



# The Perch Pod Episode 27

## The Geopolitics and Economics of Fracking with Bethany McLean

Jacob Shapiro:

You're listening to the Perch Pod from Perch Perspectives.

Jacob Shapiro:

Hello listeners, and welcome to another episode of the Perch Pod. As usual I'm your host, I'm Jacob Shapiro. I'm also the founder and chief strategist of Perch Perspectives, which is a human centric business and political consulting firm. We've got a real treat this week, Bethany McLean, who is the author of Saudi America most recently, and that's the book that we mostly talked about on the show. But also the author of other books, you probably know The Smartest Guys in the Room, that's really the authoritative history on what happened with Enron, but she's also written other books, All the Devils Are Here, Shaky Ground. Bethany's a contributing editor at Vanity Fair. And I think it's actually interesting how we got connected. A friend of mine, an old friend of mine from college, Alex Aynsley, I'm not even sure if Alex is listening, but if you are Alex shout out to you, was reading Saudi America and sent me a passage from the book.

Jacob Shapiro:

And it turned out that I was quoted in the book. Bethany had taken a passage or a quote from my old work at Geopolitical Futures, and it was right there in Saudi America. So I looked Bethany up on LinkedIn and I got her contact information and I sent her a message and asked her if she'd come on the podcast. And she said, yes. So I just want to say thank you to Alex for sending me the passage and thank you for Bethany for being willing to respond to a cold email like that, and for coming on the podcast. I was excited before Bethany came on, but I'm doubly excited now because I think this is one of the best episodes we've recorded. I certainly had a lot of fun recording it, and I hope that you all enjoy it. Before we get to the show though, listeners, I did want to just take a minute and announce one thing or tell you guys one thing, I begin each podcast by saying that Perch is a human centric business and political consulting firm.

Jacob Shapiro:

And when we say human centric, that's usually meant to indicate that we study humans, that we think a lot of what's wrong with geopolitical analysis with macro



economic analysis is that it loses sight of the fact that humans are the subject of everything. Economics, for example, is really just what a bunch of humans do in aggregate, it's all economics really is. So when we look at issues, we try and make sure we're understanding the human aspect and how it actually affects humans in addition to understanding the macro aspects. There's another component though, which is that I'm very intentionally trying to build a community of human beings who are interested in these issues. That's the reason this podcast doesn't have any ads, and it's why I don't charge for this podcast. To be frank, I don't want to, my plan is never to have any ads on this podcast or to charge for it.

Jacob Shapiro:

I listen to a lot of podcasts myself and I hate ads. It breaks up conversations in really awkward ways and who needs another underwear subscription box or whatever new thing they're advertising in the first place. So my goal is to never have to do that with the Perch Pod and to do that I'm going to need some help. And that help is I'd love it if you guys like this podcast, if you've been enjoying, following along, I'd like to invite you to just take a look at this new project that we've developed, it's called LatamPolitik, and it's a collaboration between Perch and between our partners at VisualPolitik, which is a YouTube channel that's based in the European Union. Latin politic it's spelled L-A-T-A-M-P-O-L-I-T-I-K.com. What it really is, it's a newsletter about the geopolitics of Latin America, and we're offering it in both English and in Spanish.

Jacob Shapiro:

The idea behind it is relatively simple in some ways, it's me putting my money where my mouth is, Bethany and I allude to this in the podcast episode that we just recorded. But I really do think that as we move towards unfortunately, a more adversarial relationship between the United States and China, and as we see rising and falling great powers trying to carve out their geopolitical spheres of influence, the place where that competition is going to be most violent, volatile, whatever word you want to insert there is going to be in the in between regions, the places like Central Asia, Sub-Saharan Africa and especially Latin America. And I wanted to focus on Latin America, because I think there is a real dearth of coverage about Latin America geopolitics out there in both English and in Spanish. If you're reading about Latin America, usually you're reading about drug cartels or Pablo Escobar's hippos or soccer or ideological arguments about communism versus not.

Jacob Shapiro:

And actually there is so much going on in Latin America that you didn't even know about. The edition that I just wrote about today, which will have already published by the time this podcast comes out, is about a territorial spat between Venezuela and Guiana, which is really about oil, which is also the subject of this entire podcast. So there's so much going on in Latin America and we decided to throw our expertise at it. We're charging \$5 a month, you can choose whether you want to sign up in English or in Spanish. And I guess the ask here, what I'm asking, the help that I'm asking for is if you like this podcast, if you feel like you want a little bit



more perch in your life, but you didn't have the resources to sign up for a full consulting relationship with us, this is a really nice medium ground.

Jacob Shapiro:

And for the price of a beer or for a fancy coffee you get access to really, I think really good, really unique and really objective coverage of how global politics is affecting Latin America and how different Latin American countries are interacting with each other without all the ideology and without all the other bullshit. So if that sounds interesting to you, or if you want to help me out by helping me make sure that we never have to do any kind of ads on this podcast or charge for it in any way, check out [latampolitik.com](http://latampolitik.com). Otherwise all the usual stuff applies listeners. We still have our free newsletter at [perchperspectives.com](http://perchperspectives.com). If you haven't left a comment or a review of the podcast, please consider doing so that helps us immensely. If you have comments about the podcast or you want to get in touch with us to talk about what geopolitical services we provide, you can email us at [info@perchperspectives.com](mailto:info@perchperspectives.com), I read and reply to just about everything that comes in.

