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Differential Accumulation and Middle East Wars – Beyond Neo-Liberalism

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It is popular these days to talk about the ‘discontent’ of neo-liberal globalisation. This ‘discontent’ is no longer the prerogative of intellectuals. Increasingly, it comes from below, with opposition from the grassroots. But there may be another type of discontent lurking behind the scenes. This other discontent comes from above. It is the discontent of the ruling class. In our opinion, the world may have reached a historical junction in which a significant part of the global ruling class has become discontented with neo-liberalism.

Many may find this a strange assertion to make. On the Left, it has become an article of faith that capitalists are hooked on neo-liberalism. According to this view, there is nothing capitalists love more than open borders and capital flow. What they want is liberalisation and free trade, sound finance and tight monetary policy, small governments with budget surpluses, global villageism and peace dividends, and, of course, price stability and economic growth. But then, according to these criteria, the world today is far less neo-liberal than it was only a few years ago. Indeed, in many respects, neo-liberalism has gone into reverse. We have had a massive decline in the global flow of capital. We have soaring budget deficits, certainly in the United States. We have extremely loose monetary policy and central bankers who say that inflation is too low. And we have a U-turn from peace dividend to war profits.

Are these signs, then, that capitalists are ‘losing their grip’? Not really. We need to be careful not to confuse means with ends. Capitalists do not seek neo-liberalism. They seek *accumulation*. Neo-liberalism – whatever its precise meaning – is a means to an end; it is not an end in itself. And at the present conjunction, it seems that the cost of neo-liberalism to accumulators has begun to outweigh its benefits. In this sense, neo-liberalism may have become a fetter on accumulation.

The purpose of this chapter is threefold: (1) to explain why the world’s dominant capital groups have become discontented with neo-liberal globalisation; (2) to speculate on what may replace neo-liberal globalisation;

and (3) to link this transition in the nature of accumulation to the new wars.

Capital as power

The biggest dilemma of political economy is how to both separate and integrate 'economics' and 'politics'. This dilemma is most vivid in the way we treat capital. Everyone knows that capital is about power. And, yet, when theorists come to conceptualise the quantitative nature of capital, they treat it solely in terms of production and consumption – that is, in terms of labour time or in terms of utility. Our view is completely different. What gets accumulated, we argue, cannot be understood in the narrow terms of consumption and production. Capital represents neither economic or statist 'utility' on the one hand, nor dead labour – whether material or imperial – on the other. In our opinion, capital is *commodified power*. The value of capital on the stock and bond markets represents *the power of its owners to shape the social process as a whole*.

Now, in the *minds* of the leading accumulators, this power – and therefore the process of accumulation – is *relative*, not absolute. The goal of leading accumulators is to accumulate more financial claims. More financial claims mean not more material things, but more *power*. And more power is always and everywhere a *differential* process.² Think of the largest ownership groups, the 'dominant capital' of contemporary capitalism. Their yardstick for accumulation is always some average *benchmark* – a sector benchmark, a national benchmark, and, increasingly, a global benchmark. For these groups, to accumulate means to accumulate *faster* than that average benchmark. The reason is simple enough: for dominant capital to accumulate faster than the average, by definition, is to increase its share of the total. And to increase its share of the total is to gain more power.

The implication of this claim is far reaching. If accumulation indeed is differential rather than absolute, then that means, first, that many cherished beliefs about capitalism are no longer tenable; and, secondly, that we need to think of alternative explanations.

Merger or stagflation?

Let us look at two such cherished beliefs. The first is that accumulation is synonymous with economic growth. The second is that capitalists like price stability and hate inflation.

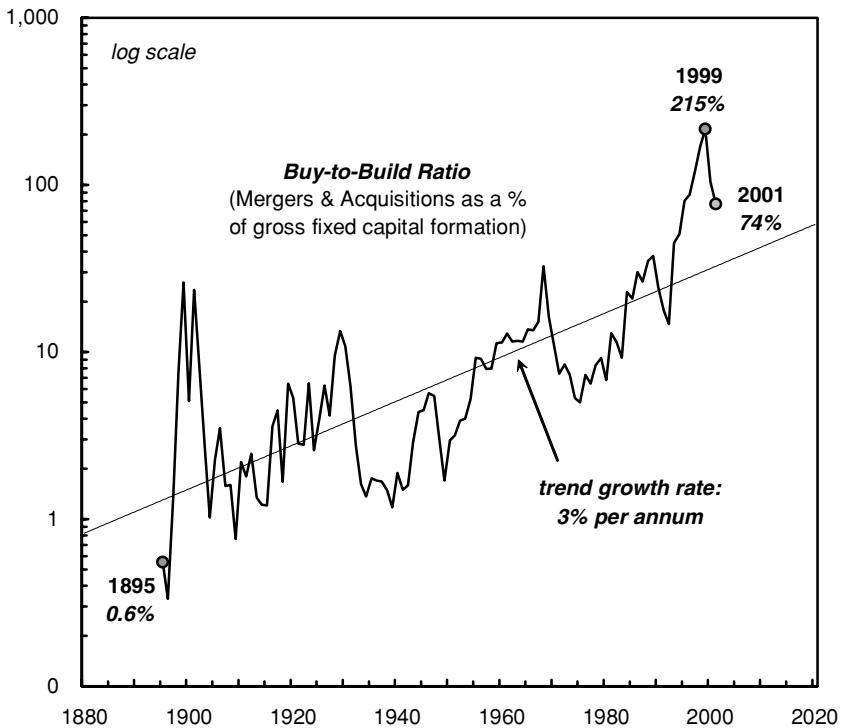
Begin with economic growth. There is no denying that the growth process is central to capitalism in general. But if we focus specifically on differential accumulation, there is another process which has become more important, and that is the process of corporate merger – or what we call

'breadth'. Figure 4.1 shows the 'Buy-to-Build Ratio' for the United States. This index measures, for each year, the ratio between the dollar value of mergers and acquisitions and the dollar value put into building new factories, or what economists call 'real' investment.

