
The Promise and Peril of Cheap Oil

Everyone likes \$2 gasoline. But what if it's bad for the long-term growth of the U.S. economy – and for global stability?

BY JASON BORDOFF

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The U.S. House of Representatives is expected to vote on Friday to do something that would have been unthinkable only a few years ago: lift the restrictions on exporting domestically produced crude oil that have been on the books since the 1970s. It's a topic that is definitely heating up in Washington: During a Senate hearing Tuesday on energy security, in which I testified about the importance of ensuring that the 40-year-old Strategic Petroleum Reserve can continue to be **effective in an emergency**, the questioning was overwhelmed by senators asking U.S. Energy Secretary Ernest Moniz to lift the restriction. The move, which many U.S. oil producers cheer, comes at a bleak moment for them.

A combination of surging oil supply and economic weakness sent oil prices plummeting in August for the second time in the last year, hitting six-and-a-half-year lows — down nearly 40 percent from their 2015 high reached in May. Although U.S. production has held up better than expected in a low-price environment, thanks to technological improvements and cost declines, U.S. producers have still been hit hard. After seeing output rise some 4.6 million barrels per day (b/d) since 2008 to a peak of 9.6 million b/d in June, U.S. oil **output has fallen** to 9.1 million b/d and is projected to fall several hundred thousand b/d further next year.

Because oil production from shale wells declines so quickly after initial production, producers must keep drilling new wells to maintain or grow their output. That also means that U.S. shale oil can respond much more quickly to price changes than conventional oil wells, as producers lay down rigs. But that process still takes time, with U.S. production just starting to turn south more than a year after the price collapse began. This, along with several other important factors, has weighed heavily on oil prices. Since OPEC chose not to cut production at its November 2014 meeting, the producer group has actually **increased output** by more than 1 million b/d. Further pressure on oil prices is coming from historically high global inventory levels, to which will be added the expected return of Iranian barrels to the market when sanctions are lifted.

Lower oil prices are generally good for U.S. consumers and the economy. Gasoline prices are currently at the lowest level for this time of year since 2006 — more than a dollar below where they were at this point last year — and are **projected to fall** to \$2 per gallon by the end of the year. Heating oil and propane costs for the winter are projected to be 25 percent and 18 percent lower, respectively, than last year. Those gasoline savings of nearly \$100 per month per household will act like a tax cut for consumers and **could stimulate the U.S. economy**. (Although **initial surveys** suggested consumers, nervous about the economic outlook, would rather save their extra money than spend it, a **recent analysis of credit card data** found they, in fact, spent most of their gasoline savings.)

But cheap oil can also bring unintended consequences.

First, cheaper prices can stimulate people to drive more and encourage more overall oil use. In the long term, U.S. oil demand growth is declining, with consumption in 2025 now **forecast** to be 34 percent lower than was projected just a decade ago. But in the short term, driving in the United States is up **4 percent** over the last 12 months, and total U.S. oil consumption is **projected** to rise this year from 19.1 to 19.5 million b/d. Lower pump prices also cause complacency, as people forget that prices will invariably rise again. The average fuel economy of new vehicles sold in the United States in September was **down 0.6 miles per gallon** from its August 2014 peak, driven by the decreased price of gasoline and consequent increased sales of pickup trucks, SUVs, and crossovers.

And globally, oil demand in 2015 is now **projected** to be 900,000 b/d higher than was projected before the price collapse.

Second, low prices and falling U.S. oil output risk undermining momentum toward instituting smart policy responses to the shale revolution. U.S. oil output from shale will rise again as prices recover — the last year has forced the industry to make dramatic improvements in the economics of shale production — and state and federal regulation must continue ensuring that production happens safely. Tighter margins and lower profits seem to be leading businesses to fight especially vigorously against even low-cost and smart regulations — like the Obama administration's **new effort** to reduce **methane emissions** from oil and gas production.

Third, while the U.S. economy benefits overall from lower oil prices, it benefits less than it did in the past. While consumers on the whole are better off, oil- and gas-producing states will see net employment declines — especially Wyoming, Oklahoma, and North Dakota — according to a [study](#) by the Council on Foreign Relations (Texas is the largest oil-producing state, but its economy is more diversified.) The overall impact on the U.S. macroeconomy of an oil price rise or fall also declines as U.S. import dependence declines, as the White House Council of Economic Advisors [explains](#), due both to the smaller terms of trade penalty and the fact that when prices rise, more of the increase in oil producer revenue stays within the United States.

