
Oil and World Power

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The economic base of U.S. world power has been in steep decline. A country's global power is always relative to that of others, and World Bank figures show that between 2000 and 2014, China's share of the world's total gross domestic product (GDP) nearly quadrupled; Russia's share tripled; India's share almost doubled, while the U.S. share *decreased* by 28 percent. America is still the world's single most powerful state, but global leadership requires both hard and soft power—and the wealth on which power is largely based. If America's current relative economic decline continues, its ability to influence the world will also continue to fall.

Against this dark backdrop of economic weakening, energy—specifically oil and natural gas—has been a bright spot in recent years. Improvements in horizontal drilling, hydraulic fracturing (fracking), and advanced seismology have led to a surge in the U.S. output of natural gas and oil. This growth is a dramatic turn from what had been roughly thirty years of seemingly inexorable decline in oil production. Starting in about 2007, many U.S. firms began using the new techniques to extract, first, natural gas, and later, oil from formations that had been too impermeable to exploit profitably. The oil produced from these formations is often referred to as tight oil.

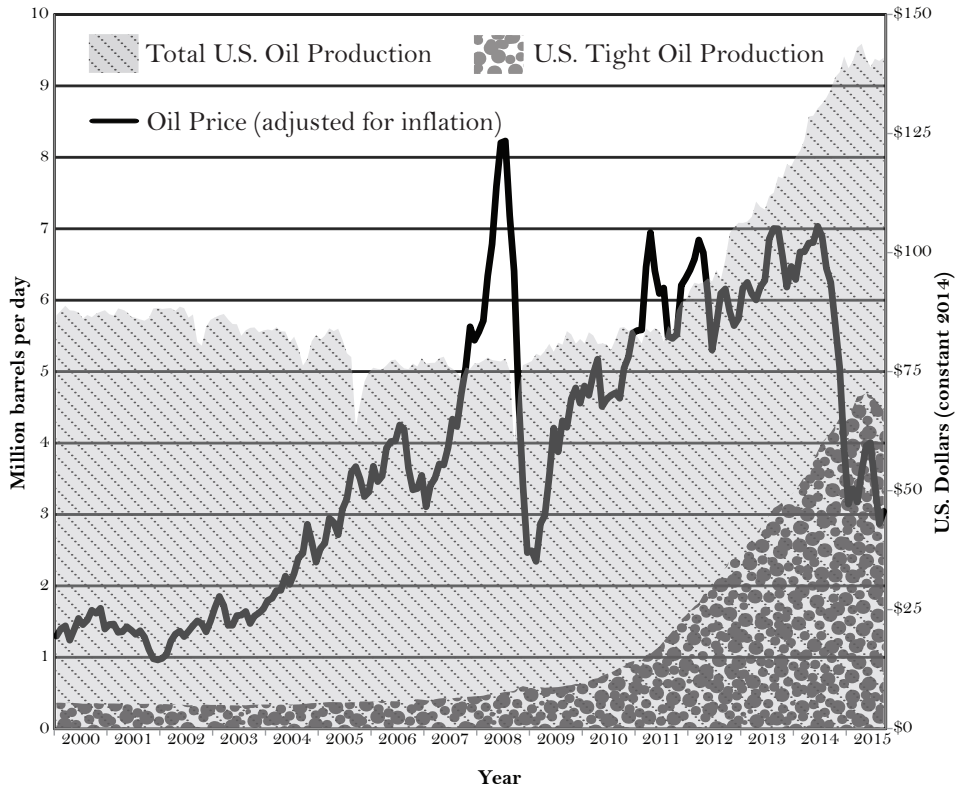
Tight oil output in the United States rose from 1.5 million barrels per day (MBD) in 2010 to 4.7 MBD in 2014. (These figures include condensate output—a type of very light oil that turns from a gas into a liquid when extracted.) For the year 2014, the latest edition of BP's Statistical Review of World Energy shows that the United States produced 12.3 percent of global crude oil, putting it closely behind Saudi Arabia's 12.9 percent and Russia's 12.7 percent. By the end of 2014, the daily rate of U.S. oil output actually exceeded those of Saudi Arabia and Russia. The United States also led the world in natural gas production.

