The ELP Plan: Economize; Localize & Produce

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This is a guest post by Jeffrey J. Brown, known to all of you as westexas.

In this article I will further expound on my reasoning behind the ELP plan, otherwise known as "Cut thy spending and get thee to the non-discretionary side of the economy."

I have been advising for anyone who would listen to voluntarily cut back on their consumption, based on the premise that we were probably headed, in a post-Peak Oil environment, for a prolonged period of deflation in the auto/housing/finance sectors and inflation in food and energy prices.

To put our current rate of worldwide crude oil consumption in perspective, during George W. Bush's first term, the world used about 10% of all crude oil that has been consumed to date, and based on our mathematical models, the world will use about 10% of our remaining conventional crude oil reserves during George W. Bush's second term.

First, a discussion of our current economy.

The Current Economy, "The Iron Triangle" & The Mortgage Meltdown

Author Thom Hartmann, in his book, "The Last Hours of Ancient Sunlight," described a high tech company that he consulted for that went through several rounds of start up financing, and then collapsed, without ever delivering a real product. At the peak of their activity, that had several employees and lavish office space--until they ran out of capital. His point was that this company was analogous to a large portion of the US economy, which has the appearance of considerable activity and uses vast amounts of energy, but how much of this economic activity delivers essential goods and services?

I have read, and it seems reasonable, that the majority of Americans live off the discretionary income of other Americans. We are therefore facing a wrenching transformation of the US economy--from an economy focused on meeting "wants" to an economy focused on meeting needs--and the jobs of a vast number of Americans are thereby directly threatened in a post-Peak Oil environment.

I have described three segments of what I call the Iron Triangle: (1) The auto/housing/finance group (the "Debt" group); (2) The mainstream media group (the "MSM" group) and (3) Some major oil companies, some major oil exporters and some energy analysts (the "Energy" Group).

The Debt Group wants Americans to keep buying and financing large SUV's and houses. The MSM Group wants to keep selling advertising to the Debt Group. The Energy Group provides the intellectual ammunition for the Debt Group and the MSM Group, i.e., we have trillions and trillions of barrels of remaining oil reserves, and Peak Oil is something that we don't have to worry about for decades.

Unfortunately, the net effect of the efforts of the Iron Triangle is to encourage Americans to continue buying and financing large SUV's and houses at great distances from their jobs, because higher oil production, and thus lower fuel prices, are right around the corner.

The US Mortgage Meltdown was inevitable, but in my opinion, the trigger for the meltdown was the increase in oil prices in the second quarter of 2005. The US Personal Saving Rate metric is not perfect, but it is a consistent measurement, and in recent years it was positive--until the second quarter of 2005. It has been negative ever since the second quarter (April, May, June) of 2005 .

The average monthly Brent spot crude oil price, in the 20 months prior to May, 2005 (the middle of the second quarter) was $38 per barrel. The average price after May, 2005 has been about $62, within a range of $54 to $74. I believe that this increase in energy prices was the final straw that pushed many US households into a negative saving rate, triggering the current wave upon wave of foreclosures.

Daniel Yergin, chairman of Cambridge Energy Research Associates (CERA), in 2004 predicted that the long term oil price would be $38 per barrel, because rising crude oil production would force oil prices down in order to equalize supply and demand. In reality, flat to declining crude oil production since May, 2005 has forced prices up in order to equalize supply and demand.

Those who listened to the false promises of energy abundance made by CERA, et al, have had considerable reason to regret it.

What have I and others been advocating? Let's start with Economize.

ELP: Economize

For some time, I have suggested a thought experiment. Assume that your income dropped by 50%. How would you change your lifestyle?

Many employees of Circuit City don't have to imagine such a scenario. Many higher paid employees at Circuit City have been fired and then been told that they are welcome to apply for their old jobs, subject to about a 50% pay cut.

In my opinion, the unfortunate new reality is that we are going to see a growing labor surplus--against the backdrop of deflation in the auto/housing/finance sectors and inflation in food and energy prices. By reducing your expenses now, while you can do it voluntarily, you will at least be better prepared for whatever the future may bring.

