



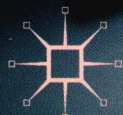
The Economics of the Middle East

A Prelude to the Foundation of Political Economy

Oil, War, and Global Polity



Cyrus Bina



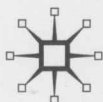
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THE ECONOMICS OF THE MIDDLE EAST

Series Editor: Dr. Nora Ann Colton

The Middle East has seen much more economic change than sociopolitical change over the past few decades in spite of the continuous political instability that is often highlighted by the press. Collectively the region is best known for producing and exporting oil. While the oil industry significantly impacts the region by generating wealth and movement of labor, it has also become the agent of change for endeavors such as development and diversification. With higher rates of growth occurring more in the East than the West, the Middle East sits on the crossroads of this divide acting as a bridge between these two market places. This series is dedicated to highlighting the challenges and opportunities that lie within and around this central region of the global economy. It will be divided into four broad areas: resource management (covering topics such as oil prices and stock markets, history of oil in the region; water; labor migration; remittances in the region), international trade and finance (covering topics such as role of foreign direct investment in the region; Islamic banking; exchange rate and investments), growth and development (covering topics such as social inequities; knowledge creation; growth in emerging markets), and lastly demographic change (covering topics such as population change, women in the labor market, poverty and militancy).

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FOR ALL KNOWING SOUSAN
—Affectionately

*I have seen tempests, when the scolding winds
Have rived the knotty oak, and I have seen
The ambitious ocean swell and rage and foam,
To be exalted with the threatening clouds;
But never till to-night, never till now.
Did I go through a tempest dropping fire.
Either there is a civil strife in heaven,
Or else the world too saucy with the gods
Incenses them to send destruction.*

—William Shakespeare
Julius Caesar (Act I, Scene 3)

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This book carries a belated pledge made to Robert Brenner a few years ago at the UCLA faculty club. In the early and again in late 2000s, I was fortunate to spend my sabbaticals at UCLA Center for Social Theory and Comparative History with Bob and Tom (Mertes). Early in that decade, the US invasion of Iraq was imminent, as was its outcome that was then crystal to me. I asked Bob about the priority of writing a book on either oil or globalization. He looked me in the eye and said, you write a book about oil. Here, I wish first and foremost to express my gratitude to Robert Brenner who has instigated this volume.

This book was written in the course of one of the busiest periods in my academic life. In addition to a challenging teaching load and serving on several demanding academic committees, in the second half of the 2011–2012 academic year, from January to May alone, I had participated in several timely sessions, including ones arranged by Economists for Peace and Security (EPS), and chaired a session organized by URPE on the “Arab Spring,” at the ASSA meetings in Chicago; a special conference on Constitution in Iran at the UC-Santa Barbara, which had given me also a chance to meet many distinguished scholars of Iranian studies, including Janet Afari, Hamid Akbari, Richard N. Frye, and Fakhreddin Azimi; a weeklong of lectures on globalization of oil (and theoretical basis of nationalization) in Buenos Aires, Argentina, at the invitation of the Universidad Nacional de Quilmes and Government of Argentina (in the company of eight other leading economists); and finally accepting an invitation to give a public lecture (accompanied by several class visits) on oil, US foreign policy, and globalization at Bentley University, Massachusetts.

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INTRODUCTION

If you would have a thing shrink, You must first stretch it...

—Lao Tzu
Tao Te Ching

I

At the intersection of two important questions of our time, namely global peace and sustainability of the planet Earth, stands a commodity beyond all commodities that has wreaked havoc with the material and mind of humanity in recent times. This commodity is none other than oil, whose *realities as well as its fictional impression* have both made a consequential impact upon public opinion today. In this book, we hope to demonstrate what is right and what is wrong with learned opinion across the board, before showing what is amiss with popular perception.

As shall be demonstrated in this book, oil is not an object but a trajectory, indeed a constellation of exigencies, events, actions and reactions, disputes and refutations, disparity and deviation, and, above all, contradiction and conflict across historical time and social relations fused and conjoined. This can be seen from the early development of oil in full-blown cartelization within the International Petroleum Cartel (1928–72) through to a competitive globalization beyond borders of any one nation-state by the beginning of third quarter of last century. This is the story of old colonialism bleached in neocolonialism, with all intents and purposes, and carried over and conveyed by the schizophrenic rubric of Pax Americana, before becoming history in the past tense. This was the end of a history and the beginning of a new one. In this context, oil crisis of the early 1970s, which has transformed petroleum (and energy as a whole), should have a pertinent historical place on its own right by virtue of its image in the global polity and economy of today.

