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The Globalization of Oil

A Prelude to a Critical Political Economy¹

An analytic statement requires us to analyze the statement alone in order to ascertain its truth. . . . Synthetic statements are meaningful statements which are not analytic. The physical theories that we employ to understand the Universe are always synthetic. They tell us things that can only be checked by looking at the world. They are not logically necessary. They assert something about the world, whereas analytic statements do not.

—John D. Barrow
Theories of Everything (1991)

In recent memory, it doesn't seem an exaggeration to say that no commodity has been so frequently on the public's mind than oil. Yet oil appears to have remained mystical, if not entirely misunderstood, in everyday public conversation by the amateur and self-proclaimed ex-

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pert alike. One reason for oil's mysticism is the lack of adequate recognition of oil's historical development. Another reason is perhaps the complexity of the interaction of oil capital and landed property. Hence, the flimsy and fragmented view of oil, stripped of not only its complexity but also its reality and evolutionary history, adds to its apparent mysticism. The lack of historical perspective is also evident in both strands of orthodox and heterodox economics, with ideological reflection and influence on the public policy, media, and the public attitude.

In what follows, we attempt to lay bare the specific groundwork for oil economics and depict the evolution of oil, from its initial stage of development through to its eventual globalization. In so doing, we also make an effort to establish a *synthetic* framework that allows us to capture the interaction of capital and landed property and to identify the dynamics of global differential oil rents. As shall be transpired below, our theoretical exposition and the nature of reality on the ground run counter to the "wisdom" of both the left and the right, which is entrenched in the deepest orthodoxies of orthodox economics. The left's unmistakable following can be seen from its blind subscription to the orthodoxy, but its rather watchful reservation on orthodoxy's policy outcomes (such as the alleged dependency on foreign oil or desire for Project Independence) can be observed from the drilling in Alaska's Arctic National Wildlife Refuge (ANWR) to the alleged cause of U.S. invasion of Iraq (Klare 2003, 2004; see Bina 2004a, 2004b for the response).

Methodology: The Power of Real Abstraction

The success or failure of any analysis often relies on whether it is adequately grounded in a relevant, consistent, and transparent methodology. In this paper care has been taken to avoid the axiomatic, speculative, and mechanical approach that typically characterizes the orthodox economic analysis. We attempt to steer clear of the ideal spectrum of the market-structure theory—and the circularity of pure competition and pure monopoly—common to both orthodox and heterodox economics. A typical investigation begins with the observation of real (concrete) phenomenon as its point of departure. But a concrete, observable phenomenon is also composed of the unity of diverse and complex determination, which in reality is an outcome: a point of arrival. Therefore, if one were to theorize, one would have to abstract from the complexity of this concrete, "chaotic whole" in order to discover (in thought) the pre-

supposed, simpler (abstract) categories that lay behind the facade of this ultimate determination. Yet, this abstraction will remain incomplete if one fails to reconstruct—via these simpler, abstract categories—this original observable phenomenon in thought: hence the double journey (i.e., a roundtrip) of moving from an observable concrete to the unobservable abstract and back to the observable concrete in thought.

Such an abstraction is not axiomatic (i.e., speculative); it is not an approximate via the process of “successive approximation”; it is not a product of mind’s own ingenuity or ineptitude; it is precisely a *real* abstraction by virtue of being *mediated* through the appropriation of *real* concrete object of investigation by thought. As Marx put it, by entering into this (dialectical) journey, “the chaotic conception of a whole” would turn into “a rich totality of many [ordered] determinations and relations” (1973: 100, 101–8; also Rosdolsky 1977: 25–28, 561–70). It is well known that Marx criticized Hegel for not realizing that the reconstruction of real subject in thought does not cause its existence. Rather, the real (concrete) subject constitutes the immediate source of conceptualization that must be abstracted and thus turned into a concept—a thought category within the grasp of the mind’s appropriation. This criticism also applies to the assorted views that are in various ways embedded in logical positivism, methodological individualism, or idealism, particularly in mainstream (neoclassical) economics. Therefore, conceptualization need not be ideal, axiomatic, imaginary, or, for that matter, dependent upon a set of arbitrary and ad hoc assumptions. Here, assumptions—and their possible role in theory—must be viewed as the potential internal effects of the concepts themselves, not the figment of one’s imagination. In other words, based upon this (materialist) methodology, the point of departure is the real subject itself in anticipation of being perceived by the perceiving mind, not the epitome of perceiving mind imposed on the reality in speculative quest for reality. There are a number of interpretations for Marx’s declaration that “all science would be superfluous if the form of appearance of things directly coincided with their essence” (1991: 956); yet the meaning of this frequently cited phrase has been lost today on many self-proclaimed Marxists.

A pertinent issue in this article is the question surrounding the meaning, tendency, and dynamics of *real* competition in the presence of enduring concentration and centralization of capital in the oil production, and whether the evolution of the global oil industry, notwithstanding the formation of differential oil rents, can be measured within the axiomatic

spectrum of neoclassical competition. Another methodological issue is the evolution of oil production in the course of specific and identifiable historical stages, namely, from international cartelization to transnational competition. The real abstraction here in the oil sector must be reflective of the evolutionary transformation and relation of capital and landed property—concretized in embodiment of the underground oil deposits—in the course of global oil history. Here, the observable present, being an outcome of this evolution, is entwined with the residues of the historical past. Hence, we need to reexamine the validity of our abstract categories that may have come to predate the present course of events and structure. Therefore, we attempt to find an adequate measure of periodization for the production of oil that allows us to treat and investigate the present (i.e., the decartelized and globalized oil) as a distinct entity and, at the same time, as an evolutionary outcome of the past.

