1

Oil, Guns and Money

Midnight Notes Collective

From the moments when Iraqi troops marched into Kuwait and US troops were airlifted and shipped to the Gulf, the question of oil has been persistently attached to this apparent confrontation of nation states. It is hard for anyone to avoid the conclusion that the subterranean lakes of oil had some important connection with the warmaking above the desert sands. Even the US government's own justification for its attack on Iraq was at times explicitly said to be the defense of Western access to Mideast oil and nearly every critical explanation of the Gulf crisis is framed with reference to oil. Though oil is a concrete and tangible substance, it is also slippery and volatile, one which evades analysis as much as the touch.

Oil has been one of the world's most important commodities in the post-War World II period and so the story of its use and trading is very nearly the story of capitalism. Concretely, oil is a material substance that is pumped from the earth, refined, and burned in factories, cars and kerosene stoves. Beyond its specific applications, oil's primary and general use is as a replacement for labor. Simply put, energy frees capital from labor. But oil is much more since it is also a commodity whose buying and selling greatly controls the global levels of prices, wages and profits. Oil figures into the production of almost all other commodities; as the price of oil goes up or down, all other prices tend to rise or fall accordingly.

What determines the price of oil? Many people assume that the market's "invisible hand" controls the price. However, this ignores the fact that oil is actually a prime instrument of capitalist planning and its price is determined by various political struggles. These struggles have gone through several historical phases.

I. Oil: From the Keynesian Deal to the Oil Price Shocks

From WWII until the early 1970s, capitalist planning in the West was based upon the Keynesian strategy, named after the economist J.M. Keynes. This involved increasing wages and working class consumption along with increasing the productivity of factories – a strategy that required relatively cheap oil. This was the basis for the growth of the automobile-based economy in the US, the auto deal: more gas for the autos and more energy for the labor process which produced the autos. The price of oil was kept relatively stable through the 1950s and 1960s, and this reflected the stability of the Keynesian deal during those years.

Since much of the world's oil was owned, processed and sold by seven Western (mainly US-based) oil companies, the so-called Seven Sisters, it was not much of a problem for Western economic planners to set the price of oil so that it accorded with the general growth of the auto deal. From the early years of the post-WW II period until 1973, the ratio of profits that went to the petroleum and auto industries was almost fixed (see Graph #1). In the planet's most productive oil producing region, the Mideast, these companies owned large tracts of land and paid only a nominal tax to the local governments. When the governments of oil producing countries demanded more tax revenue or more control over the oil within their borders, they were quickly sabotaged or overthrown by the US (e.g., Iran 1953, Iraq 1963, Indonesia 1965).

Within the US, the entire post-WW II economy and culture came to revolve around the auto and the assembly-line production process. Automobile production in the US jumped from three million per year in 1946 to eight million in 1950, subsequently rising to an annual average of about 10 million in the 1970s.[1] The building of the Red Sea pipeline, the formation of Israel, the switch from coal to diesel-powered locomotives on the railroads, Eisenhower's national highway building program, the Bituminous Coal Agreement in 1950 (which dramatically reduced the power of mine workers), and the ten-fold increase in the Arabian American Oil Company's (Aramco) annual production of crude oil between 1945 and 1950, were all key elements in the post-WWII shift from coal to oil as the basic source of energy.

