

[The Oil Drum: Campfire](#)

Discussions about Energy and Our Future

Peak Jubilee

Posted by [Nate Hagens](#) on July 19, 2009 - 10:56am in [The Oil Drum: Campfire](#)

Topic: [Economics/Finance](#)

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Energy procurement from this point forward will be inextricably linked with the state of our financial system. We need energy to grow...we need debt to initiate new energy projects, and we need growth to payoff debt. We also sit amidst a mountain of debt, are passed the global peak in cheap oil production, and live in an environment where not only is the gap between the haves and have nots accelerating, but so is a general awareness of this gap. With this backdrop there has been [increasing talk](#) about a 'get-out-of-debt-free' holiday sometime in the future, a debt jubilee of sorts. At the root of debt forgiveness are two issues central to our energy future: - 1) the disconnect between biophysical and fiat-based accounting and 2) the favoring, via government rule changes, of one social group versus another (in this case, creditors vs. debtors).

Tonight's Campfire questions revolve around the implications of debt forgiveness for energy and social stability.



Jubilee n. *A season or an occasion of joyful celebration*

Debt Jubilee==> In 1997, [Jubilee 2000](#) was created in an effort to deal with the problem of oppressive debt in developing countries. It is named for the Jubilee year found in the book of Leviticus, when enslaved peoples were freed from their debts, their lost lands restored, and the inequalities that were suffered, removed. Organizers of the original Jubilee drew similarities between international debt and historical enslavement.

I am of the opinion that the credit explosion of the last 3 decades was a social response to the receding horizons of natural resource availability/affordability per average person (median not mean). Debt and credit enabled a large % of society to maintain [positional goods](#) consumption in the face of flat real earnings and increased energy imports. As such, global peak oil is a symptom, not cause of the credit crisis. As has been discussed on this channel for many years, we are surrounded by all kinds of solar based energy flows, but modern infrastructure is wholly dependent, at least in the short/intermediate term, on oil: extremely cheap, transportable great distances in liquid form, and incredibly energy dense. Combined with natural gas and coal, this high energy gain (EROI X scale X flow rate) trifecta has subsidized/powerd modern civilization to its current level of complexity and infrastructure. It stands to reason that if we did have the ability to procure 90 million+ barrels of such oil at a \$10-\$15 cost for another few decades, our current debt crisis might gradually be ameliorated by similar forces that brought us here, namely energy gain, technology, and iterations.

But we are now on a treadmill with time in the form of public/private interest payments and funding needs for hungry mouths (municipal projects, hospitals, infrastructure maintenance and repair, etc.) Debt, and the ensuing interest payments it engenders, set in motion two dynamics at nearly all hierarchical levels of society: 1) over time, the fiat system causes a widening gap between real capital and the financial markers most of us 'believe' in and 2) over time, the debt/credit demographics favor increasing flows from poor to wealthy, both at individual and national levels. The end of growth is not the only implication arising from this set of conditions - policymakers will likely find themselves between a large rock and a very hard place, with writing off peoples/countries debts becoming a more and more tenable possibility, as improbable as it now sounds.

[Debt forgiveness](#) is not a new concept, with literary references as far back as Leviticus (Bible). More recently, the 1980s and 1990s saw many third world countries have their 'Brady Bond' debt renegotiated for pennies on the dollar. Post 2000 examples include Argentina and more recently Iceland. In the past few months [Haiti](#) and [Liberia](#) have seen their debts forgiven. On a micro level, the ability to file for personal bankruptcy is now being expanded to policies such as [mortgage debt forgiveness](#) for those in negative equity situations, etc. It has not yet happened that entire classes of personal debt are written off: if/when it did one could envision that those who used debt to buy wind turbines, educations or electric vehicles might experience a jubilee before speed boat or AR-15 buyers



Source: [The Great Credit Contraction](#)

