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Demand destruction isn't working out so well

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When you start to look at the financial implications of high oil and gasoline prices on the individual consumer, it becomes obvious that there are many subtle factors contributing to the problem. Because they're so subtle, consumers may not realize for a while what a bind they're in.

For example, peakguy notes on Peak Oil NYC today that the reason that people—and the economy—seem to be putting up with $3/gal gas is because they don't have another choice. As the Slate article that peakguy refers to argues: "The rule of thumb in economics is that people react to price increases only when they can turn to substitutes...people can't change the type of fuel they put in their cars, and they can't stop going to work."

If people can't stop using gas, what happens? Well, they charge it on their credit cards, of course. But this AP article reports that as a result of this credit card activity, Americans have fallen behind on their ability to pay off their credit cards. (In fact, this topic seems popular in the news today.)

> "The rise in gas prices is really stretching budgets to the breaking point for some people," the [American Bankers] association's chief economist, Jim Chessen, said in an interview. "Gas prices are taking huge chunks out of wallets, leaving some individuals with little left to meet their financial obligations."

Couple this with some other problems we've seen lately in the financial realm, and we should be scared. Remember the talk about the relationship between the new bankruptcy regulations and the Katrina (and Rita) evacuees? Well, now Rep. Sensenbrenner, who's the chair of the Judiciary Committee, has said that he will not hold hearings to determine whether the new, strict regulations should be waived for those affected by Katrina. This, despite the fact that these people are already running into just the kinds of problems you might expect:

> Katrina survivors are already starting to run up huge debts on their credit cards as they struggle to find new jobs, new homes, and new lives. Although many banks and credit card companies have offered leniency on payments and loans in the short term, the long-term effects of their displacement and loss of finances may put them hopelessly in debt.

Also, in case you missed it the other day, Spooky left the following scary story in a comment:

> Fractional banking now retains just .08 of each dollar in their central vaults. I recently tried to get $5000 from my bank. I was told I would have to "place an order" for that much cash.... credit and lending is not just out of control, it is the only game in town, and every single bank in the world is built of nothing but debt.

This, of course, prompted more discussion as to whether we should all be buying gold or not.

As if this doesn't seem scary enough, I'll leave you with one last thought. The Reserve Bank of Australia is warning of an impending global financial meltdown. Their analysis is based primarily on the unrealistic housing market in many countries, but also says that the financial situation is exacerbated by increased oil prices and growing personal debt. While I can't necessarily assess the validity of this article, it seems to me that even the other subtle signs—when all of them are added up—should be making us all pretty edgy right now.