Note the explosive growth of this ratio, plotted on a logarithmic scale. In the late nineteenth century, there was less than one cent worth of mergers and acquisitions for every one dollar of 'real' investment. Fast forward another hundred years, and for every one dollar of 'real' investment there were over two dollars put into mergers. In other words, over the entire period mergers have grown roughly 300 times faster than 'real' investment.

Does this process make any sense? From the viewpoint of absolute accumulation, not really. Mergers do not add more machines, more utility or more dead labour. They simply reshuffle ownership. But from the viewpoint of differential accumulation, the process makes a great deal of sense. For dominant capital, 'too much' green-field investment is disastrous. It means glut; it means falling prices; and, eventually, it means differential

Figure 4.1 Corporate Amalgamation in the United States



Source: Nitzan and Bichler, 2002, Data Appendix, 82-3. Updated to 2001.

decumulation – including the possible disintegration of the existing grid of power, institutions and capabilities. Clearly, it is much better to buy than to build. Buying helps dominant capital kill three birds in one stone: (1) it does not create any new capacity; (2) it expands control; and (3) it helps profits grow faster than the average – since, by definition, the average remains the same.

This focus on merger helps explain the globalisation zeal of the past twenty years. If we look carefully at the chart, we see four merger waves. Each of these waves occurred within a given ‘corporate universe’. (1) The monopoly wave of the turn of the century occurred within individual industries; (2) the oligopoly wave of the 1920s occurred within sectors; (3) the conglomerate wave of the 1960s took place across the entire business sector; and (4) the last wave of the 1980s and 1990s was, by and large, global. This historical ‘progression’ is not without logic. When expanding through merger, dominant capital eventually takes over everything worth owning in its original universe. And once it reaches that point, the only way to continue merging is to *break* this original envelope and go to the *next* one. This logic explains the progression from the industry, to the sector, to the national border. And eventually, when the national scene becomes highly centralised, it explains why there is no choice but to ‘go global’. It should be emphasised here that each ‘breaking of the envelope’ involves more than a mere change in ownership. Typically, it is accompanied by a comprehensive social transformation, including changes in ideology, policy, organisation and institutions. From this perspective, ‘neo-liberal globalisation’ – both as an ideology and as a practice – was a matter not of choice but of necessity: without it, the fourth merger wave could not have happened.

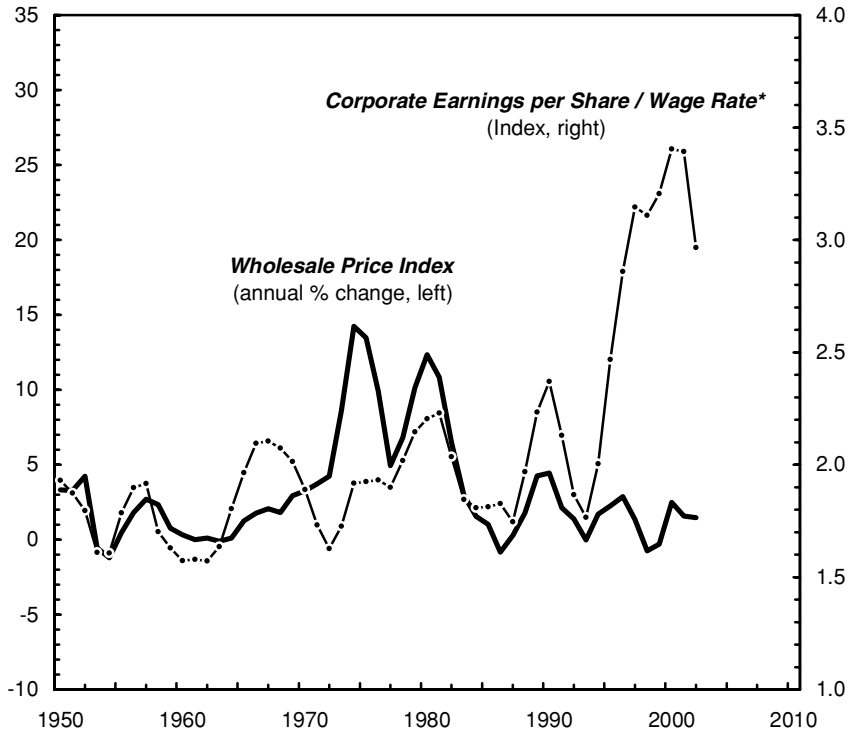
Now, merger is not always possible. It transpires from the chart that each of the merger waves eventually collapsed. And this is where inflation – or ‘depth,’ as we call it – comes into the picture.

Inflation and redistribution

As noted, the conventional wisdom is that inflation is a bad thing for capitalism – and, of course, there is some truth to that claim. Inflation is a major de-stabiliser, and too much instability is dangerous for any social order. But inflation also has a major upside which political economists often ignore, and that is *redistribution*.

Inflation redistributes income in many ways, of which we emphasise two. The first is redistribution from workers to capitalists. Figure 4.2 illustrates this process in the United States. One series in the chart measures the ratio between corporate earnings per share and the average wage rate. When this ratio goes up, income is redistributed from workers to capitalists. When the ratio goes down, income is redistributed in the other

Figure 4.2 US Inflation and Capital-Labour Redistribution



* Corporate earnings per share are for the S&P 500 Index (ratio of price to price/earnings). The wage rate is the average hourly earning in the private sector.

