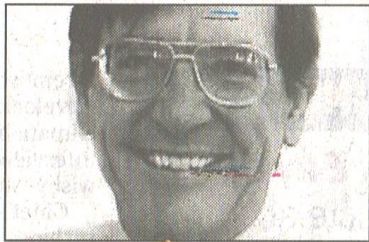


Opinion & Analysis

Error of passing debt on to our children



TONY ALLWRIGHT

OPINION

Today's baby boomers will be cursed by their progeny for leaving them in massive debt

OCCASIONALLY, I'VE got into trouble over unpaid debts. Usually this was due to forgetfulness so I would pay promptly when reminded, but sometimes it was because the money wasn't there, and wasn't even coming in. I don't recall, however, a single instance where I was advised that the cure for my unpaid financial obligations was to borrow even

more and to spend more and worry about settling my now increased debt at some indeterminate date in the future. The universal advice was to stop spending, start earning and repay my creditors, a cure which never failed.

I'm no financial guru, but that is why I feel very uncomfortable about the solutions proposed by Barack Obama, Gordon Brown and others more learned than I. They say the problem of financial institutions collapsing under gigantic toxic loans that will never be repaid and of the associated recession will be solved if people spend more money by buying more goods, and that this can be achieved if already indebted governments borrow a lot more money and pour it into their economies so that it filters through to individual spenders. This money will be repaid through future taxes once economies recover.

Perhaps there is some merit in a financial stimulus if funded by money you already have. But certainly not if it requires trillions of dollars of debts so large that they can never be repaid via existing workers, but must be passed on to their children and grandchildren. Furthermore, with Europe's demographic suicide now well under way (birthrates of 1.3-1.9 babies per woman vs replacement rate of 2.1), the many grandchildren needed to pick up the tab will simply not be there. A year ago the price of a barrel of oil was in the \$140s; it averaged \$99.6 for the year, according to the US Energy Information

Administration. Today it's around \$50 but is forecast to average \$42.1 for this year.

In 2009, OECD consumption was averaging 48 million barrels per day; this year it's predicted to be down about 4 per cent to 46 mb/d. When you do the sums, this means that the OECD spent \$1.74 trillion on its oil last year, but it will cost only \$0.70 trillion in 2009. Lower oil prices alone will provide a stimulus to OECD economies of more than a trillion dollars this year – roughly what the G20 has just agreed to give the IMF. That's a hefty sum, but it gets bigger.

The energy consumed by the OECD as a whole is the thermal equivalent of more than 110 mb/d of oil, which puts the market share of oil itself at about 40 per cent. Since all energy prices roughly track oil, this means the total energy stimulus this year is in the order of \$2.5 trillion. (For Ireland, which consumes 260,000 b/d of oil equivalent, the stimulus would be almost \$6 billion, or €4.5 billion.) This could be compared to President Obama's \$3.3 trillion US stimulus, except his is spread over several years and will have to be repaid by future generations, whereas the \$2.5 trillion energy stimulus is happening in 2009 alone with no repayments at all.

People often say that money is the lifeblood of the economy, which is why banks must be saved at all costs. I think oil is as much the lifeblood because it too permeates every corner of business

and life – and therefore so will the energy stimulus. The energy price reductions that we're seeing today will make everything else cheaper, from logistics to agriculture to industry to construction to food to consumer products; the effect is already noticeable.

The West's \$2.5 trillion energy stimulus is thus not the whole story. For what are price reductions in other goods and services but a further stimulus to the economy? What is the effect of today's historic low interest rates but a route to lower mortgages and other borrowing costs and thus an added stimulus? And what is the effect of the housing crash but a stimulus that enables people to buy and rent accommodation at realistic prices for the first time in a decade?

I cannot calculate how many trillions the non-energy part of such stimuli will amount to.

Why are OECD governments so keen to create further, artificial stimuli through debt when they stay silent about the far bigger stimuli already coursing through their economies? Today's baby boomers will surely be cursed by their progeny for the massive debt legacy that we are casually and unapologetically bestowing upon them.

Tony Allwright worked for many years in the oil industry and is now an engineering and industrial safety consultant. He blogs on international and national issues at www.tallrite.com/blog.htm