The following passage sheds some light on the question of epochal abstraction and historical categorization in critical political economy:

Bourgeois society is the most advanced and the most complex historical organization of production. The categories that express its relations, and an understanding of its structure, therefore, provide an insight into the structure and the relations of production of all formerly existing social formations the ruins and component elements of which were used in the creation of bourgeois society. Some of these unassimilated remains are still carried on within bourgeois society, others, however, which previously existed only in rudimentary form, have been further developed and [thus] attained their full significance, etc. . . . Bourgeois economy thus provides a key to the economy of antiquity, etc. But it is quite impossible [to gain insight] in the manner of those economists who obliterate all historical differences and who see in all social phenomena only bourgeois phenomena. . . . In all [societal] forms in which landed property is the decisive factor, natural relations still predominate; in the forms in which the decisive factor is capital, social [and] historically evolved elements predominate. Rent cannot be understood without capital, but capital can be understood without rent. Capital is the economic power that dominates everything in bourgeois society. . . . It would be inexpedient and wrong therefore to present the economic categories successively [i.e., in sequence of their historical presence] in the order in which they played a dominant role in history. (Marx 1970: 210–13)²

To grasp the contemporary state of the capitalist mode of production, one must proceed from its presupposition, both in reality and in mind, in

order to identify the *specific* categories that underlie its development. This allows the simpler categories to reflect both the complex and intensified relations of the developed concrete, as opposed to the undeveloped and slight relations of “immature” concrete. Money, for instance, made its presence prior to capital, wage labor, and modern landed property in historical time. Yet, it did not become a full-fledged category (i.e., an equivalent form) until the very development of capitalism (Marx 1970: 208). By the same token, it is the dominance of capitalist social relations that renders both the landed property a modern category and rent a valorized *sui generis* capitalist relation.

Methodology is a seamless paradigm, a worldview—just like pregnancy in which one cannot be pregnant and be expecting to a degree. Here, particularly on the subject of oil, it appears that unfortunately many within the heterodox economics traditions (including radicals, institutionalists, and neo-Marxists) are indeed impregnated by orthodoxy. That is why, despite the critical question of oil as a subject, there has been neither a serious dialogue between the orthodox and heterodox traditions nor a genuine discourse within the heterodoxy itself over the globalization of oil.

The Periodization of Oil Production

For our theoretical purpose and from the standpoint of the evolution of a modern industry, we divide the entire history of Middle Eastern oil into three stages of development: (a) the era of colonial oil concessions, 1901–50; (b) the era of transition and transformation, 1950–72; and (c) the era of postcartelization and globalization, since 1974. Given the early discovery of oil in the United States (1859), a slightly different, yet substantially overlapping, periodization may be applied to the U.S. oil industry: (a) the era of classical cartelization and early oil trusts of 1870–1910; (b) the era of regulated neocartelization of 1911–72; and (c) the era of globalization, since 1974 (Bina 1985: ch. 3). These historical stages are not arbitrary but, as the corollary, reveal the evolution of capitalist social relations in the world oil industry.

A close examination of the entire period of 1870–1970 reveals that predominantly the administrative pricing (i.e., unmediated accounting calculations) and cartelized practices were the rule. Such a framework, however, had begun to lose its effectiveness in the 1950s and 1960s, as the proliferating market forces did overcome the Achnacarry networks of the International Petroleum Cartel (Blair 1976: 80–90; Federal Trade

Commission 1952).³ The 1928 Achnacarry Agreement inaugurated a new era of cartelization since the U.S. antitrust law of 1911 that led to the breaking up of Rockefeller's Standard Oil Trust. This was in response to the worldwide irreconcilable price wars that were in full swing at the time when there was no adequately developed global oil (capitalist) structure that would objectively mediate and manage all this perpetual chaos into a forcible, regulating reconciliation. This time the control of oil meant the cartelization of oil in toto across the whole landscape. Blair charmingly summarizes the seven sacred tenets of this infamous agreement as follows:

Alarmed by the rapidity with which the price war has spread from India to America and then back to Europe, the heads of the three dominant international majors met at Achnacarry Castle in Scotland to prevent the recurrence of such disturbances. Walter C. Teague, then president of Exxon [Standard Oil of New Jersey], was quoted by a trade journal as saying, "Sir John Cadman, head of the Anglo-Persian Oil Co. [BP] and myself were guests of Sir Henri Deterding [head of the Royal Dutch-Shell] and Lady Deterding at Achnacarry for the grouse shooting, and while the game was a primary object of the visit, the problem of the world's petroleum industry naturally came in for a great deal of discussion." Referred to generally as the As Is Agreement of 1928 or the Achnacarry Agreement, the product of this discussion was a document, dated September 17, 1928, setting forth a set of seven principles and outlining in general terms the policies and procedures to be followed in applying them. The principles provided for: (1) accepting and maintaining as their share of markets the status quo of each member; (2) making existing facilities available to competitors on a favorable basis, but not at less than actual cost to the owner; (3) adding new facilities only as actually needed to supply increased requirements of consumers; (4) maintaining for each producing area the financial advantage of its geographical location; (5) drawing supplies from the nearest producing area; and (6) preventing any surplus production in a given geographical area from upsetting the price structure in any other area. The last point asserted that the observance of these principles would benefit not only the industry but consumers as well. (1976: 55)

