

Peak Oil and the Inflation Lie

US government, Wall Street hide energy shortage and crisis with deceptive indicator

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In the past few days, news headlines have trumpeted and repeated what is a non sequitur, and a physical and logical impossibility:

[Overall Inflation Eases, Gas Prices Up](#) (Associated Press)

[Despite Gas Prices, Inflation Eases](#) (Boston Globe)

These nonsensical statements have already become the basis for economic, political and financial decision-making across the country, as well as internationally.

It is a lie. Here is why.

Rising energy costs *are* inflation. You cannot have one without the other. Energy, and energy-related material, is the lifeblood of modern industrial life. When the cost of energy (including oil, natural gas, electricity, and the products made with petroleum, such as plastic) goes up, the cost of everything goes up. This is inflation. When energy is depleted, while the use and demand for energy continues to increase, the price of energy skyrockets. Inflation, again.

It is a fact that the world is in the early stages of Peak Oil and Gas—permanent shortage, and permanent depletion. The world oil peak occurred in November 2005, according to renowned scientists, geologists and industry experts.

It is therefore a fact, with permanent shortage with high, rising and insatiable world energy demand, that rising inflation is not only a problem now, but also a permanent condition.

Why are the authorities hiding this?

Core inflation hides the truth about energy crisis

Simply defined, inflation is the increase in the average level of prices. However, there many different methods by which inflation is measured, and selectively reported by US government (primarily, the Bureau of Labor Statistics), the Federal Reserve Bank, Wall Street analysts, economists, the corporate media, and the rest of the US government.

There are, however, many different definitions of inflation. In recent years, the Bureau of Labor Statistics and the Fed have selectively emphasized one version, *core* inflation. *Core* inflation is the statistic that excludes costs of energy and food.

Given the fact that 1) daily existence in modern life demands various forms of hydrocarbon energy, 2) a vast array of basic material is derived from hydrocarbons (such as plastic), and 3) food and food production depend on hydrocarbons (fertilizers, irrigation and pesticides, energy needed to run machinery, etc.), the exclusion of food and energy costs in the measure of inflation is, therefore, a lie.

The selective use of core inflation is a cover-up that is routinely assisted by corporate media that, knowingly and unwittingly, promotes the illusion of a “growing economy with inflation under control, or non-existent”.

Meanwhile, what is the truth? Consider these:

[Inflation looms as oil prices soar](#)

[Oil and gas project costs reach new highs](#)

[Gas costs \\$1,000 more annually than in 2001](#)

The price of every form of energy (oil, gas, electricity) is going through the roof, as are other costs of everyday survival: health care, housing, and education.

In [The Peak Oil crisis: alarms are sounding](#) (May 17, 2007), Tom Whipple of the Falls Church News-Press writes:

“Across the world, alarm bells are starting to clang. Above every gas station, a large sign is proclaiming that prices are on an unstoppable climb towards unaffordability. In Paris, the International Energy Agency has announced that the demand for oil is likely to exceed the supply later this year, unless, of course, OPEC steps up production. In the Middle East, OPEC spokesmen reiterate time after time that all is well, there is plenty of oil, and there is no need to increase production.... The Chinese just announced that their April oil imports were 23 percent higher than last April’s. Iraq, Saudi Arabia, Venezuela—everywhere you look—there are unmistakable warnings of troubles to come.”

Ordinary people are being defrauded and lied to. It does not take a degree in economics or finance to see this. Even people who do not pay attention to the news intuitively know and feel the increasingly crippling effects of real inflation every day, at the gas pump and everywhere else. They are watching their money disappear. The crisis is palpable.

Will the real inflation please stand up?

If core inflation is a deceptive statistic, where, then, does one find a more realistic measure? That is found in what is known to economists as *headline* inflation. Headline inflation *includes* the cost of energy and food.

A few contrarian observers have pointed out that headline inflation tells much more of the truth.

Charles Bean, chief economist of the Bank of England [said in August 2006](#) that the US Federal Reserve is wrong to focus on core measures of inflation that exclude energy prices. According to Bean, “it should focus on headline inflation, which is much higher. Including energy and food costs, US consumer price inflation is running at an annual rate of 4.1

percent, against 2.7 percent for core inflation". He also pointed out correctly that energy prices were rising for the same reason the price of many manufactured goods are falling: the rise of China and other emerging market economies. Bean's controversial statement came at the Fed's annual Jackson Hole, Wyoming symposium. (Since Bean's statement, energy prices have risen, which suggests that inflation is even higher than Bean's 4.1 percent estimate).

In a piece titled "[Inflation reporting errors continued](#)", Barry Ritholtz concludes that the Bureau of Labor Statistics has been "consistently under-reporting inflation over the past 8 years." Worse, the amount of the discrepancy has widened dramatically, with "the gap between core and headline is now greater than it was in the early 1980s, and—hard as it may be to imagine—we are only slightly off the spread of the terrible 1970s." The BLS and the Federal Reserve, according to Ritholtz, have deviated from reality, even though others around the world see the disconnect... "The basket of goods and services that is measured is so massaged and hedonically adjusted", that it no longer reflects reality.

