Clash of Civilizations, or Capital Accumulation?

Jonathan Nitzan and Shimshon Bichler

The Predictions

Over the past three years, we have published several articles—including in *News from Within* and *M'tsad Sheni*—where we made a series of very 'contrarian' predictions on the new wars.[1] Specifically, we claimed that:

1. Direct US intervention would conveniently, if not intentionally, fail to 'stabilize' the Middle East;
2. The new wars would not make oil plentiful and cheap, but scarce and expensive;
3. The leading oil companies would profit greatly from the new environment of heightened instability and soaring oil prices;
4. Rising oil prices were likely to fuel global stagflation (stagnation together with inflation); and,
5. The shift toward stagflation—should it occur—would not hinder accumulation but boost it, particularly for the largest corporate coalitions.

When these claims were first made, they were greeted with a mixture of indifference and hostility. The conventional 'postisms' of ethnicity, race and culture pay little attention to capital accumulation, oil prices or inflation, and none whatsoever to their analysis. After all, argue the 'postists,' these are not real processes, but rather 'narratives' and 'discourses,' and as such there can be little to analyze in them beyond their own 'text.'

By contrast, analysts of politics and economics deal extensively with such questions—but to them our arguments sounded like conspiratorial nonsense. Indeed, until very recently, the common sentiment was that direct US intervention would stabilize the Middle East. The Americans, it was commonly believed, would quickly topple Bin Laden and Saddam Hussein, wrestle the evil OPEC to the ground and bring down the price of oil—all in the interest of securing the 'new economy' of neoliberal globalization and inflationless growth.

As it turns out, the pundits got it wrong. Contrary to the 'postist' view, the new wars, although wrapped in religious-ethnic ornaments, indeed seem to be 'all about oil.' And yet, contrary to conventional political-economy, the 'oil connection' here is very different from what the experts led us to believe. Three years after September 11th, it is pretty clear that:

1. The US plan to conquer Afghanistan and Iraq was bound to destabilize the region for years to come;
2. It was the US attacks on Iraq and Afghanistan—and not the incompetence of OPEC—which helped double the price of oil to $40 per barrel.
3. Publicly, OPEC and the oil companies emphasize the 'need for stability' but privately use instability to laugh all the way to the bank;
4. With the cost of energy soaring, global inflation is making a comeback despite the lingering stagnation; and finally,
5. Global dominant capital is rather happy to see inflation in the offing.

The Sorry State of Capital Theory

What accounts for the pundits' misguided focus and failing foresight? How could so many experts ignore such important processes, and why have most of them failed to predict the new US 'entanglement,' the new 'oil crisis' and the new 'stagflation'?

The short answer is the sad state of capital theory. These days, most of those who write on social matters—global or local—know little about capital accumulation and care even less. And those who do deal with accumulation—namely the economists, including many Marxists—often use antiquated categories and theories that no longer fit present day realities.

The result is that most commentators still think of the new wars as 'realist' conflicts between good and bad 'leaders.' Conservatives insist that these conflicts are necessary to eliminate or at least contain the 'axis of evil,' while radicals prefer to see them as 'neo-imperialist' attacks against 'Third World' victims. Of course, both sides readily agree that, as with all wars, here, too, there are various 'commercial' and 'economic' interests that seek to tilt US policy one way or the other. But these interests are seen as secondary—or else, as too obvious to require any detailed analysis. Apparently, the more interesting questions pertain to the 'clash of civilizations'—that is, to the myths of ethnicity, religion and culture, and to the postmodern, post-Marxist and post-Fascist fashions that keep those myths going.

Unfortunately, as Simon Kuznets once put it, the fact that a leaf floats in the air does not imply the end of gravity. Capitalism still rules the world and those who ignore it are bound to misunderstand it. Capitalism also keeps changing, which means that we must revisit the concepts and theories with which we analyze its development. To keep abreast of capitalism, we need to take example from the enlightened path of Marx's *Capital*, not from the circus of the Althusserians or the racism of the Bhabhaians. We must focus on capital, the central institution of capitalism; we must constantly re-theorize it; and we must continuously examine its concrete dynamics.

Shimshon Bichler teaches political economy at colleges and universities in Israel and can be reached at <shim100@hotmail.co.il>. Jonathan Nitzan teaches political economy at York University in Toronto and can be contacted at <nitzan@yorku.ca>. Their recent book, ***The Global Political Economy of Israel*** *(2002), is published with Pluto Press. Many of their publications are available from* ***The Bichler & Nitzan Archives*** *at <www.bnarchives.net>.*

Dominant Capital and the New Wars

Our own re-theorization begins with a claim that capital represents neither neoclassical utility nor Marxist dead labor, bur power—the power of its owners to shape the process of social reproduction as a whole. Based on this power understanding of capital, we argue (1) that the analysis should focus not on capital 'in general' and many capitals 'in competition,' but specifically on the *dominant capital* groups at the center of the political economy; and (2) that accumulation should be understood not absolutely, but *differentially*—that is, in reference to the ability of dominant capital to 'beat the average' and increase its relative power.