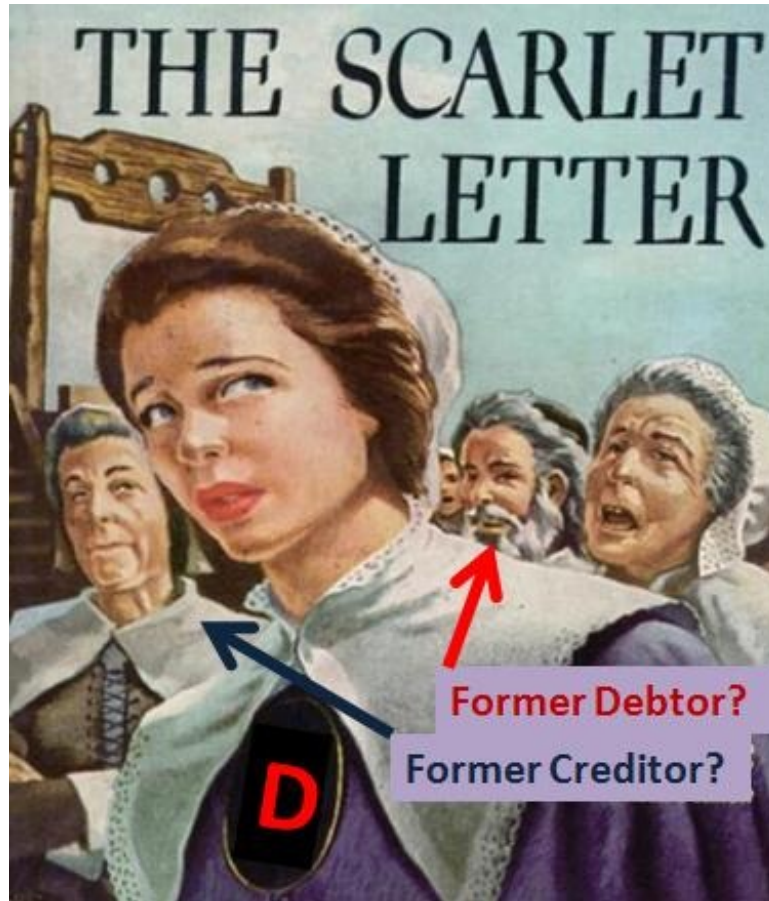
Though debt forgiveness is not new, a debt jubilee on any meaningful scale combined with the (potentially) quadrillion+ of notional IOUs at a time in history when our energy hemoglobin is starting to run through clogged arteries, suggests a socially unprecedented event. Attempting to inflate away our debts will likely only be taken so far, the inflection point being reached when the risks of permanent loss of seignorage outweigh the benefits of printing. I agree with [Gregor MacDonald](#)* that the US will first try to persuade other countries to stimulate/inflate at a faster pace than we do - a modern day spin on beggar-thy-neighbor. But the end game (pre-overtime) will probably be some form of debt forgiveness, yet another in an increasingly long set of choices between the lesser of two short-term evils without thought for any long term plan. Ironically, both the creation and ultimate repudiation of debt, will have occurred so that certain demographics could maintain the semblance of equality.

An impartial observer might view Earth's social situation circa 2009 with relative unconcern. We have amazing technology, an abundance of natural resources (still), and low basic needs, based on throughput requirements. But (a) decision-makers are not impartial and are for the most part among the 'haves', (b) our perception of 'needs' is in reality very close to 'wants' (+ we have a prevalence of addiction, formal or otherwise) and (c) the within and between country wealth disparity is at record (modern) levels.

On an absolute basis, everyone (in aggregate) would be better off if debt was wiped clean and we started afresh, perhaps tethered to reality via some kind of energy/natural resource based currency. But certain individuals/regions/nations will resent any debt forgiveness en masse, especially those who played by old school rules and did not participate in the past decades orgy of

easy credit. If this trajectory comes to pass, it will reward those who lived beyond their means. As TOD regular 'Greenish' would say, this will cause our 'capuchin fairness meters' to go haywire. I can only imagine....

It is an open question what happens when the 21st century version of the [Prodigal Son](#) returns home. I expect his brother to have similar, though leveraged, reaction.



The Scarlet Debtor

Campfire Questions:

1. How likely is a 'debt jubilee', either between countries, or between internal classes of creditors within say, the United States?
2. Following a mass debt forgiveness holiday, would it be the former debtors, or former creditors (or neither) that might be viewed with a social stigma?
3. What would the implications for energy production be following a debt jubilee?
4. Is there any workable path between the two poles of debt forgiveness and eventual inflating away debt through printing/stimulus?

As usual, I don't have answers to the above questions, and there probably aren't any. The hope is

that via discussing them, the benefits and drawbacks of various options might be better understood. If not, the discussion is probably still better than watching TV...;-)



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