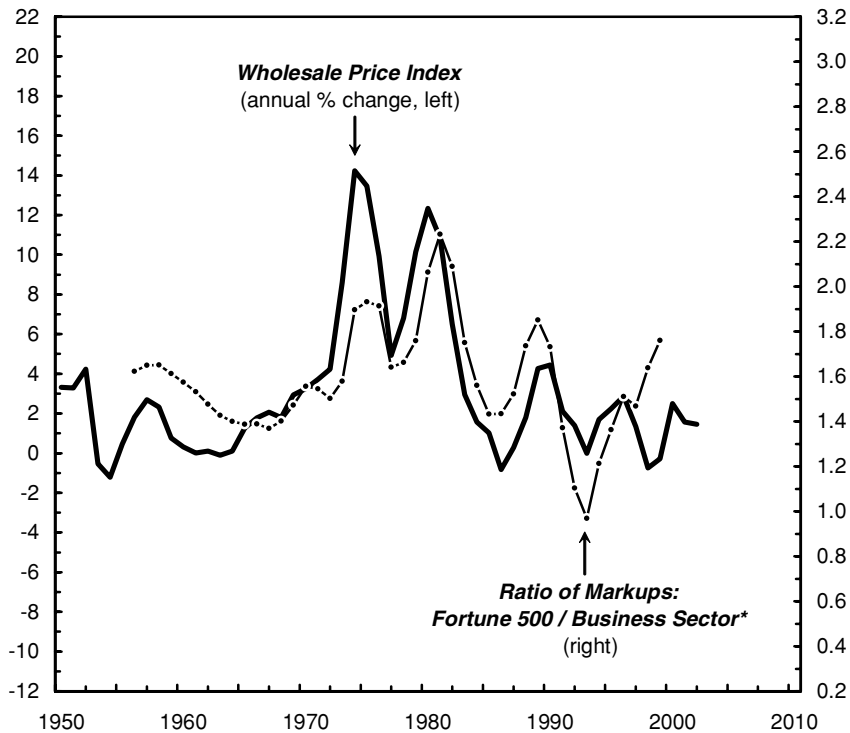
Note: Series are smoothed as 3-year moving averages.

Source: *Global Financial Data* (series codes: _SPXD for price; SPPECOMW for price/earnings); US Department of Commerce and US Bureau of Labour Statistics through *WEFA* (series codes: AHHEAP for the wage rate; WPINS for the wholesale price index).

direction, from capitalists to workers. The other series in the chart shows the annual inflation rate, measured by the wholesale price index. The data in the figure go back more than fifty years, so they certainly can tell us something about the historical pattern. And what they tell us is that, in general, US inflation has worked *in favour of capitalists and against workers*. When inflation was up, capitalists tended to gain and workers to lose.³

The second redistribution is from small to large firms, with inflation acting as a mechanism of *differential* accumulation. This latter process is illustrated in Figure 4.3, which, again, pertains to the United States. One line in the figure shows the ratio between the profit mark-up of the Fortune 500 and the average profit mark-up in the business sector as a

Figure 4.3 US Inflation and Differential Accumulation



* The mark-up is the per cent of net profit in sales. The Fortune 500 mark-up is the per cent of after tax profit in sales revenues. The business sector mark-up is computed by dividing total corporate profit after tax, with IVA and CCA (from the national income accounts), by total business receipts from the IRS. The 'Ratio of Mark-ups' is given by dividing the Fortune 500 mark-up by the business sector mark-up.

Note: Until 1993, the Fortune 500 list included only industrial corporations (firms deriving at least half their sales revenues from manufacturing or mining). From 1994 onward, the list includes all corporations. For 1992–3, data for Fortune 500 companies are reported without SFAS 106 special charges. All series are smoothed as 3-year moving averages.

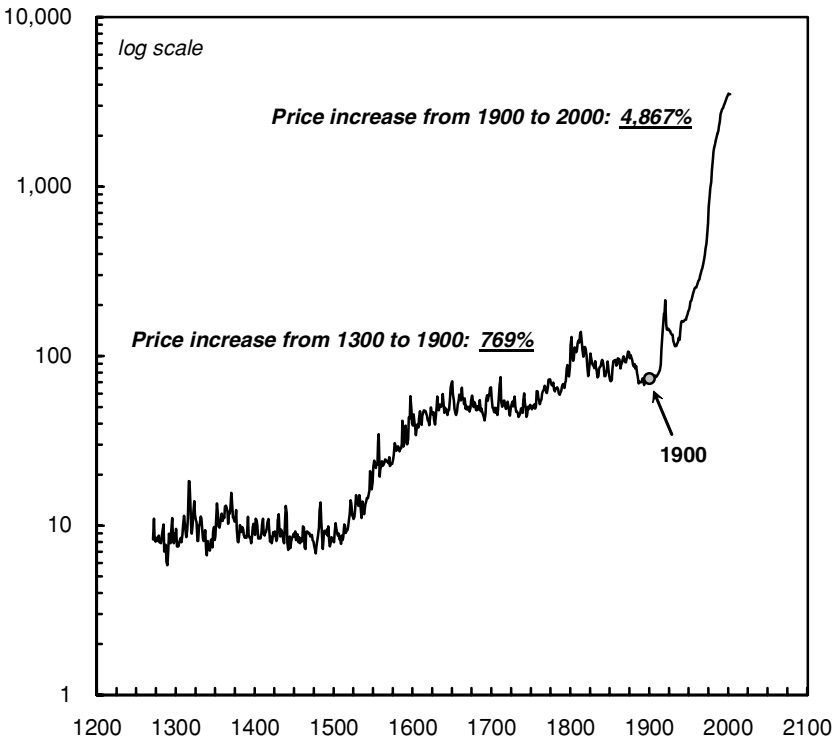
Source: US Department of Commerce through WFEA (series codes: ZAADJ for total corporate profit after tax with IVA and CCA; WPINS for the wholesale price index); US Internal Revenue Service; *Fortune*.

whole. When this ratio goes up, it means that the mark-up of large firms rises faster (or falls more slowly) than the average mark-up. When the ratio goes down, it means that the mark-up of large firms rises more slowly (or falls faster) than the average mark-up. This ratio, then, is a proxy for differential accumulation by dominant capital. The other line denotes the rate of inflation. And, again, the correlation here is tightly positive. Inflation clearly is a mechanism of differential accumulation.⁴

So, contrary to what mainstream economists like to tell us, inflation is by no means 'neutral'. On the contrary, it is a very potent engine of accumulation. Of course, a rise in prices does not increase the 'amount' of machines. But accumulation is not about machines; it is about increasing capitalist power in general and differential power in particular. And here inflation seems to work wonders.