Fourth, while oil prices are low today, they are likely to be more volatile in the future due to important changes in the oil market. OPEC has, for the time being, given up its role of market balancer, leaving very little buffer of spare capacity — the ability to quickly bring new oil supply into the market to compensate for production losses elsewhere. OPEC's spare capacity today is less than 1.3 million b/d, the lowest level since 2008. Without that buffer, any disruption to global supply could have an outsized impact on price, though high inventory levels [will help](#) for a while. U.S. shale oil production can now contribute to the “swing supplier” role, as it can be ramped up and down more quickly than conventional oil. But, as we are seeing, that can take up to a year or longer. If prices fall low enough and long enough to pull U.S. shale oil off the market, and then rise high enough to prod it back, consumers may be in for greater price swings, especially without a buffer of spare capacity. Volatility can harm consumers by undermining their ability to make informed longer-term financial decisions, such as where to live or what kind of car to buy, and this uncertainty [harms](#) the economy more broadly, stymieing consumption and investment.

Fifth, lower prices create an increased risk of political and economic chaos in oil-producing countries. The World Bank **estimates** that a 10 percent decline in oil prices can cause economic output to contract 0.8 to 2.5 percent in some oil-exporting countries. In Saudi Arabia, oil exports account for **almost 90 percent of budget revenues** and 43 percent of GDP. In **Iraq**, the numbers are roughly 80 percent and 45 percent, respectively, while countries like Russia, Venezuela, Iran, and Nigeria are all similarly dependent on oil. Saudi Arabia has borrowed and dipped heavily into its foreign reserves, which have **dropped** from a peak of \$737 billion last August to \$655 billion one year later. Others don't have that cushion to fall back on: Several of these countries were already facing instability before prices crashed, and the drop in oil revenue may push them over the edge. As a new **study** from Columbia University's Center on Global Energy Policy explains, Venezuela may be most at risk of geopolitical and economic crises. Increased instability in producer countries can have significant ripple effects globally — from **reduced revenue** for the battle against the Islamic State to the stability of Caribbean and Latin American countries that have **long depended** on Venezuelan largesse.

Americans understandably cheer when oil and gasoline prices fall. And yes, on net, lower oil prices are indeed good news for the United States. But, with the United States reemerging as an energy superpower, it must now be wary of the risks that lower oil prices may bring.

Justin Sullivan/Getty Images

The Taliban Are Winning

And the taking of Kunduz was just a dry run for the eventual attack on Kabul.

BY **ASIM YOUSAFZAI**

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When the Taliban took Afghanistan's key northern city of **Kunduz** on Sept. 28, the world could hardly believe it. Located near the country's border with Tajikistan, Kunduz has long served as a strategic and economic trade hub connecting Kabul with Central Asia and was one of the last Taliban strongholds to fall following the 2001 U.S. invasion. On Oct. 1, President Ashraf Ghani announced that Afghan forces had retaken Kunduz, though there are still conflicting reports as to who actually controls the city center.

Then, early on Oct. 3, a U.S.-manned AC-130 gunship fired on a hospital in Kunduz run by Doctors Without Borders, killing some 22 people and incurring universal condemnation. Doctors Without Borders called the incident tantamount to war crimes and is demanding an independent investigation. Although the exact reason for the attack remains unknown, it appears that Taliban fighters in the hospital's vicinity were attacking Afghan forces — a claim Doctors Without Borders has **denied**.

Speaking before Congress on Oct. 6, U.S. Gen. John Campbell **testified** that Afghan forces under attack by the Taliban had requested the errant airstrike. The next day, President Barack Obama **called** Doctors Without Borders chief Joanne Liu to apologize and express his condolences to those who were killed and injured. It remains unclear why the attack continued for **a full hour** despite calls from Doctors Without Borders to halt the bombing.

