Post-Peak Economics

Contributed by Peter Goodchild
23 February 2010

In pragmatic terms the coming collapse can be equated with the phases of what will happen to money. The first phase will be “stagflation”: high prices combined with high unemployment. During the second phase, as government starts to fade, currency will collapse: money will have no use as a medium of exchange.

Of course, economic trends can always be seen in terms of either materials or money. We can say that the near future will be one of diminishing fossil fuels, and hence a depletion of plastic, asphalt, fertilizer, electricity, and so on.
Or we can say that it will be a period of generally rising prices everywhere — since rising oil prices drag up all other prices.

Almost everything in our modern economy is either made from oil or requires oil. As the price of oil begins to skyrocket, therefore, so will the price of everything else. The same happened on a smaller scale during the temporary oil crises of the 1970s and ’80s. This rise was referred to in those days as ‘stagflation” — stagnation of income combined with inflation of prices, something that economists used to say was impossible. As stagflation returns, the hardest hit will be those with debts: car payments, house mortgages, credit cards, student loans. But everyone will find that a dollar just doesn’t stretch. High prices will be combined with low wages.

During the first phase of the collapse, then, while money is still real, there will be a financial Reign of Terror, and in fact this era has already begun to some extent, to judge from four related events. In the first place, in 1970 US domestic oil production went into a permanent decline. Secondly, although the peak of global oil production must be dated to the first years of the twenty-first century, production per capita reached its peak much earlier, in 1979 [1].Thirdly, retail gasoline prices in the US, which had been fairly steady for 20 years, suddenly doubled from 2002 to 2008 [3]. And finally, around 2005 the energy required to explore for, drill, and pump a barrel of oil from new wells began to exceed the energy gained from it [6].

Faith in the dollar will finally collapse, and money will be replaced by barter. (No, this is not “the barter system”; barter is the opposite of “system.”) From economic hardship of a financial kind we might, of course, pass to economic hardship of a physical kind: hard manual labor and a scarcity of material goods. At that point, in any case, economic trends will be describable only in terms of materials, not money.

The second phase can be envisioned by looking at comparable events in the past. One of the best comparisons is with the events that unfolded when the Soviet Union collapsed in the 1990s [9].Within a short time, people simply gave up using money and switched to other items of exchange. One of the most popular items was bottles of homemade vodka. “Each half liter bottle of vodka was exchanged for ten liters of gasoline, giving vodka far greater effective energy density than rocket fuel.”

It seems, in other words, that vodka was valued because it was easy to carry, of great practical value, and rather fixed in exchange value (since, I assume, it’s either real vodka or it isn’t).

But there are many cases similar to that of the Soviet Union. One might, for example, consider Argentina in 2001 [4]. Or we might consider the American Civil War — after that time, Confederate dollars were literally just paper.

In other words, at one point the money problem will be everything, and a few decades later, the money problem will be nothing, because there won’t be any. Money is only a symbol, and it is only valuable as long as people are willing to accept that fiction: without government, without a stock market, and without a currency market, such a symbol cannot endure, as George Soros has pointed out [10]. Money itself will be useless and will finally be ignored. Tangible possessions and practical skills will become the real wealth. Having the right friends will also help.

It’s important to remember the old clichés around the general idea that “money only exists as long as people have trust in it, whereas a currency that becomes suspicious simply dies.” More specifically, money only exists as long as there is a government to produce the money and keep it alive. When a government utterly loses its power over the country, the money simply melts like snowflakes on a hot metal stove.

Will life be better or worse in a world without money? That’s hard to say. When I lived for several years in a rural community in central Ontario, Canada, there seemed to be advantages to the rather casual and offhand bartering that went on. If one person left a gift on a neighbor’s porch, and a few days later the neighbor left some other item on the first person’s porch as a gesture of appreciation, it was not even clear if such behavior could be considered barter. In the absence of capitalism, there is room for kindness.