The resurgence of U.S. oil and gas output has been a much needed tonic for the nation's GDP growth rate, which has been anemic over much of the last fifteen years. Nevertheless, the economic impact should not be overstated. A recent International Monetary Fund working paper

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Fig. 1. U.S. Oil Production and World Oil Price



Sources: U.S. Energy Information Administration and FRED Economic Data.

estimates that although the long-term impact of this increase in oil and gas production on the nation's and the world's GDP is "nontrivial, it is likely to be modest"—between 1 and 1.5 percent increase in U.S. real GDP and less than a quarter percent globally. The authors noted that their findings for the U.S. economy were similar to those of the U.S. Congressional Budget Office, which has estimated that real GDP "will be about two-thirds of one percent higher in 2020 and about 1 percent higher in 2040 than it would have been without the development of shale resources." The authors of the IMF paper also explain that even though the net effect on the global economy will be positive, the surge in U.S. tight oil output, by lowering world oil prices, is having a strongly negative impact on the economies of some global oil exporters. By early 2015, world oil prices were about half the levels that had prevailed in mid-2014, and in the view of many, barring a shock that slashes global oil output, they are likely to remain low for several years.

The production of tight oil in the United States lessens the risk of economic harm to America from oil price shocks. Prices can rise steeply for any number of reasons—if conflict in the Middle East spooks markets; if demand shoots up in major importing nations like China; or if oil exporters experience domestic turmoil, as during the oil strike in Venezuela in the early 2000s. Tight oil producers—often able to complete wells in mere months—can help limit the rise in prices and curtail the transfer of wealth from U.S. consumers to foreign oil exporters. This potential surge capacity is especially important in light of some current trends. Today's low oil prices could raise the risk of a market disruption through political unrest in major oil-exporting countries where economies are suffering from the decrease in oil profits. Compounding the risk, OPEC (mostly Saudi) spare capacity, a major buffer against a supply shortfall, is below the levels of recent years—although the Iran nuclear deal might change that, if the lifting of sanctions means that country will increase its oil output.

Tight oil production may be an important factor in protecting the U.S. economy from the effects of oil-supply disruptions. To see how, consider the numbers. From December 2013 to December 2014, U.S. tight oil output grew by 1.2 MBD. And as a 2010 article in the journal *Security Studies* explains, between 1978 and 2003 there were six cases of oil-supply disruption with supply losses that ranged from 2.3 to 5.3 MBD. Had the current tight oil sector existed during those years, its surge capacity could not by itself have closed the gap but it would have had a significant impact on the supply shortfalls and the resulting wealth transfers. It is notable, though, that in only one case, that of the 1979 Iranian Revolution, did the supply shortfall persist for a year or more. This means that, for all of the concern about oil supply, the world crude oil market, even without tight oil, quickly offset all but the worst disruptions. So tight oil output is probably most helpful in the least likely, but potentially most costly, disruptions.

Over and above these economic and security benefits of tight oil, some observers purport to see yet another kind of gain from it. They note that many of the biggest oil and gas exporters, such as Saudi Arabia, Russia, Iran, and Venezuela, are all autocracies. Presumably, low oil prices constrain and weaken these governments. Indeed, some commentators have suggested that, if prices stay low enough for long enough, some or all of these regimes might be overthrown. Such an outcome, according to this line of thinking, would be in the U.S. national interest and would advance the cause of freedom. But is this claim valid, and will it happen?

