

STORM WARNINGS

Vol. II, Issue 4: January 2014
2013: Perfect Storm in Review



R. Michael Conley
Founder

The *Storm Warnings* newsletter is part of a larger initiative by its founder, R. Michael Conley, to carry the message to others.

"The message is frightfully simple: We are heading into a perfect storm that will forever change our lives, and we need to act on it while there is still time," said Conley.

Under the overall umbrella of his company, Weathering the Storm, LLC, its mission to *awaken, engage and help others weather the storm* is carried out in a number of ways.

The 2013 Perfect Storm Weather Review

2013 was a deceptively volatile year. On the surface, it was a success. But, like a ship's lookout fixated on the tip of an iceberg, we were oblivious to the threats lurking below the waterline; undercurrents that are propelling us toward a perfect storm. In this issue, Publisher, R. Michael Conley, shares his concerns about the insidious advance of these forces and where it might take us. For clarity, links to previous issues are provided to further explain specific topics.

WTS: With respect to the "*perfect storm*," you see 2013 as being a deceptively volatile year; suggesting, perhaps, that more harm was done than meets the eyes. Could you explain?

Conley: I'll preface my response by saying that most of us are hardwired to think in shorter timeframes that measure success by the immediate gratification it provides. Through this prism, we may consider something a "success" that may, in fact, have harmful long term effects. Our metrics and mindsets are skewed toward short term results – not long term outcomes – and it's easy in this milieu to overlook things that should most concern us.

For example, we are bombarded with shale oil hype that suggests we can drill our way into energy independence; thereby negating the imperative for addressing a long term fossil fuel conundrum we can't just wish away. (See: *The Bakken is Rockin' – But Do the Math!*) Wall Street – aided and abetted by a Federal Reserve monetary policy on steroids – achieved record highs in 2013, but are we better off in the long run by "printing" trillions of new dollars to achieve such marginal short term results? (See: *There's No Free Lunch*)

We rejoice in a federal budget that reduces the "*rate*" at which our deficits will grow but ignore the malignant growth of our national debt. We delight in falling unemployment rates while overlooking millions who have permanently dropped out of the work force in frustration. We gloss over climate change, fixating more on the validity of the science than its costly ravages and long term effects. (See: *Climate Change: The Longest Journey*)

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"The *Storm Warnings* newsletter, which provides an in-depth bi-monthly look at a specific topic, is one way we hope to awaken and engage people, but we encourage folks to log in to our web-site for a full menu of offerings and services," Conley said.

(www.weatheringthestorm.net)

The website will provide further details on other initiatives. Among them:

1. Lethal Trajectories – Conley's futurist novel on what it will be like to live through a perfect storm crisis
2. *Weathering the Storm Guide* – A guide on how to prepare for the storm
3. Weathering the Storm Seminars – In-depth seminars that are now available
4. Blog, links, other resources, and the Storm Warnings newsletter.

About the Founder: Mike Conley is the Founder of Weathering the Storm LLC, and currently serves as Chairman and CEO of the Conley Family Foundation. As a former Fortune 500 business executive, author, lecturer, and public policy

We ignore tectonic changes reshaping the world but scrutinize the latest political poll. We're mesmerized by College Bowl games, but dismissive of the student loan tsunami that is crushing the American Dream for many young grads. (See: [Mortgaging the American Dream](#))

I could go on, but I think you get the point. We paint the picture we want to paint, and draw the conclusions that best fit our sense of reality – an insidious form of denial. In our quest for short term results, we overlook the important things; like the gathering forces of the perfect storm.

WTS: Could you comment on some of the forces we seem to be overlooking?

Conley: Yes, but let me suggest a different framework for interpreting 2013 events: Let's recalibrate our outlook to one that takes us to the end of this decade, and then weigh our so-called successes in 2013 against the insidious build-up of the perfect storm forces. I'll use the "4-E" format that I use in all of my presentations to discuss how these forces are playing out:

#1. Economic and Geopolitical Forces:

Internationally and domestically, a "sea change" is stealthily reshaping our world. Consider this:

1. Cold War II? Sadly, we are moving toward a new cold war that could get ugly if we don't take constructive steps to re-channel it. The old cold war – between the U.S. and Soviet Union – was fought over ideology; the new one will be over control of resources and markets. (See: [EEZ Flashpoints](#))

China's emergence as the world's newest superpower is reshaping the global landscape. By almost any measure, China's exponential growth with respect to its economy, technology, manufacturing, trade, geopolitical relationships, military power, currency and now, dynamic new leadership, makes it a powerhouse. (See: [Lessons Learned from China](#)) China has also become "America's banker" –

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activist, Conley has written and spoken frequently on topics related to the perfect storm. He graduated from the University of Minnesota, after serving in the United States Navy, and later completed a post-graduate program at Stanford University. He is also active on several boards and advisory groups.

a fact we would be wise to remember. (Might not a collaborative - not confrontational - approach be a better policy direction?)

