

Russia's Petrodollar Days of Plenty Are Over

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Conspiracy theories have a fatal attraction to the Russian public. Nothing of importance can ever happen in the world without some powerful players arranging it behind the scenes.

There was apparently a clever plan to break up the Soviet Union in 1991 — developed by John Foster Dulles, the U.S. secretary of state in President Dwight Eisenhower's administration — even though Dulles has been dead since 1959. The 1998 Russian financial crisis was apparently engineered by financier George Soros in order to buy up shares of Russian companies on the cheap. And so on.

Oil prices are a subject particularly beloved by Russian conspiratologists. Ulyana Skoibeda, a columnist at the Komsomolskaya Pravda newspaper, once wrote that "the West strangled the Soviet Union by holding down oil prices the way a murderer holds his victim's head under water."

There is a broadly based consensus that former U.S. President Ronald Reagan struck a deal

with the Saudis that resulted in a terminal economic crisis in the Soviet Union and the collapse of communism. Today, both opponents and supporters of Russian President Vladimir Putin are convinced that U.S. President Barack Obama did the same, leading to a recent drop in oil prices.

Never mind that ever since OPEC lost its dominance in the 1980s no one has been controlling the oil market, or that even the task of forecasting oil prices accurately has eluded highly trained, well-paid economists at major oil companies. Nor does it matter that, given rational economic policies, lower oil prices should have a positive impact on the Russian economy, just as falling oil production put impoverished Mexico and Indonesia on the path to economic development.

But oil prices are falling and, absent a group of shady characters fixing them in a cigar-smoke-filled room in Washington or Riyadh, the question remains why this is happening and where the prices will go from now on. I have been forecasting long-term oil price declines since 2013. The reason for these declines is simple: Technology has come to dominate oil markets and set prices.

Economic history is the history of technological progress. In a primitive society, profits from productive activities go to owners of land and materials, and to labor. When tools are introduced, some profits start to accrue to producers of technology, and once their technology becomes crucial to production or replaces labor, they become the main beneficiaries. For example Google, which is working on a self-driving car, will get the bulk of the money saved by eliminating truckers and bus drivers.

Oil is a special commodity, but it is subject to the same technology laws. Demand for oil emerged a century ago with the invention of the car and spread of electricity. Initially it was simply pumped out of the ground, and countries that were lucky enough to have large deposits were the main beneficiaries.

Over the past 15 years, high oil prices brought the high-tech revolution to bear on the oil market. It impacted the supply of oil — by developing technologies to get the oil that previously couldn't be extracted. It impacted demand by creating more efficient engines, lighter materials and electric cars. Finally, new sources of energy and oil substitutes were developed.

Critical mass was achieved this year, when the U.S., thanks to the shale oil boom, became the world's largest oil producer. Historically, technology has been getting steadily cheaper. This means that oil prices, while fluctuating, are now going to be under constant pressure. Worse, any temporary upticks will fund a new technological spiral, leading to a renewed decline in prices.

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