The Coming Economic Collapse: How You Can Thrive when Oil Costs $200 a Barrel. By Stephen Leeb with Glen Strathy. New York, and Boston: Warner Business Books, 2006. Pp. xi, 214. $24.95. ISBN 0-446-57978-5.

"An economic crisis is near at hand in America today, the kind of dramatic, earth-shattering crisis that periodically threatens the very survival of civilization. More specifically, it is an energy crisis brought about by the conflict between rising global demand for energy and our growing inability to increase energy production." Such doom and gloom is the tone for 13 of the book's 15 chapters. At times Dr. Leeb, a Ph.D. in Psychology, assures us that skyrocketing oil prices can be avoided by bold action by our leaders with a momentous investment in alternative energy. Despite the stirring language of the book title, if you are searching for an investment book with definitive suggestions on where to put your money, or if you are well versed in oil peak production, you will be disappointed in the lack of diligence by Dr. Leeb. If on the other hand you are a general investment reader looking for a light book with ideas about a possible future investment landscape and a few ideas to maximize returns in an inflationary environment, this is a great book to read.

Dr. Leeb is no stranger to bold predictions. In 1986 he penned, Getting in on the Ground Floor, in anticipation of a bull market in the 1990s that did occur. In his next book, Defying the Market (1999), he warned investors of a coming collapse in overvalued technology stocks that did occur. And in February 2004, when crude oil was still below $33 per barrel, his Oil Factor predicted future soaring energy prices-the kind of soaring prices that we have today. Dr. Leeb's introduction to The Coming Economic Collapse, explains that Jared Diamond's Collapse (2004), and Joseph Tainter's The Collapse of Complex Societies (1990) were flawed because the, "fault did not lie in the peculiarities of the individual civilization but rather were grounded in universal human characteristics." (p. x) These two books convinced Dr. Leeb, "that our civilization was falling prey to colossal errors of judgment," (p. x) and compelled Dr. Leeb to write his own account of the most serious threat facing the modern world–world leaders' narrow forethought about future resource shortages.

Dr. Leeb argues that the real price of oil will never stop rising if we do not find an adequate substitute. His conclusion is derived from the "Hubbert peak theory," created by American geophysicist Marion King Hubbert. In his 1956 paper "Nuclear Energy and The Fossil Fuels," Hubbert estimated that "the culmination of world production should occur within about a half a century," (p. 27). Hubbert later clarifies his position by saying, "This does not necessarily imply that the ... industrial world will soon become destitute of liquid and gaseous fuels, because these can be produced from other fossil fuels which occur in much greater abundance," (p. 27) a point which Dr. Leeb seems to ignore. Dr. Leeb argues that the disregard of energy shortage risk is a combination of a narrow-minded media, "group think" afflicted academics, and political priorities governed by self-interest. He believes this is society's biggest obstacle to an alternative energy solution which he outlines in Chapter 6, "The Most Dangerous Crisis of All."

In chapter 7, Dr. Leeb argues that the core need of all complex societies for growth is cheap energy. Although Dr. Leeb is well aware of the fact that oil is an exhaustible resource I find it amazing that he does not cite from the wealth of economic papers on the subject such as "The Economics of Exhaustible Resources," written in 1931 by Harold Hotelling. Hotelling's rule – an argument which would have strengthened Dr. Leeb's position, shows

that efficient exploitation of a nonrenewable and nonaugmentable resource under stable economic conditions leads to the gradual depletion of the resource. Dr. Hotelling proves that the real price of oil optimally extracted is "proportional to a sum increasing at compound interest," Hotelling (p. 149) reflecting the increasing scarcity of the resource. Dr. Leeb's omission of crucial economic theory in support of his hypothesis makes me wary of a Dr. of Psychology writing about economics. While I do find Dr. Leeb's argument that an oil spike is probable under certain circumstances, he does not tell us what those circumstances are. Two recent ones which come to mind are a terrorist attack on or natural disasters disrupting production facilities. Had Dr. Leeb considered the rich economic literature on nonrenewable resources, he would have learned that whether we conserve oil or consume it, its unit price is destined to climb due to limited supply. While it is widely argued that oil produces restrict supply, optimizing producers limit current rent extraction to prevent long run trends towards increased substitute demand.

Dr. Leeb argues government subsidies and tax breaks are directly responsible for the failure of our energy policy and the lack of an alternative energy strategy. These fundamental problems are dramatically enhanced by the combination of the U.S. deficit and by the growing economies of China and India, labeled "Chindia." His main point is that all complex societies need cheap energy for growth, and although some oil producers such as Russia and Saudi Arabia will increase production themselves, their developing economies will have increasing energy consumption demands.

In the final two chapters, Dr. Leeb gives some investment ideas on how to profit in a world environment outlined in the first thirteen chapters. He breaks down a suggested investment portfolio into three areas of risk. The first risk is inflation and he suggests hedging by purchasing precious metal miners and energy companies. The second risk is a failure to invest in Chinese and Indian companies. The strategy he suggests is to invest in large multinational companies like Coca Cola, Intel, and Proctor & Gamble that will have the resources to break into these two economies. The last risk is deflation which he suggests can be hedged by purchasing zero coupon bonds. With these three groups he suggests portfolios for aggressive investors of 10% precious metals, 10% energy, 30% Chindia, and 50% in deflation hedges. For more moderate investors he suggests a portfolio weighting of 25%, 25%, 30%, and 20% respectively. I find it hard to believe in the credibility of Dr. Leeb's predictions and investment advice since he does not disclose whether his company, Leeb Capital Management, Inc., stands to gain from appreciation of any of the shares of the companies he recommends.

This book is not for academics or those interested in models and underlying economic theory. Dr. Leeb's account is inadequately researched. On the other hand, if you have only a general understanding of this area and are looking to be familiarized quickly with potential opportunities in this type of investment, this book would be a great one to add to your coffee table.

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