

Chapter 2 Anxious Days

“It just doesn’t seem like anything is cheap these days.” – Faith Taylor, a personal trainer from Baltimore, quoted in a Washington Post story.

In the past month or so, the newspapers have been flooded, it seems, with uneasy headlines and opinions. Take, for example, a recent op-ed by conservative syndicated columnist Victor Hanson, published in the *Albuquerque Journal*, which captures well the degree to which the state-of-our-union at this moment in time has become unsettled.

He begins his column with a litany of bleak news:

- Gasoline prices at the pump are approaching record highs;
- Gold surpassed \$1000 an ounce;
- The dollar has slumped to a record low;
- Staples such as corn, soybeans, and wheat cost more today than anytime in our history;
- Foreign creditors hold over \$12 trillion in U.S. government securities, a product of “staggering” trade deficits;
The housing meltdown continues without an end-in-sight; home prices continue to fall; foreclosures are at an all-time high in modern memory; consumer savings is at an all-time low; stocks have slumped; and a major investment house had to be salvaged for a fraction of its former worth as a result of all this chicanery;
- We are still fighting wars in Afghanistan and Iraq; 4000 servicemen and women have died in five years of fighting in Iraq alone (the cost of the war in Iraq has reached \$10 billion a month, according to some);
- Only a third of the American public approves of the Bush administration; even less approve of Congress.

He adds the politically-charged anxiety of illegal immigration to his list; and he raises the specter of another terrorist attack (a *de rigueur* apprehension for some commentators). Notably absent from his litany is the rising concern over climate change.

On the positive side of the ledger, he touts – correctly I believe – the strength of America’s universities, our technology industry, our democracy, and our can-do attitude. But then Hanson adds a truly remarkable statement: America has “vast amounts of untouched oil,” he claims – which is his way, I assume, of reassuring us that all is well on the cheap energy front. It’s remarkable, of course, because it’s wrong. American oil production has been in decline since 1971. And if he’s referring to additional Alaskan oil, or oil shale in Colorado, or something else, he’s misleading his readers.

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But the other problem with Hanson's declaration about oil is that it contradicts his conclusion: that Americans must begin making sacrifices now in order to ensure our pre-eminence. "We can curb these excesses quickly," he writes of our large consumerist appetites. "The solution to so many of the hopeless headlines is entirely in our hands."

He's right in the sense that solutions are in our hands, but wildly off-the-mark, in my opinion, about people voluntarily cutting back, especially if oil remains relatively cheap. The only substantial changes we'll make, I suspect, is involuntarily – by necessity, in other words.

And according to recent headlines, necessity may be upon us, especially for the poor, on whom inflation is beginning to take a real toll. Here's a sample from the news:

- Prices have risen over 9% since 2006 for groceries, gasoline, health care and other basics that middle-class Americans require;
- Over the same time span, non-managerial wages rose only 5%;
- What's different about today is that inflation is driven by demand from global commodity markets, including a thirst for oil by China and India, that is rising faster than producers can quench it;
- The conversion of arable land from food to ethanol production has led to increased stress on food supply – an average American family is now spending \$253 more a year on groceries than 2006;
- The price of dairy products is up 15% since 2006, fruit & veggies are up 10%;
- The price of wheat and rice have doubled in twelve months;
- Health care costs continue to rise faster than wages;
- The pinch of inflation is softening consumer spending, which constitutes two-thirds of the American economy;
- Lower home prices and less available credit are also contributing to the squeeze on American pocketbooks.

There's more:

- Consumer confidence fell dramatically in March – the last time it was this low Richard Nixon was president;

Home prices in twenty American cities fell in January by the most on record;

- Home prices may drop as much as 20% this year from their 2006 peak;
- As many as 2 million families will face foreclosure in the next three years;
- The number of people who expect their incomes to rise over the next six months fell to the lowest since record keeping began in 1967;
- The economy lost 63,000 jobs in February, the most in five years;
- Gasoline cruised past \$3.50 a gallon nationwide in mid April – up \$1.40 from 18 months ago – and indicators are it will continue to rise.
- Oil hit \$119 a barrel, an 80% rise over the past twelve months.
- The President of the United States acknowledged at a press conference that "global oil production is not keeping up with supply" and "there is no magic wand to wave right now."

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“The labor market is starting to deteriorate and income growth is barely keeping pace with inflation. These are all pretty negative omens for what’s to come,” said Carl Riccadonna, an economist, quoted in a Bloomberg.com story.

Airline travel is deteriorating. An annual survey of airline quality showed that customer complaints were up 60% in one year. Prices are up. On-time arrivals dropped for the fifth-straight year. One-quarter of all flights are late. In one week in late March, three small airlines stopped flying because of financial pressures. In early April, Frontier Airlines filed for bankruptcy protection. Southwest Airlines reported that it expects its fuel bill for 2008 to rise to \$3 billion – a \$500 million increase over 2007, which is also the size of their profit last year.

Independent truckers staged protests across the nation on April 1st against high diesel prices, often by driving together slowly, disrupting traffic. Diesel has surged past \$4 a gallon in many places. Big rigs get as few as 5-6 miles per gallon. “Enough is enough” read one sign, plastered on the back of a driver.

The unemployment rate in the United States hit 5.1% in March, which was the third consecutive month of job losses nationwide, for a total of 232,000. Losses crossed the spectrum: factories, construction, retail, banks, real-estate, hotels, airlines, and many others. 914,000 people have lost work over the last twelve months, and 7.8 million are out of work.