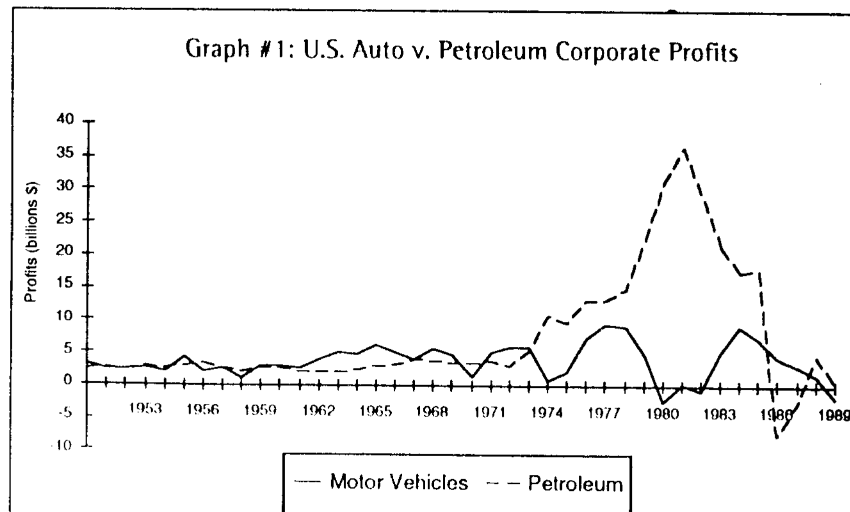
Most forms of work, from schooling to agriculture to computation, were patterned on the auto assembly line, while the typical types of workers' struggles in the auto industry circulated throughout all branches of industry. The mass availability of the car caused a quantum leap in geographical mobility. Cities were redesigned to accommodate auto traffic and a new form of housing mushroomed: the suburb. Today, the very spatial structure of US cities nearly requires auto transport. As the leading icon of mass culture, the car came to be endowed with eroticism, machismo and freedom.

The Energy Crisis of 1973-74

The end of this auto era came in the late 1960s and early 1970s when working class struggles internationally broke the wage/productivity deal of Keynesianism. The response of capitalist planners to this attack was, in the US, to impose a generalized austerity, shrink the industrial proletariat and expand the labor market through increased immigration. In Europe, there has also been a corresponding decline in the labor intensity of manufacturing industry and an increase in immigration, along with chronically high rates of unemployment.

In the oil-producing states, anti-colonial struggles and working class demands forced world capital to accede to the nationalization programs. But multinational oil companies still retained control over refining, distribution, and technical capability as well as a powerful role in oil pricing policy. Oil-producing states from Venezuela and Nigeria to Libya and Saudi Arabia also began to fragment and expand their own working class by turning to the pools of multinational labor power in Latin America, Africa and Asia. [See "To Saudi With Love: Working Class Composition in the Mideast."]

The key mechanism for the reorganization of the working class and



ne production process in the US, Europe and the oil-producing states was ne increase in oil prices, the so-called "energy crisis." As mentioned arlier, the Keynesian profit strategy in the West had been predicated on icrementally increasing wages (consumer demand), disciplining "exces- ve" wage demands with the threat of unemployment, and increasing roductivity faster than wages. Simply put, this strategy relied on the nionization of the mass worker, to enforce productivity, and the unpaid ibor of housework, to reproduce the mass worker. But Henry Ford's topian vision of the happy married worker, with a clean home, food on he table, and a stable wage packet (enforced through regular inspections), as ruptured by a combination of wildcats in the factories and welfare emands in the cities. This crisis in Keynesian planning did not emerge nly because higher wages, in the purely quantitative sense, had lowered ie rate of profit, but also because the entire political structure in which ages and profits were regulated was broken by these struggles. By emanding, on the one side, wage increases disconnected from produc- vity increases, and on the other, a wage for reproductive work, these ruggles attacked the most essential methods of surplus labor accumula- on.

In response, capital opted to undercut wages and welfare, and thus to compose workers' power which was built on a relatively high level of ealth. The energy crisis was an essential component of the counterattack r it simultaneously enabled the creation of large pools of investment ipital and the lowering of workers' wages. The account surpluses in estern banks corresponded to austerity for all workers, waged and iwaged, on an international level. [See "The Work/Energy Crisis and the pocalypse," especially section B, C and D, for a full explanation of how id why energy price rises were used to attack working class struggles.]

