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Discussions about Energy and Our Future

CERA Says World Has Peaked, Buffett Calls Capitalism a Ponzi Scheme

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The Oil Drum is known for primary analysis and perspective on a variety of energy and broad resource related topics. Of our content, this lone Saturday (Campfire) slot was intended as a side forum to explore non-empirical, deeper questions relevant to society and our energy future.

The trend in media this decade has been for the gritty, non-politically correct analysis and muckraking to be primarily found on the internet. The content of conventional media is largely confined to a narrow band around conventional institutional views. A couple years ago, I wrote this [overview to belief systems](#), including such aspects as cognitive dissonance, self-deception, steep discount rates, our penchant to listen to confident authority figures, and our split brain unconscious editing mechanisms. As we live through growing disconnects between perception and reality, the abstract and the concrete, and the aware and the blissful, I thought an imaginary press conference among some conventional luminaries might highlight some truths via its juxtaposition.

A FICTIONAL PRESS CONFERENCE

Jim Lehrer: *Ahem. If we could get started folks - please everyone take their seats. We've arranged this joint press conference/interview to set the record straight on some issues critical to the future of every American, and even every citizen of the world. Though lacking in organization, there has been a dramatic rise in the number of bloggers, private analysts and internet forums claiming that the recent peak in oil production was a hoax, that there are in fact no limits to economic growth, that fiat marker capital accurately reflects remaining available flow rates of natural resources, and that capitalism and democracy actually could permanently improve the welfare of all the worlds citizens without fouling our only nest. With me today are legendary social muckraker Warren Buffet, oil expert Daniel Yergin, and former Treasury Secretary Henry Paulson. Gentlemen: what do you make of these assertions?*

Warren Buffett: *Well, if I may start Jim, these folks are extreme to say the least. We all learn in school there are no perfect substitutes and that a marginal unit pricing system is completely ineffectual at predicting long term scarcity. I think these online blogging battalions ought to look at the real world for a change - can't they see wide boundary limits to growth with their own eyes? The only time to buy these naive theories is on a day with no "y" in it.*

Daniel Yergin: *I totally agree with Warren. With respect to oil, these bloggers claim that conventional media coverage of the oil supply fears in the 1880s, at the end of World War I and II and again in the 1970s were unnecessarily alarmist - in reality these were valid long horizon warning signs of technology advancing, but not keeping up with, depletion. This is a misunderstood position: CERA has never claimed we were physically running out of oil, only that the bloggers' 'Asian Phoenix' and other fantastic scenarios do not incorporate rising costs, receding horizons of non-energy inputs, and environmental impacts. These internet analysts are well intentioned, but frankly just don't have the training our people do needed to understand these complex systems.*

Jim Lehrer: *Mr. Paulson? What do you have to add?*

Henry Paulson: *There is a long history of social malcontents thinking we can have unlimited growth, develop some perpetual energy machine, or completely replace primary wealth (like oil and forests) with tertiary markers like stocks, bonds and derivatives. Science has pretty much closed the door on these faith based views of our planetary systems. I think it is a danger to the stability of our steady state system to allow these type of fringe views to permeate our media.*

Daniel Yergin: *That's right Hank. If we had unlimited resources, then why does the overburden continue to increase in virtually all metals and mineral extraction, which requires more energy to operate, which itself requires more metals and minerals. These online analysts have probably never heard of a positive feedback loop! Our field by field analysis of over 800 oil producing structures confirms that the 6.7% decline rate for mature fields that is oft bandied about on the internet is grossly understated. First, technology and high dollar prices caused us to suck out oil with a larger straw in the first half of these oil fields' lives, than physical principles will allow in the second half. Furthermore, the artificially high oil prices brought about by the fiat credit orgy made more supply appear than was sustainable - as investment ceases and as old oil infrastructure needs replacement, the decline rate the world will observe more closely approximate the natural decline rate of all fields. And most of what we find today is small fields, which give sharp bursts of production followed by steep declines.*

Warren Buffett: *Interesting Danny - I always say that if past history was all there was to the game, the richest people would be librarians, and the happiest too. In the businessworld, the rearview mirror is always clearer than the windshield, but in the field of ecology, the windshield is usually a pretty good indicator of whats coming. As far as these internet analysts pointing to indefinitely repealing the second law of thermodynamics, let the blockheads read what the blockheads wrote. They point out that Mexican drilling activity is twice what it was a couple of years ago, as if all that is needed to pull oil from the ground is more capital. Without oil, or similar quality energy, there is no capital. We believe that according the name 'investors' to institutions that trade solely on financial capital is like calling someone who repeatedly engages in one-night stands a 'romantic.' These would-be-capitalists are in for a surprise - only when the tide goes out do you discover who's been swimming naked.*

