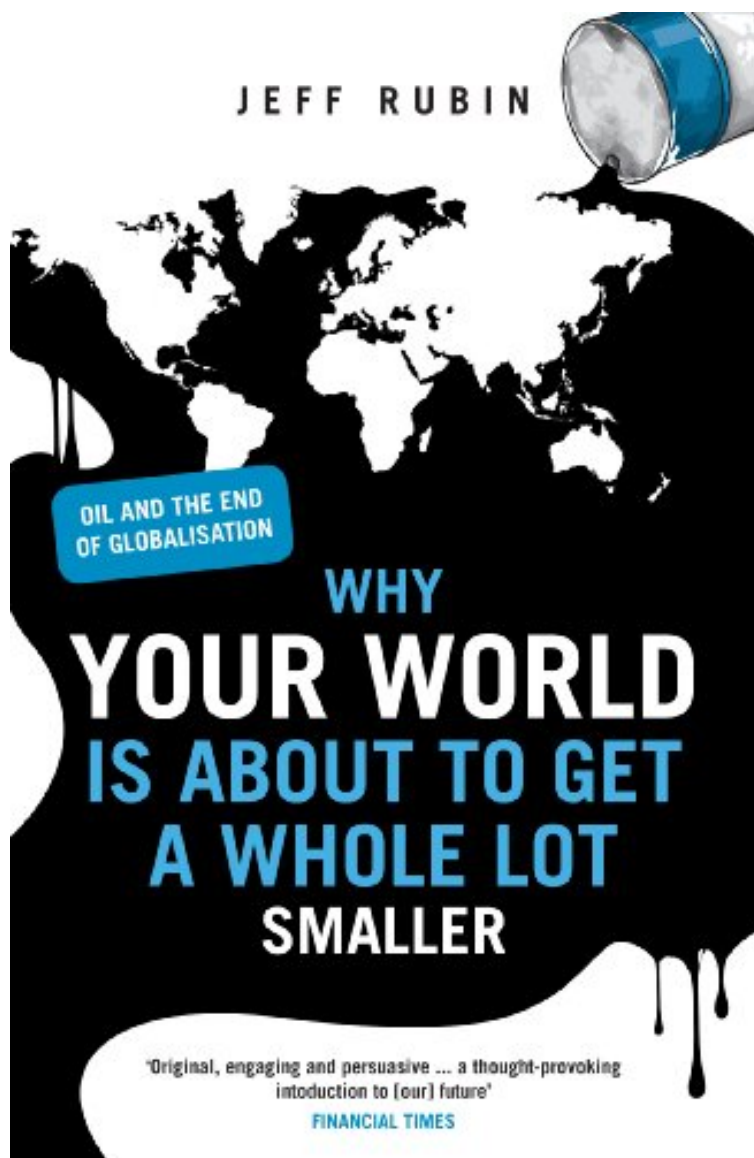


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# Why Your World is About to Get a Whole Lot Smaller: Oil and the End of Globalisation



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## Description :

Prsentation de l'diteurSoaring oil prices caused four out of the last five recessions. They caused the current recession. And they will cause the next one. Expensive oil costs us more than just money. It costs jobs, homes and in the long run it is going to radically alter the way we live. For if cheap oil is the fuel that keeps the machinery of globalisation in motion, then expensive oil has the same effect as pouring diesel into an unleaded tank. Everything stalls; the engine fails. Oil prices will rise again in the coming years, as this utterly convincing insight into our collective future argues. And as oil prices fluctuate wildly, our society

will change dramatically, and for good. From the homes we live in and the cars we drive to the food we eat and the places we work, our daily lives and global economy are going to be transformed. But while this new, smaller world will take some getting used to, it will also open our eyes to a more localised and ultimately more liveable way of life.