Jacob Shapiro:

Of course, I always forget to say this, Bethany and I are recording on Friday, March 12th. I actually just poured myself a glass of Rose, I hope that, well, this is coming out Monday morning, so I hope listeners, you're not enjoying a glass of Rose on a Monday morning. But I hope in the afternoon or wherever you're listening to this, you're also kicking back, but it's Friday, March 12th, that we recorded this podcast episode. It should appear on March 22nd. There was nothing particularly time-sensitive in this podcast, but I do always like to let you guys know when there's a gap between recording and when it actually comes out. So that's quite enough for me. Thank you again to Bethany for coming on and let's get to the conversation, cheers. Bethany, thanks so much for coming on the podcast. I've read Saudi America and The Smartest Guys in the Room in the last month. So I feel like you're a friend of mine now, because you've sort of been a part of my life for the last month, but it's nice to sort of meet you sort of in person, right?

Bethany McLean:

Yeah. Sort of in person as much as we can do so on a strange time, right?

Jacob Shapiro:

Yeah. So I wanted to ask you, I wanted to talk specifically about Saudi America because there's so much involved there with geopolitics and intersecting with the United States and oil, all that stuff is sort of in the wheelhouse of somebody who has to deal with geopolitics. And you had a great perspective on it. To start with though, I just want to sort of lob a softball up and also help the audience along, just help us, what is fracking? How does it work just at the most basic level, how would you explain it to listeners who maybe aren't as familiar with the energy industry?



Bethany McLean:

So fracking is actually a combination of two techniques that have been sort of shorthanded into the word fracking and some in the industry detest the word fracking because they view it as pejorative as an invention of those by those who were opposed to the practice. But it's really two old techniques combined together oldish techniques, one, which is hydraulic fracturing of wells, which is pumping a lot of substance into a well in order to try to get it to eject more oil or gas. And the other is horizontal drilling, which is having a well go horizontally instead of vertically.

Bethany McLean:

And essentially the combination of these two things enabled resurgence of both oil and gas production in the U.S. And it really is pretty stunning back around the time of the financial crisis, there were apocalyptic hearings in front of Congress about impending shortages of natural gas and about the U.S. dwindling prospects for producing oil, and what on earth that all meant. And a decade later the world couldn't have been a more different place, and a lot of that's due entirely to the advent of fracking.

Jacob Shapiro:

Yeah, when I was growing up, we were all worried about how gas prices were going up, that seemed to be the conversation. And it's amazing how fast it's switched, I don't even think that sort of the American zeitgeist has gotten on top of what it means to be an energy superpower, which is really what the United States is. But before we dive a little bit into that, I also just wanted to ask or at least sort of lay out for the listeners who was Aubrey McLendon, and why did you pick him of all people to sort of be the water mule or the protagonist for the story that you were trying to tell?

Bethany McLean:

So the answer to the same question is the same, it's because he's one of those characters that when you come across in what we do, what I do, you just can't wait to write about them because he is one of those proselytizers who believes himself, who is the ultimate salesman who causes a lot of change. McLendon was also Renaissance man, but he's one of those larger than life characters that when you find them, you want to understand who they are and write about them. And in some ways Aubrey McLendon, the company he created and founded and built was a company called Chesapeake Energy, which just recently declared bankruptcy. But it for a while during the heyday, was the second largest producer of natural gas in the United States. And Aubrey was the one who, he was the founder, the co-founder but the one who really built it to its preeminent position in an odds defying way.

Bethany McLean:

So I found that fascinating. But in a way he's an odd selection for this book. And again, some in the industry would say that my very choice of Aubrey shows that I



was biased. He's not the guy who founded fracking, he's not the guy who invented it. And he wasn't the leader of some of the companies who've done this well. But what he was, was the salesman, he was the guy who got investors around the world to put billions upon billions of dollars into U.S. fracking. And I think you can ask if it weren't for Aubrey, the entire industry have been different because that capital was the lifeblood of a lot of fracking. People think it's the chemicals that go into wells, that it's the water that's used in fracking a well, but it's actually capital, that was the lifeblood of the industry. And so I viewed Aubrey as the salesman and chief for U.S. fracking. And that to me, was a critical part of the story.

Jacob Shapiro:

Yeah. That was actually the part of the book that for me came through the most vividly and was the most surprising, which was, I always thought of fracking as really an ode to us technical innovation. The Americans have figured out how to use technology again in order to get ahead of the game. And really, I think one of the central premises of your book is that yes, there were technological innovations and it was incredible, but really this was about, it was really an aftereffect of the 2008 financial crisis and years of extremely low interest rates that happen to produce a perfect capital environment for this very capital-intensive technology to actually be useful because if the market had sort of been, I don't want to say working in a free way because I don't think the market ever works in a free way, but if the market had sort of been in normal pre 2008 conditions, it wouldn't matter how charismatic Aubrey was. Nobody was going to pony up the level of capital to go into it, and that still seems to be the case. Is that a fair reading?