Though not in China's league, Russia was the "come-back kid" in 2013. It brokered the Syrian Crisis; snatched the Ukraine from the hands of the West, and continues to flex its muscles. As a nuclear power, permanent member of the UN Security Council, and a leading producer of oil, its resurgent nationalism has rekindled vestiges of the first cold war.

My point: It's a new ball game internationally and we're not the only game in town. Get used to it.

2. Arab Spring II: A number of Arab governments were overthrown over a short period of time known as the Arab Spring. Now, as new regimes struggle to replace the old ones, the outcomes are in doubt. Egypt is a tinderbox; the Syrian civil war continues; the Sunni/Shia civil war in Iraq and elsewhere is escalating; the Iranian A-bomb development threat continues; Israel is nervous and the Saudi government has become openly wary of U.S. policy. Parenthetically, as the lead player in OPEC, Saudi Arabia - with the only real excess oil capacity in the world - holds a powerful hand. A change in their production strategies or move away from the petrodollar system could change the global energy, financial and power equation almost overnight.

3. The American Economy: Under aggressive Fed monetary policies, stimulus programs and budget deficits - in which we borrow about 30 cents or more for every dollar we spend - we have shown some economic growth. Wall Street highs in 2013 might even suggest it has been a wildly successful year, but has it really? The growing financial strains from our unfunded entitlement programs, massive debt and debt servicing charges, and an unsustainable balance sheet that is becoming less sustainable every day paints a different picture. A great example, if you will, of a short term fixation overshadowing a long term train wreck.

4. Economic Power & Currency Wars: We take comfort in the notion that you can't replace something (the American Dollar) with nothing (an alternative reserve currency with the heft to replace the dollar). True, it won't happen overnight, but we are inexorably moving in that direction with jacked up fiscal and monetary policies that continue to weaken the Dollar's cherished reserve currency position. With rumblings in the international markets and the emergence of China's *Yuan*, global transactions are moving away from the dollar. Likewise, a change in the *petrodollar* system would clobber the American economy and take away our ability to attract cheap capital to finance our deficits.

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My concern: Though the economic and geopolitical ballgame is rapidly changing, we continue to operate as though it's business as usual. We are at risk but not responding. The churning economic storm clouds are obfuscated by short term results that look so good.

#2 Energy Forces:

WTS: Okay, we get your global concerns. What do you have to say about energy and oil?

Conley: The oil markets have spewed out some contradictory signals in 2013. At first blush, the financial media would have us believe there's a glut of oil, but this doesn't square with geologic realities. There's an undercurrent in play – a dirty little secret that's not being told:

We are digging a deep and dangerous hole for ourselves. We are starting to believe the spurious headlines proclaiming we are on the cusp of oil independence and that our shale oil fields will make us the next Saudi Arabia. It's causing us to not develop the alternative energy systems we will need while there is still time. We thumb our noses at the Saudis – aggravating what could become a difficult petrodollar situation later on – and cling to the notion that we can drill our way into energy independence. (See: *Drive for Show: Putt for Dough*)

It's another example of how we focus on short term metrics that overlook longer term realities. True, the crude oil production numbers grew in 2013 with rising shale oil production in Texas and North Dakota – using advanced horizontal drilling and fracking – but not of a scale that negated our need to import over seven MB/D (millions of barrels per day) out of the 19 MB/D we consume daily. (See: *Energy Independence: Fact or Fiction*) In the meantime, non-shale *conventional* oil production in the U.S. was flat and the Alaskan oil fields are in decline.

The surge in unconventional oil – shale, tar sand, ultra-deep water – production has been a gift, but it is not of sufficient size, affordability or sustainability to support our long term oil energy needs. Global production of *conventional* crude oil has, in fact, flattened and the growing gap between *conventional* oil supply and rising demand can only be made good from the production of unconventional oil; oil that is costly to extract, process and bring to market. Bottom line, despite the "glut" of oil we think we have, oil is getting harder and costlier to find. The marginal cost of oil has nowhere to go but up and its drag on global economic growth will be profound.

My concern: Global oil challenges will intensify as the supply of "affordable" oil falls short of a rising demand curve. Instead of investing in sustainable alternative energy systems to supplement future oil shortages while there is still time – a process that can take years, even decades – we are squandering precious time believing the headlines that suggest the supply is endless as long as we'll "drill, baby, drill!"

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#3 Environmental & Ecological Forces

WTS: Moving on, what are you seeing on the climate change and ecological fronts in 2013 that might it be contributing to the perfect storm?