**REDEFINING RECOVERY**  
**BEING AN ECONOMIST CAN RUIN YOUR APPETITE.**

It is probably not the only job that has that effect. I've never worked as a taxidermist, but I can see that it might turn me off fish. My job, though, gets me worried about fish in a whole different way. I like salmon who doesn't? Salmon consumption has risen about 23 percent each year for the last decade or so. There are a number of good reasons to eat more fish: we all want food high in omega-3s, we want to eat less saturated fat, we want healthy protein for our low-carb diets. But here's the key reason for the amount of salmon on your dinner table: cheap oil has been subsidizing the cost of fish. Just like Wal-Mart and Tesco and big-box retailers around the world have been able to cut prices on almost everything by taking advantage of cheap shipping and cheap Asian labor, salmon went from being delicious local seafood to being another global commodity. Cheap oil gives us access to a pretty big world. In the global economy, no one thinks about distance in miles they think in dollars. If oil is cheap, it really doesn't matter how far a factory is from a showroom or a farmer's field from a supermarket. It's the cost of other things, like labor or tax, that determines what happens where. An Atlantic salmon caught off the coast of Norway is destined to be moved around the world just like a ball bearing or a microprocessor. First the fish is taken to port in Norway, where it is frozen and transferred to another vessel, which will take it to a larger port, probably Hamburg or Rotterdam, where it will be transferred to another ship and schlepped to China most likely Qingdao, on the Shandong Peninsula, China's fish-processing capital. There the whole salmon will be thawed and processed on a sprawling, neonlit factory floor where squads of young women with nimble fingers skin, debone and fillet the fish. It will then be refrozen, packaged, stowed on another container ship and sent to a supermarket in Europe or North America. Two months after it was caught, the salmon will be thawed, displayed on crushed ice under gleaming halogen lamps and sold as fresh. Still, if I'm sitting in a nice restaurant and I'm enjoying a good conversation over a glass of wine, that is not what I am thinking about. And anyway, the shipping news doesn't normally appear next to a menu item. But if that conversation turns to energy and oil prices (and I confess it does fairly regularly), then when I glance at that fish I know I am looking at the past. In the near future there is going to be less salmon on our tables and probably fewer restaurants to eat in, too. Because the cheap-oil subsidy that makes Norwegian salmon affordable is about to disappear. And as it does, your world is about to get smaller much, much smaller. To get that salmon from the ocean to your plate takes a ridiculous amount of energy. Think of the fuel for the fishing boats, container ships and just-in-time delivery trucks; the energy to freeze and process the fish, to sell it in a supermarket (retail stores use almost as much energy per square foot as factories do, just on heating, cooling and lighting). We invest a lot more energy to get that salmon than we get out of it when we eat it, which in itself makes the fish a bad energy deal. Economics calls it a diminishing rate of return. But it gets worse. A lot worse. All of that energy costs money, and energy gets more expensive just about every day. Not quite every day, of course the recession that seemed to catch everyone by surprise in 2008 brought oil prices down in spectacular fashion. But even the deepest recessions last barely over a year. Those prices will be on their way back up soon enough. And however you want to measure the energy in that fish calories, miles, joules, barrels of oil it is inevitable that the price of fish is going to go up as well. The seafood on your plate depends on cheap energy. And what is true of salmon is true of just about everything else. All you have to do to find an example is look around. Every morning when I head out to go to work, I see thousands of examples: the commuters making their way downtown from far-flung suburbs. The city I live in happens to be intersected by one of the busiest highways in North America half a million cars make their way through its most heavily trafficked interchanges every day. Are those commuters going to be living or working where they are today when oil prices inevitably soar again? And if they are, will they still be driving cars? Either our living arrangements or our transportation options are going to have to change. In other words, our whole way of life depends on the price at the pumps, and that price depends on an uninterrupted supply of oil. Think about that as you drive to work. Have a look at all those car dealerships, the gas stations and garages, the drive-thrus and big-box stores surrounded by huge parking lots. Try to imagine your life picking up dry cleaning, taking your kids to hockey, going to Home Depot on the weekend, heading to the cottage in the summer without a car. If you are like most people in North America or Australia, or even a less car-dependent country like the UK, you probably can't do it. And if you can't, you now have a small sense of what depends on the price of what comes out of the pump. I say a small sense, because not only does your car burn energy,

