

Oil costs much more than is apparent

By COLIN READ

In My Opinion

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— Everybody knows the pain at the pumps. Some are even discovering the pain at our furnace as they negotiate next year's heating-fuel contract. What will the national pain eventually come to?

Ours is a \$12 trillion economy, up from about \$10 trillion (in 2000 dollars) in the past eight years. We can figure out the national cost of increases in the price of oil by comparing the share of our Gross Domestic Product that is devoted to oil.

The United States uses just over 20 million barrels of oil per day. While consumption has not changed dramatically in the eight years, the price of oil has almost tripled in three years, and increased six-fold in eight years.

Of course, this run-up in the price of oil has first-round effects of higher oil prices at the pump and for home and commercial use. It also has secondary effects on increases in food costs, shipping costs, manufacturing costs, etc. Eventually, just about everything we produce and consume is touched by the increase in the price of oil.

It would be too complicated to sort out all these eventual changes. Instead, we can look at it from another perspective.

Back in 2000-01 when we had a \$10 trillion economy, we consumed about 19 million barrels of oil per day, at a cost of approximately \$400 million per day. This works out to about \$146 billion per year, or just under 1.5 percent of our economy.

At current prices and usage, we must purchase about \$3 billion worth of oil per day, or about \$1.1 trillion per year. This accounts for about 9 percent of our Gross Domestic Product.

Ultimately, the tax on us all then works out to about 7.5 percent of GDP now diverted from the U.S. economic pie to oil-producing nations and corporations. Some of that wealth shall be diverted back to the U.S. to the extent that U.S. shareholders hold stock in the energy sector. However, we have collectively become poorer by the increase in oil prices.

We might imagine that all Americans can tighten their belts enough to make up for this 7.5-percent decrease in wealth. However, this figure represents the economic growth of three very healthy years in this nation. In essence, all our gains in productivity, efficiency and innovation for three or four good years have gone to oil-producing nations.

We can look at this 7.5-percent tax another way. Few of us could imagine the same quality of life if our take-home pay fell by 7.5 percent. These are the real costs of our failure to anticipate energy as an important strategic issue.

If we now devote an extra trillion dollars a year to oil consumption, let's explore what else we could have done with that wealth. Just imagine what we as a nation could have done in research and development that could wean us off oil. Such an R&D effort would have given the U.S. an almost insurmountable lead in the alternative-energy sector, just as the space race gave us huge technological advantages that we still enjoy today.

Carrying the comparison to the space race still further, in today's dollars, the entire Apollo mission over its many years cost only a fifth of what we have lost to oil -- in one single year! Imagine that -- five complete Apollo programs -- each and every year -- for the bite oil has taken out of our wallets.

It is not too late, though. When confronted with crisis, the American people rise to the occasion, with a level of innovation and ingenuity that invariably produces spectacular results. Perhaps this is the crisis we need to again become world leaders in energy production. It will, of course, be a new form of energy. It does not make sense to expand oil production from \$30 to \$50 crude prices to the \$143 today, just to get out every last drop. There are new and sustainable options on the horizon -- if only we have the collective will and ingenuity to develop them first. I'm up to the challenge. Are you? It is up to us all to demand an energy policy that takes care of today but also contemplates tomorrow.

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