Bethany McLean:

Yeah, I think that is a fair reading. And that's what made me so interested in that too, because I started actually as more of a fan of fracking, honestly, and it's odd how much the work on the book changed my mind, but I saw it the way you did is this incredible technological innovation that had unleashed transformation in America. And I was a little skeptical of environmentalist who criticized it because I thought, well, you're plugging your beautiful Apple iPhone in your electric car, into something that requires electricity. Don't all of us who live on the coast or in cities where we're insulated from what it looks like to produce energy, pretend that we don't care about it, but we actually have to. Anyway, so I saw some hypocrisy in all of that, but it was a question of money in the end, and we had come across this paper written by the Energy Institute of Columbia that said basically the key ingredient in fracking was capital.

Bethany McLean:

And if it weren't for the 2008 financial crisis and the resulting era of low interest rates, you can question how big fracking ever would have become. So the story is as much a financial one as it is a technological one, if not more. And I do think to some degree, that's still true. One of the promises when I wrote my book was that the technological innovation was going to continue. And even though it wasn't profitable at the current time to frack, technological innovation was going to make



it insanely profitable. And you know what, that's still a possibility, but thus far, those innovations haven't proven out, many of them actually backfired.

Jacob Shapiro:

Yeah. Once we start getting into the land of this is all going to work once we've discovered the thing that we haven't discovered yet, it starts feeling weirdly like Theranos or something like that. But yeah, there was actually one statistic in there that jumped out at me that I even wrote down for my notes, which was that I think it was Goldman Sachs or somebody was saying that it was going to cost 58 billion just to keep production levels at their current level in 2023. And that was kind of mind blowing. And when you look at the way markets are now freaking out over interest rates now hitting what 1.6% everybody's freaking out. If interest rates ever actually really started running up which eventually they will, maybe it's two years, maybe it's eight years who knows in the post COVID economy, it feels like that's the stopwatch on the fracking industry. Because as soon as that actually start happens, all the things that you laid out, doesn't make sense unless like you said, they get some miracle beamed into their brains.

Bethany McLean:

Well, stopwatch has already run out in some ways, because even before COVID came along investors were losing patience with fracking companies and the mechanics that had made the whole thing work had broken down. And the mechanics that people say, well, wait, this is unprofitable, then you have to be wrong because then no one would fund it because then no one will make money. And say haha, no there are lots of ways for people to make money off business that is fundamentally unprofitable. See Exhibit One, the subprime mortgage crisis, a lot of people made money out of something that was fundamentally destructive and ultimately extremely unprofitable. The same is true of fracking in the sense that it was sort of a game, a private equity firm could essentially fund a fracking startup where people would assemble land. And then that private equity startup would get sold to an already public company.

Bethany McLean:

And investors in the public market were willing to buy the company stock because they believed the promises that eventually this was going to make money. And it was growth at a time when very few things were growing. So it's almost kind of like an internet startup game where you say, well, it's losing money, but it's growing really fast so I'm going to pay a lot for it this growth. And debt investors were willing to fund it because they said, wow, I can get slightly higher returns on this debt than I can on safer debt. So yes, I'm willing to buy the debt of these companies in this ultra low interest rate environment. And so the private equity people could make a ton of money because they'd fund this company and then they'd sell it to the public company.

Bethany McLean:





And the people along the way could make money, even though the enterprise itself was fundamentally unprofitable, but that started breaking down, as I had said, even before COVID because investors in the public equity market started to say, wait a minute, that this is never going to work. And you guys are getting rich and executives are getting rich and we're going to get left holding the bag. And we want to see returns before we're willing to invest anymore. So even the debt markets were starting to get suspicious. And even in the run-up to COVID the funding had slowed way down. And then with the oil price crash in the wake of COVID, basically all came to a stop. And so the question is open, what happens now? You've obviously got much higher oil prices, which would make some fracking profitable, but not at the scale that it was before. And it's still unclear whether investors are willing to come back to the market. So we're at an interesting inflection point right now I think.

Jacob Shapiro:

Yeah. Well, and that gets to the whole sort of crux of the issue, which is the reason we have high oil prices is because the Saudis want there to be high oil prices, and they're reducing production in order to keep the price artificially high. And that's one of the reasons I said that thing about Americans not really understanding the zeitgeists of what it means to be an American superpower, because it was around this time last year. I think it was right before COVID got nuts where a lot of these shell companies were presenting to the Texas Railroad Commission, which for listeners, they regulate energy in Texas, not the railroad, it's confusing, but whatever. And they wanted them to limit oil production and all the free market folks were out in force saying, oh, this is terrible, this is communism. This is this, that, and the other thing, but there was one great quote from some older gentlemen I'm forgetting his name.

Jacob Shapiro:

I apologize, I'll have to go put it in the intro. Well, he said, "No, it's called pro rationing, we did it from 1950 to 1972 when the U.S. was an energy superpower. Just everybody who remembered how to do it is dead." And that's really the only answer when you're trying to get the price up is to have the government come in and say, actually, no, there's a cap on production. And it was strange to me to see those fracking companies appealing to governments and government regulatory agencies to do that, and then getting dismissed by the same people who would usually support them. It's a whole interesting mix, isn't it?