The implications of this power perspective are far reaching. For our purposes here, they suggest:

1. That over time, corporate merger rather than economic growth becomes the main engine of differential accumulation ('breadth'); and

2. That under certain circumstances, dominant capital can benefit greatly from inflation and stagflation ('depth').

And, indeed, in our research we have found that during the past century, global accumulation oscillated between these two regimes of merger and stagflation. The most recent phase, which lasted through much of the late 1980s and 1990s, was clearly one of 'breadth.' During that period, dominant capital benefited greatly from an unprecedented wave of mergers and acquisitions in the core countries. It also profited from the opening up to corporate takeover of the former Soviet Union and the 'emerging markets' of the so-called Third World, as well as from the collapse of the welfare state and the massive privatization of government services.

This 'breadth' cycle, with its emphasis on neoliberalism, deregulation, 'sound finance' and disinflation, came to a close at the turn of the new millennium. The financial crisis that began in Asia and later spread to the core markets, the crumbling of the 'new economy' and its scandalous accounting practices, and the rise of global 'terrorism' and the 'infinite war' to defeat it, have converged to make capital movement look much less tempting and mergers far less promising. Furthermore, two decades of neoliberalism have weakened pricing power, thus raising the specter of price and debt deflation for the first time since the Great Depression.

Faced with these predicaments, capitalists, particularly the larger ones, began yearning for a little dose of 'healthy' inflation—in order to both avert debt deflation and to kick-start differential accumulation. As it turned out, the remedy for their predicament—intended or otherwise—was a new 'Energy Conflict' in the Middle East (that is, a conflict related, directly or indirectly, to oil). Over the past 35 years, such conflicts have been the prime mover of oil prices, and oil prices have provided the spark for broad-based inflation. This process has worked with frightening precision several times in the past, and there was no reason why it could not be set in motion once again in the early twenty-first century, with the very same effect.

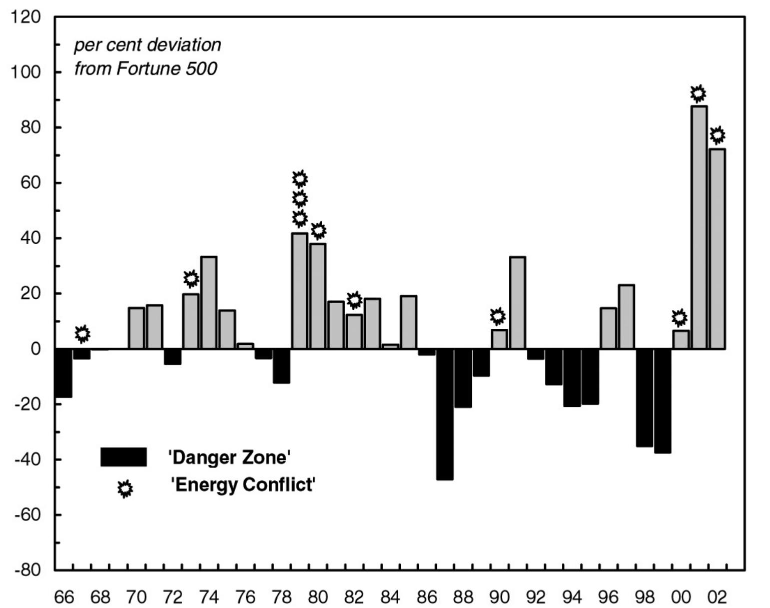
Energy Conflicts, Oil Profits and Inflation

The initial step in the process that leads from 'Energy Conflicts' to broad-based inflation involves the big oil companies.

The enclosed figure shows the history of differential accumulation by the leading oil companies—specifically, BP, Chevron, Exxon, Mobil, Royal Dutch/ Shell and Texaco.[2] Each bar in the figure measures the relative 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 period of differential *de*cumulation; that is, years in which the leading oil companies trailed the average. For reasons which will become apparent in a moment, these latter periods signal 'danger' in the Middle East. Finally, each explosion sign marks the beginning of an 'Energy Conflict.'[3] 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 *de*cumulation.
- Second, *every* 'Energy Conflict' was followed by a period during which the oil companies beat the average.
- And, third, with only one exception, in 1996 to 1997, the oil companies *never* managed to beat the average without an 'Energy Conflict' first taking place.[4]

The Large Oil Companies* and Middle East 'Energy Conflicts'



* British Petroleum (BP-Amoco since 1998), Chevron (until 2000), Exxon (ExxonMobil since 1999), Mobil (until 1998), Royal Dutch/Shell and Texaco (until 2000). Company changes are due to mergers.

Note: For 1992-1993, data for Fortune 500 companies are reported without SFAS 106 special charges.

Source: *Fortune*: *Standard & Poor's Compustat.*

We first articulated the process underlying this figure in a series of discussion papers written in the late 1980s. These papers predicted the first Gulf War. Our argument was further developed, along with the figure presented here, in two journal articles published in 1995 and 1996. These latter papers predicted the second Gulf War.[5] Clearly, then, we are talking here not of statistical witchcraft, but of a rather robust logic.