In Ritholtz' view:

"The US consumer is confronted with rapidly rising costs for food, energy, health care, housing, education expenses. Indeed, even as both the everyday survival expenses (shelter, food, energy) and the larger family expenses (doctors, college, etc.) have exploded, there has been little correlation to what economists and the BLS have informed them. Despite the contradiction, there is little inflation in the official stats. It is as if economists are asking consumers, 'Who are you gonna believe, us, or your lying eyes?'"

"If we are to judge inflation on a broader scale, we would undoubtedly come to the conclusion that, like the rest of the world, the US has an inflation problem."

Ritholtz also notes that the highly respected Bill Gross of PIMCO (the largest manager of bonds in the United States) sees the same thing. Gross states: "A bigger threat to asset markets...comes not from slower economic growth in the short-term, but inflationary pressures towards the end of our secular timeframe. Since 1967, average differences in headline vs. core inflation have essentially been zero, despite distinct periods of cyclical variation. Now however, with globalization so dominant and Chinese/Asian appetites for oil, soybeans and iron ore amongst other commodities so voracious, it's hard to envision an extended period of lower headline US increases."

Here is a similar discussion:

[Except for inflation, there's no inflation](#)

In "[Lies About Inflation](#)", Jack Douglas argues that the official measures of inflation, the Consumer Prices Index (CPI) does not include housing prices, which have soared in a Housing Bubble of recent years, and that education, retirement costs, medical and health care costs are grossly undercounted.

What are the US government and Wall Street working so hard to hide, and why are they hiding it? According to Douglas:

"The CPI does include the soaring costs of energy and food, so the Fed and the

Big Media have cut them out by referring to the 'Core CPI Inflation,' which is a totally ad hoc number they get by cutting out energy and food costs. But have you ever met an American, or any human being, who could live without food or energy? The Fed pretends it is cutting out the heart and core of inflation by cutting out food and energy because these are 'variable.' But, of course, all prices are variable and this variability is the very reason one wants to keep measuring them: if they were not variable, it would be absurd to measure them more than one time.

"First, they do not want consumers to know that the American economy is in a desperate situation. If people knew the truth, they would save, not spend, and would insist the government stop running up immense debts to pay-off its rich Party members and fight unwinnable wars.

"If people saved, the Fed believes in Keynesian Ideology the economy would shrink, so they lie to get people to borrow and spend to pump-up the economy. The government and Fed poured out vast oceans of paper dollars over the past six years in a desperate Keynesian attempt to revive investment, income, consumption and growth to kick-start the economy after the Crash of the Nasdaq Bubble (created by earlier Fed floods of dollars to 'pump-up the economy') six years ago erased over 8 trillion dollars.

... "Second, they hide inflation to keep down the inflation-adjustment wage and retirement benefits to tens of millions of Americans at the lower end of the income scale, which saves big corporations and the government tens of billions of dollars a year.

"The Fed and the rest of the government failed to kick-start a real investment boom and growth. They produced an immense burden of debt, inflation, bubbles, and distortions of the whole global economy. Now all of that is unwinding faster and faster: we are spinning down faster and faster in a vortex of contraction that will most likely produce a 'free fall'—a Great Crash."

[Note: I do not endorse all of the political views of [this web site](#). However, Douglas' view is on target. -LC]

An honest, accurate picture of post-Peak Oil economic reality, and the resulting public outcry, would cause a systemic crash, stock market collapses, and the end of "consumer confidence". Without consumer spending and debt, the fragile economy would lose one of last remaining legs it is teetering on. There would be no more "pump" in "[pump and dump](#)", and the Wall Street casino would close.

Off the cliff, into the dark

Governments, corporations and policy makers all over the world have been aware of Peak Oil and Gas for a long time, and have engaged in desperate actions to prepare for its many effects, including inflation. On February 28, 2007, the [US General Accounting Office \(GAO\)](#) published a report to Congress entitled *Crude Oil: Uncertainty about Future Oil Supply Makes it Important to Develop a Peak and Decline in Oil Production*. The authorities simply do not want the public to be privy to their machinations.

The global architects who manage a teetering global system that profits from criminality and mass murder—who have lied about 9/11, and lied in order to wage illegal wars of conquest all over the world—would not hesitate for one second to lie about inflation. In the words of Mike Ruppert, author of [Crossing the Rubicon](#), there are too many "psychological and moral limitations that no political leaders and few human beings can see beyond" to

count.

The lying will not end. Far important is the need to develop the ability identify the lies, and deal with the reality that they are being told to ignore.

As [Tom Whipple](#) warns, there are immediate problems:

“...Right now, on top of every American’s agenda should be the question of whether we are going to get through the summer without shortages and gas lines—opinions are mixed.

“Earlier this week, Matthew Simmons of Twilight in the Desert fame, suggested that prospects for an uninterrupted summer of driving may be worse than government spokesmen have been letting on.

“Where does all this leave us? The short answer is, in an increasingly grim situation. When respected analysts say our gasoline situation is beyond the tipping point and that at least some of us are likely to be sitting in gas lines before Labor Day, we should heed the warning. Looking at the broader, worldwide picture, the situation is equally grim. When the normally staid International Energy Agency starts issuing a stream of dire warnings about shortages or much higher prices before the year is out, we should start thinking about a markedly different future.”

This future includes rising, and eventually permanent, inflation.

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