The first stage in the development of the Middle Eastern oil industry coincided with the rudimentary development of capitalism and absence of full-fledged modern landed property. The private ownership of land excluded the ownership of subsoil, including the ownership of minerals underneath. A typical oil concession included the surrender of the right

to explore, develop, and produce oil, natural gas, and the related substances to the concessionaire, an international oil company. And from both legal and theoretical standpoints this surrender of right to explore, develop, and produce should not be confused with the surrender of ownership of the resource (i.e., oil deposits in place) to the contracting oil companies.⁴ The term *concession*, rather than *lease*, refers to a contract between a private entity (i.e., a company) and a government (i.e., a would-be sovereign entity). The oil concessions during this first stage (1901–50) had more or less the following commonalities:

1. They nearly covered the entire subsurface of the land in a country or territory.
2. They had a long duration that normally extended beyond fifty or sixty years.
3. They were only a handful of cartelized concessionaires worldwide.
4. The terms of the concessions were uniform.
5. The principal financial obligation was the uniform payment of royalty.
6. The financial terms were extremely moderate.
7. There was little change in the terms and conditions of these concessions.

The laws of the oil concessions [i.e., the colonial contracts] governing the *dominated* oil regions of the world, including the Middle East, are substantially different from the leasing contracts that prevail in the United States. It should be noted that the essential characteristic of the U.S. leasing practices stems from the structure of ownership of the subsoil, which is included as a part of the ownership of land. Due to the observance of the *rule of capture*, in the United States, the materials obtained from the subsoil belong to the owner of the land. (Bina 1985: 22)

Thus, from the beginning, capital investments in exploration, development, and production of oil had to come to terms with two separate systems of landed property in the subsurface across the globe. At the same time, from the standpoint of the stage of development, there emerged the tendency to a rudimentary valorization of landed property in these territories as opposed to a full-blown valorization in the United States (valorization of the landed property leads to the formation of rent, as a category, which in turn depends on the prior establishment of capital as a social relation). That is why the industry as a whole—a disorderly conflation of different social relations—had to be managed by direct

administration and crude and unmediated cost and price calculations.

The second stage in the development of the Middle Eastern oil industry was the gradual objectification of market forces that eventually led to decartelization and abandonment of administrative pricing of oil through the crisis of 1973–74. This stage saw the uneasy coexistence of the declining cartelized mechanisms and practices, and the rising proliferation of market forces that carried and conveyed the spread of competition against the prearranged production, captive oil concessions, “gentleman’s agreements,” and arbitrary accounting of oil royalties (and rents) according to fictitious “posted” pricing. Any transitional period, by necessity, tends to portray the amalgam of the vanishing past and the emerging future. The breakdown of the cartelization of oil was the consequence of certain evolutionary changes beyond the cartel’s surrogate allocation and accounting system that had long been skillfully employed across the vast, untouched, and presumably passive geography of production. In one important sense, in contrast to its American counterpart, the history of cartelization of international oil is a remarkable story of “primitive accumulation.”

This also shows that the spread of capitalist social relations, via oil, was not only contradictory but also contagious. Historically, however, the triumph of cartelization sowed the seeds of its own destruction. Introduction of foreign capital in the exploration, development, and production of oil and the germinating capitalist social relations in many of these oil territories have eventually led to the valorization of landed property under capitalism. Therefore, this transitional stage is the beginning of unraveling and dismantling of the ad hoc and fragmented accounting schemes that stitched the U.S. oil basing point system, at the Gulf of Mexico, to the newly devised (i.e., the cut-rate) posted prices at the Persian Gulf. This provided the companies with an opportunity to pocket not only the monopoly oil profits but also the lion’s share of the oil royalties.

Some of the basic identifying features of this period are (a) the arbitrary division of oil profits and oil rents—starting with 50–50 profit sharing, (b) the elimination of “phantom freight” and the designation of a second basing point at the Persian Gulf,⁵ (c) the nationalization (1951) and subsequent denationalization (1954) of oil in Iran, (d) the formation of the Organization of Petroleum Exporting Countries (OPEC),⁶ and (e) the rise of independent oil companies and the demise of the Achnacarry (Alfonso 1966; Bina 1985: 21–35; Mikdashi 1972). During this period,

given the desire for stabilizing the basing point price of oil at the Gulf of Mexico, U.S. domestic oil has also been controlled (Blair 1976: 121–203). This basing-point system, erected upon the wellhead price of U.S. oil (at the Gulf of Mexico), was used as a universal (accounting) yardstick for pricing of oil anywhere in the world (Federal Trade Commission 1952).

Given the new and bountiful discoveries of cheaper oil in the Persian Gulf region, the new oil has not only displaced the U.S. markets in the west of Suez but also continued toward markets on the U.S. eastern seaboard. Thus the regional oil markets adjacent to the Western Hemisphere were supplied with the oil from the Persian Gulf. This has prompted the international oil cartel to cut the Persian Gulf posted prices in order to prevent the interregional flow of oil toward the U.S. market, thus complying with the tenet of the 1928 As Is Agreement reached in the Achnacarry. Historically, the posted price at both Gulfs functioned as an allocating mechanism for transferring and disbursing crude within the worldwide networks of the cartel. Therefore, while cutting the Persian Gulf posted price reduced the flow of oil from this region, it also diminished the oil royalties for this region both in terms of the magnitude (per barrel) and the quantity of output.