There are parallels between the Great Depression of the 1930s and the present oil crash, but there are also important differences. The Great Depression was caused by over-speculation in the stock market, which led to the 1929 panic. The rapid sellout of stocks caused the collapse of many businesses. These businesses then laid off many workers. The workers then had insufficient income to buy whatever was available, even though prices were low. The Great Depression, in other words, had an amazingly artificial cause, although the ensuing suffering was by no means artificial.

The oil crash is different. Its cause is not artificial; in fact, its cause has a rather uncertain relationship to the abstractions of economics. And although many people will lose their jobs, there will be no reduction in the prices of goods, at least in what I am referring to as the first phase.

The Great Depression was a time of deflation. According to John Kenneth Galbraith, the basic cause was massive over-speculation, a vast bubble that just burst [5]. So businesses shut down, so people lost their jobs, so people had no money, so nothing got bought, so prices fell. The problem today, on the other hand, is that our Commodity Number One, which is petroleum, is running out. That means that virtually all other commodities will run out. There is also a slight difference in the fact that nowadays the Federal Reserve Board can adjust matters to control financial troubles to some extent — although not enough to prevent the final collapse.

The era of the Great Depression, however, closely resembles the coming years in other respects. In particular, the poverty of that earlier time, and many other aspects of daily life, will be repeated in the events of future years. Barry Broadfoot’s Ten Lost Years: 1929-39, is essential reading [2].

In terms of the exigencies of daily life, part of the solution is to give up the use of money well ahead of time, instead of letting the money economy claim more victims. Barter would allow people to provide for their daily needs on a local basis, without the dubious assistance of governments or corporations. Such a way of doing business, unfortunately, is illegal if the participants are not paying sales tax on their transactions. Politicians disparage the age-old practice of barter as “the underground economy” or “the gray economy,” but of course their own income is dependent on taxes. The transition would not be simple: there are so many rules, from building codes to insurance regulations to sales- and income-tax laws, that make it difficult to provide oneself with food, clothing and shelter without spending money. Nevertheless, as the economy breaks down, so will the legal structure, and laws will become rather meaningless.

All that is certain about barter at the present time is that sales tax is not being paid, and that a crime is therefore being committed. The money economy requires that a large portion of one’s income be paid out in various forms of legalized extortion: taxes, insurance, and banker’s fees, all of which are justified in our minds solely by the fact that they have been imposed for centuries.

Also at the moment, taxes alone consume a vast portion of our income, especially if we consider that there are, in a sense, taxes on taxes: I am taxed on what I buy, but the price for that object has been raised to cover the income tax, gasoline tax, and so on, that were paid in the process of making and delivering that object. Only a small piece of paper is required to make a list of all the benefits one receives from these various forms of extortion.

There are also plain old bubbles, foolish speculation, that cause some huge rises and falls in the prices of things. The most obvious one is housing. Another may be gold — although there are at least some plausible arguments for buying gold.

Although inflation characterizes the first phase of economic collapse, inflation and deflation are never a case of either-or. The two can happen side by side, and usually have. Certainly today there are some things that are cheap, some things that are expensive.

The big inflationary items of today are food, oil, and gold. But they’re not all the same case. Oil prices are rising because we’re running out of oil. Food prices are also rising because we’re running out of oil. In fact, anything is rising if it’s connected to oil. Gold, however, is not connected to oil — it has meaning only as speculation, albeit that speculation is partly driven by oil fears.

Inflation has to some extent been just a bogeyman in previous years, as William Greider points out [7]. It was always the big financiers who did the most complaining about inflation, because they were the ones who had the most to lose — their financial holdings thereby had less value in a fundamental sense. For the person who had no savings at all but whose wages were rising, inflation was really not a big issue. Nevertheless, in the twenty-first century inflation will matter, and very much so — until the big finale. The difference between the present and the past, of course, is that high prices are no longer connected to high wages.

We must certainly get rid of the old concept of inflationary-deflationary cycles. Toynbee and Spengler spoke of cycles of empires, but when we have all returned to "living in caves" there will be cycles neither of inflation nor of empires.