The energy crisis of 1973-74 is customarily blamed upon OPEC; deed, it was OPEC that raised the price it charged the oil companies for ude oil. The OPEC decision, however, came only after the assent of the udi Arabian government. Other OPEC countries had been demanding ice rises for years but could not effect them because of Saudi opposition. udi Arabia, as the largest producer within OPEC, had (and has) virtual wer to set short-term price levels unilaterally through decisions about own production. Being dependent upon US political support, the Saudi vernment has always made its production and pricing decisions in lusion with US economic planners. The central Saudi bank (SAMA) is anaged in coordination with the US Treasury Department. Up until 1980, ie Saudi state oil company, Aramco, was run by a team of US oil

companies. After 1980, it was completely nationalized but is still managed in partnership with the same oil companies and much of its management is US and European.

The Saudi decision to back higher prices for crude oil in 1973 came only after the US government gave the Saudis the go ahead. The US government, in 1971, began telling Saudi Arabia, and OPEC as a whole, that the price of crude oil should increase.[2] The Yom Kippur War of 1973 is usually presented as the reason for the oil price rise: the Arab states supposedly wanted to punish the West for supporting Israel. But the war was largely immaterial to the motivations behind the price rise, just as the Arab oil embargo was immaterial to the mechanics of the rise. In fact, the Arab oil embargo was virtually non-existent and the flow of oil was at no point seriously disrupted.

The oil price rise was begun by OPEC, but the oil companies immediately raised their own prices on top of the new charges from the OPEC states. In fact, all energy companies – natural gas, coal, uranium (often one and the same) – raised their prices above and beyond the increase in oil prices. Energy sector capitalists reaped enormous profits from all these price increases. Much of the increased revenue gained by the Gulf states (Saudi Arabia and Kuwait in particular) ultimately returned to international banks and stock markets. This process, known as the recycling of petrodollars, involved enormous sums – hundreds of billions of dollars – and became essential to capitalist strategic planning thereafter. At the time, they represented the largest financial flows in the world. This new mass of investment capital allowed capitalists to intensify the automation and computerization of factories in North America, Europe and Japan. The strategy of accumulation that underlay the post-1973 oil price rise was to see how fast productivity could be increased and wages simultaneously decreased. [See "Post-Energy Crisis US Working Class Composition."]

The Iranian Revolution

While the rise in oil prices during the 1970s provided a brief refuge to world capital for some key problems, it also created new ones. By 1980, the business press was full of complaints over the form of the post-1973 economic growth in oil-producing states like Nigeria, Venezuela and Algeria. The economic planners of those countries had capitulated too easily to popular demands for higher wages and more government spending on social welfare. "The achievements [of oil-rich Arab countries during the 1970s] could have been accomplished at much less cost –

probably no more than half of what was actually spent. The savings and investments could have easily been twice or three times as large," wrote one analyst about the period.[3] While some of the increased revenues of the oil producing states had been recycled through the international financial system (petrodollars), much had been "squandered" and allowed to create the conditions for social revolutions.[4]

The most visible manifestation was contained in the example of the Iranian revolution, where the Iranian oil proletariat, less divided by an immigrant labor system, delivered the final and most substantial blow to the Shah's regime with the oil industry strike of October 1978-February 1979.[5] This strike, and the broader social revolution in Iran, revealed to capital the dangers of rapid and large increases in oil revenue in the Mideast and the other oil-producing states; that is, without sufficient control, the oil proletariat could capture a substantial portion of this wealth and topple even the most brutal dictators and regimes. *The painful lesson was that if the price of oil was to rise in the future, the societies of the oil-producing countries would have to be more strictly disciplined.*

Apart from exemplifying the dangers of a rapid rise in oil prices, the Iranian revolution had a direct impact on the methods of policing the oil-producing states. Iran had been the centerpiece of the US government's Mideast military strategy. The Shah's regime, supplied with billions of dollars from a host of arms producers, was intended to be the regional gendarme, the power used to bully other countries if they did not comply with oil production and pricing arrangements. The Shah was the cop to sabotage any nationalist and/or working class movements in the region. Iran's oil production – the second largest in OPEC – was set according to the US's production and pricing decisions, and the Shah demanded that every one else follow suit. When General Al Haig called the Iranian revolution "an unmitigated disaster," it was precisely because it ended Iran's back-up role to Saudi Arabia in the international oil market.[6]

When the Shah was forced to flee in 1979, the US government had no local power to rely upon. The Gulf states were reliable allies of course, but did not have the "manpower" (or cannon fodder) for large armies. The only solution was to construct an alternative military presence, part of which was stationing the US's own troops in the Gulf. The month after the Iranian revolution, the US government announced the plan for the formation of a 200,000-strong Rapid Deployment Force (RDF) that would be used specifically for Mideast combat. But, of course, the RDF would be useless without some place to land.

