

Our Finite World

Exploring how oil limits affect the economy

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

Posted on February 25, 2015 by Gail Tverberg

In their book *Secular Cycles*, Peter Turchin and Sergey 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:

Standard definition of Economic Growth

Amount of Goods and Services (= GDP) must be increasing

Goods and Services = GDP



Leonardo Sticks <http://www.rinusroelofs.nl/structure/davinci-sticks/gallery/gallery-01.html>

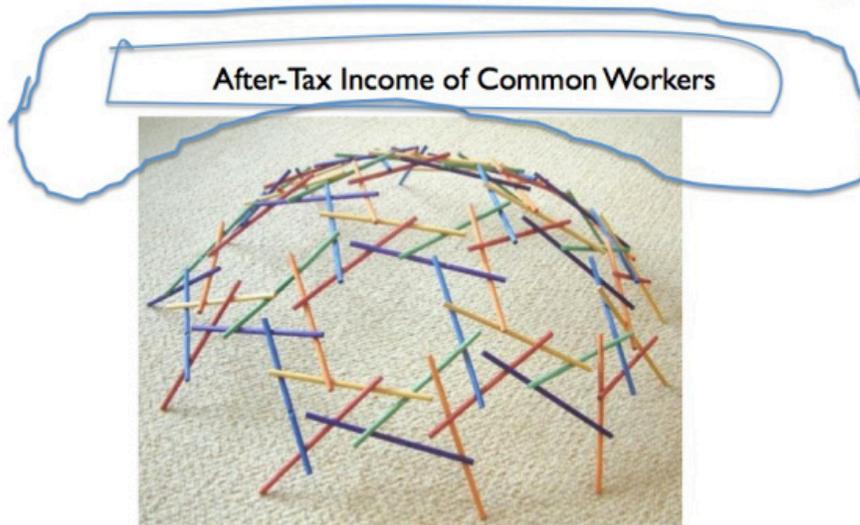
The cloud above my representation of the economy is supposed to represent the cloud of goods and services that the economy makes. Many people would like us to believe that as long as this cloud is growing, everything is fine.

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.

If we believe Turchin, to avoid collapse, a “stronger” condition must hold

After tax income of common workers must be increasing



Leonardo Sticks <http://www.rinusroelofs.nl/structure/davinci-sticks/gallery/gallery-01.html>

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.

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**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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332 Responses to *Role of Wages of the Common Worker in Oil Prices, Collapse*

[Don Stewart](#) says:

March 5, 2015 at 7:40 am

To Xabier

Regarding the tendency of the aristocracy to steal from the peasants. See this from John Michael Greers current blog post:

‘Ivan Illich pointed out in *Energy and Equity* a long time ago the logical fallacy here, which is that using a bread machine or buying from a bakery is only faster if you don’t count the time you have to spend earning the money needed to pay for it, power it, provide it with overpriced prepackaged mixes, repair it, clean it, etc., etc., etc. Illich’s discussion focused on automobiles; he pointed out that if you take the distance traveled by the average American auto in a year, and divide that by the total amount of time spent earning the money to pay for the auto, fuel, maintenance, insurance, etc., plus all the other time eaten up by tending to the auto in various ways, the average American car goes about 3.5 miles an hour: about the same pace, that is, that an ordinary human being can walk.

If this seems somehow reminiscent of last week’s discussion of externalities, dear reader, it should. The claim that technology saves time and labor only seems to make sense if you ignore a whole series of externalities—in this case, the time you have to put into earning the money to pay for the technology and into coping with whatever requirements, maintenance needs, and side effects the technology has. Have you ever noticed that the more “time-saving technologies” you bring into your life, the less free time you have? This is why—and it’s also why the average medieval peasant worked shorter hours, had more days off, and kept a larger fraction of the value of his labor than you do.’

Most particularly, the last sentence. I don’t know where JMG gets the support for his statement, but he’s usually careful about such things.

Two points I would make:

1. A prepared person living in a low energy world with good tools may be surprisingly well off in many respects.
2. Most all of us simply can’t compete in 2015 if we try to live that way.

Take Ivan Illich’s classic calculations on the speed of the automobile. It’s all true, but the fact is that automobiles and