Furthermore, this logic fits nicely with the larger processes of 'breadth' and 'depth.' The figure points to three distinct periods, each characterized 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 was the Weapondollar-Petrodollar Coalition of large armament and oil firms. In this context, the oil companies managed to *beat* the average comfortably, with only occasional setbacks that were quickly 'corrected' by Middle East conflicts.

During the 'breadth' period of the late 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. Neoliberal 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

Poster: Daniel Pownwall

that this second period may have come to an end, with the return to primacy of the Weapondollar-Petrodollar Coalition. The latter coalition, whose fortunes dwindled since the stagflationary bonanza of the 1970s and early 1980s, has come back with a vengeance. Having helped re-install the Bush family in the White House, the coalition started looking for new enemies and was only too happy to exploit the opportunity offered by the 'new Pearl Harbor' of September 11th.

The Payoff

So far, these investments have paid handsome dividends. With the Middle East in flames and oil prices soaring, the oil companies have already seen their share of global corporate profit rise to nearly 8 percent, up from less than 3 percent at the end of Clinton's presidency. Similarly, the armament firms are currently enjoying the first upswing in military spending since the end of the Cold War. More broadly, corporate pricing power has been restored, with talk of deflation giving way to analysis of inflation and stagflation. And, finally, differential accumulation is again in positive territory, with large firms outperforming their smaller rivals.

Clearly, the personal fate of 'state officials,' 'policy makers' and other 'leaders' is somewhat secondary in this saga. George Bush may well lose the elections, Osama Bin Laden may get killed and Saddam Hussein may end up at the gallows. But whether they stay or go, live or die, the process they helped set in motion is no longer easy to reverse.

Some of these developments may now seem obvious, but they weren't so only a year ago—and they certainly weren't evident two and three years ago, when we made our predictions. Until recently, our analysis was discarded as 'overly economistic,' if not 'materialistic.' The articles we wrote were ceremonially rejected by outfits such as *Le Monde* and *Alternatives Internationales* (whose editors in fact commissioned our papers), and even by *Monthly Review*.

It is perhaps telling that the first to publish these arguments was the AIC, which was founded by 'Matzpen' Trotskyites twenty years ago, in the era of Begin / Shamir / Rabin / Peres. During those dark days, before the 'academization' of the 'Palestinian problem' and when merely speaking for the Palestinians was considered treasonous, the AIC was the only sane opposition and the sole source of critical thinking and writing in Israel. Its members always emphasized the process of accumulation and the global viewpoint, and were rarely mislead by the fashionable hype of racism, religion and culture.

Notes

(1) Our articles on the subject include: "Regimes of Differential Accumulation: Mergers, Stagflation and the Logic of Globalization," *Review of International Political Economy*, Vol. 8, No. 2, 2001, pp. 226-274; "War Profits, Peace Dividends and the Israeli-Palestinian Conflict," *News from Within*, Vol. XVIII, No. 4, April 2002, pp. 14-19; "Back to the Stagflation Era," Hebrew, *Hevra*, No. 2, July 2002, pp. 17-19; "It's All About Oil," *News from Within*, XIX, No. 1, January 2003, pp. 8-11; "The Invasion of Iraq and the Oil Business," *M'tsad Sheni*, Hebrew, Summer 2003, pp. 13-15; "Dominant Capital and the New Wars," *Journal of World-Systems Research*, Vol. 10, No. 2, Summer 2004; "Differential Accumulation and Middle East Wars: Beyond Neo-Liberalism," in *Global Regulation: Managing Crises After the Imperial Turn*, edited by D. Wigan, L. Assassi and K. van der Pijl, London: Palgrave, 2004, pp. 43-60.

(2) Due to mergers, the data in the figure pertain to British Petroleum until 1997 and to BP-Amoco since 1998; to Chevron and Texaco until 1999 and to Chevron-Texaco since 2000; to Exxon and Mobil until 1998 and to ExxonMobil from 1999; and to Royal Dutch/Shell throughout.

(3) 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 1990-1991 first Gulf War; the 2000 beginning of the second Intifada; the 2001 US invasion of Afghanistan; and the 2003 US/UK invasion of Iraq.

(4) Although there was no 'official' conflict in 1996 to 1997, there was plenty of violence, including an Iraqi invasion of Kurdish areas and US cruise missile attacks.

(5) "Bringing Capital Accumulation Back In: The Weapondollar-Petrodollar Coalition—Military Contractors, Oil Companies and Middle-East 'Energy Conflicts'," *Review of International Political Economy*, Vol. 2, No. 3, 1995, pp. 446-515; and "Putting the State In Its Place: US Foreign Policy and Differential Accumulation in Middle-East 'Energy Conflicts'," *Review of International Political Economy* Vol. 3, No. 4, 1996, pp. 608-661 (both articles are available from *The Bichler & Nitzan Archives*).