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[The Peak Oil Crisis: Watching a Mega-Crisis](#)



By Tom Whipple

Thursday, 04 June 2009 14:51

In the last few weeks there have been a number of developments that may provide an insight into the next few years - but first let's review.

We, in America, are deep in the midst of a four-sided crisis. The first side is an economic slump; second, surprisingly, is our government's panicky efforts to stabilize the situation; third, the imminent peaking of fossil fuels and numerous other resources that seems to be in abeyance for the moment; and fourth, global warming which in the long run could overshadow the other three by a wide margin and is attracting considerable amounts of government and Congressional attention.

The important point is that the four aspects of what could easily turn out to be the mega-crisis of the century are all interrelated. Developments in any of the four will cause perturbations for better or worse in the others.

Most believe our current economic problem was caused by the extension of too much credit, too freely, and to the wrong people, over the last 30-40 years. Some, however, are suspicious that the many-fold run-up in oil prices from their historic \$10 or \$20 a barrel that sopped up so much consumer purchasing power may have had more than a little to do with our current economic problems.

While the consequences of the economic downturn are well understood, we are just starting to appreciate that the massive governmental effort to keep a recession from turning into a depression is threatening unprecedented repercussions of its own. In the last 10 months, the U.S. government and its central bank have spent or issued guarantees approaching \$12 trillion in efforts to boost the economy. During the current fiscal year, the US will sell \$3.25 trillion in new securities vs. \$892 billion worth last fiscal year. Some are already calling this phenomenon the "bailout bubble" and are worried that deficit financing on this scale could destroy the dollar and take much of the U.S. economy with it.

People who claim to understand such things continue to assure us that additional trillions in deficit financing will not be a problem and that anything is better than allowing our economy to slip into another great depression. Despite the government's best efforts, however, interest rates have begun to rise and last week took a rather substantial jump. This in turn could hamper a recovery in the housing market. The recent fall of the U.S. dollar is a companion signal that all is not well. Whether the falling dollar and the increase in interest rates will continue much longer is anybody's guess, but it won't take much more of a move before prospects for an early economic recovery are seriously harmed.

While many different natural resources - fossil fuels, minerals, fresh water - are in danger of running short within next few decades, oil production which probably has already passed its all-time peak looks like the best bet to interfere with, and eventually stymie, an economic recovery. Crude oil prices have doubled since the end of January and may go higher on expectations that an economic recovery is underway. While crude prices are still less than half the \$147 a barrel they reached last July, it is getting close to the level where economic damage could be inflicted. While the demand for commercial fuels for trucks and jet planes is down, gasoline demand has not fallen much as prices have edged up.

While the interaction among the four major factors that will have much to do with our economic future - the recession, the bailout, peak oil, and global warming - is easy to understand, the timing and nature of all the possible interactions are difficult to comprehend. Oil supply and demand are relatively easy to track, but no one as yet seems to have a firm insight into whether, when, and how fast massive deficit spending is going to lead to serious trouble.

Any increase in demand from a revitalized economy is almost certain to drive oil prices higher. In the last eight months, OPEC has reduced its oil production by about three million b/d which has kept production closer to demand for the time being. Although a few members of OPEC currently have surplus production

capacity that could be turned into increased production, every year we are extracting some 30 billion barrels of mostly easy and cheap-to-produce oil. The simple message is that in three to four years excess production capacity is likely to be eaten up by depletion. After that increased oil production will become very expensive and take considerable effort. Much higher prices and considerable economic damage are virtually certain.

To summarize our situation: If and when the U.S. and world economy rebounds significantly, the increased demand for oil will quickly lead to higher prices which in turn is likely to choke off the rebound; if the U.S. and world economy continues to contract, demand for oil and oil prices will fall for a while, but the economy will be approaching depression levels; if the massive deficit-financed bailouts lead to lack of interest in U.S. government securities and a weaker dollar, interest rates will soar and choke off economic growth; if the U.S. and other governments seriously clamp down on carbon emissions to control global warming, higher energy prices are likely. Our economy and future stand at a crossroad.

No one can claim to have much insight into the likelihood and timing of the many possible developments that could spring from our multi-sided crisis. The one thing we can be sure of, however, is that the four sides of our mega-crisis are inextricably connected. Any change, either for good or ill, sooner or later will cause changes in one or more of the others.