Food riots in thirty-three nations around the globe dominated headlines in April as prices continued a dramatic upward spiral. In Haiti a massive riot in toppled the Prime minister. The cost of a loaf of bread in Egypt consumes a half-day’s pay of the average worker. By the end of the month, many world leaders were saying that this food inflation crisis was the worst since World War II and that it threatened political stability in dozens of nations.

Power blackouts are increasingly common around the planet. In Chile, the world’s biggest copper producer, power shortages threatened to push copper prices to stratospheric heights. Chile may be forced to limit power use for the first time since 1999 due to a record drought, which has reduced water levels at hydroelectric reservoirs, and decreased natural gas shipments from Argentina.

Meanwhile, copper prices have quintupled in the past five years as rising global demand grows for wire and pipe, led by China.

It’s a similar situation for many other global commodities, including metals, wood products, plastics, even cement.

A senior market strategist quoted on Bloomberg.com said: “Supplies for a lot of different commodities are dwindling as demand has gained globally.” He went on to say that he was “bullish” on commodities, as if food riots in Haiti were a good thing.

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But the most remarkable headline of all might have been the one that ran in the March 24th edition of the *Wall Street Journal*.

Titled “New Limits to Growth Revive Malthusian Fears,” the article’s authors, Justin Lahart, Patrick Barta, and Andrew Batson, proposed that old fears about humans overwhelming the earth’s resources are back.

“Steady increases in the prices for oil, wheat, copper and other commodities – some of which have set record highs this month,” they wrote, “are signs of a lasting shift in demand as yet unmatched by rising supply.”

The core issue is the projection that world population will grow from the current 6.6 billion to around 9 billion by 2025. More significantly, they note, a large portion of the world’s population will also grow more *prosperous*. China and India, for example, have a burgeoning middle-class of potentially staggering numbers. This translates into an ever-increasing demand for natural resources.

“If supplies don’t keep pace, prices are likely to climb further,” the authors wrote. As a result, “economic growth in rich and poor nations alike could suffer, and some fear violent conflicts could ensue.”

Some raw resources are substitutable, they noted, such as oil (at least theoretically), but some are not, such as water and arable land. Throw global warming into the mix and the stress on supplies of fresh water and food production could rise dramatically.

According to some experts, they noted, the answer to this dilemma are new technologies, greater energy efficiency, innovative land management, cooperation between nations, and more “smartness” in general.

But as the authors noted, “There are no substitutes for water, no easy alternatives to simple conservation.”

Of course, conservation helped ease societies through Malthusian trouble in the past – that and a steady supply of new energy sources and technologies. Coal replaced wood, oil replaced coal, followed by nuclear, and so on. But will it happen again this time? Will a new energy resource or technology come to our rescue? Maybe. But maybe not. It is possible, speculated the article’s authors, that “economic forces alone may not be able to fix the problems this time around.”

As an example, they cite the change-of-heart of Joseph Stiglitz, a Nobel prize-winning economist. Thirty years ago, in response to the controversial book *Limits to Growth*, which argued that societies were on a path to “overshoot” the planet’s natural resources, Stiglitz said: “There is not a persuasive case to be made that we face a problem from the exhaustion of our resources in the short or medium run.”

Today, Stiglitz has changed his tune: “If our patterns of living, our patterns of consumption are imitated, as others are striving to do, the world probably is not viable.”

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Take China, which is on track to have 572 million cars on its roads – 70 million shy of the total number of cars in the entire world today. It's not just cars – hundreds of millions of people worldwide are making a shift to meat protein from grains. This means trouble because it takes ten pounds of grain to produce one pound of pork (under conventional agricultural practices) and more than double that to produce a pound of beef.

Also, China's domestic production of rice, wheat and corn 'peaked' in 1998 and hasn't returned to similar levels since.

Cooperation among nations is critical, the authors wrote, to stave off massive hunger. However, the specter that governments may ultimately concentrate on grabbing, instead of sharing, global resources means the situation could ugly – fast.

The authors also noted that we've endured scarcity before (e.g. WWII). But this time there's a vital difference: the decline of cheap oil. America bounced back from the Great Depression and a traumatic war in large part because it had access to apparently limitless supplies of cheap fossil fuel domestically. That isn't the case any longer. "So far," the authors wrote, "the oil industry has failed to find major new sources of crude. Absent major finds, prices are likely to keep rising, unless consumer cut back."

Which brings us back to necessity: we will have to change our behavior, whether we like it or not. This has profound implications, including, according to Stiglitz, rethinking traditional definitions and measures of *progress*, which for nearly two centuries have been based on producing and consuming ever more.

The Reverend Malthus argued that the maintenance of human happiness was dependent on tough, decisive action when times get difficult – as times always eventually do. The alternative is misery. It is this capacity to understand what's going on and respond accordingly, he said, that sets Ages apart from one another.

Clearly, modern times are becoming difficult – and are likely to grow more so. The maintenance of human well-being is already a trial for millions of the planet's most needy and this tragedy, too, is likely to grow. Therefore, I think it is safe to say that we have entered a transition from one Age to another – a point reinforced by the President of the United States, of all people, at his press conference in late April, who said: "You know, we're transitioning to a new era, by the way... [and later] We've got to understand we're in a transition period."

The question is: transition to what? And how will we respond? What tough, decisive action will we take to maintain our well-being? I'm curious to find out.