

The Energy Crisis and the Banking Crisis

"... the evidence to me is persuasive that, had there been no oil shock, we would have described the U.S. economy in 2007:Q4-2008:Q3 as growing slowly, but not in a recession..." James Hamilton, "Causes and Consequences of the Oil Shock of 2007-08" *Brookings Papers on Economic Activity*, Spring 2009

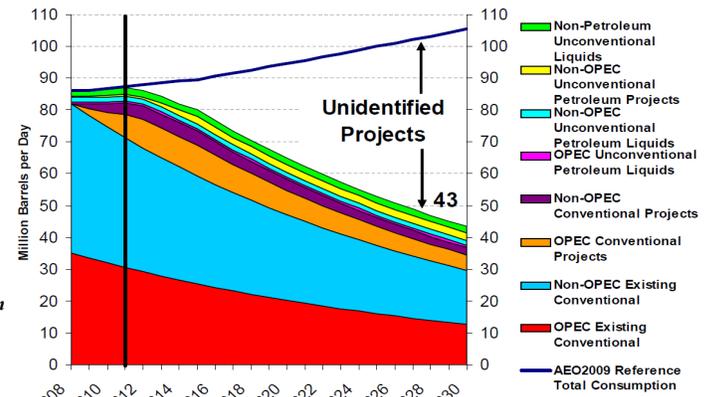
The economy is dependent on fossil fuels. A litre of petrol can do the same amount of energy work as a manual labourer working for 3 weeks. We use the dense energy sources of oil, gas and coal in all our production, transport and communications technologies – as well as in agriculture and buildings.

But 200 years burning more fossil fuels has emitted CO2 which traps infra-red radiation caused by incoming solar energy and warms the atmosphere, changing the climate.

What's more we have used about half of the available oil and soon gas – and these were the easy to get resources. Now we will be using expensive and hard to tap fossil energy sources. We can adapt our economies and lives but it will take time and investment....

"The world is much closer to running out of oil than official estimates admit, according to a whistleblower at the International Energy Agency who claims it has been deliberately underplaying a looming shortage for fear of triggering panic.... there are fears that panic could spread on the financial markets if the figures were brought down further..... And the Americans fear the end of oil supremacy because it would threaten their power over access to oil resources" Guardian Nov 2009

World's Liquid Fuels Supply



Source: EIA, AEO2009

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A key issue is whether a debt based money and banking system has any future in an economy where growth is less and less possible because of depleting and more expensive energy supplies. Wind, wave and sun energy is an alternative but not a cheap or simple one.

It only makes sense to create debt if money can be repaid with interest - but if the economy cannot expand because its main energy sources are falling and prices rising then there is little or no additional output that the banking system can share in when it claims its interest payments.

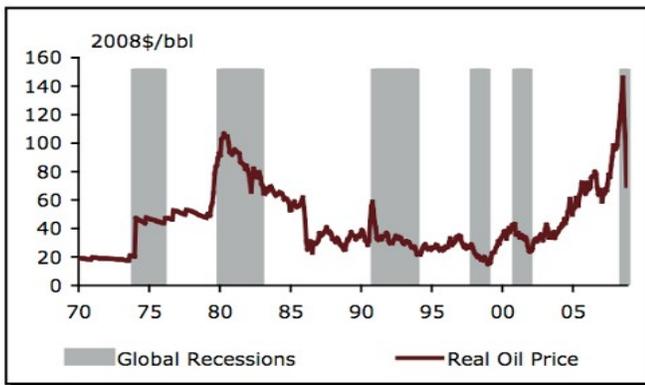
This is likely to deepen the crisis for the banking and economic system. That in turn worsens the crisis of government budget deficits in countries like Greece as tax revenues fall and government expenditures rise, with rising government debts...just at the time that governments ought to be funding energy transformation.

"We believe that \$147/b in mid 2008 helped trigger the 'Great Recession' but the global economy was weakening from late 2007. We know that the run up in prices to around \$120/b in 2Q 2011 brought growth to a near halt in a number of western economies and notably in Europe. But in this case the economies had not really recovered from the 'Great Recession'. Douglas-Westwood analysis also shows that in mature economies, such as the US, there is a significant economic impact at over \$90/barrel. In contrast China can probably sustain oil prices in the \$100-110 range."

....Would this higher price tolerance mean developing economies could keep developed economies in growthless stagnation by paying oil prices that were just above those that bring developed economies to an economic halt?"

Chris Skrebowski – Oil Depletion Analysis Centre Sept 2011

Past Recessions and Oil Spikes

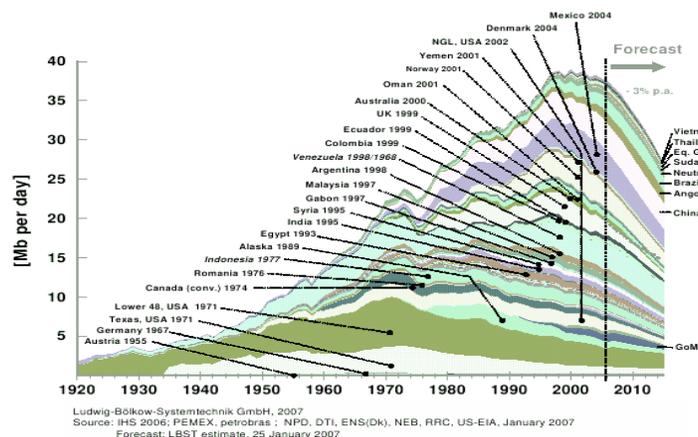


We desperately need a finance system geared to funding energy transformation – renewable energy, energy saving devices and energy efficiency. However, only 8% of bank credit in the UK goes on productive investment – the rest goes on mortgages and speculation. Why? When energy is no longer cheap then investment in expanding production is less attractive – particularly when Chinese industry produces cheaper – especially when they are able to tolerate higher energy prices, partly because of accepting higher pollution.

So banks prefer instead to try to make profits from investing in rising land and property prices as well as gambling on derivative contracts and currency and exchange rate fluctuations – this higher profitability seems guaranteed if the banks think that governments will step in to rescue them when they make losses – because they fear what would happen if the banks went bust and the payments system using bank money broke down.

The inability of consumers to service their debts and keep consuming when the high energy prices soak up purchasing power has been a major part of the problem. Rich oil producing countries do not spend all of the income they then earn on exports from oil importing countries but lend it back to the consuming country banks – helping feed the credit boom. What we need now is to let people off their debts so they can start again, investing in energy efficiency in their houses and food production in their gardens and communities.

Figure 5: Oil producing countries past peak



Ludwig-Bölkow-Systemtechnik GmbH, 2007
Source: IHS 2006; PEMEX, petrobras; NPD, DTI, ENS(Dk), NEB, RRC, US-EIA, January 2007
Forecast: LBST estimate, 25 January 2007

From a 2010 German Army Study on 'Peak Oil' reported in *Der Spiegel* on 09/01/2010

Oil is used directly or indirectly in the production of 95 percent of all industrial goods. Price shocks could therefore be seen in almost any industry and throughout all stages of the industrial supply chain. "In the medium term the global economic system and every market-oriented national economy would collapse."