

Is It The Oil, Stupid?

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INTRODUCTION

Saddam Hussein was an ideal enemy and Iraq was an easy target. Iraq had already lost nearly two-thirds of its forces and more than eighty percent of its infrastructure and civil society in the 1990-1991 Persian Gulf War, and if that was not enough, it was subjected to frequent American and British bombings along with nearly twelve years of stringent sanctions. The building of the so-called coalition of willing—that was weak during the 1990-1991 war—has been a complete disaster during the 2002-2003 Persian Gulf War. In the latter, neither the region's friendliest client-states nor the spirited "partners" of the exclusive imperialist club of the now defunct *Pax Americana* have had any desire to join the slaughter. Britain, of course, has been an aberration. The war against a weak symbolic enemy seemed inevitable.¹

In May 12, 2003 Issue of *The Nation*, there appeared a tiny piece entitled, "It's the Oil, Stupid," by Michael T. Klare, who—like much of the majority of the popular left—is obsessed with oil in connection with the deceitful invasion of Iraq by the Bush administration. To be sure, the motivation of the Cheney-Wolfowitz gang and the impeachable actions of President himself all point to the direction of personal gains in this Administration. Similarly, the fact of the transfer of tens of billions of dollars from the public coffers to the willing hands of a handful of favorite companies that were readily chosen as the beneficiary of this *destructive creation* is beyond dispute. Yet, to be worthy of analysis, one needs to be brave enough to go beyond surface phenomena in order to grasp the complexities associated with deeper epochal understanding of this bizarre tragedy.

Writers like Michael Klare and George Caffentzis (the latter, incidentally, holds that oil is a "metaphysical" commodity) should realize that their oil scenario, firstly, ignores the analytical periodization of oil history into (1) the cartelization of oil, (2) the transitional period of 1950-1972 and (3) the globalization of the entire oil industry since the mid-1970s. Secondly, it overlooks the distinction between "administrative pricing" and *value theoretic* price formation. Thirdly, it neglects the nature of property relations, formation of differential oil rents, and character of OPEC in the (post-1974) globalization of oil. Fourthly, it discounts the pivotal role of the least productive U.S. oilfields that is key to the worldwide pricing of oil. Fifthly, it fails to recognize that OPEC prices are constrained by worldwide competitive spot (oil) prices, and thus OPEC oil rents are subject to global competition. And finally,

their oil scenario fails to realize that the unqualified usage of words, such as "access," "dependency," and "control," in the context of a globalized oil industry, is anachronistic.²

HEGEMONY AND MEDIATION

The concept of hegemony is indivisible and "organic" in respect to its constituent economic, political, and ideological counterparts. And, it is due to the *consensual* internal dynamics and intrinsic ideological power of the whole that one can exert minimal *external* and antagonistic power projection. This, in a broad measure, defines hegemony and its relevance to international relations, for instance, during the rise and fall of *Pax Americana* (1945-1979). Gramsci, nevertheless, focuses on the "organic intellectuals" and examines their relationship with the "world of production" *mediated* through the complex intricacies of "civil society" and "political society" (Gramsci, 1971, p. 12).³

Hegemony, in my view, has four characteristics. It must be (1) organically consensual, (2) internally driven, (3) historically endowed, and (4) institutionally mediating. The focus here is upon the rise and fall of *Pax Americana*, a historically specific inter-state transnational system that rose after WWII (1945) and fell in the late 1970s. The matter of hegemony and hegemonic structure is the mutual characteristic of the *system as a whole*, and *not* a separate property of the hegemon. Therefore, given the demise of *Pax Americana*, the claim of American hegemony remains baseless.

THE EPOCHAL MEASURE OF HEGEMONY

In order to see the concrete manifestation of hegemony in the then-ascendant *Pax Americana*,⁴ one has to focus on the application of the (tripartite) Doctrine of Global Containment after WWII. This doctrine embodied (1) the containment of the Soviet Union, (2) the containment of democratic/nationalist movements in the "Third World," and (3) the containment, co-option, and molding of the social, political, and intellectual atmosphere in the United States.⁵ The example of the first containment is the forceful confinement of the Soviets behind the "iron curtain" and imposition of Cold War. The Cold War was a multidimensional hegemonic phenomenon, spanning the economy, polity, and the entire realm of culture and ideology worldwide.