Bethany McLean:

Yes, it is. And I find that fascinating too, because it actually would have been in many ways in fracking companies best interest to limit production and get a higher price because then they could have made money on the oil that they did produce. And certainly for the environment, it would have been a lot better because one of the really disgusting things that happened is as fracking really took off, was that a lot of the natural gas that came out of wells was just being flared, meaning burnt off into the sky because there was so much of it. And because natural gas prices were



so low as a result of the surplus coming from fracking, nobody could make money on it. And when you think about that substance that only a decade earlier, it was precious and we were so worried, it was in short supply.

Bethany McLean:

It's not just being wasted at great environmental cost, it really is quite astounding. I won't use a more pejorative word, I'll just stop at astounding. So it would have been in their best interest actually to limit production, but then it becomes a fascinating thing about when, which is the question raised by the pandemic too, is when does our purportedly free market, which I agree with you isn't really free, but when is it counter productive? In the sense that Saudi Arabia could just say, all right, this is what we're going to do with production, but the U.S. has thousands of independent companies that can do as they do please.

Bethany McLean:

And it's very difficult for a government regulator to say, "Hey, it'd be in all of your best interests and the country's best interest if you limited production." But the problem is it isn't in the individual executives best interests. And so that's why they don't want to do it because many of them, at least until recently got paid based on production growth. And so they all said, but wait, we can make lots of money under the system as it is, who cares if our companies don't make money. And if we're depleting a natural resource that is called non-renewable for a reason, it's non-renewable but they didn't have to care.

Jacob Shapiro:

Yeah. And I don't know when folks decided or when it became convincing to people that capitalism meant growth rather than capitalism meant profitability, because it really does feel like in the U.S. economic system right now, it is all about growth. And that was another one of the interesting parallels I thought you brought out in the book, which is, we know about Jeff Bezos and Mark Zuckerberg and all these tech CEOs. Some tech companies are doing great, some tech companies are worth a lot of money, even though they've never produced any profit at all. And quietly, all these shale tycoons are just making billions on the side and nobody's talking about them in the same way, but in some sense, they're part of that same economy. There's something going on here that's beyond just the energy industry or just the tech industry. It's that, however, the system is set up right now is meant to reward growth, whether it's good growth, bad growth, profitable growth, all that other kind of stuff. And at some point that rubber is going to have to meet the road in the future. I would think.

Bethany McLean:

Yeah, that is such a fascinating point. And again, so well said, and I think that transition started to happen. It's not accidental that it's correlated with lower and lower interest rates because the lower interest rates mean that future cash flows are worth more money and today's cash flows are worth less. And in a super low interest rate environment, the one thing you want to bank on is growth. And so I





think that's part of the switch, but it's also a cultural one, because you had so many people who have made so much money out of growth, whether it's profitable or not. So it's a really interesting convergence of a cultural moment with the financial one, each one enabled by the other.

Jacob Shapiro:

Yeah. And I also want to go back to the thing you were saying about the Saudis just being able to cut production because you also mentioned this in the book where a lot of these companies they're competing against countries. So you're competing against Petrobras, what's his face, I shouldn't say what's his face. Bolsonaro just appointed his own former general to be the president of Petrobras, we all know what he's going to do with thing. Aramco is Saudi Arabia, Rosneft okay. Russia is an enemy, you can expect them to oppose you, but Brazil and Saudi Arabia, two of the U.S.'s closest partners in the last couple of years. And the state owned oil companies don't care at all about the shale producers, they actually probably want to cripple the U.S. oil market.

Jacob Shapiro:

So there's this interesting thing here where the geopolitical relationship might tell you one thing, but then when it actually gets down to the industry level, things are bad. And the reason I wanted to bring that back was because I feel like one of the threads that kind of pulls throughout the book, and I can't tell which way you come down on it. It almost feels like you're having a conversation with yourself at times about it, but it's whether energy exports are a good thing for the United States or not. And it seems to me that this gets back to the sort of cultural understanding or awareness of what power or vulnerability energy has.

Jacob Shapiro:

Because all the countries that I just named and all the countries that are dependent on oil exports, it's usually not good to be dependent on oil exports. We're in a market that's fundamentally oversupplied to now, so it's even worse than it was before. And it just seems to me that actually, if you're dependent on selling oil, the consumer might have a little bit more leverage than you're willing to realize than the actual producer. So if I threw all that at you, so where do you land on whether and how exports should be part of what's happening with oil and natural gas in the United States?

Bethany McLean:

Well, first of all, yes, you were absolutely right. I do have a lot of conversations in my own head, as a matter of fact, I have to be careful that I don't start having them out loud as I'm walking down the street or otherwise in public places. But anyway, so it really is fascinating because as a result of, back to your point about the free market, that there kind of is no such thing, there was a ban on oil exports since the 1970s, when America first began to worry about its dependence on foreign oil. And the fact that there was a ban on oil exports flies in the face of everything anybody might say about the free market. And that got overturned actually in the final days



of the Obama administration of all things. And it's another fascinating element of this that we can come back to if you want to, which are the politics around shale because the Obama administration was every bit supportive of it, if not more so than the Trump administration was, oddly enough.

