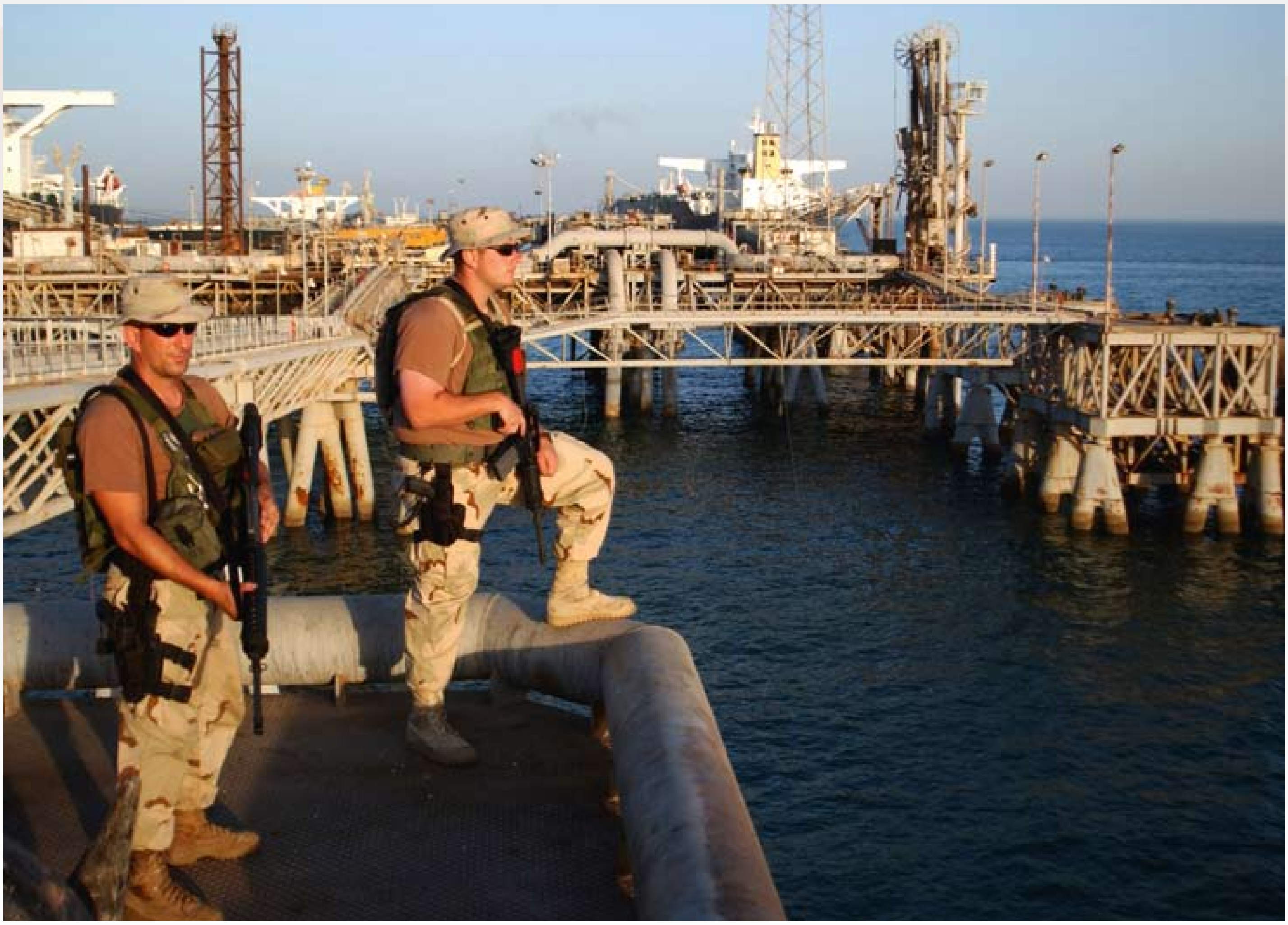
Rising oil prices undermine status of the US

Portrait of an oil-addicted former superpower

The modern American empire was built on cheap oil. Now, in an era of oil-scarcity, the US's oil addiction is undermining its position as the world's superpower.



US Navy soldiers patrol at an oil terminal in Iraq. Photo: Wes Eplen/US Navy/Corbis by Michael T. Klare

Nineteen years ago, the fall of the Berlin Wall effectively eliminated the Soviet Union as the world's other superpower. The United States similarly lost its claim to superpower status when a barrel of crude oil roared past $100 on the international market. The US will no doubt stumble on like the superpower it once was; but as the nation's economy continues to be eviscerated to pay for its daily oil fix, it will be increasingly seen as an ex-superpower-in-the-making.

That the fall of the Berlin Wall spelled the erasure of the Soviet Union's superpower status was obvious to international observers at the time. The relationship between rising oil prices and the obliteration of America's superpower status is, however, hardly as self-evident. So let's consider the connection. The fact is, America's wealth and power has long rested on the abundance of cheap petroleum. The United States was, for a long time, the world's leading producer of oil, supplying its own needs while generating a healthy surplus for export.

