

The Cause of “The Great Recession”— Nonrenewable Natural Resource Scarcity

Most of the industrialized and industrializing world experienced an economic boom during the early years of the 21st century. Consumers, especially American consumers, went on a buying spree for everything from consumer goods, to SUVs, to houses. Demand for nonrenewable natural resources (NNRs)—energy resources, metals, and minerals—the fundamental enablers of all industrialized economic activity, increased steadily and robustly during this period as well, driven by demand for the goods and services derived from those NNRs.

The “economic fuel” that fed the 21st century boom—the main source of purchasing power used to procure NNRs, goods, and services—was pseudo purchasing power (PPP)¹, primarily in the form of unsecured or inadequately secured debt. High risk loans were made to unqualified borrowers, were secured by overvalued assets or by nothing at all, and were often issued at artificially low or even negative interest rates. “Subprime” mortgages, “no doc” loans, “negative amortization” loans, “ninja” loans and revolving credit card debt are examples.

Global NNR production levels increased during the boom years—in some cases dramatically—in response to increasing demand for NNRs and derived goods and services. During the latter years of the economic boom, however, NNR supplies strained to keep pace with demand in many cases, as the production levels associated with an increasing number of NNRs approached their geologically imposed maximums—their global peak production levels.

NNR prices rose steadily as a result of continuously tightening NNR supplies, thereby forcing purchasers of NNRs, goods, and services to resort to increasingly risky sources of PPP in order to maintain their desired procurement levels. Less qualified borrowers were able to obtain higher risk loans to acquire even more grossly overvalued assets or to invest in even more marginal business ventures.

All involved parties—consumers, producers, lenders, and governments—sought to perpetuate the economic boom at all costs, despite the ever-increasing risks. Higher asset values created more “equity”—credit/debt—with which more NNRs, goods, and services could be purchased. We had apparently created a “self-perpetuating” economic boom!

Our self-perpetuating economic boom “went bust”, however, as an increasing number of high risk loans became nonperforming loans—that is, unqualified borrowers defaulted on their loan repayments. The credit bubble and housing bubble burst. Absurdly inflated real estate prices and other asset values plummeted; banks suddenly found themselves with \$trillions in overvalued assets—“toxic debt”—on their balance sheets.

These technically insolvent financial institutions suddenly found themselves unable to provide the liquidity necessary to perpetuate the economic boom; that is, they were unable to make additional high-risk, low-cost loans to unqualified borrowers. Our primary source of PPP evaporated—nearly instantaneously.

With the evaporation of cheap and abundant credit, the economic fuel that had fed the boom was removed and domestic and global economic activity levels—goods and services production, provisioning, and procurement—plunged. Global NNR demand, production, and utilization levels plunged as well. Our self-perpetuating economic boom was displaced by a major global economic recession.

Rising NNR prices caused by tightening NNR supplies forced purchasers of NNRs and derived goods and services to resort to increasingly risky sources of purchasing power—ultimately to unrepayable debt—in order to perpetuate the recent economic boom. When loan defaults inevitably occurred, the primary source of purchasing power enabling the boom—cheap and abundant credit—evaporated, demand plunged, economic activity levels plunged, and the global economy was thrown into the worst recession in decades.

Going forward, we will experience increasingly severe and protracted economic recessions punctuated by increasingly brief and anemic recoveries, as available NNR supplies become increasingly scarce—until available NNR supplies become insufficient to support an economic recovery. Industrialized societies worldwide will then collapse...

Footnote

(1) For an explanation of pseudo purchasing power, see “On American Sustainability”, pg. 12; Chris Clugston, 2009 - <http://www.wakeupamerika.com/PDFs/On-American-Sustainability.pdf>.

Author Bio (Chris Clugston): For the past four years I have conducted extensive independent research into the area of sustainability, the goals of which are to quantify from a combined ecological and economic perspective the extent to which our American society is currently overextended—i.e. living unsustainably beyond our means—and to understand the causes, implications, and possible solutions associated with our predicament.

Prior to that I spent thirty years working with information technology sector companies in marketing, sales, finance, M&A, and general management—the last twenty as a corporate chief executive and management consultant. I received an AB/Political Science, Magna Cum Laude and Phi Beta Kappa from Penn State University, and an MBA/Finance with High Distinction from Temple University in Philadelphia, PA. I can be reached at coclugston “at” comcast “dot” net.