

OIL BOOMS AND BUSTS

Introduction

Imagine accidentally striking oil in your backyard. You'll be rich! You could sell the drilling rights for \$50,000 right now. Or you could hold on to those rights, wait for the price to climb, and sell for as much as \$500,000.

They call oil "black gold" for a reason, but the industry is unpredictable. What do you do?

Thousands of Oklahomans faced exactly that choice starting in 1897, when the first commercial oil well was drilled in Bartlesville. The stakes only grew, especially after the massive Glenn Pool discovery near Tulsa in 1905 set off one of the biggest oil rushes in American history.

Oil Booms

OIL STRIKES TULSA—FORTUNES MADE OVERNIGHT

Oil is one of the most desired resources on earth; finding it in Oklahoma changed the lives of everyone in the would-be state. Practically overnight, the state's economy became one of the fastest growing in the country. Oklahoma became a hub for the energy industry, laying the foundation for the oil and gas production that defines the state to this day. Do you have a family member who works in energy? The roots of that industry reach all the way back to the first oil booms.

Capitalizing on that raw oil, however, required an enormous amount of labor. Thousands of jobs opened in drilling, transportation, refining, and equipment supply. Workers poured into Oklahoma to fill those jobs. Those workers needed a place to live. Some brought their families. The population in places central to the oil booms, like Tulsa and Oklahoma City, grew quickly. Tulsa was even known as the oil capital of the world during the early twentieth century. These newly bustling cities also needed suitable infrastructure and services like schools and roads.

As communities grew, those who made money in the oil industry spent their earnings on local services and businesses. The state taxed oil companies and the transactions of these goods, which brought in revenue for the state government. This allowed the state government to support and further develop its public services and infrastructure. Oklahoma grew into a more attractive place to live and work, which brought even more workers and businesses into the state. The oil boom built on itself into what seemed like a wonderful, self-sustaining cycle of endless prosperity.

Oil Busts

PRICES COLLAPSE—BOOMTOWN GOES QUIET

But the reality was that oil, the resource so many lives and fortunes revolved around, was not sustainable. When oil production or demand faltered, everything else faltered with it.

When prices fell or production slowed, the economic ripple was unavoidable. Businesses that existed to serve oil workers lost their customers. Tax revenue shrank. Infrastructure projects stalled. Cities that had grown explosively found themselves unable to maintain what they had built. The overall economy in Oklahoma suffered in disproportionately devastating ways because there were no backup jobs for those out of work—every other business was centered on oil production, oil refinement, or a job or service within the orbit of the oil industry.

There was also serious environmental damage. Drilling and refining required vast amounts of land and water, and the process polluted the land, water, and air. Oil is not a renewable resource, so when a well ran dry, the site was abandoned. Worse, because of the pollution left behind, land previously used for oil drilling was too costly to clean up and too contaminated to farm, build on, or sell. That land could not be repurposed. This would happen to more and more drill sites. Over many decades, Oklahoma accumulated these drill sites that were effectively dead zones.

Additionally, because wealth from the oil industry was never distributed evenly, the many Oklahoma families who moved there to make money—the workers themselves, who supplied labor—found themselves suddenly without pay. On the other hand, the business owners and investors, who had by this point become extremely wealthy at the expense of the environment and the workers in the oil industry, suffered less. Business owners and investors often made enormous fortunes while workers struggled even at the height of a boom.

During bust cycles, then, it was ordinary workers who lost their jobs first and had the least cushion to fall back on. Many families who had moved to Oklahoma specifically for oil work found themselves stranded when the work dried up. Many people lost their jobs during bust cycles or had to shut down their businesses. Oil towns grew very quickly and were great for a time but would eventually decline fast when the oil production slowed or stopped. Thus, the boom-bust cycle would all but conclude... until more oil was found and production began anew.

Conclusion

Sell at the right moment and you're building a house in Tulsa, enrolling your kids in a new school, and watching your neighborhood fill in around you. Get caught in the bust, and you're watching that same neighborhood empty out, with foreclosures up the street and the stores you relied on closing down one by one.

This cycle repeated from boom to bust to boom to bust. Communities built themselves up and then crumbled. Stable work was all but impossible to find during a bust because almost every job in Oklahoma, directly or indirectly, led back to oil.

Knowing what you know now, would you sell early and take the sure profit, or hold out for the boom? Can you think of any industry today that has a similar boom-and-bust pattern? And why do you think Oklahoma's economy looks different now than it did then?