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How Fracking has Saved Obama

BY RICHARD W. RAHN

The president is loath to admit oil and gas have kept his economy afloat

Without fracking of oil and gas deposits, there would have been no economic growth in the U.S. over the past five years. Yet the oil and gas industry has been a favorite whipping boy of the environmental zealots both inside and outside of the administration. Without those brilliant entrepreneurs and engineers in the private sector who developed the new techniques to unlock massive amounts of oil and gas at reasonable cost, it is unlikely that President Obama would have been re-elected.

Many in the media and on the left seem to be endlessly surprised about the lack of economic growth during the Obama administration. Last week, the government reported that gross domestic product (GDP) fell by 1 percent in the first quarter of this year. Given the substantial tax increases, huge growth in wasteful government spending and overwhelming numbers of new government regulations, it is amazing there has been any economic growth at all. During the first five years of the Obama administration, economic growth averaged a dismal 1.2 percent, and only 2.2 percent in the four years since the recovery from the Great Recession began. According to the well-regarded economic-analysis firm IHS, the contribution to GDP from the development of unconventional oil and gas is now running at more than 2.5 percent of GDP per year and rapidly growing. This addition to GDP is expected to peak in 2016 at about 3.2 of GDP, and thereafter reach a permanently higher, steady state, which would not have occurred without unconventional oil and gas production.

"Unconventional" oil and gas production broadly refers to new technologies that have been developed to unlock oil and gas from geological formations that previously had been thought not to be economically recoverable. The most important of the new unconventional oil and gas production technologies has been the combination of horizontal drilling, which exposes more of the subsurface to the well, and hydraulic fracturing, which creates pathways that allow more oil and gas to flow through dense rock to the well bore. These technologies were developed, not by government, but by creative and risk-taking private businesses. As a result, the United States is already self-sufficient in natural gas and soon will be in oil — unless ever-expanding government regulation kills the golden goose.

Unconventional oil and gas producers, including suppliers of equipment and materials, and energy-related chemical production already support about 2.5 million new jobs, which is equal to about 1.8 percent of the work force. By 2025, an estimated additional 3.9 million jobs will have been created. On average, these new jobs pay more than jobs in other industries.

Disposable income per household has already improved by about $1,500 this year, as direct costs for natural gas have been reduced to heat homes and water, plus the indirect benefits of lower prices of many consumer items from manufacturers because of their reduced energy-input costs. This improvement in household disposable income will continue to grow and by 2025, it is estimated that household incomes will be more than $3,500 higher owing to unconventional oil and gas production.

The increase in unconventional oil and gas production has been a bonanza for federal, state and local tax collectors, resulting in about $100 billion more in tax revenue. For the period from 2012 to 2025, it is estimated that in total all levels of government will receive an extra $1.6 trillion dollars in tax revenue.

With all these benefits of unconventional oil and gas production, one would think that a rational government would be doing everything it could to encourage even greater production. That has not been the case, though. As in most other economic matters, many in the administration, from the president on down, are engaged in a policy of wishful thinking rather than cost-benefit analysis. The Environmental Protection Agency's war on coal is Exhibit A.

The administration's hostility to new energy production can be seen not only in its rhetoric, but, more importantly, in its actions. The federal government owns almost 30 percent of the land in the United States (most of which has been locked up by the regulators). As a result, much of the increase in oil and an astounding 98.5 percent of gas production since 2007 has come from non-federal lands.

If the president really wanted a rapidly growing economy and full employment, he could do it with one executive action. Such executive order should require all government agencies to drop all regulations — including energy, environmental, tax and financial — for which those agencies have not done a serious cost-benefit analysis, regardless of the magnitude of the regulation, and allow affected private parties to challenge (on cost-benefit grounds) any existing or proposed regulation in court (with cost reimbursement if they win).

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