The founding of OPEC was a response to the continuous cuts in the posted prices by the International Petroleum Cartel in the late 1950s. The posted price of oil was cut due to a combination of factors, such as the 1958 recession, expansion of Russian oil production, and imposition of the 1959 oil import quota on the U.S. domestic oil market, which was by far the largest in the world. The last factor, which was devised to discourage competition from the U.S. independent producers, is indeed the tip of the iceberg of U.S. government endorsement of As Is (the Achnacarry Agreement) at the expense of both the U.S. domestic consumers and the royalty earners of the Persian Gulf oil region. This was, however, concealed by the U.S. government under the convenient cloak of “national security.” It is noteworthy to point out in passing that once the deception of national security—and the pretense of “strategic oil”—was concocted, the tensions between the Anti-Trust Division of the U.S. Justice Department and the State Department over the violation of the Sherman Anti-Trust Act of 1890 and the pertinent antitrust law of 1911 subsided once and for all. This ingenious invention is only the tip of the blunder associated with the myopic, immature, and reactionary foreign policy of this period (see Blair 1976: ch. 7).

Indeed, the unofficial U.S. foreign policy was the policy of status quo in line and indeed hand-in-glove with the basic tenets of Achnacarry. This, for instance, can be seen from the U.S. defensive attitude in failing to recognize OPEC for nearly a half a dozen years after its formation. The following passage from the 1964 U.S.–U.K. Memorandum of Conversation, while shedding light on the role of U.S. State Department, also reveals the early idea of the countervailing “oil consumer grouping” against OPEC, long before the 1970s:

We envisage, said Sir Geoffrey [Harrison, Britain’s Deputy Foreign Secretary], that a confrontation on OPEC issues might take place in different ways. (1) We might find ourselves in a position . . . to support the companies. This would have many drawbacks, including the invoking of Arab nationalist sentiments [that] provide potential for Soviet meddling and create internal political difficulties in the countries concerned. Because of these fears, the Shah was prepared to get out in front in order avoiding [sic] enactment of sanctions at the [24 December 1963] Riyadh OPEC meeting. He, in fact, blocked sanctions against companies. (2) A confrontation might arise with the Western European consuming governments . . . if difficulties over OPEC should lead to an interruption in the supply. . . . (3) A price rise could likewise provoke a Western European consumer combination to oppose OPEC. However, we incline to the belief that a rise in prices will come about in any event and the European governments will just have to learn to live with it. . . . Mr. Kelly [U.S. Assistant Secretary of the Interior for Mineral Resources] expressed agreement in principle with everything Sir Geoffrey had said. . . . We are also worried about a consumer–producer confrontation and there is a chance we might provoke this sooner than necessary. . . . By focusing European attention now on Middle East oil problems we may stimulate European thinking on an oil consumer grouping to counter OPEC . . . *We wish to avoid a confrontation between OPEC and OECD* in 1964. . . . Sir Geoffrey said he wished to reaffirm the joint position reached in the June [1963] talks on the desirability of maintaining a stance of neutrality and nonrecognition of OPEC. (1964: 319–20, emphasis added)

Britain’s inflated posturing and American naïveté toward OPEC turned out to be a flop. It took nearly six years for the U.S. government to realize that it was virtually alone in nonrecognition of OPEC. Thus the belated U.S. action by default:

The U.S.–U.K. policy of neutrality and noncommitment towards OPEC detailed in CA–386 (paragraph 8) has not prevented the OPEC from obtaining recognition from international organizations, specifically the

ECOSOC and UNCTAD, and Austria has granted diplomatic status to the organization and its personnel. *In light of these and other successes by the OPEC, the U.S.G intends to review the present policy towards the OPEC and consider if some other policy towards the organization might more usefully serve U.S. interests.* (Ball 1965: 333, emphasis added)

Toward the end of the 1960s, there occurred, inter alia, three major developments that entirely undermined the cartelized character of the industry in favor of the rising objective market forces and spot oil prices globally. First there appeared transformative macroeconomic changes in OPEC's relationship with the International Petroleum Cartel; this was reflective of changes in internal development and potential integration of the oil-exporting countries into the world economy. Second, there emerged the proliferation of independent oil companies, which is a telling story about the internal turmoil and erosion of power in the cartelized system of Achnacarry (1928–72). Finally, there was a considerable increase in the exploration and development costs of U.S. domestic oil, the costliest in the world, in both per-barrel and absolute magnitude. The latter, in turn, translated into a significant increase in the cost of U.S. domestic oil production. At this time, a close inspection of the U.S. oilfields revealed (a) considerable fragmentation of the new oil leases associated with the U.S. domestic exploration activities, (b) sizable fragmentation of oil leases (i.e., the dispersion of royalty ownership) in the producing oilfields in need of unitization and application of advanced oil recovery, (c) the veritable decline of the U.S. oil finding rate (oil reserves added per well), following the 1970 U.S. production peak, and (d) significant increase in the cost of successive capital investments in the secondary and tertiary recoveries in the aged U.S. oilfields (Bina 1985, 1988).