The 1973–74 oil crisis was not an ordinary (or, shall we say, periodic interruption and renewal) disruption; this was not only a mother of all crises within its own specific socioeconomic configuration, but

a part of a larger crisis in a series of turmoil and instability that inaugurated and ushered in the beginning of the end for Pax Americana (1945–79). What is also important in this context was the symbiotic relationship between the great powers and worldwide cartelization of oil. In other words, this is a concrete and tangible ingredient of a sound theory of imperialism, at the intersection of state and social relations. This has been demonstrated rather concretely and amply in this book through oil. But what is also demonstrated with similar concreteness and intensity is the decartelization and globalization of oil that took center stage in the early 1970s, and led to a full-fledged global crisis beyond oil. Indeed, in particular oil was part and parcel of a series of economic and political crises that had already begun in the mid- to late 1960s, which by then had unfolded beneath the superstructure of order that thrived, with some degree of assurance, for more than three decades in the postwar era.

This was the beginning of the unraveling of the weakest link in the chain that once was a pillar of stability, namely, the client-state segment of the Pax Americana. But this was also symptomatic of rifts within the more sovereign segment of Pax Americana. This is why the presidency of Jimmy Carter should be seen as the last hurrah for America. And that is how, despite the Reagan administration's ideological parade, Hollywood-style propaganda, and its dutiful pretense, the United States walked willy-nilly into an insubordinate and uncharted zone unlike that of its habitual own, and tended to wreak havoc across the divide of the then global polity. Intoxicated by the overpowering euphoria caused by collapse of the Soviet bloc, the post-Reagan America also had little chance for soul-searching to perceive the specter of time and to read what is written or unwritten on the proverbial wall. The euphoria provoked by the collapse of Soviet bloc in the early 1990s dulled public perception that America's formidable industrial base had already been unraveled piece by piece, plant by plant, and industry by industry just within a decade. This was surely the end of a history but not in the intended fashion of Fukuyama's jovial ruse (Fukuyama 1992). The irony of history in our scenario, in Fukuyama's witty rendition, would make the "last man" the very last US president in charge of the now defunct Pax Americana.¹

In a nutshell, under the veneer of "optimism" attributed to Ronald Reagan, there was also the age of post-Bretton Woods, decartelization and cutoff of the umbilical cord of US foreign policy of oil, wholesale plant closings, massive privatization and outsourcing, and, not to mention, a remarkable class polarization in the United States. In a larger context, awful events of 9/11 were a visible and powerful shot across

the bow, not so much for the attack by a crafty bunch of barefooted, discrete, non-English-speaking natives from a faraway land, but for the fact that the arbiter of time let them loose. Yet, perpetrators of 9/11, aside from foreign policy considerations, have accomplished a more sinister mission, which advertently or inadvertently struck at the heart of civil society in America. In Gramsci's terms, they pitted "political society" against "civil society" in America, by prompting the former to outdo the latter by the agony of constant surveillance across the homeland. They tossed the Trojan horse of blanket suspicion right in the middle of America's civil society (and, by implication, in the middle of other societies that had once been members of the old imperial club) in an atmosphere of fear and intrigue unleashed and utilized by the state. Hence the birth of a full-blown *paranoiac state*, which is by far more dangerous and self-destructive than the witch-hunts of the McCarthyist era ever were (see Aaronson 2011).

The following passage from the front page of the *New York Times* is merely a glimpse of what has become of posthegemonic America:

The question is whether the Pentagon and military should undertake an official program that uses disinformation to shape perceptions abroad. But in a modern world wired by satellite television and the Internet, any misleading information and falsehoods could easily be repeated by American news outlets. The military has faced these tough issues before. Nearly three years ago, Defense Secretary Donald H. Rumsfeld, under intense criticism, closed the Pentagon's Office of Strategic Influence, a short-lived operation to provide news items, possibly including false ones, to foreign journalists in an effort to influence overseas opinion. Now, critics say, the missions of that discredited office are quietly being resurrected elsewhere in the military and in the Pentagon. (Shanker and Schmitt 2004: A1, A12)²

If this is not an indication of desperate reaction against the loss of hegemony (in an organic sense of the term), then we truly have no clue whatsoever as to what is taking place in this interim polity today (also under the Obama administration) before our eyes.