Oil was the basis for the rise of the first giant multinational corporations in the US, notably John D. Rockefeller's Standard Oil Company (now reconstituted as Exxon Mobil, the world's wealthiest publicly-traded corporation). Abundant, cheap petroleum was also responsible for the emergence of the American automotive and trucking industries, the flourishing of the domestic airline industry, the development of the petrochemical and plastics industries, the suburbanization of America, and the mechanization of its agriculture. Without cheap and abundant oil, the United States would never have experienced the historic economic expansion of the post-World War II era.

No less important was the role of petroleum in fueling the global reach of US military power. For all the talk of America's growing reliance on computers, advanced sensors, and stealth technology to prevail in warfare, it has been oil above all that gave the US military its capacity to 'project power' onto distant battlefields like Iraq and Afghanistan. Every Humvee, tank, helicopter, and jet fighter requires its daily ration of petroleum. No surprise, then, that the US Department of Defense is the world's single biggest consumer of petroleum, using more of it every day than the entire nation of Sweden.

From the end of World War II through the height of the Cold War, the US claim to superpower status rested on a vast sea of oil. As long as most of our oil came from domestic sources and the price was low, the American economy thrived and the cost of deploying vast armies abroad was manageable. But that sea has been shrinking since the 1950s. Domestic oil production reached a peak in 1970 and has been in decline ever since – with a growing dependency on imported oil as the result. When it came to reliance on imports, the United States crossed the 50% threshold in 1998 and now has passed 65%.

Nodding donkeys in California Photo: Corbis

Though few fully realized it, this represented a significant erosion of sovereign independence even before the price of a barrel of crude soared above $130. By now, we are transferring such staggering sums yearly to foreign oil producers, who are using it to gobble up valuable American assets, that, whether we know it or not, we have essentially abandoned our claim to superpowerdom.

Expect no summer tax holidays for the Pentagon

According to the latest data from the US Department of Energy, the United States is importing 12-14 million barrels of oil per day. At a price of about $115 per barrel, that's $1.5 billion per day, or $548 billion per year. This represents the single largest contribution to America's balance-of-payments deficit, and is a leading cause for the dollar's ongoing drop in value. If oil prices rise any higher - in response, perhaps, to a new crisis in the Middle East (as might be occasioned by US air strikes on Iran) - our annual import bill could quickly approach three-quarters of a trillion dollars or more per year.

While our economy is being depleted of these funds, at a moment when credit is scarce and economic growth has screeched to a halt, the oil regimes on which we depend for our daily fix are depositing their mountains of accumulating petrodollars in 'sovereign wealth funds' (SWFs) that buy up prized foreign assets in order to secure non-oil-dependent sources of wealth. At present, these funds are already believed to hold in excess of several trillion dollars; the richest, the Abu Dhabi Investment Authority (ADIA), alone holds $875 billion. The ADIA first made headlines in November 2007 when it acquired a $7.5 billion stake in Citigroup, America's largest bank holding company. The fund has also made substantial investments in Advanced Micro Systems, a major chip maker, and the Carlyle Group, the private equity giant. Another big SWF, the Kuwait Investment Authority, also acquired a multibillion-dollar stake in Citigroup, along with a $6.6 billion chunk of Merrill Lynch. And these are but the first of a series of major SWF moves that will be aimed at acquiring stakes in top American banks and corporations.

The managers of these funds naturally insist that they have no intention of

U.S. soldiers arrive at a burning oil refinery in Al-Khafji, Saudi Arabia, near the Kuwait border, after Iraqi bombardment during the Gulf War. Photo: Durand-Hudson-Langevin-Orban/Sygma/Corbis

using their ownership of prime American properties to influence US policy. In time, however, a transfer of economic power of this magnitude cannot help but translate into a transfer of political power. This prospect has already stirred deep misgivings in Congress. 'In the short run, that they [the Middle Eastern SWFs] are investing here is good', Senator Evan Bayh (D-Indiana) recently observed. 'But in the long run it is unsustainable. Our power and authority is eroding because of the amounts we are sending abroad for energy...'

No Summer Tax Holiday for the Pentagon

Foreign ownership of key nodes of our economy is only one sign of fading American superpower status. Oil's impact on the military is another. Every day, the average G.I. in Iraq uses approximately 27 gallons (102.6 litres) of petroleum-based fuels. With some 160,000 American troops in Iraq, that amounts to 4.37 million gallons (16.6 million litres or 104,000 barrels) in daily oil usage, including gasoline for vans and light vehicles, diesel for trucks and armored vehicles, and aviation fuel for helicopters, drones, and fixed-wing aircraft. With US forces paying, as of late April, an average of $3.23 per gallon for these fuels, the Pentagon is already spending approximately $14 million per day on oil ($98 million per week, $5.1 billion per year) just to stay in Iraq. Meanwhile, our Iraqi allies, who are expected to receive a windfall of $70 billion this year from the rising price of their oil exports, charge their citizens $1.36 per gallon for gasoline.