For the Taliban, the attack on Kunduz, Afghanistan's fifth-largest city, presented them with an opportunity to test how easily some 500 fighters could overrun a major urban center defended by 7,000 Afghan National Security Forces **troops**, referred to commonly as ANSF. The answer: quite easily, which is surely a cause for concern for Kabul and the ANSF's American trainers. To make matters worse, the ANSF reportedly **knew** for almost a year that the Taliban were planning an assault on Kunduz, yet still failed to check the onslaught.

The Kunduz attack, it seems, was merely a dry run for the Taliban, which now hope to sow panic in Kabul and test the commitment of a Washington that appears to lack the stomach, resources, and will for yet another surge in a conflict it thought it had left behind.

To be fair, the United States and its coalition partners in Afghanistan had good reason to believe this. For years, the international community has pinned its hopes for peace in Afghanistan on the ANSF, pouring some **\$65 billion** into training and equipping it from 2002 to 2015. The Pentagon, for its part, proudly estimates that some **350,000 Afghans** serve in the ANSF, but it's unclear how many of them are actually present on the ground, armed and ready to fight. High desertion rates, an unusually high casualty count, and persistent drug abuse are some of the chief factors that limit their effectiveness. Just as there are Afghan ghost schools, there also seem to be Afghan **"ghost soldiers."** The ANSF's dysfunctional response to the Kunduz attack yet again calls into question the wisdom of all this.

The Taliban also seem eager to exploit the division in the nearly 1-year-old national “unity” government. Run jointly by Ghani and CEO Abdullah Abdullah, it is still beset by a **litany of problems**, ranging from an economic shortfall to chronic employment to a lack of governance to massive corruption. Formed under intense pressure from U.S. Secretary of State John Kerry, the Kabul government is marred by **internal rifts**, particularly over the use of militias to take on the Taliban. Ghani strongly favors strengthening the ANSF and using it as the sole force to fight the Taliban, while Abdullah and Vice President Abdul Rashid Dostum favor enlisting **local militias**.

As fighting raged on Oct. 1, hundreds of people gathered in Kabul to demand Ghani’s **resignation** and hold him responsible for the fall of Kunduz. This is a moral victory for the Taliban, who want to see the democratically elected government in Kabul lose credibility. To make matters worse for Ghani, on Oct. 7, former Afghan Interior Minister Mohammad Omer Daudzai and others pointed to the mistakes made by the national unity government — and suggested **early elections**.

The Kunduz attack also offered the Taliban an opportunity to test the resolve of the international coalition that has supported the Afghan government for years. The Taliban wanted to see how NATO would respond, knowing full well that it plans to complete its **phased withdrawal** from Afghanistan by the end of 2016. Indeed, the Taliban have been testing coalition forces since the majority of troops left in 2014: They attacked Kunduz earlier this year and have captured several districts in northern Helmand province.

It’s a risky calculation. On the one hand, the Taliban want foreign occupation forces gone. On the other hand, their attacks on major cities such as Kunduz, Herat, and Kabul have forced Washington to reassess its withdrawal plans. Obama is seriously considering keeping 5,000 of the remaining 9,800 troops in Afghanistan beyond 2016, a move that will only prolong the Afghan imbroglio: The Taliban have repeatedly shown their resolve to continue fighting until the last foreign troops are present on Afghan soil. Shortly after assuming the Taliban leadership, Mullah Akhtar Mohammad Mansour, who ran the movement effectively for two years while keeping the news of Mullah Mohammed Omar’s death a secret, **rejected talks** with Kabul and vowed to continue jihad until the “Islamic system rules.”

We now can also safely assume that the Taliban were never truly committed to peace negotiations. As the world's attention shifted to the Islamic State, the Taliban bought time to regroup and wait until NATO's withdrawal so that they could launch a full-frontal attack on Kabul. The **Qatar-based** negotiation process has not yielded tangible results, and the latest effort to hold peace talks near **Islamabad** abruptly ended with the Afghan government announcing the death of Mullah Omar. Now it's clear the Taliban were simply leading on the international coalition with the presumption that they was serious about peace, while they rebuilt their fighting force and military prowess under Mullah Mansour. The Taliban now have a significant presence in provinces all around Kabul, including Kunduz, Baghlan, Badakhshan, Kunar, Nangarhar, Logar, Zabul, Helmand, and Herat provinces. In total, it controls around 70 of Afghanistan's 398 **districts**.