In the meantime, in the early 1970s, the Texas Railroad Commission abandoned the policy of market demand prorationing after nearly four decades since the discovery of bountiful East Texas field. As Blair (1976) articulates, the 1932 prorationing (or what is labeled “conservation”) of Texas oil right after the Achnacarry Agreement was a substitute for unitization of the fields (and the application of advanced recovery), which practically led to the destruction of billions of barrels of ultimate U.S. oil recovery. On January 1, 1970, U.S. federal oil depletion allowance was reduced from 27.5 to 22.0 percent. On August 15, 1971, the Nixon administration instituted the first phase of price controls. On January 11, 1973, mandatory price control turned into voluntary control. On

August 17, 1973, the Nixon administration imposed a two-tier price ceiling on domestic oil: old oil (produced at or below 1972 levels from existing wells) was to be sold at March 1973 prices plus 35 cents; new oil (produced above 1972 levels from existing wells and from new wells) was free of control. In 1972 the infamous 1959 oil import quota (a friendly gesture to the Achnacarry in the name of “national security”) was rescinded (Blair 1976: 152–86). This is the same program that triggered further cuts in the Persian Gulf posted prices and led to the formation of OPEC. Finally, there was the devaluation of U.S. dollar, first in December 1971 and subsequently in February 1973, respectively for 8.5 and 10 percent. All these transpired well before the October 16, 1973, and January 1, 1974, OPEC price hikes. On November 15, 1974, the International Energy Agency (IEA) was formed.⁷

Eventually, the grand cartelized network of Achnacarry was unraveled piece by piece during the transition period. The gentleman’s agreements gave way to the tumultuous forces of market. The lack of control over the increasing volume of oil outside of the cartel’s network did the trick. The development of adequate capitalist structure in the oil-exporting countries led to de facto valorization of landed property in oil. This in turn transformed the nature of OPEC, notwithstanding the Trojan horses of the golden years of Pax Americana within OPEC that desperately searched for a middle ground. The U.S. oilfields were rationalized; the global oil industry were reorganized and unified through the crisis; and the price of production of the U.S. oil had become the regulating price of production for the entire industry worldwide. The world oil entered into the era of globalization with unified market prices, global differential oil rents, and plenty of volatility (Bina 1985, 1992, 1997; Bina and Vo 2005).

The 1973–74 crisis must be considered as the mirror of much larger manifold transformations, namely (a) the worldwide unification of oil industry—from the lowest to the highest cost structure—under one pricing rule, (b) the de facto nationalization and concurrent transnationalization of oil against the International Petroleum Cartel by the oil rentier states, (c) the decartelization of U.S. oil and rationalization of the U.S. oil industry, (d) the universal valorization of the landed property and competitive formation of global differential oil rents, (e) the transformation of OPEC from a rudimentary rent setter to a full-fledged rent collector, (f) the proliferation of global oil markets, abolition of posted prices, and formation of global oil spot prices, and (g) the redundancy

of the unmediated (physical) access, utopian self-sufficiency, and dependency on a particular oil region (Bina 1989b, 1990).

The era of cheap oil/expensive oil was over. Yet, in realpolitik, the prank of national security, via the allegation of dependency and demand for access, led to tough talks and threats against Pax Americana's favorite son, the shah of Iran, by Henry Kissinger and to the panic plan of Rapid Deployment Force by the Carter administration.⁸ On the supposedly analytic front, the post-1970s geopolitics of oil has essentially centered on the traditionally fragmented quarrels over the de-Americanization⁹ of oil and concern over the U.S. domestic oil production, consumption, and imports. And it took nearly another decade for the United States, OPEC, and the emerging world to finally realize that these epochal changes are irreversible.

The Theory of the Oil Rent Revisited

The significance of oil rent and the necessity of its theorization are as old as the industry itself. Yet the direction of the Marginalist Revolution (the birth of neoclassical economics) has not been conducive to specific treatment of any rent, including oil rent. Moreover, in the span of several generations and the numerous contending exchanges, the neoclassical school eventually managed to do away with the specific treatment of rent. At the same time, despite the persistent pleadings by some rather prolific writers at the turn of the last century and beyond, the neoclassical paradigm and profession endorsed the tautology of "opportunity cost" and the simultaneity of general equilibrium for all types of production, including the ones that are valorized in conjunction with the landed property.¹⁰ Thus, rent was first generalized as the return on all "factors of production" before being euthanized and buried away from the myopic sight of the profession (Fine 1982: ch. 7; Hobson 1891). But the specter of rent has kept hovering over the spectrum of competition–monopoly, as a faint reminder.