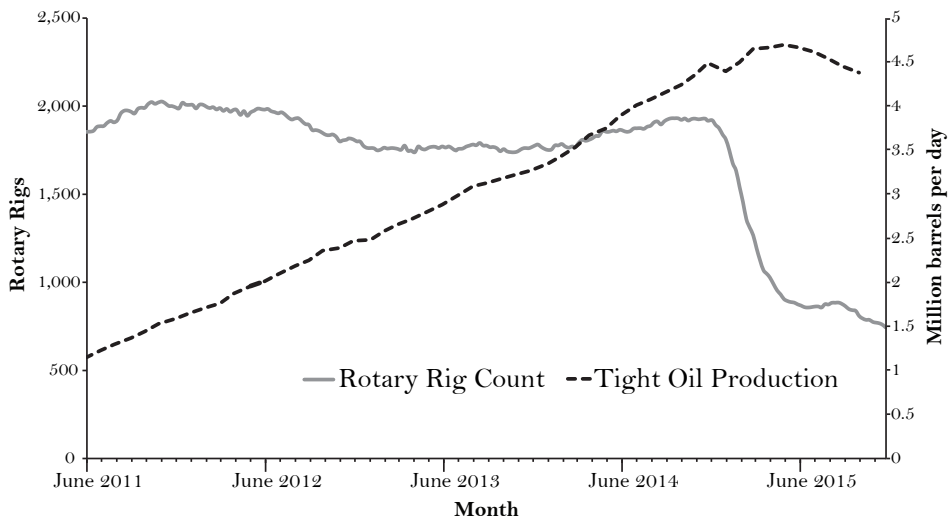
Limits of the U.S. Oil Renaissance

To understand the geostrategic importance of the new reserves, we must closely examine the features that distinguish tight oil and gas from conventional reserves. For starters, tight oil and gas are more complex and costly to produce than are conventional resources. Tight oil and gas wells are often deeper, and they require extensive and costly horizontal drilling after reaching the target depth. The sites selected for tight oil and gas drilling tend to be more heterogeneous than conventional formations and tend to cover wider areas, so a considerable investment must be made up front just to find profitable spots. A conventional onshore well might cost \$1 or \$2 million, but as an article in the *Journal of World Energy Law & Business* sums up, “Due to the geological challenges, extensive testing, appraisal and drilling required, high density of wells and costs of water acquisition and treatment, the cost per shale well can range from \$3 to \$9 million in the USA and three to four times more elsewhere.”

Even more importantly, each tight oil well produces much less oil than does a well in the Persian Gulf. As a result, energy analyst Colin Chilcoat has calculated, “To maintain production of 1 million barrels per day,” a tight oil basin “will require between 1,500 and 2,500 wells. For comparison, conventional production in Iraq can reach similar levels with fewer than 100 wells.” The need to drill 1,400 to 2,400 more wells per each MBD of output makes U.S. tight oil much more expensive to produce than crude oil from the Persian Gulf.

Also, output from tight oil wells declines much more steeply than that from conventional wells. Therefore, were oil prices suddenly to spike, a fair number of new tight oil wells would still be needed just to offset the legacy wells’ production declines. Of much greater concern, if oil prices remain low enough for long enough the asset base of tight oil producers may eventually shrink to a level at which, in the short run, their capacity to surge production would be minor.

Some more ebullient observers hope that further technical advances will make tight oil production much cheaper. They interpret the fact that tight oil production has not fallen nearly as much as world oil prices as confirming their hopes. The idea is that as long as innovation continues to drive down the cost of tight oil production, U.S. producers will be able to maintain a higher share of the world crude oil market and a larger base of assets despite low oil prices. In defense of this view, the U.S. oil and gas industry’s innovative prowess is beyond question. Even now, as producers are gaining more detailed knowledge of the geology of the main tight oil

Fig. 2. U.S. Rotary Rig Count and Tight Oil Production

The number of active rotary oil rigs—used in drilling oil and gas wells—in the United States has recently declined sharply, and tight oil production has leveled off and even started to decline. If such trends continue, U.S. tight oil suppliers may not be able to maintain a substantial surge capacity.

Sources: Baker Hughes and U.S. Energy Information Administration.

and gas basins, they, and the oilfield services firms, are devising new well-stimulation systems and tailoring them to specific basins and regions. They are spacing wells closer together, drilling multiple wells from a single surface pad, and improving drilling bits and rigs. In consequence, drilling costs have fallen and initial production rates have improved.