Evidence of the second type of containment is the declaration of an anti-colonial policy, on the one hand, and subversion of the democratic national movements in the "Third world," on the other hand. This

doctrine often led to covert campaigns and coup d'états that brought a number of dictatorial regimes to power whose contradictory material existence and discursive mirror image have, nevertheless, become an embodiment of *Pax Americana* itself.⁶ At the same time, America's deliberate attempt at the speedy economic transformation of these social formations—for instance, via the introduction and forceful implementation of universal land reform programs—has led to their hasty inclusion within the capitalist sphere of transnational exploitation and transnational markets.

Finally, the third containment strategy was implemented in terms of U.S. domestic thought control and marginalization of independent and militant institutions and labor unions within America's "civil society." Thus, historically, the American State smashed the militant labor unions and political and professional institutions of the left in order to universalize a "hegemonic model" of intellectual emulation that shifted the entire American political spectrum significantly to the reactionary right. McCarthyism was just the tip of the iceberg in this regard.⁷ Here, underpinning social-relations, on the one hand, and the mediating economic, political, and ideological institutions on the other hand, have reflected the measure of hegemony embedded in this system.

At a more concrete level, since the 1970s, it is through the particular historical relationship of state and the manifold social, political, and economic integration and disintegration vis-à-vis the transnational capital, that the U.S.-dominated hierarchy of *Pax Americana* and thus American hegemony has come to an end. Yet, during the "Golden Age," Soviet containment had its own manifold objectives that proved successful. The containment of democracy and independence in the Third-World chunk of *Pax Americana* had, nonetheless, left some degree of formal national sovereignty. And post-war containment of people's political thought and action in U.S. domestic "civil society," nonetheless, had *not* led to the establishment of a police state with arbitrary, preemptive, and systemic totalitarian objectives, if not practices.

In December 2001, the Bush administration unveiled its "National Strategy to Combat Weapons of Mass Destruction."⁸ The Bush administration used the unfortunate events of September 11, 2001 as a convenient cover in order to advance toward its "permanent war" policy.⁹ This was a formal announcement of the *Doctrine of Preemption*, a fundamental policy break from the *Doctrine of Containment*, as follows:

An effective strategy for countering WMD [Weapons of Mass Destruction], including their use and further proliferation, is an integral component of the National Security Strategy of the United States of America. As with the

war on terrorism [i.e., invasion of Afghanistan, etc.], our strategy for homeland security, and *our new concept of deterrence, the U.S. approach to combat WMD represents a fundamental change from the past...* (p. 1, emphasis added). Because deterrence may not succeed, and because of the potentially devastating consequences of WMD use against our forces and civilian population, U.S. military forces and appropriate civilian agencies must have the capability to defend against WMD-armed adversaries, including in appropriate cases through preemptive measures. This requires capabilities to *detect and destroy an adversary's WMD assets before these weapons are used* (p. 3, emphasis added).¹⁰

THE MISMEASURE OF "BLOOD FOR OIL"

Institutionally, the traditional petroleum cartels must be viewed as a precursor to, and not a substitute for, the highly developed contemporary global oil market. Today's oil sector is globally structured and competitive.¹¹ Here, contrary to the bourgeois reading of the term, competition is neither perfect nor imperfect. It rather reflects the coercive aspect of concentration and centralization of capital in the oil industry. Yet, the myth of war-for-oil scenario is hard to resist.

On the right, in an interview, James Schlesinger remarked: "The United States [Bush, the father] has gone to war now, and the American people presume this will lead to a secure oil supply. As a society we have made a choice to secure access to oil by military means. The alternative is to become independent to a large degree of that secure access."¹² On the left, Michael Klare declared: "Two key concerns underlie the Administration's [Bush, the son] thinking: First, the United States is becoming dangerously dependent on imported petroleum to meet its daily energy requirements, and second, Iraq possesses the world's largest reserves of untapped petroleum after Saudi Arabia."¹³ Thus, the positions of the right and the left on the cause of these wars are remarkably identical. The question is, why? Is it because of the *correctness* of rightwing neo-classical theory in revealing the universal truth? Or, is it because of the *fallacious* economic ideology that is uncritically accepted by the theory-less and clueless left?