it is made from energy. Just building your car requires as much energy as it burns in several years. Add to that the fact that the plastics and paints and interior elements are made from petrochemicals derived from oil, and the picture becomes clearer. The house you live in is probably powered by electricity generated, at least in part, from hydrocarbons, and is almost certainly heated with natural gas or oil. The clothes you wear to work were probably made in some distant land and shipped here using relatively cheap oil, just as the coffee beans that went to make your latte were grown in a far-off country where the sun shines brighter and the labor is much cheaper, and then were shipped here. So you see, its not just your salmon. Despite the steady barrage of climate-change news and a growing sense that our affluent lifestyle may have unpleasant consequences for the environment, few of us stop to consider how just about every facet of our lives is built around our energy consumption. Nearly everything we do is inextricably bound to our use of energy. And by energy I mean oil. Yes, we use natural gas and some coal to generate electricity; but the worlds car and trucks and ships and planes run on oil. That means that the global economy runs on oil, because the global economy is about moving things around the world. And the reason the global economy has put all its eggs in one basket is that there is no other basket. As of right now, everything from the salmon on your plate to the entire model of a global economy depends on keeping the oil flowing. Now, what happens when the price of salmon goes up? You buy less of it. And when the price of gasoline goes up, you drive less. When the price of clothes or computers or anything else goes up, everybody buys less. And when everybody spends less, you have a recession. Its not all that complicated. High energy prices cause recessions. A recession is not the end of the world, of course, though if you are one of the many people who has lost a job or seen your investments melt away, it can seem that way. Still, history keeps showing that the economy recovers, usually after a few quarters, and life goes on. Markets pick up, factories ramp up production, and eventually youre back to eating all the salmon you want. But the history of the modern global economy is not all that long, and it is worth asking whether the patterns we have seen in past decades are ones we can expect to go on repeating into the future. We have seen high oil prices trigger recessions before, and in each case the medicine to cure a sick economy has been ready at hand: cheap new supply. Its simple as long as you have a ready supply of that oil. But if you dont, the whole idea of recovery from a recession has to be redefined because its not going to look like it used to. Right now, you need oil to make money and you need money to buy oil. If oil is too expensive, it becomes harder and harder to make money, whether you do that by driving a cab or by selling pineapples. And if there is no money to buy oil, the price of oil goes down. When it goes down, all of a sudden its easier to make money again. But as long as you need oil to make money (and as chapter 7 will show, you do), the price of oil is going right back up once the money starts flowing again. Sure, oil prices collapsed from record highs toward the end of 2008, but not before bringing down the global economy. It may be a record decline, but that says a lot more about where oil prices are coming from than it does about the price oil fell to. After all, oil prices have averaged over \$40 per barrel since the recession was announced in the US in 2008. It wasnt that long ago that prices like that would have been considered pretty expensive. But even more importantly, there is no way that oil prices are going to stay at these levels. As soon as the economy picks up, so will oil prices. Thats because the fundamental causes behind triple-digit oil prices in 2008 wont have changed at all during the recession. In fact, they will likely have worsened. As we will see in part 1 of this book, the reason the price of a barrel of oil hit record highs was that there is a deeply rooted imbalance between supply and demand. This doesnt mean speculators dont help push... *Revue de presse* "The book is a great read, and one that should be required for anyone with a long-term interest in Canadian energy, transportation, manufacturing or agriculture." *The Globe and Mail* "Jeff Rubin is not your typical eggheaded senior economist.... And the controversy that has dogged his work is about to hit the boiling point.... So get set. If Jeff Rubin says something is coming, you better listen. Love him or hate him." *Canadian Business* "Should be mandatory reading for all corporate executives." *National*

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