

From Subprime to Meltdown: Is Peak Oil Responsible?

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In a [recent article](#), Joseph Stiglitz, Nobel Prize laureate in Economics, argued that the current financial crisis was caused both by “dishonesty on the part of financial institutions, and incompetence on the part of policymakers”. Others, like the Australian Prime Minister, [add](#) that widespread greed is to blame for the current events.

While these explanations manage to explain the evident excesses of our financial system, they do not say how the system, which used to run fairly well, suddenly stopped working. Everyone would agree that the financial crisis started once the banking sector got into troubles. The banking sector, for its part, finds the causes of its difficulties in the subprime crisis. To go back further in the events timeline, we acknowledge that the subprime crisis happened once borrowers became unable to pay back their mortgages.

So yes, it was a serious mistake to lend money to people who could not afford it, but why did these people abruptly become unable to pay? The reason is most important and commentators of the crisis systematically fail to discuss and analyze it. In 2006, interest rates were raised in the USA, so the monthly bill, usually poor borrowers of subprime mortgages had to pay, rose dramatically, until they could no longer pay it and saw their houses confiscated; thus contributing to the housing market plunge. Finally, interest rates were increased in order to fight rising inflation, which started with the dramatic surge in oil prices the world faced over the past few years.

So yes, the financial crisis finds its roots in the oil crisis and nobody seems to care about it. The current events that nobody saw coming, were already announced as early as 2006 by Dr. Colin Campbell, a geologist, former Vice-President of Fina Oil Company and founder of the nowadays respected ASPO (Association for the Study of Peak Oil).

On a video interview available on YouTube, he declared:

Expansion becomes impossible without abundant cheap energy. So I think that the debt of the world is going bad. That speaks of a financial crisis, unseen, probably equalling the Great Depression of 1930; it's probable we face the Second Great Depression. It would be a chain reaction, one bank would fail, and another one would fail, industries will close...

For people who are not aware of the Peak Oil theory, and sadly they are still the vast majority today, this theory advanced by a wide range of energy experts argues the world

is going to face, in the near future, a permanent and irreversible decline in global oil production. While it would be too long to present in details the theory, the following quote from Dr. Schlesinger, the former US Secretary of Energy, Secretary of Defence and CIA Director tells us how seriously the theory is taken at the highest levels of decision-making:

It's no longer the case that we have a few voices crying in the wilderness. The battle is over. The peakists have won.

Nowadays, we only found three leading and loud opposing voices to Peak Oil in the energy market, namely the OPEC, ExxonMobil and the CERA consulting group. As we can see, neither OPEC nor ExxonMobil are renowned for their scientific integrity and objectivity. Regarding CERA, their predictions in the evolution of oil prices made since 2002, were wrong seven times in a row. In light of these appalling projections, the legitimacy and strength of CERA's denial of an imminent peak are at best mistrustful.

Before going further, aren't there any alternatives? Hydrogen, ethanol or electric cars? Well here the problem comes from timing, as the decline in oil production is expected to happen in 2008 according to the ASPO. A report requested by the US Department of Energy, known as the "Hirsch Report", concludes (pdf warning):

Over the past century, world economic development has been fundamentally shaped by the availability of abundant, low-cost oil. Previous energy transitions (wood to coal, coal to oil, etc.) were gradual and evolutionary; oil peaking will be abrupt and revolutionary... The world has never faced a problem like this. Without massive mitigation at least a decade before the fact, the problem will be pervasive and long lasting.

Unfortunately, we don't have ten years and world leaders do not even understand the crisis. From this point how is the situation going to evolve? Michael Meacher, a Labour MP and former Environment Minister, identifies the Peak Oil crisis as "an apocalyptic scenario". A Deutsche Bank paper on oil depletion goes in the same direction:

The end-of-the-fossil-hydrocarbons scenario is not a doom-and-gloom picture painted by pessimistic end-of-the-world prophets, but a view of scarcity in the coming years and decades that must be taken seriously.

To come back to the financial crisis, we have witnessed an impressive fall in oil prices over recent weeks under fears of an imminent global recession.

However, the massive US bailout plan and similar European supports to the banking sector are likely to maintain an artificial growth at high costs and to the detriment of states' debts. Once we realize oil demand will not decline and will even continue to grow, as mentioned last week by the IEA, oil prices will once again surge.

Regrettably, when facing the next crisis which is likely to be unprecedented, the world will no longer afford an emergency plan. In fact, the US bailout makes an emergency plan to develop alternatives to oil improbable. We have used our last bullets, and missed the target. Recent events have showed us how officials and mainstream commentators failed to forecast the current crisis. It is time to finally take the Peak Oil movement seriously, failing to do so would result in a nightmare scenario, Dr. Campbell and others have been desperately warning for too long.

This article is based on arguments developed in my degree's dissertation: "The Peaking of Global Oil Production and the New World Order" (BA International Relations, University of Exeter, UK)