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The collapse in the price of oil is a challenge to the old world order

We're awash with the black stuff – so we should celebrate the fact that the pessimists got it wrong



By [Allister Heath](#)

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It is one of life's mysteries that being wrong about everything has never been much of a barrier to success. Take **Thomas Malthus**, the British theologian: his big idea was that the number of human beings would necessarily grow faster than the supply of food, leading to calamity. There was little difference, in his mind, between people and rabbits: both were doomed to over-breed, over-consume and starve.

Yet this theory, expounded in 1798 in **An Essay on the Principle of Population**, one of the most influential books ever written, and now also routinely applied to oil and other resources, is bogus. Unlike rabbits, who are powerless to control their environment, the more we need, the more we eventually find a way of producing: the availability of food and oil are determined by technology and economics, not by some law of nature. Modern techniques (such as fertilisers, genetic

selection or fracking) mean that agriculture and the extraction of commodities have become hugely more efficient.

The average British field yielded just over three tons of cereal per hectare per year in 1961; today, it is twice that. Thanks to the spread of free markets and knowledge, the world has never produced so much food, and the number of hungry people worldwide has dropped by 216m since the early Nineties, according to the United Nations.

Ditto oil production: in 2000, the **Energy Information Administration** estimated that the world contained just over one trillion barrels of untapped oil; since then, proved reserves have shot up by 60pc, increasing every single year despite booming consumption from energy-thirsty emerging markets.

Malthus wasn't just far too pessimistic about supply: he was also wrong about demand. Rabbits can't control their birth rates; we can. As more countries embrace markets and globalisation, thus ensuring that their economies develop, global birth rates keep on falling. As to energy consumption, it is just a matter of time before improved battery technology and ever-cheaper solar power finally lessen our dependence on the internal combustion engine and oil. We will eventually be able to feed and fuel the world's population using significantly less land and fewer hydrocarbons than we do today.

Jesse H Ausubel, an academic at the Rockefeller University in New York, has calculated that an area the size of the Amazonian forest could be returned to wildlife when the average farmer around the world becomes as productive as their US counterparts. Ausubel calls this the Great Reversal: nature's chance to restore land and sea to their original use. It is an intriguing and exhilarating prospect, made possible by the wonders of capitalism, innovation and human ingenuity.



The abject failure of Malthusianism was, in fact, one of the defining trends of 2015, especially in the oil market; it will continue to be one of the central forces of 2016, impacting everything from

how quickly the **Bank of England puts up interest rates**, to the stability of the Middle East. The price of Brent crude oil, which briefly reached \$147 a barrel in 2008, is **now down to around \$37**. Some analysts even believe it could fall briefly to \$20, especially if more Iranian supplies than expected hit the global markets.

There are many reasons for this historic collapse. Thanks to shale, America is poised to become a net oil exporter. Opec, the old cartel that wreaked so much havoc in the Seventies, is now all but defunct; its members no longer have the ability to push up oil prices. At the same time, the slowdown in China has reduced demand for energy.

The cost to oil-exporting countries from the lower prices is nearing \$2 trillion a year. Drivers, by contrast, have saved a fortune, allowing them to spend the cash on other things and contributing to a strengthening in consumer spending across the Western economies.



Drivers

have saved a fortune thanks to low petrol prices

Manufacturers' costs have also slumped, facilitating investment and creating jobs. Europe, China and India have been the great winners. In Britain, lower petrol prices have helped eliminate consumer price inflation. Take-home pay has thus shot up after years of austerity. Cheap oil has also delayed – and delayed again – the prospect of a rate hike from the Bank of England, helping borrowers but hurting savers, some of whom had already lost out from their holdings in commodity and oil firms.

Perhaps the biggest impact will be geopolitical. In **oil-exporting Venezuela**, the public has booted out the Corbynite government whose demented Left-wing policies had led to a shortage of toilet paper. In Russia, the budget deficit is likely to reach alarming levels this year, forcing the country to dip into its reserves and putting pressure on President Putin, especially given his military commitments in Syria.

The Gulf states face the greatest challenge to their viability. Some, such as the UAE, a close ally of the West's fight against terror, have such large cash reserves that they ought to be able to cope

with low oil prices for decades. Others, including Iraq and Bahrain, will find it much tougher; **Saudi Arabia has just been forced to pass an emergency budget**. All will slash their purchases of Western assets and luxury goods, hitting the London economy.



The West will be hoping that the existing Gulf regimes aren't replaced by something worse, while also hoping that the collapse in the price of oil will reduce flows of cash to extremist Wahhabi and Salafist groups around the world. If radical Islamist terror groups end up being the biggest losers, the collapse in the oil price could yet end up achieving more than sanctions or Western military intervention ever could; but a successful uprising in somewhere like Saudi could also risk turning a bad situation into a catastrophe.

As for Scotland, the nationalist electorate will eventually have to wake up to the new reality of a world awash with oil. The SNP's plans for independence didn't even come close to adding up even when the price of Brent crude was over \$100 last year.

At current prices and with output sliding, an independent Scotland that sought to retain the NHS and the welfare state would face immediate bankruptcy.

Forget about politics and slick campaigns: if anything keeps the UK together over the next few years, it will be cheap oil and the latest, abject failure of Malthusianism, one of the most wrong-headed ideologies of the past 200 years.