But if inflation is such a good thing for capitalists, why do we not have it all the time? The short answer is that we do. Figure 4.4, which takes Britain as an example, shows that during the twentieth century prices have risen by almost 5,000%. Just to put this number in perspective, during the previous six centuries combined prices rose by less than 800%. Moreover, whereas prices previously oscillated up and down around their positive trend, in the twentieth century, with the exception of the Great Depression, their direction was always up. But then, again, if inflation is so good for capitalists, why do they oppose it? As we shall see shortly,

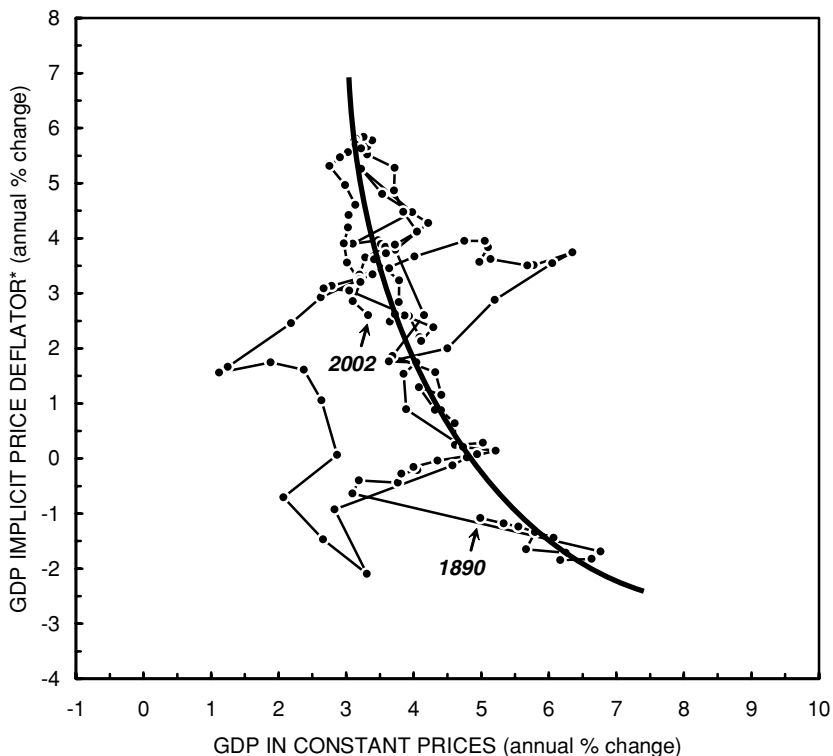
Figure 4.4 Consumer Prices in the UK



Source: Global Financial Data (series code: CPGBRM); WEFA.

they do not always oppose it. And when they do, it is because inflation is a risky business, with serious downsides. Contrary to popular belief, over the long run inflation tends to appear as stagflation; that is, inflation *together* with stagnation. Moreover, some stagnation in fact is a *precondition* for inflation.⁵ Figure 4.5 plots the long-term relationship in the United States between inflation on the vertical axis and economic growth on the horizontal axis. The correlation in the chart clearly is negative, not positive, and the US is hardly an exception in this regard. In fact, the same negative long-term relationship is evident in most countries. The stagnation which tends to come with inflation, along with other aspects

Figure 4.5 United States: Long Term Inflation and Growth



* Ratio of GDP in current prices to GDP in constant prices.

Note: Series are shown as 20-year moving averages. The smooth curve running through the observations is drawn free hand for illustration purposes.

Source: Historical data till 1928 are from *The Bank Credit Analyst Research Group*. From 1929 onward, data are from the US Department of Commerce through *WEFA* (series codes: GDP for GDP; GDP96 for GDP in constant prices).

of social instability, raises risk perceptions, and rising risk is a big negative for accumulation.

To summarise, inflation is a double-edged sword. It boosts differential accumulation, but it also destabilises society. It tends to redistribute income from workers to capitalists and from small to big capitalists, but the accompanying rise in unemployment and uncertainty raises risk and often mitigates these differential gains. So although inflation is ‘accumulation-friendly,’ particularly to large capitalists, dominant capital endorses it only reluctantly, when it feels that ‘there is no alternative’. And this feeling of ‘no alternative’ tends to develop when mergers go into hibernation.

The pendulum

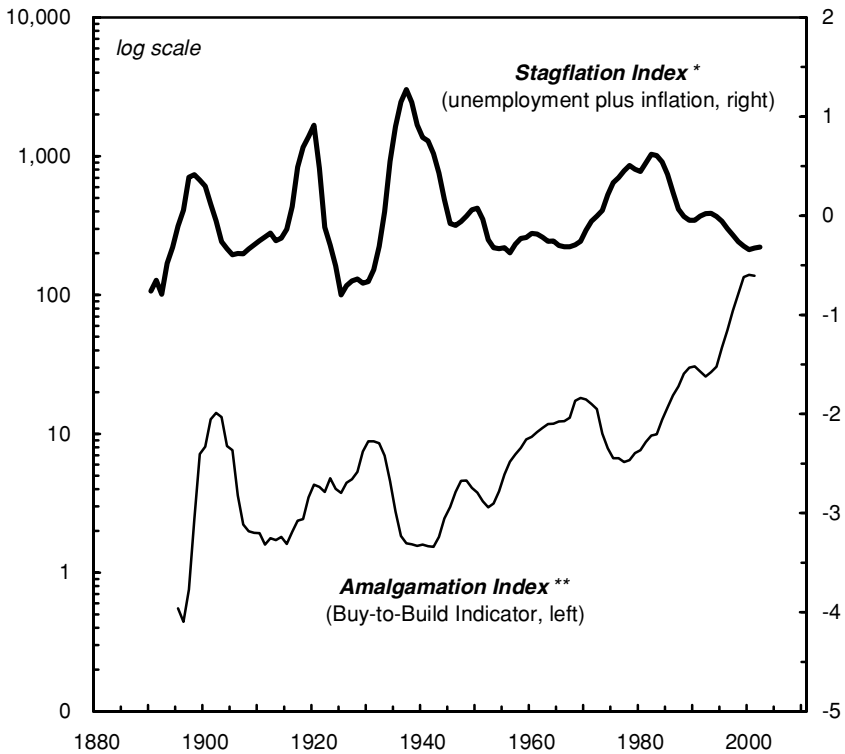
The historical relationship between merger and stagflation is very interesting and largely unexplored.⁶ Figure 4.6 describes their related patterns for the United States. The top line in the chart is a stagflation index. The index is constructed, first, by measuring the standard deviations of inflation from its average; then, by computing the standard deviation of unemployment from its average; and finally by taking the average of the two indices. A zero reading on the combined index denotes the average rate of stagflation, a high reading indicates above-average inflation, and a low reading means below-average stagflation.⁷ The lower line in the figure is the ‘Buy-to-Build Ratio’. As we saw, this index measures the ratio between the dollar value of mergers and acquisitions and the dollar value of ‘real’ investment. It appears from this chart that mergers and stagflation have moved counter-cyclically, sort of a mirror image of one another, and that this ‘inverse’ pattern has become more pronounced over time. During a merger boom, stagflation typically tended to recede; and when the merger wave died down, stagflation commonly rose to compensate.

