Jadaliyya جدليّة

Anwar al-Rasheed on Civil Society in the Arab Gulf: Reality and Prospects
Interviewed by Fateh Azzam

Petrodollars and Profit: Rethinking Political Economy through the Middle East

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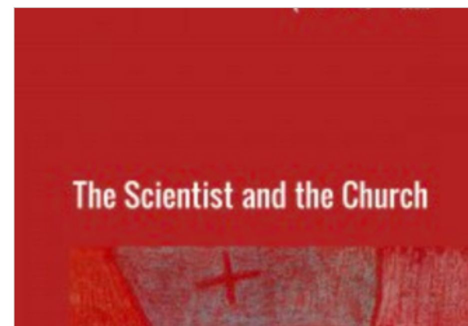
Jonathan Nitzan and Shimshon Bichler, The Scientist and the Church, World Economic Association, 2015.



Howard Page, a director at what was then Exxon, was once asked, “What would have happened if Iraq production had also surged during the 1960’s,” like that of Saudi Arabia and Iran. He responded, “I admit we would have been in one tough problem.” The company was pumping fast from the latter countries, as well as Libya. “Can you swallow this amount of oil?” the questioner continued. “With Iraq down...But if Iraq had come on,” he said, “it would have been that much harder.”

How to make sense of this vignette? International relations theory and newspaper Newspeak is rife with narratives of the US controlling oil flows to secure physical supplies. The business press frets about high oil prices damaging the economy. Op-ed columnists claim the US goes to war in the Middle East to safeguard its oil. Yet here is Iraq, with an oil potential perhaps that of Saudi Arabia, its spigots securely sealed.

What if oil prices are not received, but made? What if cartels raise prices by constricting supply, and use war, legal chicanery, and international property deeds to do so? Such questions led Jonathan Nitzan and Shimshon Bichler, two political economists, to examine the production, distribution, and political structure of the oil business. They derived from these patterns a theory of prices and power distinct from orthodox and heterodox worldviews alike. They see prices as the result of social processes, “a symbolic quantification of power.” One of them is sabotage, or the strategic disruption of production. Power, then, is the ability to create and order the world to ensure just the right mix of sabotage and supply in order to ensure profit rates beat out those of your competitors. It is this novel, fascinating, brash, and contested theory of capitalism which they lay out in a new book, *The Scientist and the Church*.

It is a selection of essays, all ensconced in their overall framework of capital as power. They rove from examining the social origins of US wars in the Middle East, to their analyses of Financialism and imperialism, a scattering of interviews, and an obituary of Israeli anti-Zionist pioneer Akiva Orr.

Their theory takes issue with liberal and Marxist notions of value. The former links price to "utils." The latter links them to units of socially necessary abstract labor. Since neither unit is locatable, quantitative arguments premised upon them lack empirical mooring, fatally damaging them. In their stead, Nitzan and Bichler propose a new framework. They adopt from Lewis Mumford the notion of civilizations as power megamachines. From that dazzlingly original and dizzyingly forgotten institutional economist Thorstein Veblen, they take the distinction between business and industry. The former is unproductive and about social control. The latter is about production and social innovation for the common good. They suggest that capitalism is a mode of power which rests on the strategic sabotage of industry by business. The "health" of capitalism actually relies on the ill-health of the underlying productive system which large corporations capitalize and shape to secure their future profit stream.

One of their more arresting arguments is about energy conflicts. They identify a pattern in which wars in the Middle East since 1967 follow periods in which the profit rates of the largest publicly traded energy companies are below the average profit rates of larger corporate clusters. They call these "differential profits." These are profits as compared to the profits of their corporate peers, since corporations "seek not to perform, but to *out*perform; to obtain not absolute accumulation, but *differential* accumulation." Such wars inevitably boost the relative price of oil and lift up the differential profits and relative share prices of the energy companies. This simple and strikingly elegant pattern shows, at the very least, that the conventional narrative – the United States launches wars in the Middle East to keep prices low – ought to be turned on its head. The United States launches wars in the Middle East to keep prices high.

The authors trace their study of this process to their own dusty discussion papers from the late 1980s. In those early works, they identified "the emergence of a formidable, albeit uneasy, global alliance between the integrated oil companies, the large armament contractors, leading Western governments and key oil-producing countries." This coalition sustained a bi-directional flow: Western arms exports to the Middle East and oil exports out of the Middle East. Capital steadily accumulated in the accounts of Western oil and weapons corporations, and Middle East-based national oil companies. And, of course, through petrodollar recycling, in US stocks and treasuries.

How does this work? Go buy gas when the US president announces another war on Iraq. Its price goes up and stays up. The oil conglomerates pass on price increases to consumers, and take their own additional cut in the process. Jargon of "supply shocks" justifies such increases. But a glance at oil production numbers often shows a shortage of shocks. Nitzan and Bichler offer here an absolutely vital contribution, although one wishes that they would specify with a touch more detail the internal mechanisms through which petroleum companies produce prices so as to extract extra profit from consumers. There is also much more to be done empirically about the media-produced hype of war, and its use to manufacture consent amongst the consuming classes for price gouging at the pump.