Thus, in the 1980s, the US government, in alliance with the Gulf states

and Egypt, constructed a network of military bases across the region, notably in Saudi Arabia. "There had only been two major non-oil docks in Saudi Arabia in 1980, each capable of unloading one ship at a time," noted one journalist. "By 1990, nine major ports could service dozens of ships simultaneously. The twelve bare-bones airfields of a decade earlier had doubled in number . . . sufficient to allow a constant influx of US planes filled with troops and equipment."[7] The cost of this huge investment in military infrastructure and hardware: $200 billion over the past ten years, 85 percent covered by the Saudis. The systems were specifically designed for use in coordination with any future US military action in the Gulf.

The End of the High Oil Price Strategy

As the Iranian revolution was in full progress in late 1978 and early 1979, oil prices underwent another dramatic increase. In fact, oil prices during this second "shock" of 1979 rose more than they did during the first one of 1973-74. Like the earlier rise, it was blamed on a disruption of oil supply in the Mideast, in this case the Iranian revolution. Again, the disruption was largely mythical and there was never a shortage of oil. Iranian oil workers did block shipments to South Africa (90 percent dependent on Iranian oil) and Israel (60 percent dependent), and their general strike did create a crisis in oil price decision making. But the hands behind the price rise were oil companies and commodity traders who collectively raised them.[8] This price rise, though, unlike the one six years previous, could not be sustained for more than a year. The price of crude oil leveled off after 1980, began falling after 1982, and underwent a severe drop in 1985-86 when Saudi Arabia doubled its production within nine months.

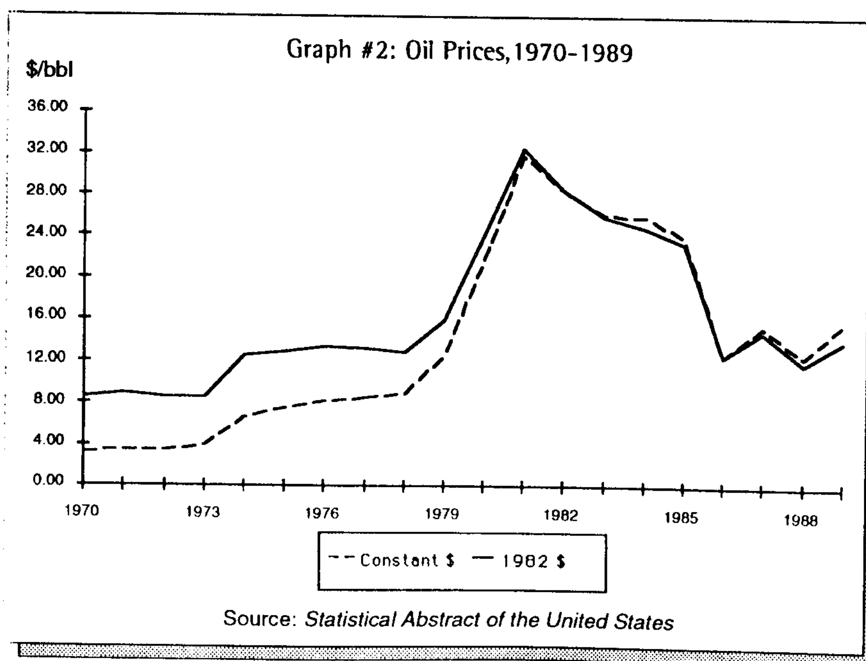
The second oil price shock, like the first in 1973-74, continued to enable international capital to overcome the wage/profits crisis of the late 1960s and early 1970s and assist the restructuring (or perestroika) of the worldwide industrial organization of work. Despite success in restoring profitability on a global level, capital's transitions were not smooth. In fact, planned high oil price levels for the 1980s were abandoned early and by 1986 the oil price (in "real" terms) was lower than its 1974 level. What caused the end of the high oil price strategy?