What we are proposing here, then, is a radically different understanding of accumulation. The starting point is not capital in general, but the *dominant capital* groups at the centre of the process. These groups are the ‘political engine’ of accumulation – the ‘conscious agents’ who push the process forward. These groups seek not absolute, but differential accumulation. And they achieve their goal not through growth and price stability, but through a pendulum which swings between long periods of ‘breadth’ through mergers and shorter periods of ‘depth’ through stagflation.

The current crossroads

Now, let us look more closely at the last twenty years in Figure 4.6. On the one hand, we see a global merger mania building up, along with a neo-liberal ideology which emphasises deregulation and capital mobility in a

Figure 4.6 Amalgamation and Stagflation in the United States



* Computed as the average of: (1) the standardised deviations from the average rate of unemployment; and (2) the standardised deviation from the average rate of inflation of the GDP implicit price deflator.

** Mergers and acquisitions as a per cent of gross fixed capital formation.

Note: Series are shown as 5-year moving averages (the first four observations in each series cover data to that point only).

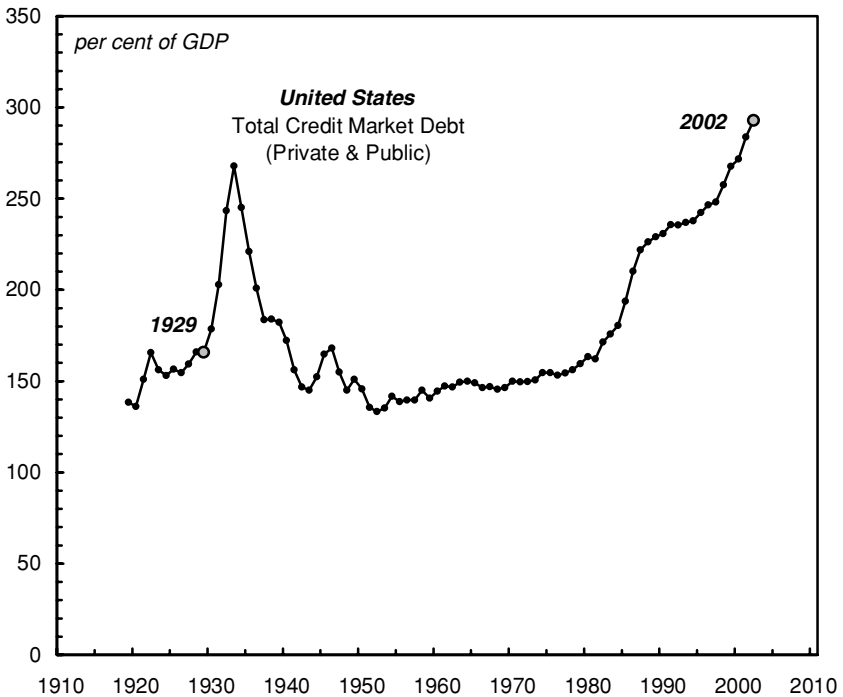
Source: The stagflation index is computed from data from the US Department of Commerce through WEFA (series codes: RUC for the rate of unemployment and GDP/GDP96 for the GDP implicit price deflator). The Amalgamation Index is from Nitzan and Bichler, 2002: Data Appendix, 82-3 (updated to 2001).

'global village'. On the other hand, stagflation is in a free fall. And this side of the equation goes well with the neo-liberal rhetoric of small government and sound finance. But in 2000 we hit a turning point. Mergers have collapsed, the stock market has melted, and the 'new economy' has been exposed as a fraud. Historically, falling mergers have triggered rising stagflation, and it seems from the chart that in 2002 the long downtrend of stagflation may finally have bottomed out. But this time the shift toward higher stagflation has not been easy to achieve.

Twenty years of neo-liberalism and free trade have created massive excess capacity and huge competitive pressures coming mainly from East Asia. During the 1990s, these developments were warmly welcomed. The policy lingo was anti-inflationary and neo-liberal competition helped reduce inflation. But the process has gone way too far. So much so that in 2003 the chairman of the Federal Reserve Board, Alan Greenspan, spoke of 'an unwelcome substantial fall of inflation'. To our knowledge, that was the first time since the Great Depression that the Fed has made such a declaration. And immediately after Greenspan's statement, US Treasury Secretary John Snow declared the end of a 'strong dollar' policy, which amounted to a similar policy loosening from the fiscal side, with tax cuts and rising spending soon to create America's largest budget deficit ever.

This sudden love for inflation is boosted by an old-new fear: *deflation*. And why is deflation suddenly seen as a threat? Part of the answer lies in Figure 4.7, which shows the ratio of total debt to GDP in the United States. As we can see, in 1929, on the eve of the Great Depression, this ratio was 165%. In 2002, it reached 290% – the highest on record. Under these

Figure 4.7 The Debt Load



Source: Bank Credit Analyst Research Group.

circumstances, if prices begin falling, firms will be unable to service their debt – and then we face the risk of ‘debt deflation’, chain bankruptcies and a total meltdown of accumulation; in other words, the ‘China Syndrome’ of capitalism.⁸

These considerations suggest that there is now a broad, pro-inflation coalition. The outer perimeter of this coalition is the business sector as a whole, which needs inflation in order to avert the prospect of debt deflation. The inner circle is that of dominant capital which wants inflation in order to continue its differential accumulation, now that mergers and acquisitions are dead in the water. And these forces are increasingly supported by central bankers and finance ministers who are priming the monetary and fiscal pumps.