Rent: Valorization of Landed Property

The Achilles' heel of mainstream theory is nowhere more exposed than in the oil industry where oil rent is a crucial factor. There is no room for rent in the neoclassical framework, except in violation of the idealized competition. There is also no specific rent in the general equilibrium

framework where all the returns on the factors of production are rents. Yet, in partial equilibrium where the *specific* theory of rent is possible, the neoclassical theory is only applicable to a single-commodity world. That is why oil literature within the neoclassical economics is abundantly replete with the repetitive tautology of market power and monopoly.¹¹

Being unable to utilize the neoclassical theory to study the reality (of oil rent) and unwilling to give up the reality (of oil rent) for the sake of neoclassical theory, we have had no choice except to return to the Ricardo–Marx literature on the political economy of rent as our prehistory (Marx 1968; Ricardo 1976). In the first chapter of part 6 of the third volume of *Capital*, Marx lays out a framework for meaning of rent in capitalist production. Marx identifies the pitfalls clearly:

There are three major errors which obscure the analysis of ground rent and are to be avoided in dealing with it[:]

1. The confusion between the various forms of rent that correspond to different levels of development of social production process. . . . This *common character* of the different forms of rent . . . leads people to overlook the distinctions.
2. All ground rent is surplus value, the product of surplus labor. . . . But the subjective and objective conditions of surplus labor and surplus value in general have nothing to do with the particular form, whether this is profit, or whether it is rent. They apply to surplus value as such, whatever particular form this may assume. They therefore do not explain ground rent.
3. A particular peculiarity that arises with the economic valorization of landed property, that is the development of ground rent, is that its amount is in no way determined by the action of its recipient, but rather by a development of social labor that is independent of him and in which he plays no part. (1991: 772–75, emphasis in original)

It is important to realize that these conclusions are the result of Marx's complete theory of production, circulation, and distribution of value in capitalism. The first point is a caveat on the epochal identity of rent relative to the mode of production. The second point confirms that while rent is surplus value, the production of surplus value—as the effect of general conditions of capitalist production—has no automatic mechanism for identifying rent. Finally, the valorization of landed property

(i.e., the formation and magnitude of rent) is neither ad hoc nor undefined, notwithstanding the negotiation over the amount of rent between the land owner and capitalist investor. The magnitude of rent is determined by and consistent with the operation of law of value. And, being the subject of valorization, the intervention of landed property is not the antithesis of capital but its synthesis, which in turn reflects upon the development of productive forces. This point is absolutely essential for the accurate description of absolute rent (AR) beyond the arbitrary monopoly interpretations.

Unlike Ricardo, Marx started with the real experience whereby the least productive land has to pay rent. He identified this rent as AR. According to Marx, AR reveals the effect of monopoly of the (modern) landed property on capital accumulation in agriculture—a monopoly that is the product of the capital social relations. Moreover, the monopoly of landed property is a synthetic monopoly that can be overcome by the pace of capital accumulation, being measured by the organic composition of capital (OCC). According to Marx, OCC is indeed the measure of progress in agriculture relative to all other sectors of the economy and, as such, depends on the interindustry competition and thus intersectoral mobility of capital. Thus, in the dynamic reality of (historical) transformation of values to the prices of production, some prices of production remain above and some below values depending upon their corresponding deviation from the average OCC in the economy as a whole (Fine 1986; Saad-Filho 1993; Shaikh 1977, 1984). This implies that AR is necessarily subject to the interindustry competition; and, consequently, its relevance as a category depends on the relative pace of capital accumulation in the sector in question. Therefore, it would be erroneous to portray AR as an arbitrary monopoly rent (Fine 1979).

It is worthwhile in passing to present a glimpse of Marx's theory of competition. Marx depicts competition as the antithesis of feudal monopoly and capitalist monopoly as "the negation of feudal monopoly, in so far as it implies the system of competition. . . . Thus [he argues] modern monopoly, bourgeois monopoly, is a synthetic monopoly, the negation of negation, the unity of opposites" (1969: 151). For Marx, and for Schumpeter, concentration and centralization of capital are the necessary ingredients of capital accumulation, and this constitutes ammunition in the competitive war of capital upon capital (Schumpeter 1942: ch. 7; see also Shaikh 1980). Likewise, integration in Marx (and Schumpeter) is not the antithesis of competition but its synthesis. And

what is called a “barrier to entry” is the very reflection of the continuous increase in the size of regulating capital in the battle of competition. Here, neither the fiction of pure competition nor the tautological construct of atomistic markets has any relevance to the real competition in capitalism. If the capitalist concept of monopoly is synthetic, then it must not be confused with the orthodox notion of monopoly (see also Weeks 1981: ch. 6). Similarly, the monopoly of landed property must be treated in the same vein as *synthetic*, that is, in the manner of negation of negation.¹²

Differential rent (DR), on the other hand, captures the effects of the variation in the quality of land together with the variation of capital investment in agriculture. Thus Marx elucidates:

The level of rent, reckoned per acre, thus grows . . . as a result of increase in the capital invested on the land. And this takes place moreover with production prices remaining the same, and irrespective of whether the productivity of the extra capital remains the same, decreases or increases. The latter factors modify the degree to which the level of rent per acre grows, but not the fact that it does grow. This is a phenomenon that is peculiar to differential rent II and distinguishes it from differential rent I. . . . The more the capitalist mode of production develops, however, the more the concentration of capital on the same areas increases, so the rent per acre rises. . . . This difference in the levels of rent could thus be explained neither in terms of a difference in the natural fertility of the land types nor in the amount of labor applied, but exclusively in terms of the different kind of capital investments. (1991: 830–31)

Marx certainly takes its lead from Ricardo. Yet, his concept of rent sharply departs from Ricardo’s in two important respects: (a) that the assumption of “no landed property” in Ricardo’s theory is faulty and (b) that Ricardo’s rule concerning the order of cultivation from higher to lower quality land has no support in reality. Marx’s classification of DR into the two types of DR I and DR II corresponds to the application of equal quantity of capital to the equal-size lands of different quality and the application of different quantity of capital to a given quality land under cultivation respectively. The combined effects of these differential rents (the former arising from natural fertility and the latter from successive application of capital), however, do not lend to a linear separation (Fine 1979). This point is crucial for Marx’s theory of value for two reasons: (a) unlike Ricardo’s, Marx’s rent theory does not arise axiomatically from any generalizable, natural condition but from the his-

torically specific valorization of landed property—hence no general theory of rent, and (b) the concurrence of normal size capital and least productive land affects the regulating price of production in agriculture.

