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Energy

Twenty Dollars Per Gallon

Christopher Steiner 07.16.09, 6:00 PM ET

The following is adapted from \$20 Per Gallon: How the Inevitable Rise in the Price of Gasoline Will Change Our Lives for the Better by Christopher Steiner, Grand Central Publishing (2009).

What does it mean to be middle-class? It means to have a home, to have a regular income, to have consumer freedom, to drive a gas-burning vehicle, and in general, to consume. And when people consume, they consume oil.

It takes oil to power your car, to produce your plastic yogurt cup, to harvest the grain that makes your bread, to transport the livestock that will be your meat. It takes fuel to ship the clothes, gadgets, and items middle-class people buy and use. It takes petroleum to create the chemicals and compounds that go into so many things we use today, including computers, cars, homes and infrastructure.

Middle-class life runs on oil. So we should pay rapt attention to things that could cause the price of oil to increase. As the price increases, our lives will indelibly change--and there are plenty of reasons to think that the price of oil will, in the long term, steadily increase.

There exist three distinct pressures on the price of oil going forward, the first being a throng of 2 billion people on the cusp of joining the ranks of Earth's middle class. The second, simply: We're running out of oil. The third: the threat of climate change and what it means for the price of oil.

Billions of people in other parts of the world work hard to get the luxuries we take for granted in America. And many of these people will get what they want. Currently 1 billion people on the planet live what can be considered an "American lifestyle" (including, of course, Americans themselves). By 2050, there will be 3 billion people living this American lifestyle--that means three times as many people consuming oil the way we do now.

China alone will add another America's worth of energy consumption to the world's grid. India adds the equivalent of a Norway to its economy every year. The U.S. has 750 cars for every 1,000 people; China, in sharp contrast, has just 4 cars for every 1,000 people. If China gets to only half the car ownership rate of the United States, it means an additional 400 million vehicles on the road and looking for gasoline, almost like adding another two United States' worth of cars to the world.

Adding to the oil pinch: As global oil demand ramps up, global supply will be easing down. We sit in a period that's popularly (and appropriately) known as "peak oil," meaning that global production of crude is at a zenith that will never again be realized.

One of the best arguments for oil's increasing scarcity has been made by Ali Samsam Bakhtiari, Ph.D., a former director of the National Iranian Oil Co. who died in 2007. In one of the doctor's last research essays, he wrote of world's oil production: "After some 147 years of almost uninterrupted supply growth to a record output of some 81-82 million barrels per day in the summer of 2006, crude oil production has since entered its irreversible decline."

Samsam added, somewhat intuitively, the decrease "will eventually come to affect everything else under the sun." American oilman T. Boone Pickens also fully realizes the changes that will have to be made in our lives going forward. Pickens, who made his billions primarily from oil, is espousing a strategy that would have America deriving much of its energy needs from wind, with natural gas filling in the holes.

"The world has been looked at. There's still oil to be found, but not in the quantities we've seen in the past," Pickens said. "The big fields have all been found and the smaller fields, well, there's not enough of them to replenish the base ... If I'm right, we're already at the peak. The price will have to go up."

As Pickens mentioned, production in many of the world's megafields has already dropped ominously. Megafields are even more important than they sound: Half the world's oil comes from just .03% of its oil fields (the mega ones). When the megafields' production begins to ebb, it's likely we'll have entered an irreversible supply decline. It's a reality that's here. Consider this: Oil fields typically enter decline after 50 years of pumping. And the average age of the world's largest 14 fields? Forty-nine years.

Oil's price will also be upwardly affected by measures taken against global warming. The U.S. House of Representatives recently passed a bill with a goal of reducing the nation's carbon emissions 17% by 2020. That's an ambitious target, but not an unreachable one. To get there, some form of carbon tax will have to be implemented. The dire fact remains, however, that a 17% reduction isn't enough to quell global warming. Further cuts will be necessary, resulting in, again, more expensive carbon. It will take a 75% emissions cut just to stabilize carbon levels in the atmosphere.

The good news is that we will not wake up tomorrow and find gas prices of \$12 per gallon. The increasing price of gasoline will filter in throughout the years and across decades. We will have ample time to adjust. The Armageddon scenarios and the lawlessness some predict will accompany oil's decline won't happen. As always, the market will reward innovators and punish laggards. When Wal-Mart's empire falls in the face of \$14-per-gallon gasoline, a new model will prosper.

The geologic and demographic facts tell us that oil's decline is inevitable. The truly interesting question, however, is what happens in the interim--what will happen to our lives?

[Read more about how soaring energy prices will transform our lives in our special report on \\$20 a Gallon.](#)