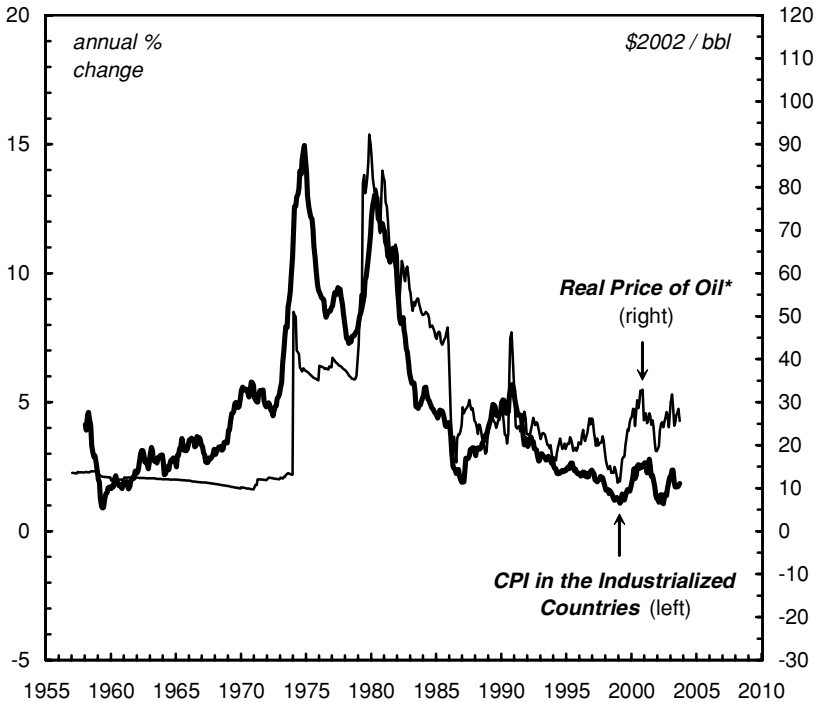
Oil prices, inflation and profits

But wishful thinking and expansionary policies alone are not enough to kick-start inflation – just look at the past decade in Japan. To ignite inflation, a spark is necessary. And historically – at least over the past thirty years or so – the spark which has ignited inflation has always come from the Middle East, and, specifically, from the price of oil. The relationship between oil prices and inflation is illustrated in Figure 4.8. One line in this chart measures the average rate of inflation in the industrialised countries. The other line shows the ‘real’ price of oil – in other words, the dollar price deflated by the US CPI. Oil prices clearly are a ‘leading indicator’ for inflation.⁹

Of course, the price of oil does not go up simply because one wants it to rise. Someone – and specifically those who sell and buy oil – must push/pull up this price. Now, everyone knows that crude oil producers, particularly OPEC, benefit from higher oil prices. But not too many people realise that the oil companies – which are the biggest *buyers* of crude oil – are also hooked on high oil prices. The reason for this addiction is simple enough. If the input costs of these companies rise by 100%, and if their mark-up stays the same (or rises), their profit, too, will rise by 100% (or more). This relationship between oil prices and oil profits is illustrated in Figure 4.9.

One line in the chart shows the ‘real’ price of oil (the dollar price divided by the US CPI). The other line shows the per cent share of oil companies in global corporate profit. Clearly, the correlation between the two series is extremely tight. During the oil crisis of the 1970s and early 1980s, the cost of oil shot through the roof. In 1979 a barrel of oil cost over \$90 in today’s prices. During those happy stagflationary times, the oil companies pocketed nearly 20% of all global profits. But as mergers and acquisitions picked up, inflation fell and oil prices dropped even faster. The oil companies’ global share of profit collapsed, reaching a mere 3% during Clinton’s presidency.

Figure 4.8 Inflation and the Price of Oil



* \$ price of crude oil deflated by the US CPI.

Source: *International Financial Statistics* through WEFA (series codes: L64@C110 for CPI in the industrialised countries; L76AA&Z@C001 for the price of crude oil; L64@C111 for the US CPI).

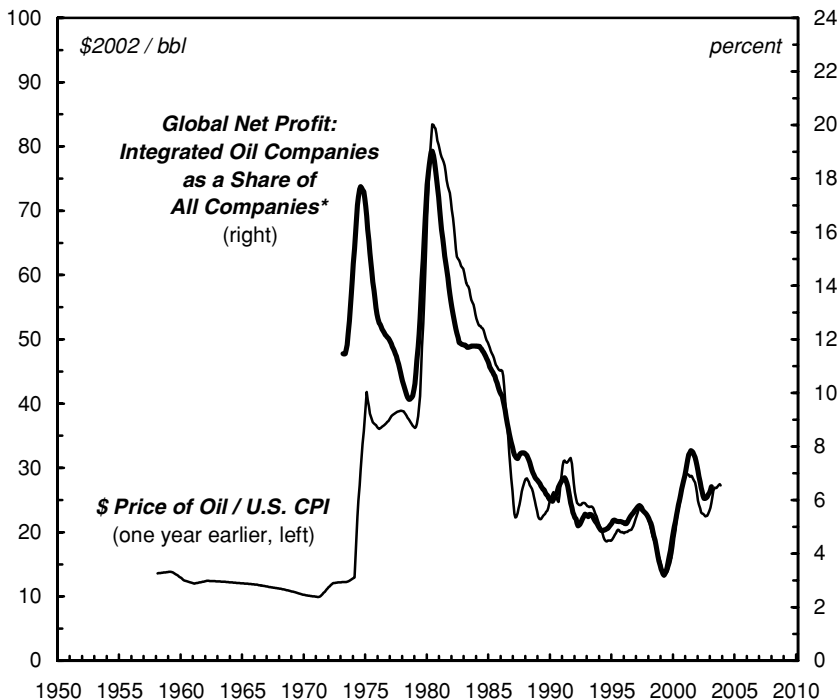
Let us recapitulate and recall the following points: (1) we have firms the world over scared of deflation; (2) we have dominant capital needing inflation to substitute for mergers and acquisitions; (3) we have central banks saying that inflation is too low; and (4) we now have OPEC and the large oil companies who want oil prices to go up. A rise in the price of oil will make them all heave a sigh of relief.