II

The evolution of oil embodies the major structural changes that propelled the world from its late nineteenth-century socioeconomic posture toward the early twentieth century. Oil has not merely been a fuel of choice but a material necessity that preconditioned the concrete trajectory of capitalism in its unfolding across national and transnational

boundaries toward its worldwide sweep of today. Therefore, the dialectic of oil and modern capitalism is more or less sufficient for the identification of capitalism and capitalist social relations. Oil is also a complex subject that unites the geography of production and accumulation capital in a historical synthesis. That is why we need to trace the development of the oil sector along the specific evolutionary stages in which the context of continuity and change interweaves with the dynamics of world development at large. In other words, not only did twentieth-century capitalism bestow upon oil a critical context that stuck with it until today, as a source of energy oil also bequeathed the latter with further identification—thus the phrase: “hydrocarbon capitalism.”

One of the characteristics of oil in its early exploration and production has been the requirement of large capital investments for exploratory activity associated with unexplored fields surrounding new oil reserves, and costly development expenditures that are subsequently needed for extension and expanding of such fields once they were explored. Therefore, the evolution of the oil industry had not been and cannot be treated in a manner of a mom-and-pop enterprise in which capital has yet to turn into a well-developed process of concentration and centralization. On the other hand, in the late nineteenth century, Taylorism was just giving rise to standardization and thus automated assembly line mass production in need of capital on a scale beyond individual wealth. That is why oil was characterized by the assemblage of several financial syndicates for the venture of exploration in both the United States and abroad. And it is the minimum size of capital that in part plays a pivotal role in development of capitalist competition in oil and in other businesses. The genesis of hydrocarbon can be traced to colonial fusion of capitalistically developed and undeveloped parts of the world—a world whose overwhelming majority had not yet lived within capitalism proper. The evolution of oil has taken a course in a century-long development (1870–1970) that eventually came a full circle to embrace the entire globe (and global capitalism) and to lead the way to what is known as the era of globalization. Thus, for oil the twentieth century is the age of growth and maturity, from a limping capitalism—on cartel’s crutch—to a capitalism that walks upright, as social relation, on its own across the planet.

This starts with from the 1846 Bibi-Haybat discovery of oil in Baku, Caucasus, and the subsequent 1859 Drake’s strike in Pennsylvania, and oil’s international evolution beyond the United States in the West, and Caucasus in the East, obtaining its focal point within the

region that due to British colonialism has since been known as the Middle East. The evolutionary development of oil and its prominent shift to this region is thus a significant part of the story that belongs to the first stage in the evolution and cartelization of oil worldwide. In other words, D'Arcy's oil concession of 1901 in Persia led to discovery of oil in Masjid Suleiman (southwestern Persia) in 1908, and the subsequent colonial (and semicolonial) economic and political domination of Britain. This, of course, was a cornerstone upon which the emerging powers, such as the United States, gained foothold on the precious yet shifting sands of the Middle East until the globalization of oil in the early 1970s. The evolution of oil has gone through a second stage that we identify as the transitional period of 1950–72, a transition that eventually leads to a full-fledged decartelization and globalization of oil via the oil crisis of 1973–74.

The role of the 1973–74 oil crisis is pivotal in revealing the tip of decartelization and subsequent globalization of oil. This includes the illustration of an evolutionary mechanism that includes competitive worldwide pricing of oil against unequal costs (and productivities) of the various oil-producing regions. As is demonstrated, the crisis indeed has led to decartelization of oil in all oil regions of the world—including US oil and at the same time, through Organization of the Petroleum Exporting Countries (OPEC) (as a competitive context in spot and future markets for all oil irrespective of geographical location). The kernel of confusion on the question of oil is not the difference in conceptualization between the Right and the Left. It is rather the similitude of imagination that makes them party to the spread of misinformation and cover-up on the alleged causal relation of oil and war in the present era. It shall be demonstrated that, by imitating the right-wing notion of competition and its idealist (i.e., axiomatic) spectrum of pure competition/pure monopoly, the liberal/radical Left succumbs to a nostalgic theory that still describes the present according to the past history under the aegis of cartelized oil.

III

We speak of crisis as the process of renewal and restructuring. We wish to clarify that renewal and restructuring as an entity applies to the continuity and discontinuity within the same system and along similar trajectories. For instance, the periodic economic crises in capitalism fit this description fully. But when we speak of the 1973–74 oil crisis, we should be cognizant of the fact that there was neither an intent nor a possibility for renewal or restructuring of the same