But this progress, real and significant as it is, is not sufficient to explain why U.S. tight oil production has fallen so much less than have world oil prices. Rather, a number of transitory forces, some of which merely reflect leftover momentum from the recent drilling boom, have buoyed tight oil output. In 2015, for instance, many exploration and production (E&P) firms benefited from prior contracts that hedged the prices they received for their oil. A post at the Oilpro website observes that “some companies were being paid in the \$90s a barrel for their output” in 2015, “but most of those high-priced hedges are running out.” Barring a rebound in world oil price, as the cushion of hedged prices shrinks, so will the extent of new drilling.

With lower oil prices, E&P firms have reduced exploratory drilling, and they are meeting most of the remaining demand for tight oil by drill-

ing in known sweet spots. They are, therefore, drilling fewer costly dry holes, but if this pattern persists over the longer term, the productivity of these sweet spots will wane as will total oil output. At the same time, producers are also winnowing out less productive rigs and workers—the right response, but one that can continue for only so long.

America's capital-intensive tight oil boom has also depended almost as much on the cost of capital being low as it did on the price of crude oil being high (prior to the recent drop). The last several years of Federal Reserve monetary policy has supplied cheap capital that financed the drilling boom. Today, many E&P firms are still able to raise capital through the sale of junk bonds, which offer very high yields, but interest rates are rising, and banks are growing wary about these companies' financial viability. Should the Fed return to more normal monetary policies, the supply of cheap capital will contract, further threatening the financial viability of some, perhaps many, tight oil E&P firms.

Finally, for U.S. tight oil, public policy is a major concern. Ever since the oil and gas surge got underway, new federal, state, and local mandates have been pelting down on the industry. The storm shows no signs of abating. Some of these measures will increase exploration and production costs just as producers are desperately trying to reduce them. Others will block access to large swaths of resources, and yet others will raise the costs of moving oil and gas to the refineries and markets where they can fetch the highest prices. At the local level, "Not-In-My-Back-Yard" sentiments are widespread, especially on the coasts. Nationally, the environmental movement, which generally opposes fossil fuel production, heavily influences both the Democratic Party and the mainstream news media. Tight oil and gas producers have no reason to expect that the policy process will grow any friendlier to their interests.

No doubt the most efficient parts of the U.S. tight oil sector can survive today's harsh test. But the value of tight oil as a buffer against oil price shocks depends importantly on whether the sector can profitably retain a large enough asset base to support future production surges. The answer to that question depends at least as much on future public policy as it does on new technology.

The Tight Oil Boom and Middle East Policy

Although it is too early to tell how the rise of U.S. tight oil will affect U.S. foreign policy in the Middle East and North Africa (MENA) region, we can begin to speculate. At one end of the policy spectrum some Americans

hope that the rise of tight oil will allow the United States simply to withdraw from the region, except perhaps for continuing aid to Israel. And in fact, tight oil has helped to lower the amount the United States needs to import to meet its consumption requirements from around 60 percent in 2005 to a bit less than 30 percent now. But imports still make up a higher share of the U.S. oil supply than they did just before the Arab oil embargo of 1973, and as long as low oil prices persist, tight oil is more likely to lose market share than to gain it.

The still more basic problem with exiting the region is that it holds 52 percent of the world's proven oil reserves and 47 percent of its proven natural gas reserves. These reserves constitute one of the greatest stocks of wealth on the planet. Being fixed in place, they are also susceptible to capture and control by armed occupation or the threat of it. Hence, the MENA reserves, and especially those of the Persian Gulf, are so valuable that the United States remains strongly committed to denying control of them to any single power. Specifically, were Iran to gain direct or indirect control of a much larger amount of these reserves than it already has, it could challenge U.S. power in the region, and by allying with Russia, China, or both, it could increase the long-term threat to U.S. global preeminence.

In sharp contrast to those who would reduce U.S. involvement in the MENA region are those who hope to liberalize the MENA petrostates. This strategy jibes with many Americans' penchant for global meliorism and democracy promotion. Although left-wing and right-wing versions of the theory differ in detail, their basic goals are consonant. Many proponents of this approach hope that low oil prices will succeed where armed force has failed as an engine driving MENA regime change.