On Oct. 1, Ghani **constituted a commission** to probe the causes of the fall of Kunduz and vowed to punish those who may have been responsible for negligence or treason, in an effort to prevent another such tactical failure. Regardless of the commission's findings, many observers believe that the damage has already been done. As Gen. Campbell said in his **testimony** to Congress, it was a PR win for the Taliban.

Since the bombing of the hospital in Kunduz, attention has shifted to investigating why it happened. Regardless of who, ultimately, is to blame for the attack — the United States, the ANSF, or NATO — it cannot become a pretense to ignore the ever-growing urgency to deal with a resurgent Taliban.

The Afghan conflict can only come to an end through strong, unified leadership from Kabul, assisted by the Central Asian republics, China, Iran, and — most importantly — Pakistan, which holds significant sway over the Taliban. Indeed, until Pakistan fully cooperates with the international community to put an end to hostilities inside Afghanistan, the entire region will remain engulfed in a bloodbath.

All the nations working toward peace in Afghanistan, however, must be prepared to deal with an emboldened Taliban, inspired by their success in Kunduz, and the fallout of the hospital bombing. Both provide a stark reminder to Kabul, Washington, and NATO that military solutions to bring relative peace to Afghanistan are running out.

Photo credit: Wakil Kohsar/AFP

Modi's Sacred Cows

India's prime minister has spoken out against the killing of cows. Why hasn't he spoken out against the killing of Muslims?

BY **ARIF RAFIQ**

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In Narendra Modi's India, is a cow's life worth more than a Muslim's? Sadly, the answer seems to be yes.

In late September, a Hindu mob in the northern Indian town of Dadri killed Muhammad Akhlaq, a 50-year-old Indian Muslim, for allegedly consuming and storing beef. In August 2014, Hindu extremists **killed** a Muslim man in North India after police charged him with the crime of slaughtering a cow. And in March 2015, a news **video** showing a Muslim man tied with a noose, beaten, and forced to praise the Hindu deity Ram went viral. The man's crime? Buying and selling cows.

Of the aforementioned attacks, the attack on Akhlaq was the most galling. Union Minister Mahesh Sharma, one of the few top officials in Modi's ruling Bharatiya Janata Party (BJP) government to comment on Akhlaq's killing, **described it** as an "unfortunate accident." But it was murder. A mob, made up in part by members of an organization called Save the Cow, rushed toward Akhlaq's home, smashed his skull with his wife's sewing machine, and dragged his corpse outside. Interviewed after the attack, few of the men showed remorse. "We are more attached to the cow than our own children," Inder Nagar, a Save the Cow member and the local state secretary of the BJP youth wing, **told** the New York Times.

Hindus regard the cow as an object of reverence and many see its consumption as an abomination. After Akhlaq's murder, BJP legislator Raja Singh **tweeted the sections** from the Hindu text the Vedas that mandates killing people who slaughter cows. In many Indian states, including Akhlaq's Uttar Pradesh, slaughtering a cow is illegal (though large numbers of Hindus, Muslims, and others flout this law). In recent speeches, Modi **has condemned** the "widespread murder of our cows." But since taking office as prime minister in May 2014, he has never directly condemned the killing of Muslims.

Modi's political allegiance is clear. He spent decades with the RSS, or the National Volunteer Organization, a major Hindu chauvinist movement that **admires** fascism and seeks to transform India — a nation of 1.25 billion people that is roughly 14 percent Muslim — into a Hindu polity. And the BJP, which Modi has been a part of **since 1985**, is the political arm of a network of Hindutva, or Hindu fundamentalist, groups that want India to be a Hindu state.

In the months leading up to the May 2014 election that swept Modi to power, some pundits in India and abroad imagined that the country was poised to elect Modi 2.0: a center-right pragmatist who would prioritize economics above ideology and lead India to a united, secular future. Some in the United States **described** Modi as India's Ronald Reagan. Others fashioned him as a **libertarian** railing against "**red tape-ism**" and governmental overregulation and inefficiency. Strikingly, even Bollywood star Mallika Sherawat jumped on the Modi train — whose influential passengers were mostly business tycoons and Hindutva activists — and **described** Modi as "smart, progressive, and often misunderstood."

