vast quantities of crude oil. As the so-called banking "regulators" were looking the other way and the pseudo-profits were piling up, the world's oil supply has remained stagnant for the last 36 months.

Not counting the reported small uptick last summer—the Energy Information Agency data depends on unverifiable reports from

countries like Saudi Arabia—crude oil production has been declining a bit. While Federal Reserve chair Ben Bernanke is worrying about the possibility of economic recession this year, oil production has been receding for the last three years.

Meanwhile, out in the real world, the use of petroleum products has increased during the same time. People in China and India are burning a whole lot more oil now than they were three years ago.

Some of the increase in consumption has come from biofuels and natural gas liquids. But basically, we have been living on oil taken from storage. Unfortunately, no one on Wall Street seems to think this matters.

Seen from the perspective of money, all that matters is the price of oil. Not surprisingly, the price has increased from \$42 per barrel at the beginning of 2005 to over \$100 today. Those with oil to sell are reaping huge profits. Who cares if production is stagnant as long as profits are skyrocketing? Certainly not Wall Street.

The real world matters.

The energy situation has gotten so bad that the rich nations have started to burn up the world's food supply to replace oil. Something like 1/3 of U.S. corn now is turned into ethanol used as motor fuel. Folks in poor nations worry about the rising price of food, of course, but the implications for the real world are much more serious.

Higher prices are but a symptom of the larger real problem. The reality is that it now makes a bizarre kind of economic sense to use food crops as fuel. Our single-minded focus on money has inured us to the desperation inherent in such actions.

Meanwhile, however, there is a real world out there that we need to pay attention to. Whether it's the food energy we eat or the energy our transportation depends on, energy is real and it matters.

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Opinions expressed by DrF are not necessarily those of any organization with which he is affiliated.