The new wars

But, then, how do you get oil prices to go up in a 'world awash with oil,' as the *Economist* of London put it? The answer is cruel but simple: conflict in the Middle East.

Since the 1960s, Middle East conflicts were closely related to oil in more than one way. Figure 4.10 shows the history of differential accumulation by leading oil companies – specifically, BP, Chevron, Exxon, Mobil, Royal Dutch Shell and Texaco.¹⁰

Figure 4.9 The Price of Oil and the Global Distribution of Profit



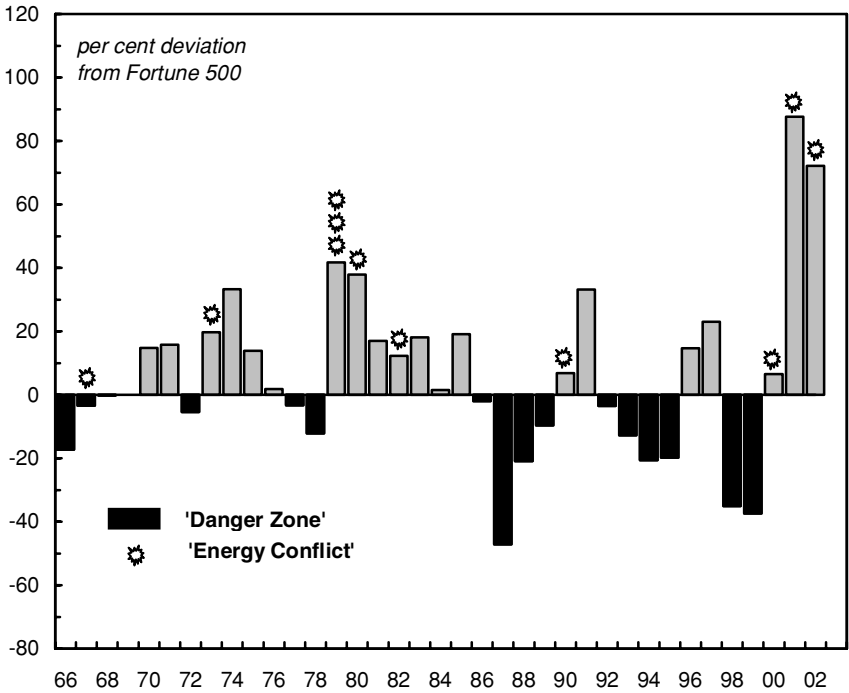
Note: Net profit is computed by dividing market value by the price/earning ratio. Data are restated to reflect changes in the series constituent companies. Series are smoothed as 12-month moving averages.

Source: Datastream (series codes: OILNWD for the integrated oil companies; TOTMKWD for world total); WEFA (series codes L76AA&Z@C001 for the price of crude oil; L64@C111 for the US CPI).

Each bar in the figure measures the difference between the rate of return on equity of these companies and the average rate of return on equity of the *Fortune 500* benchmark. The grey bars show years of differential accumulation; that is, years in which the leading oil companies beat the average with a higher rate of return. The black bars show periods of differential decumulation; that is, years in which the leading oil companies trailed the average. For reasons to be explained below, these latter periods signal 'danger' in the Middle East. Finally, the explosion signs show 'Energy Conflicts' – that is, conflicts which were related, directly or indirectly, to oil.¹¹ The figure exhibits three related patterns, all remarkable in their persistence:

- First, every energy conflict in the Middle East was preceded by a danger zone, in which the oil companies suffered differential decumulation.

Figure 4.10 The Petro-Core's* Differential Accumulation and Middle East 'Energy Conflicts'



* British Petroleum (BP-Amoco since 1998), Chevron (till 2000), Exxon (ExxonMobil since 1999), Mobil (till 1998), Royal-Dutch/Shell and Texaco (till 2000). Company changes are due to merger. Note: For 1992–3, data for Fortune 500 companies are reported without SFAS 106 special charges. Source: *Fortune*; Standard & Poor's *Compustat*.

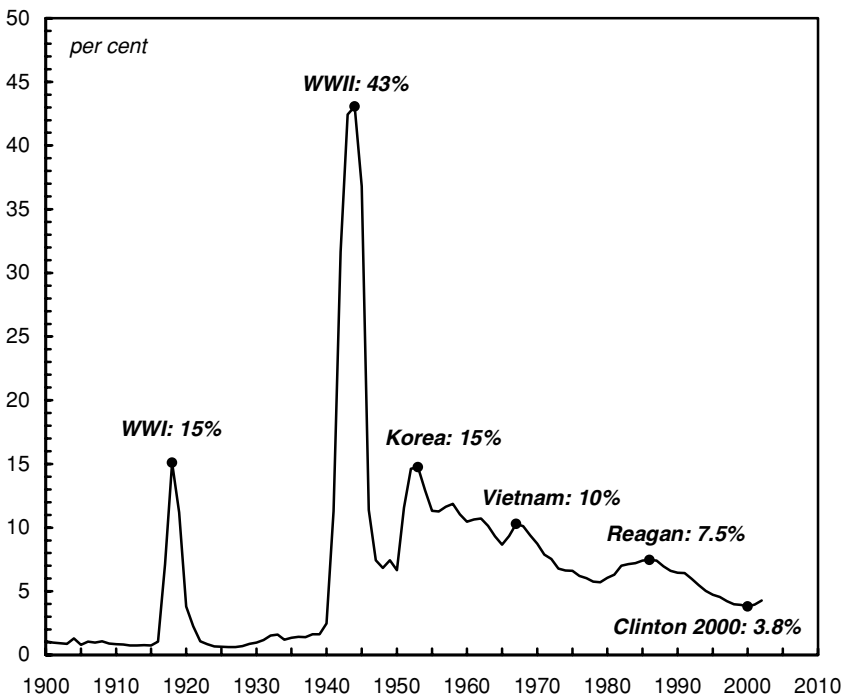
- Secondly, *every* energy conflict was followed by a period during which the oil companies beat the average.
- And, thirdly, with only one exception in 1996–7, the oil companies *never* managed to beat the average without an 'Energy Conflict' first taking place.¹²

At first sight, this pattern may look deterministic, but, in fact, it is not. There are three different periods here, each characterised by a different regime of differential accumulation, and each led by a different faction within dominant capital. During the 'depth' era of the 1970s and early 1980s, differential accumulation was fuelled by stagflation and driven by conflict. The leading faction within dominant capital comprised the armament and petroleum firms. In this context, the oil companies managed to *beat* the average comfortably, with only occasional setbacks which were quickly 'corrected' by Middle East conflicts. During the 'breadth' period of the 1980s and 1990s, merger

replaced inflation as the main engine of differential accumulation. The oil and armament companies lost their primacy to a 'new economy' coalition led by civilian high-tech companies. Neo-liberal rhetoric replaced the welfare-warfare state, conflicts in the Middle East grew fewer and farther between, and the oil companies commonly *trailed* the average.