One problem with this view is that overthrowing MENA regimes often leads to highly unpleasant surprises. The invasion of Iraq in the early 2000s replaced that country's Baathist regime with a government that now hovers somewhere between a failed state and a puppet of anti-American Tehran. Libya has yet to emerge from the violent anarchy precipitated by NATO's aerial bombardment. The Arab Spring has brought civil war in Syria, the rise of the jihadist group ISIL, and yet another state failure in Yemen. The current regime in Egypt remains insecure. With many fragile states clustered in the MENA region, internal unrest in any one state is also likely to spark international conflict. Such conflicts are now waged principally through power struggles within the borders of failed or fragile states. While most of the Gulf Cooperation Council states appear to be stable, they are all seeking to cope with restive Shia populations.

It is, then, more fortunate than not that notions of low oil prices toppling MENA regimes are probably exaggerated. The world crude oil market is likely to absorb the current glut before revolts break out in Tehran or anyplace else. Low oil prices will stimulate demand, and U.S. tight oil output is already declining, albeit slowly. Meanwhile, oil producers elsewhere in the world are in full retreat. Between July 2014 and October 2015, the number of rigs drilling for oil outside North America fell by over 270, or about 20 percent. In Europe and Africa alone that number is even higher, at about 30 percent. Major cutbacks have occurred in many other countries worldwide.

Furthermore, petrostates are adept at withstanding oil price downturns. The most striking of such downturns, the oil price crash of the mid-1980s, led to a terrible civil war in Algeria, and perhaps encouraged Saddam Hussein to invade Kuwait in 1990. Nonetheless, in the end, every petrostate in the MENA region survived the ordeal. That price crash is not an isolated case. A recent Brookings Institution policy paper notes that in the course of history “very few oil states actually experienced regime change during oil price declines” and that in fact “regional wars are as likely to happen when oil prices are high as when they are low.” And political scientist Benjamin Smith has found that for the period of 1960–1999, oil exporters were less susceptible to regime change and civil war than were other developing countries. Other analyses reach similar results. Within the region, Iran may be among the regimes most likely to survive the current low prices. Sanctions have kept Iranian crude oil production roughly 0.8 MBD below its 2011 rate of about 4 MBD; the withdrawal of those sanctions, combined with reform of the Iranian contracting terms with international oil companies, may well allow Iran to regain its 2011 output level, thereby boosting its oil revenues at the same time that it gains greater access to financial markets.

Between the policy extremes of withdrawal and trying to engineer MENA regime changes, the United States has a more sensible option: to use the somewhat greater margin of safety conferred by tight oil capacity to revert to the role of *offshore balancer*. A strategy of offshore balancing stresses the need to deploy force only to protect the vital security interests of the United States. It relies as much as possible on local allies backed by U.S. standoff forces, and as little as possible on deploying U.S. ground forces. Some scenarios would still require large U.S. ground forces, but often, they would be stationed outside of the MENA region—thereby diminishing political backlash within the region. Offshore balancing, in effect, would be a return to the Nixon Doctrine—the doctrine that

shaped U.S. policy toward the MENA region from the 1970s until around 2003. The ability of tight oil producers to quickly ramp up production gives the United States greater latitude to adopt this strategy, since it would cushion the harmful effects of an oil shock caused by a crisis in the MENA region, thereby easing the pressure on American political leaders to launch a hasty response.

To be sure, the offshore balancer concept is ambiguous. As we see in British history from the seventeenth through the nineteenth centuries, offshore balancing does not preclude the dispatch of armies to assist allies. In fact, offshore balancing stresses flexibility—tailoring resource commitments to specific cases rather than rigidly adhering to a single kind of response. But finding the right balance between onshore and offshore forces is often difficult. One thing that balancing should preclude, however, is armed nation-building within MENA societies—a task that exceeds both America’s resources as well as its understanding of the local societies’ power structures and institutions.

