The Credit Crisis Is Fuelled By Fuel Prices

The threat of recession and economic disaster facing many areas of business, its effect on employment and income levels, personal debt and security of homes is solvable. If the root cause is not addressed then the financial crisis can only deepen causing financial misery throughout both the developed world and emerging nations. Earlier this century the world largest economy, the US experienced problems and potentially faced moving into a period of economic recession. The Federal government reacted to the problem and over borrowing by reducing interest rates to very low levels. Reducing bank interest and borrowing rates to such low levels dealt with the symptoms of the problem not the causes. In fact the action to lower interest rates not only put off the inevitable financial crash but made it worse as money was borrowed and used to finance house purchases and house price inflation beyond the economic resources of the borrowers. The current credit crisis affecting the US and all western nations certainly has a partial cause in too much credit being served by banks and financial institutions, The financial crisis which was not solved in the early part of the century was dealt with but only put off and has returned and deepened, Banks have written off billions in losses, credit is difficult and expensive which is inevitably leading to crashes in house prices, people losing employment and financial security. The world economy and all western nations trade on credit which is the building block of confidence and it is confidence that needs to be restored to the world financial markets to solve the credit crunch. Lowering interest rates and pumping money into the system is the same as taking medication for a cold. It does not cure the cold but can smooth over the symptoms.   The solution is more fundamental. In the current world economic crisis of over borrowing and cheap credit which has tightened considerably there is also a major problem of rapidly increasing prices across the full spectrum of goods and services. One of the economic factors driving the higher prices and inflation is potentially higher costs and the larger business organisations protect themselves by increasing prices to maintain profit margins. Large business fully understands that profit margins have to be increased not just to cover increased costs but also potential losses Those increased prices rapidly filter through the whole market and the consumer suffers financial disaster further affecting confidence. A principal driving force of the current economic downturn is the price of fuel and energy. Fuel and energy costs are a part of every product and service and in recent times fuel costs have escalated to stupid proportions. Reduce fuel costs and the consumer benefits from lower costs in petrol, diesel and business costs reduce through lower overheads and cheaper products. As a result demand from consumers can increase in line with increased disposable income and business profits stop heading downhill and confidence returns. The present high levels of fuel prices which at the time of writing is 120 dollars a barrel bears no relation to the cost of production. The fuel prices are purely market driven due to concerns over future supply exceeding demand. The solution to the credit crisis is then to reduce demand for oil and increase production. When supply exceeds demand prices fall. Demand for oil is increasing worldwide both from western countries and the emerging dominant nations of India and China while production is not increasing at a rate to meet the increased demand. Climate change is an issue that needs addressing medium and long term to reduce the demand for fossil fuel which could be in danger of running out this century. In the short term oil production has to be substantially increased to activate a fall in fuel prices. The oil producing nations and OPEC in particular are less interested in increasing demand due to the extortionate prices obtained for oil when demand exceeds supply. Compared with a market price of 120 dollar a barrel the production cost of that barrel of oil is as low as just 2 dollar a barrel. OPEC has been requested to increase supply and the response was negative. The solution to restore confidence in the world economies is to request oil production is increased. If that request is ignored then further diplomatic discussions must take place to ensure supply is increased. If diplomacy fails then negotiations must get tougher until a solution is found to increase supplies of oil. In the end game if the oil rich nations refuse to increase oil production then the diplomats should enforce production increases even if that results in potentially confiscating oil fuelled investments worldwide and putting the billions raised back into the economies and the hard working people of this world.

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