A second crucial nexus is that between arms exports and price increases. Since Middle East oil producing countries use more and more of their petroleum proceeds to purchase weapons, they are always ready for another conflict. So are arms manufacturers. But the oil companies are sometimes wary of such wars, according to Nitzan and Bichler. They generally prefer them only when their own profitability sinks below the average.

The authors are broadly convincing. They distinguish the oil era as one separated between "free flow" and "limited low." During the period of free-flow, the oil majors literally owned the subsoil of Middle East countries. They profited with prices "being relatively low and stable." The situation shifted sharply in the 1970s. Nations nationalized their own raw resources. The companies often became "service providers." As a result, they lost direct control over prices. The consequence was a new limited-flow system, with prices politicized. OPEC quotas, with plenty of pushing and pulling at the hands of Western governments, made sure supplies were set only to what the "market" could bear. The distinction between direct control through property rights and indirect management through diplomacy is incredibly important.

But it is important to keep in mind that their notion of "free flow" refers to who, exactly, controlled the rate at which oil flowed, as well as the positive correlation between volume and profits. This periodization does not mean that production was not sabotaged. Nor do they mean that countries and corporations did not deliberately constrain supply during the earlier period. It simply means that the mechanisms of that constraint differed from those used after 1973. During that earlier era, for example, the majors allowed Iranian production to increase, but at a very precise rate related to what analysts thought would coincide with global demand. Meanwhile, Iraqi production endured constant sabotage. As leading petroleum economist John Blair noted in his classic study of the oil business, "From almost the beginning of its operations," the Iraqi Petroleum Co. "not only suppressed production in Iraq…but went to considerable

lengths to conceal that fact from the Iraqi government."

The constant wars in the Middle East – what Nitzan and Bichler call the most extreme form of sabotage – have constantly targeted Iraq. This is not a coincidence. Most likely, it is because Iraq fell out of the Western orbit with its successful 1958 revolution, and the assertion of control over the country's hydrocarbons over the course of the 1970s. Shortly afterwards, the United States stoked the Iran-Iraq War. The two countries, each capable of prosperity, used large chunks of their oil wealth for total wartime mobilization, reducing resources available for social development. One hopes other scholars are able to build on the authors' insight into overall patterns of supply constriction and analyze relationally which countries have been allowed to fully exploit their oil, and when, and to what end.

The authors insert this analysis of the mechanisms of petrodollar and weapondollar flows into a larger one about overall patterns of profit-making. They argue that accumulation patterns swing between periods of depth and breadth. Depth is when companies seek to expand the amount of profits they receive from their current holdings, usually through stagflation – i.e., by increasing prices while inducing stagnation and unemployment. Periods of breadth are intervals when the logic of mergers and acquisitions reigns. At such times, energy wars are less likely. The Clinton administration was one crucial example. Yet they see a certain breakdown of the broader pattern in the current moment. Inflation, which they regard as a redistributive phenomenon, from the poorer to the richer, has not occurred amidst current levels of oil prices. Yet historically oil price increases have led to broader patterns of inflation. Since wars are the preferred smoke-and-mirrors behind which to ramp up prices, and to actually sabotage oil production, we may be in for more wars yet.

Another chapter examines dominant theories of imperialism and Financialism (their neologism for financialization). They find that they often do not add up. Early theories, such as Hobson's and Lenin's, suggested that core capitalists needed to export their surplus capital. Second-stage theories of monopoly capitalism contended that the core's surplus was used domestically, expended in an endless hole of military spending and "financial intermediation." Dependency theory and world-systems theory posited the export of surplus from the periphery to the core. And recent theories of hegemonic transition theorize a hollowing-out of the industrial US core and the subsequent financialization of the periphery. The authors' assess each of these explanations, and show the mutable meanings of imperialism and Financialism over time. Since these terms often rely on unsteady and unprovable concepts and separations – productive versus unproductive labor, the financial versus the real economy – it may be useful, they argue, to adopt a new framework altogether. This will be tough to swallow, less due to any slippage in internal consistency, more because of the usefulness of imperialism as a political category and an orienting pole for political work.

Another chapter is a tragic, evocative and empathetic extended obituary of Akiva Orr, one of a handful of genuine Israeli Jewish leftists. Orr was committed to anti-colonialism within Israel, anti-imperialism in the region, and anti-capitalism in the world. Nitzan and Bichler present us with a man who played with mongooses and lived with cats, enchanted students and adults with his stories, and was at home with political organizing, anarchism, and high-end mathematics. Radicalized in the Israeli Seamen's Strike of 1951, he went on to co-found Matzpen, the most important organization of the Israeli radical left. Orr also published his own books in an erratic quality in Beit Hanina, selling them almost for free, or giving them away.

One unfortunate absence in the book is any material from their amazing account of Israeli capital accumulation, which they published in *The Global Political Economy of Israel*. In that book, they showed how Israeli settler-colonialism is in fact settler-capitalism. Stealing from Palestinians is one component of this process, and another is an unequal distribution of the stolen goods among different castes and classes within the Israeli Jewish population.

It seems important also to note the difficulty the authors have had getting their work published, with negative and often simply unserious reviews in some of the heterodox journals of leftist thought. Following, perhaps, in Orr's example, they have chosen to give away practically all of their work online. It ought to be read, as it is very good.

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