The economic problem of peak oil is occurring when people in many countries have already gone through decades of being battered by other economic problems. One serious issue is globalization: for many years, big companies have been getting their work done by sending it out to whatever countries have the poorest people and the most repressive governments [7]. The result is that people in the more-developed countries lose their jobs. Although the official unemployment levels are low, the figures are misleading; large numbers of the employed are not working at well-paying, permanent, full-time jobs.

Closely related to the problem of globalization is that of automation, which increases production but decreases payrolls. Economic disparity is therefore a characteristic of our times. The “Historical Income Tables” of the US Census Bureau [12] have shown, over many years, the widening gap between the rich and the poor: in particular, while most incomes have either fallen or not changed, the top five percent of families have seen their incomes climbing dramatically.

As a result of all these vagaries within the capitalist system, government services are perpetually being cut. The common expression is that “money is tight these days,” although very few people ask why that is the case. Taxes continue to rise, but the individual receives little in return. But the days of globalization and automation are coming to an end.

The connection between oil and money can be complicated, however. In 2008 the price of oil doubled over that of the previous year. In 2007 an international credit collapse began. Nevertheless it was generally suspected that the second was somehow the cause of the first. One thing the two had in common was that the credit collapse, the defaulting sub-prime mortgages, and the regulatory failure could be ascribed to government corruption, which like oil depletion is an aspect of systemic collapse. More specifically, it seems that the extreme volatility of oil prices over the course of several years finally frightened the major investors into cashing out, making money as quickly as possible, even at the risk of committing fraud, before the dangers became any greater [8, 11].

REFERENCES

1. BP Global Statistical Review of World Energy. Annual. http://www.bp.com/statisticalreview

2. Broadfoot, Barry. Ten Lost Years 1929-1939: Memories of Canadians Who Survived the Depression. Toronto: McClelland & Stewart, 1997.

3. Energy Information Administration, US Department of Energy. “Retail Motor Gasoline and On Highway Diesel Fuel Prices, 1949 2008.” http://www.eia.doe.gov/emeu/aer/txt/ptb0524.html

4. Fernando, an Argentine Architect. 29 October 2005. “Thoughts on Urban Survival (Post-Collapse Life in Argentina).” http://freerepublic.com/focus/news/1511641/posts?page=116

5. Galbraith, John Kenneth. The Great Crash 1929. Reprint. Mariner, 2009.

6. Gever, John, et al. Beyond Oil: The Threat to Food and Fuel in the Coming Decades. 3rd ed. Boulder, Colorado: University Press of Colorado, 1991.

7. Greider, William. One World, Ready or Not: The Manic Logic of Global Capitalism. New York: Simon and Schuster, 1998.

8. Lardelli, Michael. “The Oil-Economy Connection.” Online Opinion. 25 November 2009. http://www.onlineopinion.com.au/view.asp?article=9694&page=0

9. Orlov, Dmitry. “Post-Soviet Lessons for a Post-American Century.” http://docs.google.com/Doc?id=dtxqwqr_20dc52sm

10. Soros, George. The Crisis of Global Capitalism: Open Society Endangered. New York: Public Affairs, 1998.

11. Therramus. “Oil Caused Recession, Not Wall Street.” Energy Bulletin, 21 January 2010. http://www.energybulletin.net/5120

12. US Census Bureau. “Historical Income Tables   Families.” US Government Printing Office. Annual. http://www.census.gov/hhes/www/income/histinc/f03ar.html

* * * * *

Peter Goodchild is the author of Survival Skills of the North American Indians, published by Chicago Review Press. His email address is odonatus [at] live.com.

Peter Goodchild's previous articles on Culture Change are

Food and Population

Depletion of Key Resources: Facts at Your Fingertips

When the Lights Go Out

Crime in the Post-Peak World

How Much Land Do We Need?

Putting Meat on the Table

Laborers Before Sunrise

The End of Electricity

Growing Your Own Grains
After the Age of Exuberance.