Bethany McLean:

But it got overturned in the final days of the Obama administration as part of the omnibus spending bill at the end of 2015, and nobody even really noticed it was happening. It just was sort of snuck in to the final bill and nobody paid attention to it. And it's this momentous change in policy to allow oil exports. I talked to the lobbyist who had orchestrated it, and he said that after it passed everybody left town and he went out for a Manhattan and a steak by himself because it was viewed as such so not important. You're right that I am mixed about it. But I'm probably less mixed now than I think I was, on the one hand being able to export natural gas, certainly weakens Russia's stranglehold over Europe, or at least it theoretically should. Because Europe is so dependent on Russia for its natural gas, that's a geopolitical nexus or hotspot or whatever you want to say.

Bethany McLean:

And so the idea that the U.S. could export its natural gas to Europe and therefore free Europe from its dependence on Russia is a really compelling one. One that is more difficult to realize in actuality than it sounds because exporting natural gas, it is after all a gas, is really complicated and really expensive. Since you have to build huge multi-billion dollar facilities to both convert the natural gas into a liquid, and then reconvert it into a gas. And right now that is not happening or wasn't happening at nearly the speed that people had projected, but there is something compelling and it is really expensive and it makes American natural gas quite a bit more expensive than Russian natural gas.

Bethany McLean:

But there is something compelling about that, I am an American and there is something compelling about that. On the other hand, I think the most pivotal conversation, or one of the most pivotal conversations I had for the book was with Charlie Munger, everybody knows who Charlie Munger is, but dear God, if I can have half his brain power, understand, when I'm at age, I'll settle for just a smidgen, that would be amazing. But he said, "Look, there's still no substitute for the products that we need for agriculture and for fertilizers and agriculture is every bit as important, food security is every bit as important to a nation as energy, security." Those are my dogs.

Jacob Shapiro:

Happy to welcome them to the podcast. Do you have conversations with them too, I'm sure as well.

Bethany McLean:



Very inspiring. Anyway, but he made the point that there was still no substitute for fertilizer and for the ingredients that are in fertilizer. And so until there was a substitute, whether it's the sun or whatever else, what were we doing to take these precious products and sell them outside the country at a time when oil prices were so cheap by historical standards. His point was shouldn't we be buying everything we can from other countries that are willing to sell to us and conserving our own for a time in the future when we might need it. And so in a way, exports and our rampant out of control, unprofitable production became for me almost a microcosm of everything that's wrong with the current American economy in terms of short-termism, value and growth over sustainability, and just the unwillingness to plan for the longterm.

Jacob Shapiro:

Yeah. It makes me long for a party or even just a political faction that is actually conservative in the literal definition of that word that wants to conserve resources or conserve position. I don't think there actually is a real conservative party from that point of view in the United States. I don't know that there ever has been, the United States has always been so forward-looking and so driven on the future that I don't know we've ever actually paused and thought about what we were doing for five seconds. But the point about exports though, I don't know, I'm thinking more and more about this, because I think the Russians are actually more dependent on the Europeans than vice versa, because as you said, it's really expensive and really complicated to take natural gas elsewhere. If the Europeans were just like, nah, we'll go get LNG from somewhere else.

Jacob Shapiro:

We'll call Qatar, we'll have Turkey build some kind of pipeline, we'll get it from the Americans. The Russians, who else are they going to sell to? They're going to sell it to Uzbekistan, I guess maybe China's going to consume some of it. I think it actually, when you have that producer and consumer relationship, it gets leveraged, it sets bounds in the relationship. I don't think it's a coincidence that Saudi Arabia has been doing whatever it wanted in recent years while the U.S. hasn't been as dependent on Saudi oil anymore. Yes, there's this rhetorical relationship and all of this baggage going back years, but when you actually disconnect those things, Saudi Arabia doesn't listen to what the United States does. It saws its people into different body parts and does horrible things with human rights, it invades Yemen.

Jacob Shapiro:

It does all this stuff, it doesn't care what the United States has about anything because that's not what matters. What matters is that Saudi is now is selling to the Chinese, selling to the Japanese, selling to the South Koreans. They're the ones that sort of have the leverage. So I just don't know if when U.S. policymakers are thinking about this, if they're appreciating what it means to create a sector that is dependent on foreign consumption.

Jacob Shapiro:



The reason or not the reason World War II kicked off, but the proximate reason that the United States got involved in World War II was because the United States said, "Japan, you can't have any oil anymore," that's what sets that whole sort of thing off. So I don't know, it just makes me nervous when we start thinking of energy as this geopolitical tool that can just be used willy nilly. And also that the goal is to say, "No, Russia, you can't sell any gas here, you can only get your gas from here," because then you're just going to isolate them and they're going to be completely cornered. But I don't know, I go back and forth on it. It's hard.

Bethany McLean:

Yeah, I go back and forth on it too. It's an interesting question. When I talk to former Obama administration officials, they were adamant that the Obama administration did not want to use energy as a geopolitical threat because America had said for years, don't do that anymore, that's not smart. And so then comes the Trump administration, which starts talking about energy independence, and as this grand idea, which itself is a fraud, and we can talk about that. But it was a real change. And I think the questions you're raising are really interesting, and they're ones that I sort of thought about for the book not to give myself too much credit, but one is this role of commercial relationships, which actually can be a good thing because that dependency creates a kind of mutual dependency that then helps prevent wars from breaking out because at least at its best, but yet it can flip around and become leveraged to be exactly the opposite.

