Centro de Estudios e Investigación en Ciencias Sociales

Center of Studies and Research in Social Sciences

www.ceics.org.ar - internacional@ceics.org.ar

The War in Irak is not for oil

An interview with Cyrus Bina (University of Minnesota, USA)

By Fernando Dachevsky (CEICS - Razón y Revolución)

Published in El Aromo, september 2007

Q. What economic perspectives do you observe, in the medium term, for those countries, such as Venezuela, in which economy by and large rests on the exportation and production of petroleum?

A. The context of any development or any action by such countries is indeed the epochal framework of global oil whose emergence has been inaugurated through the oil crisis of 1973-1974. This crisis was not an ordinary crisis motivated just by the imbalance of demand and supply alone. It was the mother-of-all-crisis of global restructuring and unification within the oil sector, first (as an intermediate step) through decartelization and de facto *nationalization* of the ownership of oil reserves in OPEC countries, and eventually, via the competitive interface of the landed property of subsurface petroleum deposits, toward the *transnationalization* of social relation of production, including the formation of *differential oil rents* and competitive pricing of crude oil (i.e., spot and futures market prices) across the globe. And, today, hardly a "long-term contract" of any consequence in oil can afford not to take its cues from these global markets. In conjunction with this crisis (or rather because of it), U.S. domestic crude oil production is also decartelized and rationalized, and thus the U.S. dualistic landed property of subsurface (i.e., private ownership of surface and subsurface, and public ownership of lands and oil deposits by the U.S. government) found its competitive conjunction with global rent formation. This is the very meaning of globalization of crude oil, which is decartelized, rationalized, and then transnationalized a little over thirty years ago in the early 1970s. (see Cyrus Bina, "Transnationalization of Global Oil," *International Journal of Political economy*, Vol. 35, No. 2, Summer 2006.)

Now, given the above context, there are two significant points that must be considered in respect to oil exporting countries, such as Iran, Saudi Arabia or Venezuela. First is the *rentier* character of state and reliance on oil as the primary source of revenue and foreign exchange earnings. Here volatility over the magnitude of market prices and thus uncertainty over the amount of oil revenues, despite some limited remedies, tend to create unforeseen problems for budgeting and disbursement of public expenditures—both for fiscal and long-term development projects. Second is the deeper problem of exporting crude oil without having the benefit of establishing the sequence of industrial structures that lead to production of its manifold derivatives domestically and thus, in addition to a chain of value-added materials for export, be able to provide a genuine platform for further industrialization. Oil need not be a *curse*, as some petty-bourgeois liberal/radicals had romanticised it to be in the literature; rather, its proper utilization intimately links to the complex web of institutional and material infrastructures that underpin the rest of the economy. To answer your question explicitly, Mr. Hugo Chavez—by paying careful attention to the last two caveats—has an opportunity to utilize oil as a pivot of full-fledged industrial development in Venezuela's economy in the medium- to long-run. But, I am afraid; by relying on the export of crude oil alone (i.e., in a manner of a rentier state) neither he nor anyone else will be able to achieve such lofty objectives.

Q. In your opinion, what is the explanation for the growth of petroleum prices during the recent years? Considering that the price increase affected, not only the per/barrel cost of petroleum, but also the price of other commodities, such as agricultural products, mineral goods, etc. How much of the change in the oil prices can be explained from the proper dynamics of petroleum industry and how much is a symptom of a particular state of world economy?

A. This is an excellent question that pertains to the dynamics oil as well as oil's immediate impact—as an input—on the cost of production of other commodities. Since the oil crisis of the early 1970s, price of oil (like price of all other commodities) is essentially determined by the law of value. This may come as a surprise to those self-proclaimed Marxists who nevertheless subscribe to the thesis of "Monopoly Capitalism" and who erroneously think that the Law of Value is exclusively reserved for the nineteenth-century capitalism. As I have demonstrated in *The Economics of the Oil Crisis* (1985), the law of value in oil underpins three layers of intertwined determination: (1) *intra*-industry competition oil capitals and establishment of market value based upon the least productive capital, in conjunction with the formation of differential profits that are in accord with the existing differential productivity of oilfields worldwide; (2) *inter*-industry competition of capitals (i.e., oil and the rest of the economy), establishment of the price of production, uniform rate of profit, and transformation of differential profits into differential oil rents in conjunction with the industry-wide "regulating capital"; (3) market fluctuation, operation of demand-and-supply, and formation of market prices around the gravitational center of production price. Prior to the early 1970s, in the absence of all this, the price of oil was determined via bureaucratic fiat by the *International Petroleum Cartel*.