Oil and Great Power Rivalry

Beyond the MENA region, the main geopolitical impact of low oil prices has been to diminish Russia’s relative power vis-à-vis that of its two rival world powers, America and China. While America remains a status quo power—seeking to keep the international system more or less as it is—both China and Russia are pursuing revisionist agendas—seeking to change it. Of the two challengers to U.S. preeminence, China is by far the greater threat. It already has the world’s second largest economy (in terms of nominal GDP), while Russia is only the tenth largest. China also enjoys much greater capacity for economic growth, in part because its economic base is more diversified; in contrast, Russia remains for the most part a very heavily armed petrostate. China’s *de facto* federalism provides at least a modicum of security for investors; in Russia, property rights remain notoriously insecure—hardly a growth-fostering environment for investment. American strategists should pay much closer attention to the wealthy and fast-growing Western Pacific littoral and its vital sea lanes—where China’s burgeoning hegemonic pretensions are all too apparent—than to Russia’s incursions into Ukraine.

Washington has long sought to enfold China into U.S.-designed global institutions and by doing so to liberalize the Beijing government. In reality, President Xi Jinping’s efforts to consolidate power are starkly at odds with any notion that China’s Communist Party is headed toward

liberalization. As often happens when a rising rival challenges a dominant state, tensions have increased; and indeed, Sino-American conflict is visibly on the rise. Conflicts are simmering in the Western Pacific, in the Indian Ocean, and elsewhere—as well as in cyberspace.

Recently, questions have emerged about the durability of China's high economic growth rate. The bursting of a stock market bubble has lent these questions new urgency, but the questions themselves are not new. Open political and economic systems confer on advanced democracies a unique capacity to adapt to change (a point well illustrated by Douglass C. North, John Joseph Wallis, and Barry R. Weingast in their 2009 book *Violence and Social Orders*). China, with more authoritarian politics and many more barriers to economic entry, largely lacks this level of adaptive efficiency. Some economists have recently speculated that, for this and other reasons, China's growth rate is likely (although not certain) to decline.

Yet, in the context of Sino-American conflict, slower Chinese growth might not diminish the security threat to the United States as much as one might think. An economic slowdown would strike at the Communist Party's main source of popular legitimacy. In the past, as Susan L. Shirk writes in *China: Fragile Superpower* (2007), the Party has countered similar problems with propaganda and educational campaigns to arouse and exploit anti-American and anti-Japanese xenophobia. Slower economic growth, therefore, might imply more, rather than less, Sino-American conflict.

Whatever the future of China's economy will be, for now, the power balance between America and China is the main axis of global politics. Contrary to claims about the great strategic importance of U.S. tight oil, it is having very little effect on this power balance. China has now replaced America as the world's biggest importer of crude oil, and lower oil prices add to both its current accounts surplus and its GDP growth rate—although the size of the effect on GDP remains somewhat uncertain. American tight oil, then, has economically benefited both powers. If there is any net strategic effect, it is small enough to be lost in the noise.

Claims about the strategic impact on Russia of U.S. natural gas exports are also inflated. While Europe's bargaining position toward Moscow is strengthening, U.S. liquefied natural gas (LNG) exports will be a minor factor in that trend. Current events are already diminishing Russian market power. The Russian share of EU imports is little changed, but the EU economy has remained sluggish, and since 2010, its total gas consumption has been falling. Therefore, at least for now, the Europeans

~~currently~~ hold spare capacity in gas transport and storage with which to respond to supply shortfalls. Also, Poland and the Baltic states have built LNG terminals, and the EU is increasing pipeline capacity to flow gas back toward the eastern states that are more dependent on Russian gas. The price trend tells part of the story about the Russian natural gas company Gazprom's falling market power. From January to November of 2014, Gazprom revenues from exports fell by 16 percent, and the average price of Gazprom's exports to countries outside the former Soviet Union in 2015 is expected to fall almost 35 percent below the 2014 levels.

Over time, the United States will bring more LNG facilities online. But Asia, where LNG prices are higher, is a more promising U.S. export market than Europe. The costs of liquefaction and ocean transport make U.S. gas more costly to produce and deliver to Europe than Russian pipeline gas. More than that, now that the Iranian sanctions are in decline, Iranian LNG exports are likely to begin to reach Europe as might gas from Egypt's new discoveries.

