

Peak Oil and the New, Local Economy

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RUBIN, Jeff. *Why Your World is About to Get a Whole Lot Smaller*. Toronto: Vintage Canada, 2010. 322 p. Source Notes, Index. ISBN 978-0-307-35752-6.

Jeff Rubin (n. 1954) is a Canadian economist. In 2009 he left his 20-year post as Chief Economist at the Canadian Imperial Bank of Commerce (CIBC) World Markets to begin a career as an author. His first book was *Why Your World is About to Get a Whole Lot Smaller: Oil & the End of Globalization* (2009). In 2010 this book was revised, updated and republished, under the current title: *Why Your World is About to Get a Whole Lot Smaller*.

Rubin's message is clear: the global economy is dependent on cheap oil. Petroleum reserves are declining, while demand is growing. This is leading to rising oil prices that will not only constrain economic growth, but, more importantly, call into question the very way of life that developed nations have grown accustomed to, and which many developing nations aspire to. In short, our global economy, based on the nearly free international transportation of goods, will cease and local economies will once again flourish.

The book is largely a summary of the author's work as the Chief Economist at CIBC, especially his study of world oil demand and supply and his forecasting of oil price trends. Rubin is often cited as one of the first economists to accurately predict the increase in oil prices in 2000. He sustains that this increase caused the 2008 global recession, rather than the more widely-accepted thesis of the subprime mortgage rate crisis in the U.S. The book also cites energy and socioeconomic data from sources such as IEA, OPEC, articles published in peer-reviewed journals and non-academic journals (such as *The Economist*), and reports from Goldman Sachs, McKinsey & Company, etc.

Rubin's key prognosis is that the world is going to become smaller. This is based on the notion of peak oil. He argues, quite convincingly, that the rate of global oil production has peaked, while demand continues to increase, especially in developing countries. Rubin insists that the world will not run out of oil, but that the cost of extraction will make it un-economical for its current usage. This reality, according to Rubin, is grossly denied by the world's politicians and oil companies alike because of its repercussions for a global society completely dependent on the uninterrupted supply of cheap oil.

Rubin makes various references to the Brazilian and Canadian cases. In Brazil, he recognizes that the deep-sea Tupi field was announced with great fanfare in 2007. In Canada, the tar sands are also announced as a significant source of oil. However, both cases are examples of non-traditional petroleum sources, which incur large extraction costs: "what is coming out of the ground is not the cheap, free-flowing stuff that gushes out of the desert in Saudi Arabia" (p. 35). This situation is tantamount to 'scraping the bottom of the barrel'.

Rubin's writing is captivating and satirical; he has written a best-seller (in Canada). He openly criticizes his own profession, stressing that resource limits are often overlooked by economists and that the 'laws' of economics are all together inadequate to assess the current situation of peak oil: "If we wait for Adam Smith's invisible hand to pull abundant sources of new cheap oil out of the ground, we are going to be waiting for Godot" (p. 44).

Rubin explores the long-term effects of the two global oil shocks in the 1970s. In the conclusion of part one, he identifies that the worst consequence of those events is that economists and policymakers learned the wrong lessons: "The OPEC shocks didn't wean us off oil. They just prompted technical change that has made us even more leveraged to the stuff" (p. 138). By technical change, he means increases in energy efficiency which produced rebound effects and ultimately led to an increase in overall energy consumption. He calls this the efficiency paradox, which should not be confused with energy conservation.

Admittedly, the book is written with a 'North American' bias. Rubin makes many suggestions and critiques concerning public policies, especially with respect to infrastructure investments and the recession-bailout strategies of the U.S. and Canada. For Rubin, neither electric cars, biofuels, nor the hydrogen economy holds the solution for the largest consumer of oil: single-car vehicles. Investments in infrastructure for the future are needed, i.e. public transit, and not investments in the past, i.e. auto industry bailouts. Government efforts should focus on how society can change its dependence on oil: "We have to change the basic equation that ties our oil consumption to our economy" (p. 240).

Global trade will also be affected by rising oil prices, which Rubin views as good news for the U.S., Canada and other parts of the world that have seen their manufacturing units moved to China: "You can liberalize trade all you like, but it won't make a difference if no one can afford to ship the things you want to sell" (p.

177). Despite his earlier criticism of economics, Rubin shows himself to be true to his trade. He believes that the economy will shed light on the largest risk facing the world: climate change: “But in one of the ironies in which history seems to specialize, the nineteenth century has furnished us with part of the solution to the problems it bequeathed to later generations: economic theory” (p. 187). The solution he prescribes is placing a carbon tax on local and imported goods. In this case, Chinese goods wouldn’t be able to compete, since they are more carbon-intensive than the same products manufactured in the U.S. or Canada, due to China’s high dependence on coal-based energy.

The new, local economy will be very similar to the economies of four decades ago, according to Rubin: more local food and manufacturing and less international tourism. With his North American perspective, Rubin only briefly touches upon the impacts expected for the economies in developing countries. He does recognize that they will likely be most affected by the loss of their export markets and of opportunities for migration.

Near the end of his text, Rubin reflects on the cultural changes of a smaller world by citing the example of Toronto. Half a century ago, it was transformed from a provincial city of predominantly British descendants into the cosmopolitan, vibrant and multicultural center that it is today because of globalization. Rubin questions whether values such as liberalism, freedom, and tolerance will be maintained in a smaller, local economy: “As our economic well-being deteriorates, will we continue to remain committed to those principles of freedom and tolerance? These are not abstract questions – they challenge some of our most fundamental assumptions about our societies” (p. 274).

Rubin makes many convincing arguments to show that the supply of cheap energy is tapering off. What is of utmost importance to him is to prepare society for this new reality, but he often offers contradictory suggestions. The State’s role will be to invest in the correct type of infrastructure and to tax carbon; however, he also states that the true solutions will be found at the local level, as personal responses to economic stimuli. He later calls into question the very need for federal spending (particularly in the Canadian context) in the “smaller world”, insisting that “We will face difficult, perhaps wrenching choices as we are forced to live within our means” (p. 285).

What is most alarming is the example he cites of a positive transition to a smaller world; the collapse of the Soviet Union. Rubin concludes that “One of the things that emerged in the wake of the collapse of the Soviet Union was the strengthening of networks of friends and family. To get through those dark days, people had to help each other out. Hopefully, we will manage to do the same” (p. 286). In this, Rubin has grossly overlooked the great void that was left after the fall of Communism and the institutions that filled this void; mafia-like oligarchies, which came to power to the detriment of the wellbeing of the general population. From 1990 to 1994, life expectancy in Russia dropped more than 4 years and returned to USSR levels only in 2010, 20 years after the collapse (World Bank).

Rubin's nostalgia for the local and for the past adds a positive spin to his prognosis. He states that "Local tastes and local customs, seemingly headed for extinction in the face of globalization's onslaught, will get a last-minute reprieve... the things that made your local environment distinctive will come back to the fore." (p. 282-3). Rubin concludes on an optimistic note: "...you will soon be spending much more time talking to your neighbor and much less time flying around the world. We will soon become far more attentive custodians of our own little worlds. And that is likely to make our neighborhoods better places to live" (p. 288).

Overall, Rubin's book is a pleasant read, both for policy makers and the public at large. He raises many fundamental questions about North America's oil-dependent lifestyles. For those interested especially in Canadian society, Rubin offers fresh insights, in a non-partisan fashion, about tar sands - an issue that is currently at the forefront of public debate regarding the socioeconomic and environmental priorities of this resource-based and energy-intensive national economy.

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