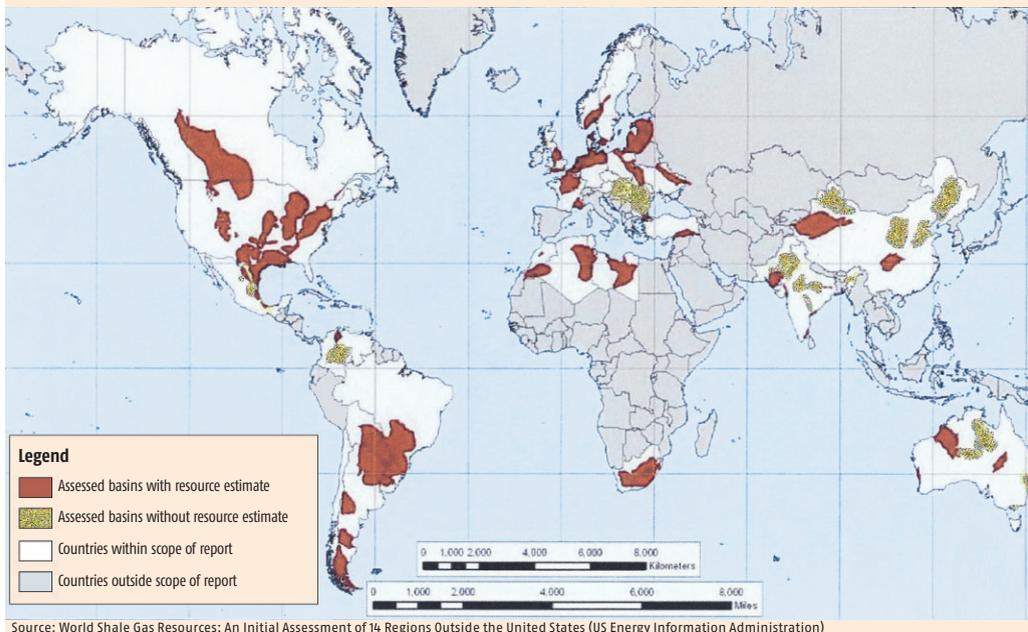


48 MAJOR SHALE BASINS IN 32 COUNTRIES



Source: World Shale Gas Resources: An Initial Assessment of 14 Regions Outside the United States (US Energy Information Administration)

Shale gas and Pax Americana

The geostrategic implications of the shale gas revolution invalidate predictions of the death of American-style capitalism, says **Deepak Lal**

Within five years of the United States being written off as a declining economic and imperial power, the shale gas revolution it has pioneered provides it with the energy independence it has sought since the first Organisation of Petroleum Exporting Countries (OPEC) oil shock of 1973. It also changes the global future of fossil fuels, which have been the basis of the modern intensive growth — generating a sustained increase in per capita incomes, first in the West and now in the Rest. (See my *Unintended Consequences*.)

One of the periodic fears generated by the Greens is that of the world running out of fossil fuels, of which the discredited “peak oil” theory was the latest (see Daniel Yergin’s *The Quest*). The potential increase in worldwide natural gas resources from currently estimated recoverable reserves of shale gas is 40 per cent, implying that about 250 years of gas supplies are now available. (See US Energy Information Administration’s “World Shale Gas Resources”.) These are also widely distributed, with China and the Americas having the largest assessed reserves (see map). Furthermore, the potential shale oil reserves are even larger. The US government estimates that the Green River Formation in the Western US contains three trillion barrels of shale oil — three times as large as total global oil consumption over the past 100 years (see www.thegwpf.org).

This increase in cheap natural gas will allow the replacement of coal-fired power stations, which account for 46 per cent of the electricity produced globally, by gas-fired ones, reducing carbon dioxide

emissions by half. Moreover, this will happen through normal market processes without any need for the mandates and taxes currently in place to decarbonise the world. The US, as a result of the shale revolution, has cut its carbon footprint by five per cent this year, well ahead of those hankering after a new Kyoto Protocol on climate change.

However, for the next decade or two this imminent energy revolution is likely to be mainly confined to the US, which shows the robustness of American entrepreneurship, its system of property rights and the depth of its financial markets. The technology of “fracking” was developed by small companies experimenting in the 1980s and 1990s, supported by venture capital from Wall Street, and took off in 2005 when the Barnett Shale in Texas was shown to be commercially viable. Other shale formations were then rapidly developed. These small companies were aided by the unique US system of property rights, whereby owners of land also own rights to subsurface minerals; in much of the rest of the world these belong to the state. The exploration and production companies have to negotiate with these private property owners for the right to drill in return for negotiated royalties. This provides an incentive for the locals to allow “fracking”, overcoming the NIMBYism prevalent in much of the world. The shale gas and oil revolution, thus, attests to the robustness of US capitalism despite its current fiscal woes.

The fall in the price of natural gas in the US, from \$16 to \$3.30 per mBtu, has meant that the US is re-

industrialising as petrochemical- and energy-intensive industries shift from Europe, the Gulf and China back to the US. All the predictions of the US-related economic decline are soon to be overturned. The renaissance in US manufacturing, particularly in petrochemicals, has been estimated to increase US manufacturing employment by one million by 2025. This increase in high-paying jobs should help mitigate the stagnation of US wages and the attendant rise in its inequality indices. Just as the proponents of “Japan as number one” had written off the US in the 1980s with the stagnation of US productivity, all those rushing to anoint “China as number one” are likely to be nonplussed by the coming resurgence of the US economy.

Moreover, other parts of the world with large shale gas reserves are also unlikely to realise their potential. Argentina, with large reserves, is a pariah when it comes to the direct foreign investment that is needed, after its nationalisation of the oil firm YFP. China, with shale reserves greater than the US, has a shortage of the water needed for “fracking”. Given the continuing “Green” uproar over mining and nuclear energy, India’s polity also seems unlikely to be able to exploit this bounty.

It is the geopolitical consequences of this US economic renaissance and energy independence that are likely to be momentous, allowing greater freedom of manoeuvre in its foreign policy — most importantly, in its relationship with West Asia. Ever since President Franklin D Roosevelt struck the deal with the Saudi King Ibn Saud on the USS Quincy in 1945 promising security to the Saudi dynasty in return for the free flow of oil to the West (to match the leverage provided to Russia by its oil in the Cold War), the US has been unable to counter the fundamentalist Wahhabi poisoning of the Muslim mind. With the ending of its reliance on West Asian oil, the US could cut back on its implicit protection of the Wahhabi state, and its policing functions in the Strait of Hormuz. It only needs to act as an offshore balancer in the coming internecine conflict amongst the Shias and the Sunnis in the region. It will be the Chinese, Indians and, above all, the Europeans who will no longer be able to remain free riders relying on US arms to secure their oil supplies from the impending turbulence in West Asia.

Moreover, the prospective global abundance of oil and gas, by spiking the Russian threat to world order based on deploying the rents from these natural resources, could also lead Russia to move from its authoritarian crony capitalism to the advanced liberal market economy that it needs for its future prosperity. Equally important, by allowing a shift of US military resources from West Asia to the Pacific, it might give the other authoritarian capitalist state — China — cause to pause in its recent aggressive attempts to challenge the US Pax in Asia. In conclusion, it is premature to predict the end of the American Imperium.