While the surge in U.S. oil output has benefited China, it has harmed Russia, although even there, the effects have been exaggerated. James Henderson, a researcher at the Oxford Institute for Energy Studies, explains that despite low oil prices and Western sanctions, Russia's low-cost, conventional, onshore greenfield reserves will probably allow it to sustain current oil export levels. The technology sanctions will deprive Russia of the knowhow and finance required to begin to develop its unconventional reserves, but in an era of low prices, it might not do so anyway.

Rather than low oil prices in themselves, it is the combination of low prices and sanctions that is exacting a high price from Moscow. The IMF estimates that in 2015 the confluence of these two factors may contract Russia's GDP by 3.4 percent. Because Russia's government depends on oil and gas for about half of its revenues, fiscal impacts are also severe. Even though Russia's sovereign debt is small compared to its GDP, sanctions are impeding its capacity to borrow to finance its current budget shortfall. Low oil prices have probably also eased the task of maintaining the sanctions regime. The larger question, however, is whether the sanctions have produced a net gain in vital U.S. interests.

Tight Oil and Ukraine's Sovereignty

The combination of economic sanctions on Russia and low oil prices will fail to protect Ukraine's full sovereignty from Russia's encroachments. In

Ukraine, the West's relative power, and its interest in the outcome of the conflict, are weaker than Russia's. This is a formula for the West's strategic defeat.

The most important fact here is also the simplest. Even were Ukraine backed by U.S. weapons aid, its forces have no realistic prospect of defeating the armed might of Russia. Supplying arms to Ukraine would increase the costs of conflict for Russia, but it would also reinforce Moscow's perception that the Western alliance is hostile and a threat to Russian national security. Arming Ukraine, therefore, would increase the intensity of the conflict without increasing the prospect of victory. At least in the case of Ukraine, the West's post-Cold War push to Westernize Eastern Europe has reached the point at which further advance actually weakens the West relative to Moscow.

In Ukraine, Russia is not just stronger on the ground than the West is; Russians care much more about the outcome than do Westerners. After all, Russia has dominated Crimea since the time of Catherine the Great, and other parts of Ukraine for a still longer time. The ethnic Russians living in the south and east of Ukraine gave Moscow both an added claim and a popular motive for intervening. In contrast to the Russian political resolve, the NATO publics are, at best, ambivalent. Research from a Pew survey from June 2015 shows that while majorities of the publics of the main NATO members support economic aid for Ukraine (which is not a NATO state), 77 percent of Germans oppose sending armed assistance to the Ukrainian government, with only 19 percent supporting it. The numbers in Italy and Spain are only slightly less unfavorable. Canada and the United States are the only major NATO members with slightly more support than opposition.

Sanctions, of course, and the hardship they are causing to ordinary Russians, are supposed to compel Russia to accede to Western demands on Ukraine. So far, in this regard, the policy has been entirely otiose. The same Pew research shows that 83 percent of Russians supported Russian President Vladimir Putin's dealing with Ukraine. Public support for his handling of the United States and the European Union stood at 85 percent and 82 percent, respectively. Perhaps with time, the dual effects of sanctions and low oil prices will kindle greater public resistance to Putin's policies, but so far it has not done so.

Among Russia's top ranks, too, sanctions are hardening resistance to the West rather than weakening it. Sanctions have advantaged the *siloviki*, the hard-line national security and former KGB elites, at the expense of the oligarchs, many of whom depend on access to Western markets

and who favor stronger ties with the West. Meanwhile, Putin's government has exploited the sanctions for its own ends. For example, it has used selective nationalization to provide the resources needed to reward supporters and to make them more dependent—as when it nationalized Bashneft, an oil company, taking it from its owner in part to reward Putin loyalists.

Political scientist Daniel W. Drezner, an expert on economic sanctions, has argued in *Foreign Policy* magazine that sanctioning Russia is unlikely to cause Moscow to abandon its gains in Ukraine. Because borders are hard to change and are often freighted with prestige and symbolism, sanctions rarely compel governments to cede land. More generally, great powers fear a loss of reputation if they give in to threats and are therefore inclined to resist more strenuously than they would purely on the merits of the points in dispute. The prospects for success with sanctions on Russia over Ukraine—a territorial issue, targeting a great power that is openly resentful of its loss of international prestige—seem meager at best. Still, Drezner observes, sanctions may be the best of NATO's bad options. They impose a cost on Russia and might help deter Putin from further attacks on other states.