Conley: Overall, I think we're more attuned to the threat of climate change than we were, say, four years ago. We surpassed the 400 PPM (parts per million) carbon threshold level in 2013; a major milestone. We saw the measureable advance of ocean acidity levels, Arctic and Greenland ice melts, land and water temperature increases, rising sea levels, tundra melts releasing volumes of methane gases, and other metrics that quantified the insidious growth of climate change. (See: *Climate Change: The Threat Multiplier*)

More than anything, though, we watched as the frequency and severity of climate-induced weather patterns took their toll. Floods, droughts, wild fires, and severe temperature variations – high and low – caught our eye. We saw the lingering ravages from Hurricane Sandy in 2013, and in September were horrified to watch Typhoon Hayan hit the Philippine Islands with a fury never before seen. More, we felt the economic impacts of climate change in a substantial way (See: *Climate Change: A Dollar and Sense Issue*).

The early release of the U.N.s IPCC-5 Report in 2013 provided solid research, but the lobbies contesting it pounded away at the science and scoffed at the longer term impacts it suggested. As an example of how short term thinking trumps long term realities, Congress balked at anything that would curtail greenhouse gas emissions with a cry that, "Now is not the time to take any actions that would impede our economic progress." (Is there ever a "right" time?)

WTS: What other issues, with respect to climate change and the environment, troubled you in 2013?

Conley: Climate change is huge, but I'm also concerned about other undercurrents. Three trends, in particular, will place a staggering strain on the carrying capacity of Earth: 1) A growing global population – which will escalate as China moves away from its "one child per family" policy – will create new demands on finite resources, 2) Fresh water, and its unequal distribution throughout the world, is a crisis that will only worsen as climate-induced droughts and floods combine with depleting aquifers to aggravate the problem, and 3) Our consumption behaviors and practices are often abysmal. The exponential threat posed by these three trends acting in concert is significant.

With respect to fresh water and our consumption practices, the picture gets ugly. Our diets, energy needs and lifestyles are clashing with finite resources in so many ways. For instance, it takes about 3-5 million gallons of water to frack a well; 2500 gallons to produce a pound of meat,

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and 5-10 gallons per minute to water our lawns. Our behavioral impacts are profound. (See: *The Troubling Trifecta*)

My concern: We are reaching tipping points on a number of fronts where the feedback loops and cycles may become unstoppable, but we are doing little about it.

#4 Expectations and Behaviors

WTS: You mentioned behaviors. Could you say more about our expectations and behaviors and how they factor into the equation?

Conley: We are products of the "American Dream" – a dream that has now been exported to other countries along with the concomitant expectations and aspirations that go with it. The dream was built on cheap energy, abundant resources, and a spirit of unbridled opportunity. But, what happens to that dream when the dream enablers disappear? By and large, younger generations no longer expect to live better than their parents; a startling recognition of a shifting paradigm and something we need to think about.

To be sure, our expectations run high, and the gap between them and reality is widening. Frustrated, we have adopted a "play now-pay later" culture that allows us to continue our lifestyle by passing on the costs to future generations. Our IOUs – in the form of a burgeoning national debt, unfunded entitlement liabilities, and conspicuous consumption of finite resources – are skyrocketing. The term, "moral hazard," often applied to banks too big to fail, can also be applied to our behaviors: It occurs when the risk-taker (us) takes on an undue risk (deficit spending, etc.) when there are few, if any, consequences for our actions. By shifting on the consequences – and IOUs – to future generations to support our lifestyles, we are, in effect, mortgaging their American Dream. (See: *Moral Hazards: Privatizing Gains; Socializing Risks*).

My concerns: Our short term fixation – and quest for instant gratification – overshadows our intergenerational stewardship responsibilities. Our attempts to sustain the unsustainable will only make matters worse. As festering problems reach a tipping point, the consequences for those following us will, indeed, be dire. It doesn't have to be this way, but it appears this is the direction in which we are headed (See: *Expectations and Behaviors: The Future*).

WTS: It's not a pretty picture. Do you see any hope for us?

Conley: Absolutely. There is much we can do to mitigate the sharper edges of the perfect storm if we'll only awaken to the threat it poses. We are resilient, resourceful and have, at the end of the day, a better side that doesn't want these things to happen to our kids and grandkids. If we

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can only get beyond our short term mindsets and think a little more about the future, we have a chance.

Recapping 2013, my suggestions for moving forward are threefold:

- 1) Awaken to the dangers of the perfect storm and know we are not helpless victims,
- 2) Do what we can to learn more about it and what we can do to prepare, and
- 3) Engage by taking proactive steps – at home and in the community – to make a difference.

For more information, please visit my website and order your free guide for weathering the Storm:
www.WeatheringtheStorm.net