Events over the past three years suggest that this second period may have come to an end. Liberalism requires relative price stability, but, as we have seen, there is now a *growing pro-inflation coalition*, supported by dominant capital in general and the oil companies in particular, along with central bankers and finance ministers. For this inflation to take hold oil prices have to go up, and for oil prices to go up there needs to be conflict in the Middle East. This conflict, popularly known as the 'infinite war on terror,' means the end of the global village and therefore *a serious blow to liberal capital mobility*. Finally, the 'war on terror' justifies rising military spending. The NeoCons in Washington said already in 2000 that they needed a 'New Pearl Harbour' in order to reverse the long-term decline in US military spending evident in Figure 4.11. September 11 has given America its 'New

Figure 4.11 US Military Spending as a Share of GDP



Source: Gleditsch (ed.), 1996; US Department of Commerce through WFEA (series codes: GDP for GDP; GFML for military spending).

Pearl Harbour'. Military spending in the United States is definitely on the rise, and as we all know, soaring military spending means the *end of liberal fiscal 'discipline' and 'lean' government*.

Whether or not these are the hallmarks of a 'new world order' remains to be seen. But if this new regime were to take hold, it would be the end of neo-liberalism.

Notes

- 1 This chapter is based on our longer co-authored article, 'Dominant Capital and the New Wars,' forthcoming in the *Journal of World-Systems Research*.
- 2 Note that all present-day ownership of capital is financial, and *only financial*. Regardless of whether the underlying assets are classified by economists as 'industrial,' 'commercial' or 'financial,' the *owner's* claim on these assets is always a pecuniary magnitude. It is the 'present value' of a future stream of earnings. Marx called such capital 'fictitious'. 'Actual capital,' he asserted, consisted of the surplus abstract labour embodied in the means of production, work in progress and money. By contrast, a future financial claim, he said, was a claim on surplus which *had not yet been produced, and which may never be produced*. Therefore, such claims had to be considered partly or wholly 'fictitious'. In our view, Marx's terminology should be reversed. The only actual capital in our world is a claim on future income. This claim is based on the uncertain projections of capitalists, but it is observable, measured and very real. By contrast, capital denominated in abstract labour is a purely theoretical fiction. It can be neither seen nor measured and therefore tells us nothing about accumulation.
- 3 Profit (π) is the product of the number of units sold (Q), the price per unit (P), and the ratio of profit to sales revenues, or the mark-up (k). In order for capitalists to benefit relative to workers, the product of these three components has to rise faster than the wage rate (w). This relative increase can occur in many different ways: for instance, if Q and k remain unchanged but P rises faster than w ; if Q remains unaltered and the product $P \cdot k$ increases fast than w ; etc. In this framework, the positive correlation in Figure 4.2 suggests that the higher the rate of inflation, the more rapid the combined increase in the three components of corporate profit *relative* to the wage rate (changes in the number of corporate shares also affect the ratio in the chart, but these changes usually are small relative to the fluctuations of profit and wages).
- 4 For the profit mark-up to rise, firms have to raise their prices faster (or have them fall more slowly) than their unit cost (cf. labour, materials, interest and taxes). For the mark-up of large firms to rise *relative* to the average mark-up, large firms must be able to raise their price-to-cost ratio *faster* than the average price-to-cost ratio. The positive correlation in Figure 4.3 suggests that this ability rises and falls with the overall rate of inflation.
- 5 For more on this issue, see Ch. 5: 'The Making of Stagflation,' in Nitzan and Bichler, 2002.
- 6 To the best of our knowledge, we are the only ones to have investigated this relationship. See Nitzan, 2001 and Nitzan and Bichler, 2002.
- 7 The continuous existence of under-utilised capacity and unemployed workers means that the United States experienced some measure of stagnation throughout the twentieth century. Also, with the exception of the 1930s, there was

always some inflation. Strictly speaking, then, US inflation during that period was always *stagflationary*.

- 8 As the Great Depression unfolded, falling nominal GDP caused the debt-to-GDP ratio to soar to over 270%. A similar decline in nominal GDP today would push the debt-to-GDP ratio to over 400%.
- 9 Note that we emphasise here oil prices as a 'leading indicator' rather than a 'direct cause' of inflation. The relationship between oil prices and inflation is only partly anchored in the role of oil as a key production input. The more important reason for the correlation is that the leading capitalist groups tend to view the price of oil as a 'barometer' of future inflation and adjust their overall pricing strategies in line with its fluctuations.
- 10 Due to mergers, the data in Figure 4.10 pertain to British Petroleum till 1997 and to BP-Amoco since 1998; to Chevron and Texaco till 1999 and to Chevron-Texaco since 2000; to Exxon and Mobil till 1998 and to ExxonMobil from 1999; and to Royal-Dutch/Shell throughout.
- 11 The conflicts include the 1967 Arab-Israeli conflict; the 1973 Arab-Israeli conflict; the 1979 Israeli invasion of Lebanon; the 1979 Iranian Revolution; the 1979 Soviet invasion of Afghanistan; the 1980 beginning of the Iraq-Iran War; the 1990/1 first Gulf War; the 2000 beginning of the second *Intifada*; the 2001 Coalition invasion of Afghanistan; and the 2002 Coalition invasion of Iraq.
- 12 Although there was no 'official' conflict in 1996-7, there was plenty of violence, including an Iraqi invasion of Kurdish areas and US cruise missile attacks.