Our View: $200 Oil and the Economic Collapse of 2020

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July 2018

The global economy will face collapse in twelve to eighteen months, a downturn worse than the Great Recession of 2008. What's coming could even rival the Great Depression of the 1930s.

Catastrophically high oil prices will cause the impending recession. The world oil market will see prices triple or quadruple in the next eighteen months—$300 crude is possible. US voters may go to the polls in 2020 with gasoline and diesel selling for more than $10 per gallon.

This looming economic crisis has not been anticipated to date by any major economic forecaster. No one has noted the coming high oil prices. No one has predicted the economic consequences. But then few envisioned prices doubling from $70 to $140 per barrel in 2008, and no forecaster projected the Great Recession in January 2008.

The approaching economic crisis could be dodged, just as the Great Recession might have been avoided in early 2008 if Lehman Brothers had been saved. To borrow an analogy from history, the global economy today is moving toward an unseen calamity, just as the *RMS Titanic* sailed toward an iceberg in 1912. A minor course correction would have saved the *Titanic*. The impending economic troubles can be avoided in like manner.

The oil price rise from $70 to $200 or even $300 per barrel will be driven by three forces: the collapse of Venezuelan oil production, the reinstatement of sanctions on Iran, and the International Maritime Organization's sulfur-content regulation on marine bunker fuel, the oil that powers ships at sea. The IMO rule poses the greatest threat. Absent changes, a 2020 collision with the economic iceberg is certain.

The high level of debt issued by the United States since the Great Recession of 2008, along with the tax cut enacted in December 2017, will exacerbate the economic downturn because the US government will be unable to use traditional economic stimulus measures to ameliorate the collapse. US debt represented sixty-four percent of GDP at the beginning of 2008. Today, it has risen to one hundred-five percent of GDP. The economic situation in other regions of the world could be equally severe.

Although it seems preposterous, the IMO rule could create the worst economic catastrophe of the last one hundred twenty years. Many will scoff at this idea. To them, we offer this pertinent observation from Milton Friedman: "Because no great strength would be required to hold back the rock that starts a landslide, it does not follow that the landslide will not be of major proportions."[1] History is full of "landslide" examples. For instance, while the Great Recession ultimately sent General Motors and Chrysler into bankruptcy, the tripling of oil prices from 2006 to July 2008 was the initiating "rock" that led to the industry's economic collapse.

The economic collapse caused by the IMO rule will come just as the effects of the global trade war begun by the United States become evident. The oil-price increase will double or triple the decline in

[1] Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States* (Princeton, New Jersey: Princeton University Press, 1963), p. 419.

global demand for goods caused by the trade war, just as bad fiscal and monetary policy doubled the economic impact of the 1930 Smoot-Hawley Tariff Act. Major corporations like Ford, GM, Chrysler, and even Boeing could fall victim to the coming crisis. It could take decades to restore the global economy unless some disastrous event like a global war intervenes.

In his paper, "$200 Crude, the Economic Collapse of 2020, and Policies to Prevent Catastrophe," Dr. Verleger examines the potential US and global economic consequences of possibly much higher oil prices in 2020. He then offers his thoughts on policies and developments that might moderate any crude oil and petroleum product prices increases caused by the implementation of the IMO's marine-fuel sulfur-content regulation.

For more information on the availability of the "$200 Crude" paper, please contact Kim Pederson at kim@pkverlegerllc.com.