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A world less flat

If the price of oil remains high, we may see drastic changes to America's cities, economy and way of life



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America has so far experienced the year's extraordinary rise in petrol prices as a death by a thousand cuts. Each automobile trip weighs heavier on households budgets. Vacation plans are revised. Pizza deliveries are circumscribed. The long anticipated purchase of a new pick-up or SUV is revisited. And despite the national love affair with automobiles, commuters are increasingly parking the car and boarding trains and buses. Decision by decision, dear petrol is having a transformative effect on the American household.

But the full extent of the changes underway may not become clear for years, or decades. The structures of America's cities and towns, its economy and way of life were formed during a long era of cheap petroleum. But for the oil scares of the 1970s and early 1980s, the price and availability of petroleum have never been issues we've needed to think much about. But now we must, and we will likely be shocked by the pervasiveness of petroleum in our society.

Economist Paul Krugman recently estimated that Americans use about 1,000 gallons worth of petroleum products a year - each. We pay for oil at the gas station, of course, but also at the grocer, through food shipping costs and - less obviously - in the petroleum-derived fertilisers that fuel crop yields. We pay for petroleum in the plastic products that surround us. Designers are now investigating ways to fit products into ever smaller containers as a response, and those of us who fondly remember the days when toys were made of sturdy metal (and when the average child had less than a closet full of them) may recognise the shape of Christmases future.

Petrochemicals find their way into most of the products we use as consumers, from lip balm to house paint. If dear oil becomes the norm, we can expect less waste across the board and a thriving research business in chemical alternatives.

Changes on shop shelves may seem minor compared with coming shifts in our urban geography. From the end of the second world war, centre cities in America emptied out in a great rush for the suburbs. Outer suburbs became inner suburbs, distant towns became outer suburbs, and the rural hinterlands became the edgeless exurbs. Tens of millions of Americans now live in such places, unserved by transit, and with commutes that frequently stretch longer than an hour each way.

But exurbs that thrived with oil at \$20 per barrel may wither with oil at \$130. The rush outward was largely driven by cheap housing (pdf), made possible by the ease of erecting homes on virgin land unencumbered by the burden of urban housing regulations. But the cost of petrol has eroded the value of such homes - savings on a house no longer compensate for the price of long daily drives.

Unsurprisingly then, the nation's housing collapse has struck exurbs hardest. In distant suburbs prices have fallen farthest fastest, foreclosures and defaults have soared, and municipal budgets have been devastated. With whole neighbourhoods shuttered and public services curtailed, it's unclear whether many such enclaves can recover. As Brookings scholar Christopher Leinberger has written, the age of the suburban slum may be upon us. And meanwhile, demand for centrally located homes near transit is soaring.

The shift in housing preferences may begin to reverse one of the defining national trends of recent decades - the massive migration toward the south and west of the country. Sunbelt boomtowns like Atlanta, Houston, and Riverside, California have grown at breakneck pace thanks to cheap and plentiful housing built along sprawling highway networks. Some of these places are now rushing to build transit service, but the soaring cost of petrol has caught most flat-footed. Such cities can expect outward expansion to slow, but perhaps more importantly, households considering moves to warmer climes may rethink their decision. Northeastern and Midwestern cities in long decline, such as Baltimore, Philadelphia, Pittsburgh and Cleveland, may find their dense structures and legacy transit systems an incalculable asset.

Bigger changes yet may be in store. Anti-globalisation activists have long railed against trade liberalisation, and lamented the perceived role of lax labour and environmental standards in trade growth. In the end, however, the rise of a global economy in the 20th century may owe more to falling transportation costs than anything else. Cheap oil, cheap trucking, cheap shipping, and cheap flying exploded old production methods, sending industry from great manufacturing hubs to scattered factory towns to distant nations. Supply chains are now international in scope, and just-in-time business models fly inventory thousands of miles from warehouses to distributed outlets, all in an effort to cut costs and boost profit margins.

This may all soon come to a screeching halt. As economist Menzie Chinn recently noted, international shipping costs have tripled since 2000 and continue to

increase. Fuel costs are destroying airline business models, and analysts now note that transportation costs, and not tariff barriers, constitute the largest stumbling block for international trade.

This may mean a return to localised production of some goods. Plant owners thinking of moving to China may think again. Foreign producers may find it better to locate in America, rather than swallow freight costs to export there. In a stark reversal of recent trends, the most economically outsource-able jobs may become those involving the management of data and ideas - products transferable by satellite rather than ship.

Whether and how these changes occur depends on how high oil prices go, how long they stay there, and how quickly alternative technologies can be found. But the odd truth behind the seemingly unstoppable trends of the past century is that they may have been quite impermanent. Having built a world on cheap oil, we may now need to trim back our excesses. And the stunning outcome may be a nation that looks remarkably as it did decades ago - when urban neighbourhoods thrived and sidewalk life flourished, when streetcars and trains represented the future and not the past, and when regional tastes and markets were as important to producers as international ones.

These changes could mean a greener and wealthier world, globalised yet differentiated, free from petroleum. Or it could mean disaster. It remains to be seen how quickly we can adjust and how wisely we will invest as we get used to a world that no longer seems as flat as it once did.