When questioned about why Iraqis are paying almost a third less for oil than American forces in their country, senior Iraqi government officials scoff at any suggestion of impropriety. 'America has hardly even begun to repay its debt to Iraq,' said Abdul Basit, the head of Iraq's Supreme Board of Audit, an independent body that oversees Iraqi governmental expenditures. 'This is an immoral request because we didn't ask them to come to Iraq, and before they came in 2003 we didn't have all these needs.' This is not exactly the way grateful clients are supposed to address superpower patrons. 'It's totally unacceptable to me that we are spending tens of billions of dollars on rebuilding Iraq while they are putting tens of billions of dollars in banks around the world from oil revenues,' said Senator Carl Levin (D-Michigan), chairman of the Armed Services Committee.

Certainly, however, our allies in the region, especially the Sunni kingdoms of Kuwait, Saudi Arabia, and the United Arab Emirates (UAE) that presumably look to Washington to stabilize Iraq and curb the growing power of Shiite Iran, are willing to help the Pentagon out by supplying US troops with free or deeply-discounted petroleum? No such luck. Except for some partially subsidized oil supplied by Kuwait, all oil-producing US allies in the region charge us the market rate. Think of this as a strikingly clear-eyed assessment of American power. As far as they're concerned, we're now just another of those hopeless oil addicts driving a monster gas-guzzler up to the pump – and they're perfectly happy to collect our cash which they can then use to cherry-pick our prime assets. Expect no summer tax holidays for the Pentagon.

Worse yet, the US military will need even more oil for the future wars on which the Pentagon is now doing the planning. Under the military 'transformation' initiated by Secretary of Defense Donald Rumsfeld in 2001, the future US war machine will rely less on 'boots on the ground' and ever more on technology. But technology entails an ever-greater requirement for oil, as the newer weapons sought by Rumsfeld (and now Secretary of Defense Robert Gates) all consume many times more fuel than those they will replace. To put this in perspective: the average G.I in Iraq now uses about seven times as much oil per day as G.I.s did in the first Gulf War less than two decades ago. And every sign indicates that the same ratio of increase will apply to coming conflicts; that the daily cost of fighting will skyrocket; and that the Pentagon's capacity to shoulder multiple foreign military burdens will unravel. Thus are superpowers undone.

Russia's Gusher

If anything demonstrates the critical role of oil in determining the fate of superpowers in the current milieu, it is the spectacular reemergence of Russia as a Great Power on the basis of its superior energy balance. Once derided as the humiliated, enfeebled loser in the US-Soviet rivalry, Russia is again a force to be reckoned with in world affairs. It possesses the fastest-growing economy among the G-8 group of major industrial powers, is the world's second leading producer of oil (after Saudi Arabia), and is its top producer of natural gas. Russia exports a substantial portion of its oil and gas to neighboring countries, making it the only Great Power not dependent on other states for its energy needs.

When President Bush first occupied the White House, in February 2001, one of his highest priorities was to downgrade US ties with Russia and annul the various arms-control agreements that had been forged between the two countries by his predecessors, agreements that explicitly conferred equal status on the US and the USSR. Condoleezza Rice, while still an adviser to the Bush presidential campaign, wrote, in the January/February 2000 issue of the influential Foreign Affairs, 'US policy... must recognize that American security is threatened less by Russia's strength than by its weakness and incoherence.' Under such circumstances, she continued, there was no need to preserve obsolete relics of the dual superpower past like the Anti-Ballistic Missile (ABM) Treaty. In line with this outlook, President Bush believed that he could convert Russia into a major source of oil and natural gas for the US - with American companies running the show. This was the evident aim of the US-Russian 'energy dialogue' announced by Bush and Russian President Vladimir Putin in May 2002. But if Bush thought Russia was prepared to turn into a northern version of Kuwait, he was to be sorely disappointed. Putin never permitted American firms to acquire substantial energy assets in Russia. Instead, he presided over a major recentralization of state control of oil and gas reserves, putting most of them in the hands of Gazprom. Once in control of these assets, moreover, Putin used his renascent energy power to exert influence over states that were once part of the former Soviet Union, as well as those in Western Europe that rely on Russian oil and gas.

When it comes to the US-Russian relationship, just how much the balance of power has shifted was evident at the NATO summit at Bucharest in early April. There, President Bush asked that Georgia and Ukraine both be approved for membership in the alliance, only to find top US allies (and Russian energy users) France and Germany blocking the measure out of concern for straining ties with Russia. For Russian officials the restoration of their country's great power status is a natural consequence of being the world's leading energy provider. No one is more aware of this than Dmitri Medvedev, the former Chairman of Gazprom and new Russian president. 'The attitude toward Russia in the world is different now,' he declared on December 11, 2007. 'We are not being lectured like schoolchildren; we are respected and we are deferred to. Russia has reclaimed its proper place in the world community. Russia has become a different country, stronger and more prosperous.'

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The same, of course, can be said about the United States - in reverse. As a result of our addiction to increasingly costly imported oil, we have become a different country, weaker and less prosperous. Whether we know it or not, the energy Berlin Wall has already fallen and the United States is an ex-superpower-in-the-making. ■

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