Finally, the *Aspects of India's Economy*, an Indian leftist electronic journal, devoted its entire December 2002 double-issue to "What is Behind the Invasion of Iraq."¹⁴ The authors conclude, among others, that the attempted conversion of oil revenues from U.S. dollar to euro prompted the invasion of Iraq by United States. As Krugman pointed out in a short note, any possible shift from the U.S. dollar to the euro on the part of OPEC will result in a "small change".¹⁵

However, the fly-by-night authors do not lose any opportunity to grasp this straw in the midst of dreadful confusion.

The globalization of oil since the mid-1970s has rendered the *sui generis* categories of "access" and "dependency" meaningless.¹⁶ Based on my value-theoretic framework, I distinguish between what is "organic" and what is "conjectural" in the pricing of oil. To be sure, the *price of production* of the highly explored oilfields within the U.S. lower 48 states is the global center of gravity of oil prices everywhere. As a result, in competition, the more productive oilfields in the world are potentially able to collect additional profits in terms of *oil rents*.

Let us look at a simple exercise, attempting the calculation of the value of all Iraqi proven oil reserves in today's prices.¹⁷ Given the Iraqi proven oil reserves of nearly 110 billion barrels, in two separate assumptions, let us assume two alternative production-schedules of 2.5 and 5 million daily barrels, as follows:

—If the rate of utilization of these reserves, *ceteris paribus*, will be set at 2.5 and 5 million average daily barrels, these oil reserves would be exhausted within nearly 120 years and 60 years, respectively. Accordingly, our respective annual production schedules are:

- 1) $[2.5 * 365 = 912.5]$ 912.5 million annual barrels;
- 2) $[5.0 * 365 = 1,825]$ 1,825 million annual barrels.

—Assuming \$20.00 per barrel for the price Iraqi oil (*viz.* the 1990s average market price) and about \$10.00 for the Persian Gulf differential oil rent (see Bina, 1985 for meaning and approximate magnitude of oil rents.¹⁸)

—Let us further assume:

- 1) 8% real discount rate;
- 2) 3% annual inflation rate;
- 3) 3% annual growth rate of addition to the proven reserves.

SCENARIO I:

1. The assumption of 2.5 million daily barrel: Given an annual production volume of 912.5 million barrels within 120 years and \$10.00 of differential oil rent per barrel, the value of differential oil rents for 120 years is as follows:

$$912.5 \text{ million} * 120 = 109.5 \text{ billion barrels}$$

$$109.5 \text{ billion barrels} * \$10 = \$1.095 \text{ trillion.}$$

Given an 8% annual discount rate, a 3% annual rate inflation, and a 3% annual growth rate of addition to proven reserves, we have applicable rate of discount of 8 percent ($8\% + (3\% - 3\%) = 8\%$). Thus, the present value of \$1.095 trillion at 8% discount rate to be received in lump sum after 120 years is **\$106.8 million**.

2. The assumption of 5 million daily barrel: Given an

annual production volume of 1,825 million barrels within 60 years and \$10.00 differential oil rent per barrel, the value of differential oil rents at the end of 60 years is as follows:

$$1,825 \text{ million} * 60 = 109.5 \text{ billion barrels}$$

$$109.5 \text{ billion} * \$10 = \$1.095 \text{ trillion.}$$

Given an 8% annual discount rate, a 3% annual rate inflation, and a 3% annual growth rate of addition to the proven reserves, we would have applicable rate of discount of 8 percent ($8\% + (3\% - 3\%) = 8\%$). Thus, Present Value of \$1.095 trillion at 8% discount rate to be received in lump sum after 60 years is **\$10.81 billion**.

Based upon the second scenario (the much larger figure of the two), the price tag for differential oil rents in Iraq is slightly less than \$11 billion. Now, let's assume that the Iraqi oil reserves are underestimated, say, that they are five times the reported figures. Thus, *ceteris paribus*, one would arrive at $\$11 \text{ billion} * 5 = \55 billion . Now, let's double our reasonable figure of \$10 for differential rent per barrel. Again, we would never arrive at a figure much larger than \$110 billion for the present value of all differential oil rents to be paid to the Iraqis. In other words, the "Iraqi oil price tag" does not exceed \$110 billion to be received in lump sum at the end of the period. This is indeed chump change, given the staggering costs associated with the prosecuting the war and the unanticipated financial and incalculable human costs of the occupation of Iraq.