Bethany McLean:

So it's not clear cut that a commercial relationship is always a good thing that will prevent war, sometimes it becomes a tool in causing war as you point out with World War II. But the other thing I definitely thought about for the book is what's the cost of a failed state. So it was a conventional view that energy independence would make the U.S. safer and more secure, but I think it's the opposite for a couple of reasons. One going back to Munger's point about long-term safety and security versus short-term.

Bethany McLean:

But also if Saudi Arabia does disconnect from the U.S. and stops carrying what we think, or if it becomes a failed state as a result of U.S. oil production, and Saudi's inability to fund itself in the face of low oil prices are fresh and became a failed state. Or if places in Africa that were dependent on oil exports, as their economies collapsed, that's not actually, it doesn't make the world a safer place. It's easy to be a chest beating American and say, American power rise, everybody else fall, but it doesn't work that way. Failed States are really, really dangerous to all of us. So I started to think about that as I worked on the book as well.

Jacob Shapiro:

Yeah. And there's something about that too, which is this myth of self-reliance, which maybe it was possible at one point in time, but the global economy is not set up that way, the American economy is not set up that way. So maybe you can be



energy independent technically but you're never going to be independent for everything that you need, even if you're going to do solar, if everything's going to be solar and wind, you're still going to need rare earths. And we don't do rare earths here right now, so you're going to have to go and get them in environmentally unconscionable ways in places like Chile or China, anywhere else. The fact that we pay \$500 or \$800 for an iPhone is only because we can mine minerals from all the way across the world with child labor, doing it out of Congo, all that other kind of stuff.

Jacob Shapiro:

You can't really disconnect yourself from the global economy and not completely transform the way things are going. And there's something in the American psyche about wanting that self-reliance not having to depend on anyone, whereas American power really is actually built on the idea of connecting everyone. Everybody gets to play by the same rules. And as long as we can all sort of participate together in a reasonable way, everybody's going to be enriched. That's actually how American power has been sustained. And yeah, it's been interesting. It started in the Obama administration, it was interesting to watch it continue in the Trump administration where we sort of got into a defensive crouch and just said, no, we don't want to be out in the world. We just want to be ourselves. We want our own energy. We want our own this, it's just not a realistic viewpoint. I think if you want to maintain the U.S.'s position and quality and standard of life in the world right now.

Bethany McLean:

Yeah, it was funny to me that was definitely an intellectual journey of sorts, the risk of sounding completely full of myself. But that I went on during writing the book because I started thinking energy independence was a real thing. And wasn't it this grand notion that we could produce all the energy that we needed. And then as I started to think about it, I thought, but oil prices aren't set by the Texas Railroad Commission anymore, the way they were in the heyday of American oil production, they're set on global markets. And so there's no such thing as energy independence because the price that Americans pay at the pump is always going to be dependent on something happening around the world. And so this concept doesn't exist. And then I thought more if energy independence is created by production, that is fundamentally unprofitable.

Bethany McLean:

And so in and of itself, it's dependent on flows from the capital markets and the willingness of global investors to fund an unprofitable enterprise, then that's not independent either. It's completely dependent on the appetite of global investors, on where interest rates are, on what other investment opportunities are available. So I thought this whole thing is a mirage, and yet you hear energy independence, at least you heard it repeated over and over again. And it was some sort of idealized statement that at the time the words were invented actually meant something, but



they got stripped of their meaning over the ensuing decades. And yet we kept saying them like a talisman.

Jacob Shapiro:

Have you, this is not related to Saudi America, have you been watching this Netflix show Occupied?

Bethany McLean:

No. Should I?

Jacob Shapiro:

You should. It's about, I think I recommended this in the last podcast listeners, so I'm sorry for repeating myself, but it's this Norwegian French show where the Norwegians have created some way to have completely clean energy and the EU and Russia gang up, and basically invade Norway and force them to keep pumping oil and gas to the rest of the EU. It's really great, it's-

Bethany McLean:

Oh, fascinating. Okay, I'm going to watch that. That'll be next on my list. I'm watching Russian Doll right now, which I find fascinating and interesting, so I can go from Russian Doll to Occupied.

Jacob Shapiro:

Yeah. So it'll all make sense. But but back on track, before we sort of talk about some other stuff I wanted to zoom out and just ask you, so what do you think about the future? You actually laid out three scenarios from IHS at the end of the book, one of which was called rivalry. It was this free market of energy, sort of future autonomy was another one, which was basically a rapid shift to renewables. And then the third was vertigo, which was this boom bust cycle that prevented a transition away from a less carbon intensive economy. The book came out in 2018, it feels to me like we're in vertigo. As somebody who does geopolitics for a living, I see the boom bust cycles, I see countries like India and South Africa still dependent on coal, have no incentive to move to anything else in the short to medium term, especially with how volatile international politics is becoming. Where did you think we were in 2018 when it came out and where do you think we are now? And then where do you think we're going? I guess a three part question there.

Bethany McLean:

So the the humbling thing about working on this book was that I realized everybody who's made predictions about the oil market in the past has mostly one thing in common, which is that they've been wrong. And so I stayed away from predictions in the book, which is why I was so happy when I found that IHS scenario, because I thought it made things very clear without me having to actually make a prediction of any kind. I do think we've moved closer to vertigo. And certainly with the pandemic has exacerbated that in the sense that oil prices plunged, and now they're





back up. And there's an argument that because oil production has been curtailed so badly, both by the failure of fracking and by the underinvestment over the past decade and other forms, more conventional forms of oil production that we can't fill the hole.