The point is well taken—yet Putin holds the initiative in Ukraine. He can, therefore, increase or relax pressure at will. Given the current sanctions regime's shaky support on the European continent, a cycle or two of political freezing and thawing is likely to open cracks in Western unity. Once some Western states defect from the sanctions, they will quickly become ineffectual.

Meanwhile, the Ukraine conflict and Western sanctions are pushing Moscow closer to China at the same time that they weaken its bargaining power vis-à-vis Beijing. In 2014, as part of a Russian pivot to the East, Gazprom signed a blockbuster contract to export natural gas to China's industrial regions. This contract is expected to make China Russia's second biggest natural gas customer after Germany. Other deals to export still more Russian gas and oil to China are in various stages of negotiation.

Since Western sanctions are depriving Moscow of access to the capital that it would need to build the infrastructure for moving this oil and gas to Asian markets, Moscow has been compelled to strike bargains on highly unfavorable terms. These new unequal treaties assure Beijing's long-term energy supplies while increasing Moscow's economic dependence. So low oil prices and Western financial sanctions do weaken Russia. But China, not America, is reaping the gains (modest as they may be, consid-

ering that natural gas makes up only a fraction of China's overall energy consumption). Nevertheless, Washington, far from gaining strategically from the Ukraine conflict, is strengthening the one diplomatic tie that it should most fear, that between its two most dangerous rivals, Beijing and Moscow. Worse, the confluence of low oil prices plus sanctions is conferring important relative gains on the more threatening of those two rivals, Beijing.

Ultimately, it should be remembered that the Ukraine conflict will have little impact on the global balance of power. Ukraine is an economic backwater divided by language, religion, and ethnic affinity. It is ruled by a government riddled with waste and corruption and held together (to the degree that it is) not by the rule of law but by patronage networks consisting of cartels and political machines. In other words, it is a government that closely resembles that of Vladimir Putin's Russia. The principle of sovereign equality is little more than a legal fiction compared to the facts of political economy, history, and geography that place Ukraine in Russia's sphere of influence; either with or without U.S. tight oil and gas, it is likely to stay there.

Oil as a Morality Play

An American oil and gas industry trade association has proclaimed that the surge in U.S. oil and gas output has made the country an "energy superpower." One cannot fault the trade group for trumpeting the industry's quite real technological prowess. The scale and speed of the oil and gas renaissance, as well as its solid economic and environmental benefits, are remarkable.

For some Americans, though, the emergence of tight oil conjures up hopes of retribution as much as hopes of prosperity. In this view, oil-exporting countries are villains who deserve the pain that low oil prices are causing them. As Ron Bailey put it in a Reason.com blog post, Americans should "enjoy the cheaper fuel and relish the fiscal pain of global bad actors." For a net oil importer like the United States, there is good reason to applaud cheaper fuel, but putting a moral gloss on the world oil market seems odd. After all, the market is global and unified; it makes the "sun rise on the evil and on the good, and sends rain on the just and on the unjust." Oil prices affect not only hostile exporters like Iran and Russia but also U.S. allies like Saudi Arabia and Canada. Conflating three such distinct concepts as oil exporters, bad actors (presumably meaning illiberal states), and U.S. foes muddles every issue at stake.

It is equally confused to expect that the U.S. tight oil sector will achieve the goals of democracy promotion. Low oil prices, even were they to disrupt the MENA petrostates, will not liberalize them. Nor will low prices end Russian dominance of Ukraine. Still less will they balance China's rising power in the western Pacific. Claims that tight oil can do these things merely obscure the need to develop a more realistic concept of U.S. national interest. Only by adjusting the country's goals to match its power can Washington make the United States more secure while also leaving the world at least as liberal and humane a place as it is today—and perhaps even making it slightly more so.