

AND SO THE US ECONOMY PICKS UP WHERE IT LEFT OFF IN THE 1970S

Newsweek has a couple of articles on stagflation you might want to read. From the first:

Inflation is generally on the rise throughout the world, and the rate of inflation is higher in many parts of the world than it is in the U.S. But Americans may feel they're getting hurt more by the current outbreak of inflation than many of our trading partners. Inflation is being driven by rising energy and food prices. Commodities-wheat, gold, oil, you name it-are getting more expensive. Another way of thinking about it, however, is that the dollar is losing ground against wheat, gold, oil, and other commodities. As the U.S. has pursued fiscal and monetary policies that debase the currency, the dollar has weakened significantly against many of the world's currencies. Consequently, when a commodity that is priced on a global basis in dollars, like oil, goes ballistic, the chumps who have all their assets in dollars will get hurt disproportionately. Americans today pay about \$100 for a barrel of oil. But if you're French, and you're buying oil with the Euro, which has increased by about 16 percent against the dollar in the past year, the blow has been substantially cushioned. What's more, many of the countries that have pegged their own currencies to the dollar, including China and the Persian Gulf states, either subsidize gas or use price controls. American consumers and businesses are, in some ways, uniquely

exposed to the twin ravages of a weak dollar and expensive oil.

It has been clear that Bush has mismanaged the economy in fairly spectacular fashion. But it's nice to see the press beginning to bring out the dreaded word "stagflation" so we can brand Bush and his chosen successor with the term.

But I'm more struck by this stat, from WorldChanging:

It finally happened this week. The price of oil passed the all-time inflation-adjusted peak of \$103.76 that was set in April 1980—and is now three times what it was just four years ago.

What's going on? This is a record that virtually none of the world's oil experts predicted, particularly at a time when the world economy is slumping and the demand for gasoline is now dropping in the United States.

And it's going to get worse from here.

Some of the blame may go to speculation and the decline of the dollar. But the roots of the problem run deeper.

World crude oil production has actually fallen from 73.8 million barrels per day in 2005 to 73.2 million barrels per day in the first ten months of 2007, according to the U.S. Energy Information Administration. This makes 2005 the peak year for world oil production so far, though it is too early to know if this will turn out to be the all-time high.

In 2007, crude oil production declined in some of the world's largest oil-producing countries— including Indonesia, Mexico, Norway, Nigeria, the United Kingdom, Saudi Arabia, and Venezuela—due to a combination of geological and political factors.

Whether that means we're at Peak Oil or not is unclear. But it does mean all the gimmicks the US has used since the 1970s to sustain an unsustainable economic hegemony—making the dollar the reserve currency and neo-colonizing the world through global "free" trade agreements—have done nothing more than get us back to where we were in 1980.

Though, in 1980, we were already recovering from a long, expensive, senseless war. We're still deeply mired in one now, one that is squandering what little cash we might use to fix the fundamentals of our economy.