Against this gravitational dynamic, it would be quite easy to see, for instance, how the state of world economy may exert its influence upon the oil prices. Here the slack in demand for oil (usually in recession or downswing of the cycle) leads the market prices to gravitate below the price of production, while excess demand for oil (usually in upswing of the cycle) causes the market price to gravitate above the production price. Here, contrary to bourgeois economics textbooks, demand-and-supply does not determine the magnitude of market prices in the vacuum, without the imposing magnitude and center of gravity of the production prices. To the extent that the contingent influence of market (be it from speculative, expectation of war, anticipation of natural disaster, etc.) is not sufficiently prolong as to create an oil crisis, i.e., to change the magnitude of production price (centre of gravity) via a structural change, the production fundamentals stay the same. Otherwise, there will be a complete restructuring of capital that in turn leads to establishment of a new gravitational center in conjunction with the whole host of restructuring concerning the magnitude of differential oil rents and profit worldwide. Therefore, one needs to focus on the concrete events carefully and properly distinguish the impact of transitory market fluctuations from those of more durable nature that very well may wreak havoc with the center of gravity of market prices.

Finally, since oil (and energy) is an essential input to the production of a great number of commodities, its price (and thus its price fluctuation) will be an important element in the cost of production of these commodities. Agriculture, particularly energy-intensive corporate agriculture, is certainly among such sectors. Therefore, production of food is not unrelated to the magnitude and fluctuation of the price of oil. It is also ironic to observe that by moving away from production of fossil fuels (a little) and substituting corn instead, in the United States (and elsewhere), we are already creating a shortage of in the main staple of the majority of people and corn prices that are already skyrocketing particularly in Mexico and other importing countries in the hemisphere. Who would have thought twenty or even ten years ago that competition between food and fuel will take such a bizarre turning point? As one can see, there is no shortage of false alternatives to consumption of oil as long as demagogic politics is at the helm and somebody is making a buck in our capitalist economy.

Q. It is common to recognize a link between oil and war in Iraq. In your opinion, which is the character of this relation? What is concretely impelling the invasion? Is this an initiative of US bourgeoisie in order to appropriate Iraqi petroleum revenue? Or it is in response to particular interests of one fraction?

A. This question is eventually hinges upon the *epochal* relevance or irrelevance of oil as the cause of U.S. invasion of Iraq. However, the epochal significance and political economic meaning of post-1974 globalization of oil would ultimately take us to the deep-seated debates on the meaning of competition and monopoly in Marx (reference to his *Poverty of philosophy* is just for starters) as opposed to the garden variety allusions to bourgeois (i.e., neoclassical economics) competition and its tautological analogue, monopoly. The majority of traditional left, in my opinion, is either flat out ignorant of the synthetic nature of competition and monopoly in Marx's system or unaware of historical development and systematic transformation of crude oil production or both. Here my emphasis on the adjective "crude" is deliberate, since for historical and theoretical purposes production of oil (an entity related to landed property of subsurface deposits) must be kept separate from the production of its manifold derivatives.

Now, the question of war the tempting slogan of "No Blood for Oil" obfuscates the very cause of this scandalous invasion by the Bush Administration. This *axiomatic* aphorism carelessly reduces the bellicose cause of "The Clash of Civilizations," "The End of History," and "Project for the New American Century," which, particularly after September 11, 2001, had converged to change the entire map of the Middle East, to oil. Moreover, emphasizing on oil that is already globalized and not easily conducive to colonial control is not only plainly wrong by also plays as a smokescreen to hide the real cause of the war. In reality, therefore, the traditional left's emphasis on oil assists the neocons to cover up their tracks and mislead the public of their grand criminal design on the Middle East. The overwhelming majority of liberal and radical (antiwar) left is still oblivious the three-decade-long decartelization and globalization of crude oil today. Disciples of "Monopoly Capital" thesis, who tend to take their cue from bourgeois notion of monopoly, are still fooling the public by resorting to such uncritical versions as "oil-for-armament" conspiracy, Chinese-U.S. "oil-access" rivalry, "metaphysical commodity," "basic commodity," "peak oil," "OPEC cartel," "euro-dollar conversion," or "resource wars." The war's only connection with oil is the extraction of Iraqi oil rents—whose determination lies with the global market, with or without a puppet government and/or an occupation force.

Once one's undue obsession with oil is subsided, then, one is able to recognize that the Bush Administration's invasion of Iraq can be seen in a more compelling manner, along an overlapping *epochal* and *temporal* trajectory. The epochal trajectory does reflect the complex socioeconomic-geopolitical-structural transformations that led to emergence of globalization and simultaneous implosion of the hegemonic *Pax Americana* (1945-1979), which in turn annulled the meaning of hegemony and removed the hegemonic status of the united States. Globalization, in this manifold transformation, is both the cause and consequence of American's loss of hegemony. In my opinion, the epoch of globalization is neither identical with the so-called Americanization of the world nor fitting with the transient status of the United State as "the only superpower." Therefore, I view the pipedream of the "Project for the New American Century" is but a cause for concern for the world peace, world security, given the present U.S. ambition preemptive strike, unilateral invasion, and flagrant military occupation, all in the name of "freedom." Therefore, contrary to frequent misuse of the term, "hegemony" is not a fancy word for "domination."