The second point is critically important for our own specific theory of oil rent in which the presently least productive oil deposits should not be necessarily deemed as the least productive in their original natural state; once considerably productive, these deposits are being turned into their present state by the successive investments of capital. Finally, AR is not a stand-alone concept, separate from DR II. For DR II sets the limits of AR through the dynamics of landed property's valorization in the presence of interindustry competition of capital—reflected by organic composition of capital. This shows that Marx's theory of value (and prices of production) unites the process of production, exchange, and distribution, before ascending to its pinnacle of *theoretical* concretization via rent theory.

Valorization of the Oil Deposits

At the outset, we need to identify the system of landownership, hence the ownership of oil deposits, in the oil industry before attempting to address the question of worldwide valorization of landed property in oil. As pointed out earlier, there exist two separate systems of ownership rights in the oil industry: (a) the U.S. rule of capture inclusive of the private ownership of subsoil and (b) the public ownership of the subsoil in the rest of oil-producing regions. This, of course, presents us with two different forms of the appropriation of nature prior to valorization as landed property in production. As has already been argued, any investigation into the question of rent must be specific, given the specificity of the landed property involved, hence specificity of the production of oil. Therefore, Murray's proposition that agriculture must set the alternative use of land for oil rent is a fallacious claim for two reasons: (a) the contention of alternative land use is already a short step away from viewing rent tautologically as "opportunity cost" and (b) the analysis of oil rent is neither historically specific nor has any relevance to the landed property in oil (see Murray 1977; Fine 1983 for a critical alternative).

The crucial question is whether the landed property in oil—that is, this specific form of landed property—receives AR and, if not, why not. The answer depends on the pace and dynamics of capital accumulation in the oil sector as whole, which in turn relate to the mobility of capital

between the oil sector and the rest of the economy, signifying the extent of interindustry competition, measured by organic composition capital in the oil industry. In other words, although AR is not a monopoly rent in an ad hoc neoclassical economics sense of the term, it nevertheless may tend to impede the inflow of capital from other sectors, thus obstructing the interindustry competition of capitals and exhibiting a below-average organic composition capital. That is why it would be essential to make a distinction between absolute and differential rents and thus be able to demonstrate that the decartelization of oil since the 1970s corresponds with development of the differential oil rents through worldwide competition. This distinction alone is a critical step for understanding the complexity of the contemporary oil sector in terms of its competitive unification and globalization.

The fact that the U.S. oil region has been heavily explored and intensively drilled is an indication that the valorization of U.S. landed property under the rule of capture has been achieved with high organic composition of capital. This also goes for the lesser explored and more productive oil regions under the rule of public property. Two conclusions are in order here: (a) AR is not a monopoly rent, and (b) there is no AR in the oil industry. However, in comparative static terms, one might argue that the least productive lands (oil deposits) will not be leased unless they receive rent.¹³ But the least productive U.S. lands (U.S. oilfields) are not necessarily the ones that are presently leased for exploration; indeed the least productive oilfields are the ones that are already producing. These oilfields that were once deemed productive have now been turned into their present classification by the successive application of capital. These are the kind of oilfields in which price of production meets the requirements of the combination of least fertile deposits and normal capital, thus forming the regulating price of production for the entire industry. Therefore, the rent of the newly leased lands (oilfields) in our example above is not an absolute oil rent but a differential oil rent.

Given the range of oil regions in the world, from the most to the least bountiful, the central issue is the formation of differential oil rents across the globe, which is subject to intraindustry competition. This presupposes the globalization of the industry, formation of differential rate of profit, and a single worldwide market value for oil. Similarly, we need to distinguish two separate forms of differential rents in the oil production: (a) differential oil rent type I and (b) differential oil rent type II.

Given the fact that the separate effects of DR I and DR II cannot be known in advance (i.e., the impossibility of separating the effects of worst land and normal capital in advance), an *a priori* application of rent theory cannot produce a meaningful outcome for our purpose (Bina 1992). Therefore, speaking of DR by identifying its two forms (DR I and DR II) in abstract neither provides any determinate solution to the question of oil rents nor allows for specific conditions that are pertinent to the dynamics of capital accumulation in the oil industry. That is why it was necessary to engage in *a posteriori* theorization of the structural, institutional, and organizational changes, such as decartelization of oil, proliferation of spot—and futures—markets, and competitive formation of differential oil rents across the globe, as we did (Bina 1985, 1989b).