None of this bodes well for a return to life as we knew it only a few years ago.



## Comments



[jim bryan](#)

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chrismartenson.com has a great video on what has been happening in this article and how they are all interconnected. Its free, fairly easy to understand and very informative.

Thursday 04 June 2009, 15:39

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[jan van beilen](#)

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this sounds a lot like playing out the BAU scenario of Limits to Growth (you know, Club of Rome, supposed to have been proven wrong, but actually right on the spot in 1972). Maybe they erred on the optimistic side, like the IPCC, the IEA, Geithner, and the rest of the world

Thursday 04 June 2009, 21:28

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[Mark A](#)

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Great article here by Tom Whipple. He's well versed on peak oil and its implications.

And as Chris Martenson puts it, "The next twenty years will be completely unlike the last twenty". In the medium-long run we need to transition to a steady-state economy. Here's a link to a talk by Hermann Daly (posted at the Oil Drum) on that topic:

<http://www.theoil Drum.com/node/5464>

Friday 05 June 2009, 04:45

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[John A. Jauregui](#)

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You have there other factors right, but like JHK you have Global Warming dead wrong. People, and I mean just about everyone, miss the underlying truth of this statement, "...concluded that [Prof Mann's] hockey stick was flawed but the sort of data on which it was based is still evidence of unprecedented warming." IF it is modified to read, "...concluded that the hockey stick was flawed but the sort of data on which it was based is still evidence of unprecedented GREENING." What Prof. Mann's proxy data DOES show is that nothing has done more to "GREEN" the planet over the past few decades than moderate sun-driven warming together with elevated levels of carbon dioxide (CO2). Reviewers are missing the fact that CO2 is absolutely essential to photosynthesis and a plethora of studies (ignored by the media) show that increasing CO2 levels increase plant production, particularly in the presence of mild warming, which is what we are experiencing. It is no accident that commercial green house owners and operators invest heavily in commercial CO2 generators to increase the productivity of their fix growing facilities. Doubling CO2 levels increases plant production by 33 percent annually. This means that perennials benefit in a compound interest fashion. Our farmers, ranchers, foresters, and indeed all living things have benefited by this rare coincidence of cyclic sun-driven warming

together with elevated levels of CO2, regardless of the source. Prof Mann's proxy data very clearly shows this effect. He, his environmental and political puppet masters, and the media have decided to twist this rare gift of nature into a cataclysmic negative, but why? The great question now is, "why is our government spending so much national treasure jamming this increasingly obvious myth down our throats?" When you see or hear "Global Warming/Climate Change" think "Global GREENING", because that's what most of the studies and simple observation have shown the objective truth to be.

Friday 05 June 2009, 06:48

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 geolog

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You are absolutely right that : "The simple message is that in three to four years excess production capacity is likely to be eaten up by depletion. After that increased oil production will become very expensive and take considerable effort. Much higher prices and considerable economic damage are virtually certain."

But new technologies can mitigate the crisis significantly. What are we doing in exploration now? One commercial discovery in four wildcats, isn't it? Why does 75% drilling efforts waste?

There is a new technology for oil/gas detection providing above three discoveries in four wildcats. See: <http://www.binaryseismoem.weebly.com> .

With new technology (patented invention US 7,330,790) we could make up to three times more oil and gas discoveries than when using conventional technology. And the fact that new technology won't need more investments is also very important. I disclosed the technology, designed it and successfully tested in the Barents and the Black Seas as well as in the Gulf of Mexico.

I will be happy to help any company to implement my technology. But petroleum industry (top geologists etc) ignores the technology because it will clear real company resources before investors.

A. Berg, Ph.D.  
San Jacinto, CA

Friday 05 June 2009, 07:18

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 Steve Crower

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91•86•90. What do these numbers mean? Why do they affect you? Why should you care? Steven F. Crower, an energy investment banker from Denver, CO, finds a creative way to present the underlying data of the world's petroleum supplies and why we should pay attention to it...

Tuesday 09 June 2009, 15:52

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 Steve Crower

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<http://www.youtube.com/watch?v=jDIYgG0gSiY>

Tuesday 09 June 2009, 15:53

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