Jim Lehrer: *Expand on that please Mr. Buffett. How does natural capital, like fossil fuels, impact financial marker capital?*

Warren Buffett: *Imagine a spigot attached to a large underground cavern. From the spigot comes a natural resource elixir which is variously consumed by the planets denizens, human and other. The sun and our ecosystems gradually replenish what the cavern loses via the spigot. Human sociopolitical systems dictate how wide the spigot is opened: capitalism, unchecked financial markets, and technology all open the spigot wider. The wider the spigot, the faster the elixir depletes, and the more social tiers are created, which creates unstable and unsustainable tensions. The kind of system being painted by these internet rebels would undergo a temporary increase in riches at the larger costs of destruction of global social and natural capital, unlikely to be replenished. We have weekly strategy meetings at my fund, and like to think in as wide of boundaries as possible. Our favorite holding period is forever. What do we want to hold forever? Natural capital, social capital, built capital, and human capital. What these blockheads are proposing would never make it through our committee.*

Jim Lehrer: *My gosh. I imagine not.*

Warren Buffett: *Well Jim, you can imagine the reaction of my grandkids and yours if they found out we had depleted the natural capital beyond the ability to create new built infrastructure with bad financial tracking markers? I always say that should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks, which is what the capitalist system advocated by these inciters would be a perpetual exercise in. There seems to be some perverse human characteristic that likes to make easy things difficult.*

Daniel Yergin: *There are only 2 things certain in life: death and EROI. These resource cornucopians have never grasped that the major obstacle to the development of new natural capital is not geology or ecology but what happens above ground: international affairs, politics, investment and technology.*

Henry Paulson: *I'll simplify it further Dan. The concentration of wealth that would result from these internet analyst recommendations would imply only 2 options: a return to the feudal system or a hell of a dieoff.*

Warren Buffet: *It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently. Why would I listen to these pseudonymous resource cornucopians sprouting up all around the internet if I understand ecology, complex systems, biophysical economics and that the earth is round (well, slightly spherical)? People should spend time listening to the conventional media - the smarter the journalists are, the better off society is. For to a degree, people read the press to inform themselves - and the better the teacher, the better the student body. I have enough on my plate than to read these distracting treatises about the unlimited growth chimera by blockhead bloggers.*

Henry Paulson: *I find these penny-ante criticisms bubbling around the internet of our recent financial policies laughable. The Federal Reserves duty is to maintain natural capital levels so that any short term drawdowns can be relatively quickly replenished with solar energy flows and net primary productivity, which we now have a full understanding of its quantity and dispersion. The cornucopian chants for accelerating growth in the system via more debt are incredibly dangerous if taken*

seriously -you simply can't grow any socio-economic system by borrowing capital from yourself. We are taking this step to secure permanent natural capital to stabilize; to share ownership broadly among our citizens now and through future distribution; and to permit us to use publicly traded securities to finance strategic acquisitions that we may contribute to a more secure future for all of us. "We are very confident about the long-term outlook for our biosphere, but believe that the immediate impact of recent policies will be a further weakening in the operating environment and a delay in reaching a steady state, ... However, given decreased fiscal and monetary stimulus, we anticipate that long-term risks of future cannibalistic growth in our system should be less frequent and muted than previously expected."

Jim Lehrer: *Well what about those who claim that we went from wood to coal, and coal to oil and oil to gas - that we will similarly be able to more efficiently be able to harness sunlight and use this excess energy to recycle potentially scarce non-energy inputs? Do you ever get intimidated by these congressional analysts who are starting to throw barbed questions at you at hearings, with the sole intent to create a playing field where all their constituents can have more?*

Henry Paulson: *All can't have more - that is a delusion. Some can have more, or more can have less. I amuse myself a lot by sitting in those hearings and thinking what would happen if I said, "Do you realize what an idiotic question that is?"*

Jim Lehrer: *Thank you gentlemen. Let's pause and field a few questions.*

CAMPFIRE QUESTIONS

1. If such an unlikely press conference were to take place, with the icons of modern industry and intellect doing a complete about face on resource availability and limits to growth, what would happen?
2. Is blogging, public analysis, social critique, etc. found on the internet, more of a social relief valve than a real attempt at changing the future? In other words, is the vast undercurrent of angst and opinions of what is wrong with our trajectory just a 21st century passive variety of self-expression, ineffectual at impacting real events?
3. Is there any time in history in the liminal space between paradigms, where the most authoritative voices of the dying model were the ones to articulate the model was dying? IOW, if things are badly wrong, wouldn't listening to the most successful people at the top be the wrong strategy, as they got to that position from being the most ambitious/skillful/invested in the current paradigm?



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