Our Finite World
Exploring how oil limits affect the economy

Role of Wages of the Common Worker in Oil Prices, Collapse

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In their book Secular Cycles, Peter Turchin and Surgey Nefedov point out the important role falling wages of the common workers played in early collapses. I got to thinking that this might be an issue with our current situation as well, including the low level of oil prices.

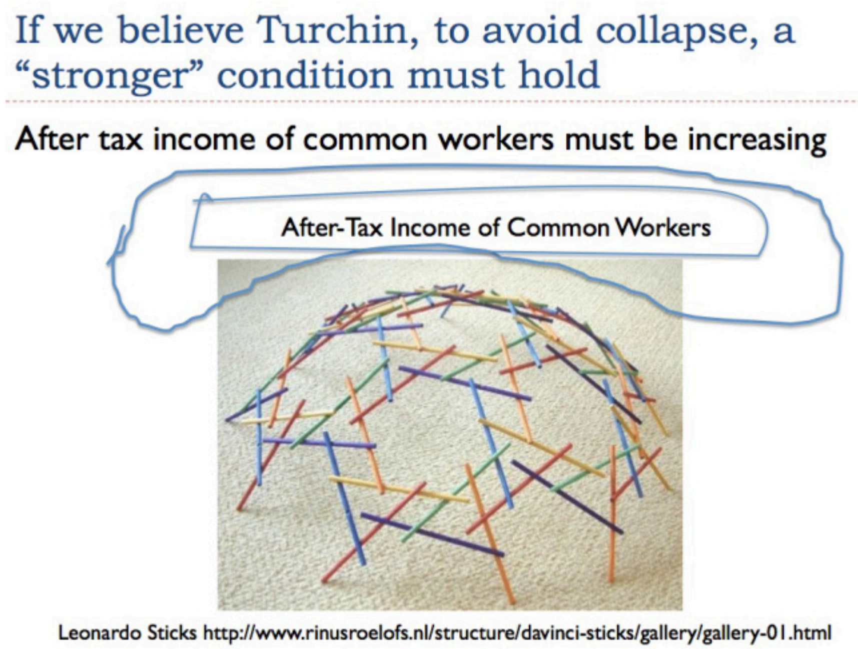
I explain this in two presentations. The first one is called "Overview of a Networked Economy". The second one is called, "Economic Growth and Diminishing Returns."

A couple of (amateurish) slides that need explanation are the following ones:

The cloud above my representation of the economy is supposed to represent the cloud of goods and services that the economy makes. Many people would like us to believe that as long as this cloud is growing, everything is fine.

What Peter Turchin discovered is that there is a smaller cloud that really needs to be growing, as well.

This cloud is the after-tax income of the common worker. If this isn't growing, then it is hard to collect enough taxes. The ultimate downfall comes from government downfall, because of the problems of the common worker.



The above slide is an attempt to show the after-tax income of common workers as a subset within the GDP cloud. (It probably should be much smaller.)

Common workers are ones who will tend to buy mostly goods and not too many services. In fact, the goods that they buy are not necessarily even high tech goods. If these workers cut back on goods that use a lot of commodities in their production, this cutback could contribute to all of the other pressures we are now seeing toward lower commodity prices, and make it much harder for oil prices to rise again.

If we want common workers to do better, it looks to me like we need an increasing supply of cheap-to-extract oil (low priced would help as well).

To see the full story, you will need to click on the links above.

I will be leaving on March 13 to spend four weeks lecturing and traveling in China. (My family will not be coming along, so I won't be leaving an empty house here.) Hopefully I will have a chance to write a "regular" post between now and then–the two presentations are from this series. I don't expect to be able to write posts while I am in China because China does not allow access to the WordPress site where I write my posts.

About Gail Tverberg
My name is Gail Tverberg. I am an actuary interested in finite world issues - oil depletion, natural gas depletion, water shortages, and climate change. Oil limits look very different from what most expect, with high prices leading to recession, and low prices leading to inadequate supply.
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