First, during the period of roughly 1973-81, the mechanism by which the increased oil revenues were recycled from oil producing countries into the international financial system was being threatened by social struggles of the oil-producing proletariat bordering the Caribbean (Trinidad, Ven-

ezuela), the southern Mediterranean (Algeria, Libya), the southeastern Atlantic (Nigeria), and the Persian Gulf. The Iranian revolution was simply the tip of a workers' insurgency demanding that the oil revenues be used for the health and welfare of the proletariat producing the oil, and not for capitalists, be they shahs, sheiks or international bankers.

Second, in the wake of the final victory of Vietnam, Laos and Cambodia against the US military in 1975, seven more countries defeated US-backed regimes: Mozambique, Angola, Guinea-Bissau, 1975-6; Afghanistan, 1978; Nicaragua, 1979; Zimbabwe, 1979, and Grenada, 1979. The change in government in all of these countries was a product, to varying degrees, of mass-based revolutionary forces and threatened a new phase of anti-neo-colonialist struggle. Finally, there was an insurgency within the US and Europe on the terrain of energy pricing and production which marked the crossing of the coal and uranium workers, the anti-nuclear power movement, the nationwide truckers' strikes of 1974 and 1979 in the US, and the gasoline price rioters.

Though nuclear power has continued to increase its share of total energy consumption in the US during the 1980s, it was essentially ended in the late 1970s by the anti-nuke movement. Since that time, no nuclear plants have been commissioned. Nukes had been conceived as central to US capitalist development. Yet capital's inability to organize this development path, along with its inability to prevent revenues in oil-producing nations from being "squandered" on the oil-producing proletariat as well as the continuing spread of anti-neo-colonial revolts, meant that the high oil-price strategy had reached its limits. It failed to establish stable conditions of accumulation in both the US and the oil-producing states. Thus, capital had to formulate a new strategy which could respond to this newest phase of crisis.



Source: *Statistical Abstract of the United States*

II. War and Austerity vs. the International Intifadah

Known variously as "Reagonomics," "Thatcherism" and "monetarism," capital's strategy for the 1980s was not based on oil price hikes as in the previous decade, but on using the debt of most of the world's countries by imposing austerity programs, usually at the behest of the International Monetary Fund (IMF). Thus, in place of the energy crisis of the 1970s, the world of the 1980s was presented with the debt crisis. Debt and austerity were accompanied by a greater militarization of the planet, particularly through the US military's practice of low-intensity warfare. Such a strategy was used for most of the decade, but the explosion of anti-austerity actions in various countries in the late 1980s, in the Mideast especially, was an important factor behind its demise.

Depression and Debt: 1979-1983

The first recourse was to a global slowdown. The depression of 1980-83 was engineered quite consciously by the US Federal Reserve Bank when, in the fall of 1979, it contracted the money supply and induced a steep climb in interest rates (up to 21 percent in 1981). This allowed some time for capital to regroup and reorganize before any new cycle of investment would begin. The contraction of markets and production in the US, Europe and Japan furthered the job initiated by the energy crisis of cutting wages, busting unions, and increasing unemployment. For countries borrowing money from banks in the US, Europe and Japan, the high interest rates combined with a loss of export markets and the decline of primary commodity prices quickly increased their debt to astronomical proportions (e.g., Brazil, Mexico and Argentina).

The inability of many countries to pay back loans to Western banks threw them into the hands of the IMF, which provided new loans to pay back the old loans. As a condition for its loans, the IMF required that the receiving country implement an austerity program, i.e., a devaluation of the currency, drastic cutbacks on government spending and the public