Bethany McLean:

And so the idea that we are going to continue in this blissful period of low oil prices, where nobody really had to think about it was contingent on fracking's continued growth. And if that's over and we have to turn back to more conventional sources of supply, we might suddenly be back in a world where oil shortages seem like a real thing, and that could lead to huge spikes in the price of oil. But we probably are on the way to a future where most of our energy needs are met by renewables.

Bethany McLean:

So those spikes are going to conflict with this idea that the age of oil is coming to an end, and you don't have to have it come to an end. You just have to know that it's coming to an end for the price to go into secular decline. So you have these basically competing forces battling with each other. And I don't know, but I guess if I had to place a bet, I would bet now on continued vertigo and possibly huge spikes in the price of oil and that the cost of energy becoming a discussion here that we haven't really had since the 1970s.

Jacob Shapiro:

Yeah. It feels that way. It also feels like the United States has some agency in this question. And I think that's maybe why I was so drawn to your book and to this topic in general, maybe it was why you were too because the United States by virtue of its incredible energy wealth it can move markets if it wants to, it can define incentives for different industries or different parts of the industry if it wants to. But it's going to have to get away from this idea that everything's going to work itself out the way it is in the market right now, that's not going to work. If that's the way we go, it's vertigo I think no question, maybe 10, 15 years, we get our act together when we're forced to.

Jacob Shapiro:

But it feels like the United States has a chance here to be proactive and to be a source of real positive, I don't want to say positive and good, that makes it sound a little too fluffy, but it has a chance to really sustain the global economy and the international order that it's already built by allowing that transition to be more seamless and to use different parts of it. But it's going to really have to be a philosophical and a policy shift at a very deep level. And I just don't see anybody thinking about it or talking about it that way right now, they have other things to deal with too, I mean we're in a pandemic.

Bethany McLean:



It is really interesting because you're right, that we just don't focus on energy the way we really should. And when you think of how critical it is to all of our lives, in fact that battles over access to energy have caused most wars throughout human history, this is a very big issue. And yet it just doesn't get the attention on the national level that it should. I do wonder, when you look at the pandemic, the fact that we now have vaccines as a direct result of Operations Warp Speed, which is the government essentially creating a market. It to me proves the lie to this notion that capitalism exists separately from government decisions, that there is such a thing as a free market, because in a way, the fact that there are vaccines way before anybody thought was possible, it's the best of entrepreneurship and innovation, but yet it took a government commitment to creating a market to make that exist.

Bethany McLean:

And so why can't you bring some of that same thinking to the energy sphere, but the United States has never had an energy policy. I also think geopolitically, there's something scary about it for all of us, but particularly for America, because we do have so much access to non renewables. And the geopolitics in a world that is powered by renewables are very different, getting to think about that. Nobody even knows what that looks like, and it's kind of a fascinating, scary unpredictable new world. And so if you're thinkers who are mired in the century of geopolitics surrounding energy, that dictates strategy and choices in the world to suddenly transition thinking in an entirely different way, it has both necessary but I think also frightening.

Jacob Shapiro:

Yeah. And I also, as long as renewables is dependent on things like cobalt or lithium or rare earths, we have a picture of what it would look like. It would look like the 1950s and 1960s, which brought us wonderful things like the Korean War and the Cuban Missile Crisis. And Congo usually gets swept under the rug here, all weird competitions in far away places, because on the map they had some access to resource or a political ideology that was important, and it was important for the heavyweights to sort of duke it out. So as long as renewables require some of those minerals that are scattered around the world, it probably looks like that.

Jacob Shapiro:

Probably looks like the Chinese and the French and the Americans running around in Africa, running around in places in South America, trying to get those resources out in a way so that they can have their renewable grid et cetera. And the weird part is that in just the span of 10 years, because of the fracking, the United States is in the position of having oil if it needs it, and having hydrocarbons if it actually needs it. And that's what gives it such agency. We can either use that to try and create a global system that is more sustainable, or we can use that to screw over the Chinese or screw over whoever we don't like. It really is a choice at that level I think.

Bethany McLean:



That's really interesting. And yes, and I think there is also the subtext of what you're saying is that there is this rosie renewables aura where we all think isn't it going to be a better, pretty old world once renewables have eclipsed non renewables, but maybe not. When you think about that scramble for rare earth materials and the ugliness involved in acquiring them and mining them and the waste produced by making solar panels, there is room for a policy that thinks about all of that and creates a nuanced mixture of energy sources that doesn't lead to a really ugly fight over rare earth materials.

Jacob Shapiro:

Yeah. Trying to find nuance in 2021 is pretty hard. I feel like-

Bethany McLean:

Oh man, that is definitely the thing that went missing this year. If it existed before our 2021 murdered nuance.

Jacob Shapiro:

Yeah. But it's depressing too because the road to hell is paved with good intentions. The reason we have nuclear bombs was because scientists in the 1920s and 1930s thought they were going to discover a new renewable source of energy that was going to be free for everyone. That's why we started researching that stuff in the first place. So take that as a warning listeners for if we continue on this path, things are not going to go well. Bethany I'm conscious of time, and I wanted to pick your brain for just a couple minutes about Enron, if that's cool, if we can switch gears for a second. I'm betraying my age a little bit here, Enron's like one of the first sort of political things that happened when I had memory or consciousness of what was going on really, and was aware of what was going on, but didn't really know a lot about it.