A key way to Economize is to Localize.

ELP: Localize

I recommend that you try to reduce the distance between work and home to as close to zero as possible, and furthermore, that you live in smaller, much more energy efficient housing, preferably close to mass transit lines.

If you can walk or take mass transit to work, in many cases you can get by without a car, or least fewer cars--and save considerable amounts of money. Currently, it costs about $7,500 per year to drive the average late model US car about 15,000 miles per year. As gasoline prices increase, and as depreciation rates probably also increase, the cost per mile of driving cars will continue to increase.

I would further recommend that you integrate yourself into your local community. Get to know your neighbors. Become involved in local government, etc.

I would especially recommend support of local food producers, perhaps via Community Supported Agriculture, and support of local manufacturing and local businesses.

Finally, the Produce recommendation.

ELP: Produce

Jim Kunstler has suggested that we should not celebrate being largely a nation of consumers. I agree with Jim. We need to once again become a nation of producers. I recommend that you try to become, or work for, a provider of essential goods and services.

Key recommended sectors are obviously energy--conventional, non conventional and alternative energy production and energy conservation--as well as food production, especially local organic farming close to towns and cities.

Other sectors to consider are repair and maintenance, low cost energy efficient housing, low cost transportation, basic health care, etc.

The biggest risk to family finances is trying to maintain the SUV, suburban mortgage way of life in a period of contracting energy supplies. Beyond that, one of the next biggest risks in my opinion, is excessive and unwise spending--especially debt financed spending--on college education costs.

While we will desperately need engineers and many other technically qualified graduates, we are seeing wave upon wave of college graduates entering the work force with degrees that very poorly prepare them for work in a post-Peak Oil environment. We may ultimately see college graduates competing with illegal immigrants for agricultural jobs.

Perhaps the best education investment that many young people could make is a two year associate degree in some kind of repair/maintenance area, perhaps with summer jobs in the agricultural sector.

I would especially recommend that you consider buying, perhaps with a joint venture group, a small farm, either currently organic, or that can be converted to an organic farm. In the short term, if nothing else you could lease it out to an organic farmer. Longer term, you might consider building or moving a prefab, small energy efficient house to the farm. If nothing else, this plan may provide a place of work for your unemployed college graduate.

I think that "Tiny Houses" will become more popular, as larger homes are no longer viable. Where there are jobs nearby, many McMansions could be subdivided, but absent local job centers, I expect large swaths of American suburbia to be essentially abandoned. As Jim Kunstler warned, American suburbs represent the "Worst misallocation of capital in the history of the world."

Very small (250 square feet or so), highly energy efficient, perhaps prefabricated housing makes a lot of sense, and this may become a growth sector.

I should confess that I in no way have a green thumb, but others certainly do, and there are some very encouraging case histories of Americans doing quite well with their own "Victory Gardens" so to speak, such as this case history: "Berkeley: Urban farmers produce nearly all their food with a sustainable garden in their backyard."

How have people responded to these recommendations?

The Responses Thus Far

Two responses, from recent years, are illustrative.

First, the West Texan. After outlining my plan, a friend of mine from West Texas thought about it for a moment and then said, "But if we stop borrowing and spending, what will happen to the economy?"

Second, the Dallas socialite. Again after outlining my plan, this lady said, "You're not from Dallas, are you?" I replied that I was not. To which she said, "No one raised in Dallas would ever talk about living below their means."

So, living below one's means, at least in years past, was somehow considered vaguely un-American and socially unacceptable.

However, recently people who have followed some version of the ELP plan, either because of my recommendations, or based on their own evaluation of the present environment, have had considerable reasons to be glad that they voluntarily downsized. So far, I have not heard any regrets from anyone who downsized.

Or, turn it around. Does anyone now wish that they had bought a large SUV and large suburban McMansion--all with 100% financing--on January 1, 2006?

Finally, if we are wrong about Peak Oil, and if you followed the ELP plan, you will have less--or no--debt, more money in the bank, and a lower stress way of life.

Please note that the next essay in this series probably won't be posted until the week of April 16th. I will be doing ELP research, checking out post-Peak Oil locales.

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