SCENARIO II:

Let us further assume that the proceeds from differential oil rents in Iraq will be received on an annual basis, say, for 55 years. In other words, assume that the Bush administration and its future successors are able to invent a pill that tranquilizes, not only the people of Iraq but also the people of the entire world in order to calmly and comfortably steal the Iraqi oil rents for 55 years, till 2058. Now we need to calculate the summation of the present value of annuitized annual Iraqi oil rents for the period of 55 years. This scenario is more realistic since the payments of oil rents are made on an annual basis. Again, for the sake of argument, we have chosen a much larger average figure of 5 million daily barrels, assuming a very optimistic production schedule:

$$5 \text{ million} * 365 = 1.825 \text{ billion annual barrels,}$$

$$1.825 \text{ billion} * \$10 = \$18.25 \text{ billion.}$$

The Present Value of \$18.250 billion annual payment, to be paid for 55 consecutive years is equal to **\$224.8 billion**.

According to the Nordhaus estimates, the direct and indirect costs of forceful occupation of Iraq would range somewhere between \$120 billion and \$1.6 trillion

over a 10-year period.¹⁹ Should my estimated value of Iraqi oil warrant such a huge undertaking? As we can see, the reductionist view of "No Blood for Oil" is hardly an answer to the complex objective forces that—despite the misleading intention of new U.S. foreign policy—are underlying the upheavals of present global polity. Rather, such misleading intention, and prior and subsequent actions on the part of the U.S. government are readily explicable by the underlying epochal forces that so irreversibly led to America's loss of hegemony, on the one hand, and American refusal to accept it gracefully, on the other hand. This is the main and real cause of the new world disorder rather than this ad hoc "oil scenario" that the popular left harps on.

1. See, for instance, a neo-conservative view by Kenneth Adelman, "Cakewalk in Iraq," *The Washington Post*, February 13, 2002, p. A27.
2. For theoretical underpinnings see Cyrus Bina, *The Economics of the Oil Crisis*, New York: St. Martin's, 1985.
3. Gramsci, *The Prison Notebooks*, New York: International Publishers, 1971, p. 161).
4. See Ronald Steel, *Pax Americana*, New York, 1977.
5. See George F. Kennan, *Memoirs: 1925-1950*, Boston, 1967.
6. The 1953 and 1954 CIA coups against Mossadegh and Arbenz are but the two prime examples.
7. See Murray B. Levin, *Political Hysteria in America: The Democratic Capacity for Repression*, New York,
8. One has to distinguish between epochal and temporal reflections of the Bush administration.
9. The Wolfowitz-Berle neo-conservative project of permanent war, particularly for "redrawing" the map of the Middle East,

was formulated long before September 11, 2001.

10. White House, *The National Security Strategy of the United States of America*, September 17, 2002.
11. Here competition is defined in Marxian terms.
12. James Schlesinger, "Interview: Will War Yield Oil Security?" *Challenge*, March/April, 1991.
13. Michael T. Klare, "Oiling the Wheels of War," *The Nation*, October 7, 2002. As a corollary, the "necessity" of oil exploration from Alaska's wildlife can also be justified by such arguments.
14. "Behind the Invasion of Iraq," *Aspects of India's Economy*, Nos. 33 & 34, December 2002.
15. See Paul Krugman, "Nothing for Money," March 14, 2003: <http://www.wwsprinceton.edu/~pkrugman/oildollar.html>.
16. Michael T. Klare, "Oiling the Wheels of War," *The Nation*, October 7, 2002.
17. This is a rough exercise just for the sake of illustration and approximation of order of magnitude of Iraqi oil rents. One or two points in the discount rate or inflation rate would not make a significant difference in the basic argument. The figure of \$224.8 billion is for 55 consecutive years. If the occupation of Iraq is assumed to be for a 10-year period or so, then a fraction of this figure will be relevant, which in turn will be even much smaller in magnitude than the commonly estimated cost of US war and occupation of Iraq.
18. *The Economics of the Oil Crisis*, New York: St. Martin's, 1985.
19. William D. Nordhaus, "Iraq: The Economic Consequences of War," *New York Review of Books*, Vol. 49 (19), December 5, 2002.

NEW SCHOOL ECONOMIC REVIEW

The graduate students of the Economics department at the New School have launched a brand new online journal titled the *New School Economic Review*.

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The website is now live at the following address: www.newschool.edu/gf/nser. Submission guidelines are posted on the site. Please also take a look and make any comments, inquiries, ideas for essays to submit, questions, accusations, tirades, or aspersions to the editorial board.

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