Jacob Shapiro:

Just sort of knew some bad thing happened, in my household I don't think there was that much Enron stock, but I think there was a little Enron stock based on some of the feelings I was feeling at the dinner table. But when I picked up Smartest Guys in the Room after finishing Saudi America, I was thinking, and it started off this way, I was thinking, Oh, this is going to kind of be like Halberstam's Best and the Brightest. I used to think that the U.S. was stupid about Vietnam, and then I read Best and the Brightest, and I still thought they were stupid, but I felt like everybody was trying to do the right thing. I could see how they got trapped into this-

Bethany McLean:

Let's go back to your quote.

Jacob Shapiro:

Yeah. But I could see how it happened. Smartest Guys in the Room, I just got increasingly angrier the more I read, and by the end I was ready to light myself on



fire. It didn't feel like there was any goodwill anywhere, it just all felt like a bad joke in some ways. So I just wanted to ask, how did you stay sane? Am I being too strong there? I'm sure that there were people within the system and the system itself victimizes people in different ways obviously. But it just felt like there was a lot of bad will there that it wasn't that people got convinced of some bright future, but that really people were just doing bad things and taking advantage of a system that let them do that.

Bethany McLean:

That's interesting. I don't know, maybe I'd become, oddly enough maybe in the almost two decades since I wrote that book, dear God. And I've become more forgiving in some ways, maybe because I've seen so much more. And so if that was my attitude at the time, it is less so now. And that to your quote again, the road to hell is paved with good intentions, I do think there was a lot of fervor to change the world at Enron, but it was mixed in a particularly American way with a desire to get rich now. And so when those two things combine and people can delude themselves, that they are making money for a grand cause that is revolutionary or changing the world, see fairness, that's the most dangerous form of self-delusion that there is.

Bethany McLean:

And I think that's what pervaded Enron was that combination. And I guess I have some... I think it leads to a great deal of damage in the world, but I get it from the human perspective because it happens time and time again, and forms both small and large that we camouflage our own ambitions to ourselves in this greater sense of societal good or revolution so that we can justify terrible things that we're doing while lining our own pockets. And that's just the story that plays out time and time again.

Jacob Shapiro:

Yeah. One of the questions I had written down, and then after I wrote it down, I realized it was a stupid question, which was I wanted to ask you if you thought there could ever be another Enron sort of type event again. But then I was like, well, but we had the 2008 financial crisis and then we had Theranos and I'm sure we're going to have three others with all the stimulus that's come through, somebody's going to misappropriate that or use it in some kind of fraudulent way. So it sort of feels like we haven't actually learned anything either from Enron, that the lesson is not taken.

Bethany McLean:

Well, it's actually really funny because when the global financial... Well it's not funny, but when the global financial crisis was brewing, I sort of dismissed warnings that we were headed for something really bad because I thought I wrote about Enron. That's my financial crisis in my lifetime, nothing like this is going to happen again. That was the story it's done, maybe when I'm 90, there'll be something else that's like that, but that's a cataclysm like that. And since then we've had just any



number of things, obviously, and they seem to be happening at an accelerated pace vis-a-vis the past, or maybe it's just that it's recency bias and it's just the time we're living in that we see it happening. So it feels more like it's happening more now. And I haven't actually done an empirical study to know which is the correct take on that.

Bethany McLean:

But for sure, I think the forces that created Enron are the same ones we've been talking about now. Short-termism for sure which still pervades our system to a shocking degree, despite the fact that we've been talking for at least two decades about how damaging it is. This idea that visionaries can be excused for all of their moral failings and that we can't ask questions of visionaries because they're so great and grand that they'll figure it all out. That's Theranos, that's Elon Musk to some extent, and that's still an open question how that plays out. But no, I don't think we've learned any of the lessons from Enron.

Jacob Shapiro:

Great. That's the exact uplifting note I was hoping to close on. That's one-

Bethany McLean:

I still have plenty to talk about, and I still have plenty to write about. Can you imagine how boring a world it would be if everybody functioned as they purportedly should?

Jacob Shapiro:

Well, I'd sign up for a little bit more of a boring world.

Bethany McLean:

Yeah. No, I think we've had all the excitement we can take for a while and we'll do there.

Jacob Shapiro:

Before I let you go, what are you working on next? What's on your mind right now?

Bethany McLean:

Joe Nocera, my longtime colleague who edited the Enron book and who I wrote All the Devils are Here with, and I are doing a book on the pandemic and it is less blow by blow of the Trump administration's failings and more of an economic look at the factors that hindered our response to the pandemic, what went wrong, what went right. And the fundamental changes that we're going to come out of this with.

Jacob Shapiro:

Okay. Well, you'll have to agree to come back on and talk about that when that book comes out.



Bethany McLean:

I would love to, this has been fantastic. Thank you.

Jacob Shapiro:

Thank you so much Bethany, for taking the time and we'll see you again, cheers.

Bethany McLean:

Yes. Be well, bye.

Jacob Shapiro:

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