The temporal aspect of the Bush Administration is essentially an amalgam of the tripartite ideology of the neoconservatives, the cold-war warriors, and the vast army of disciplined and organized Christian (Zionist) fundamentalists. And, to put it crudely, the Middle East for them either translates to Israel, oil, and the Holy Land. It is worth remembering that for the neoconservative "the clash of civilizations" is the self-fulfilling prophecy that implies the vision of "permanent war," while for their "cold warriors" and Christian Zionists counter-parts war is a patriotic duty or a biblical inevitability or both. To say that the temporal aspect of the Bush Administration was triggered instantly, after the 9/11 terrorist attacks, is an understatement. On September 12, 2001 "the war on terror," had decidedly obtained its malleable and unending character from the inception. "The war on terror" turned George W. Bush into a war president and he used "the war on terror" to invade Afghanistan, to invade and occupy Iraq, to give the green light to Israel to destroy Lebanon, and now to plan bombing, invading and/or occupying Iran. Consequently, the underlying cause of war and occupation of Iraq are motivated by the epochal loss of American hegemony overlapped with the *temporal* character of George W. Bush's neocon/cold-warrior political base, particularly after a decisive political coup d'état on the heel of the 9/11. And this is the neocon/cold-warrior axis who relentlessly seeks to change the entire geography of the Middle East, piece by piece, country by country, debacle by debacle, not for oil, but concretely for the sake of Israel.

Q. How does the invasion to Iraq affect the international petroleum industry's development?

A. Given my extensive answer to the previous question, it is clear that the invasion of Iraq have had a limited effect on the global oil industry as a whole. My previous responses all points to the fact that decartelization of crude oil cut the ground from under the so-called "Seven Sisters" (i.e., International Petroleum Cartel), which once had control over more than 90% of crude oil worldwide and which were composed of 5 U.S. major oil companies. These companies, in turn, had an intimate connection with the U.S. government and had a special place in the U.S. foreign policy. A case in point is the 1951 nationalization of oil in Iran against the monopoly of Anglo-Iranian Oil Company (BP) by the democratically-elected government of M. Mossadegh. Dr. Mossadegh was eventually overthrown under the pretence of "communist sympathies by a CIA coup d'état in 1953; yet a careful inspection of massive documents in this period reveals that the real cause was none other than the International Petroleum Cartel itself. My point here is that, since the decartelization of oil, the traditional oil link as a component of U.S. foreign policy is thankfully has gone out of commission in Iraq. In the meantime, global oil industry is operating, business as usual, with or without the Iraqi oil.

Q. The problem of petroleum prices determination appears in a great part of the economic historiography as a black hole where the law of value would not be serving as explanation. The role of competition is usually underestimated and the petroleum production turns out to be determined by the ideology, desires or caprices of petroleum landowners. In your opinion, what place has competition in the formation of petroleum prices?

A. Quite on the contrary; for nearly thirty years I am trying to demonstrate that, following Marx, the monopoly of the petroleum deposits is synthetic monopoly and that differential oil rents are originated from differential productivity of oil capitals within intra-industry competition, before being transformed along the general rate of profit at the level of inter-industry competition. At the same time, oil industry is capital-intensive (measured by above-average organic composition of capital or OCC). This means that the presumed *barrier* of landed property (of subsoil or oil deposits) had already been overcome through the ample inflow of capital from other sectors of the economy. That is why it would be erroneous to speak of absolute rent in the oil industry as a whole. All we have is differential oil rent, which being formed through competition in this capital intensive—higher than average OCC—industry. Therefore, neither does the desire, nor caprice—and as Marx may have said—nor the volition of individual landowner (owner of subsurface deposits) play as the deciding factor in determination and formation of oil rents.

Q. What is the influence of capitalist organizations, such as the OPEC, in price formation?

A. OPEC is essentially an association of rent-collectors whose significance depends on the rentier character of member states alone. OPEC is not a monopoly or a cartel as the bourgeois economic textbooks tend to tell us. As I have argued all along and demonstrated empirically in a careful study (see *Global Economy Journal*, Vol. 7, No.1: http://www.bepress.com/gej/vol7/iss1/2), OPEC actions, rhetorical and/or real, had neither a significant effect on the daily global oil prices nor a significant effect on the market volatility of the oil industry. Therefore, it would disheartening to hear, time and again, from bourgeois economists entrenched in orthodoxy and their regurgitating counterparts within the traditional left that OPEC is a cartel and/or a monopoly. A serious question is: Is OPEC even lending to identification without the prior recognition of differential oil rents obtained by its members? The answer is, equivocally, “no”; and if the answer is “no” and the OPEC as a whole is devoid of any significant influence upon the global oil market, then, what is the utility of such finger-pointing?

Those who characterize OPEC as a barrier and a monopoly have no understanding whatsoever about the nature, dynamics, and the formation of differential oil rents; they particularly appear blinded by the ideological fiat of competition reinforced and legitimized by the neoclassical textbooks; moreover, these protagonists are seemingly living in the dreamlike world of orthodoxy in which capitalism is reduced to a vulgar and whimsical site for unmediated and arbitrary power projection. Finally, other than the competitive formation of differential oil rents, neither the U.S. oil nor OPEC oil has to do with absolute rent. To be sure, since the early 1980s, OPEC itself has painstakingly been at the mercy of volatile global oil prices.