Believing that Modi would become a pragmatist once elected, however, proved to be a devastatingly huge mistake. In his first post-election speech in the Lok Sabha, India's lower house of Parliament, Modi **railed against** the "1,200 years of slave mentality" afflicting India: a reference not only to the 200 years of British rule, but the 1,000 years of Muslim rule that predated it. Since he has taken office, incidents of communal violence — violence perpetrated across caste, ethnic, or religious lines — have been increasing. According to Indian government statistics, communal violence in India **rose** 30 percent in the first six months of 2015 from the same period last year, and of the 51 people killed during that period, 31 were Muslims.

Perhaps people should have known better. In the lead-up to the 2014 elections, Modi and the BJP incited anti-Muslim hysteria among Hindus. The BJP's aim, **as it had been** in previous elections, was to break voting patterns based on caste, class, and traditional party loyalties and unite the Hindu vote. Most notable was the BJP's campaign in the district of Muzaffarnagar in Uttar Pradesh. In August 2013, more than 60 Muslims were killed and 50,000 made homeless in riots incited by BJP leaders, **including** Modi's right-hand man, Amit Shah. Afterward, at a BJP campaign rally that featured Modi on the stage, an unknown speaker **described** the violence as "a fight between the Hindu religion and villainous Muslims."

Most glaringly, Modi has never apologized for the 2002 Gujarat riots — a three-day outbreak of violence in which a mob slaughtered roughly 1,000 people, most of whom were Muslim. The riots, which occurred during the first year of Modi's 13-year stint as chief minister of the state of Gujarat, were among the worst ethnic violence India had seen in decades. Although a 2012 judicial inquiry **cleared** Modi of wrongdoing during the riots, the fact remains that his attitude toward the event was depressingly defiant. Months after the riots, Modi mockingly described camps for Muslims displaced by the violence as "**child-producing centers**." In subsequent interviews, he compared dead Muslims to a **puppy** run over by a car and said his greatest mistake at that time was **media mismanagement**. Yet Modi has been unwilling to address his moral culpability with journalists. In a 2007 interview, the respected Indian broadcast journalist Karan Thapar asked Modi why he hadn't expressed regret for the Gujarat killings. Modi's response? He **walked out** of the studio.

Modi's attitude, along with his tacit approval of violence against Muslims, has emboldened his Hindutva allies. Over the last year, Hindu nationalists have **renewed** a campaign to ban religious conversions — while at the same time seeking to convert Christians and Muslims to Hinduism. Their justification? Hindutva extremists see all Indians as originally Hindu. Therefore, they believe conversion to Hinduism should be exempt from a ban because it is *ghar wapsi*, a homecoming. And Modi seems to agree with them: In a 2008 interview, he **said**, "If you return to your old home [i.e., Hinduism], it's not conversion."

That said, Modi has not completely refrained from condemning the attacks on India's Muslims. A month after U.S. President Barack Obama's January public (though subtle) **chiding** of Modi's failure to speak out against religious intolerance, Modi gave a speech pledging to preserve the "**complete freedom of faith**" in India. Responding to a spate of early 2015 attacks on churches, Modi disingenuously **called on both** the "majority" religion and "minority" religions to stop inciting hatred. Communal violence seemed to drop until the summer — when Modi allies like yoga guru and business mogul Baba Ramdev loudly called for **Muslim population control**. And on Sept. 27, a day before Akhlaq's murder, an Indian Muslim man was **lynched** after being falsely accused of terrorism.

Many Indians are pained that Modi hasn't condemned Akhlaq's murder. But does Modi sympathize more with Akhlaq's murderers? In 2003, he **said** the "main strength" of Gujarat is its vegetarianism — a nod to high-caste Hindus, who are mostly vegetarian. The meat eaters, he slyly **told** a journalist, "have a different temperament." And though beef is a cheap and needed source of protein for the (especially Muslim) poor, Modi's government is considering instituting a **nationwide ban** on cow slaughter.

The message is clear: In Modi's India, the life of a cow has greater value than that of a Muslim.

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