In U.S. domestic oil, given the rule of capture, the fragmentation of oil leases, particularly when the size of the reservoir is huge, has long been troublesome for adequate unitization of the oilfields for secondary and tertiary oil recovery. These reservoirs, while fully productive (i.e., nonmarginal) in their original natural state, having been the subject of heavy rounds of successive investment, declined appreciably in the process of advanced recovery. Hence, the successive application of capital, particularly on these larger reservoirs, has led to the decline of natural conditions of the oilfields and, consequently, to their productivity decline. As Bina (1985) has shown, throughout the 1960s, the U.S. oil capital expenditures (per barrel) in exploration, development, and production have increased remarkably. These are the old oilfields that have long been heavily producing in the lower forty-eight states. It is the individual production price (cost-price plus average profit) of these oilfields that has been the largest and thus has set the regulating price of production for U.S. oil as a whole. And it is the U.S. oil production price that is the regulating production price and thus the market price of oil anywhere in the world. U.S. oil was also the epicenter of the crisis that has prompted the restructuring of oil in the U.S. industry and the worldwide formation of differential oil rents (Bina 1989b).

Finally, post-1970s global oil was beset with volatility and universal uncertainty. The lack of rapid response to the increasing access demand by the price relates to two conundrums: (a) the requirement of long lead time for building a new capacity in the presence of market volatility and uncertain future prices and (b) the dilemma of switching off from shut-in capacity and back, without sustaining a considerable economic cost

due to the loss of technical efficiency and possible damage to the reservoir. This situation is worse in the case of excess supply. The levels of shut-in capacity have already been set normally in advance in the majority of oilfields, including those that regulate the global price of production. These regulating oilfields are particularly hard-pressed in the case of declining prices. The plugging of oil wells is one (costly) option. However, once they are plugged the oil is lost forever. To avoid damaging the reservoir, another option is to keep operating the oilfields and hope for better market prices tomorrow.¹⁴ That is why the regulating price of production does not decline immediately unless there is a prolonged excess supply, in which case the levels of risks and losses are too great for these producers to continue.¹⁵ This situation may indeed trigger an oil crisis, leading to a worldwide restructuring of capital, a new regulating price of production, and the corresponding market prices within the global oil industry. Thus, the characteristic of such crises must be explained from within, that is, from the standpoint of the oil industry's internal dynamics, not according to the circumstances arising from the external contingencies. And oftentimes relying on power as both the premise and the end result (such as market power or political power) further mystifies the subject that has already attained the highest degree of complexity in the contemporary political economy.

Revisiting the Outstanding Questions

In this section we attend to several issues of critical import both for further clarification and for setting the record straight. For the sake of brevity, we begin with a brief reexamination of Massarrat (1980: 26–68) and in so doing respond to those who have utilized his vision of oil rent and value theory.¹⁶

1. The point of departure in Massarrat is the commodity energy, an abstract category, which itself is a derivative of the concrete forms of energy sources. Massarrat's point of arrival is also the same commodity energy, hence the simultaneity of the premise and the conclusion (1980: 32–35).

2. Massarrat begins with the unfavorable use–value form of coal vis-à-vis that of oil, comparing a *hypothetical* ton of coal with its crude oil equivalent in terms of their calorie content. He then contends that the “productivity of labor [is much higher] in the production of crude oil” than that of coal in this *hypothetical average*, before concluding that “the

individual price of production of coal regulates the market price of all other [sources of energy]" (1980: 34). Why is this procedure faulty? Because it is a remarkable example of speculative reasoning in terms of the comparison of hypothetical averages—and prone to circularity. Besides, we find that the premise of higher price per calorie from U.S. coal is empirically untrue for the period under study (Bina 1989a: 167, table 3).

3. Massarrat tends to shift the problem from the cause of the oil crisis to its effects by focusing on coal. There is neither a concrete empirical analysis of U.S. oil nor a concrete theorization of the evolution of landed property in oil, nor even any analysis of U.S. coal, which is supposedly the focus of his thesis (Massarrat 1980).

4. The most serious error in Massarrat, however, is the conflation of the levels of analysis in the construction of commodity energy, namely, the utter confusion of the intra- and interindustry competition. If "[t]he individual price of production of American coal regulates the market value and market price of all sources of energy" then, according to Marx, the context of this regulation is the interindustry competition, in which case one cannot speak of an all-inclusive "energy industry" and "commodity energy" (1980: 35). Alternatively, if one wishes to speak of an all-inclusive energy industry, then one must be prepared to accept the framework of intraindustry competition and thus treat all the individual production units on the same footing, aside from their use-value form. The latter would lead to the formation of a unique market value via intraindustry competition for all the individual production units regardless of their use-value form. The requirement for an adequate analysis is thus to start with the real site of the crisis. This entails the thorough examination of the globalization of oil, valorization of the (oil) landed property in both the U.S. and OPEC, formation of differential oil rents, and the rationalization of U.S. oil industry all in one breath within the crisis itself (see Bina 1985, 1989a).

5. Massarrat appears to have relied on a static interpretation of Marx's AR as monopoly. In this case, why should the magnitude of AR as a monopoly rent be prearranged within the limits of market price and price of production? Why wouldn't this "monopoly rent" be like any other ad hoc monopoly, being so fixed arbitrarily? As we have shown in the oil rent section, the answer is quite simple: Marx's AR is not a monopoly rent but rather a rent that is reflective of the effect of obstacles of landed property against the flow of capital onto agriculture. That is why Marx specifically speaks of OCC as he precisely identifies the limit of AR's

magnitude as the difference between value and the price of production—a so-called maximum toll in agriculture. As we have shown above, for Marx, monopoly of (valorized) landed property is synthetic, not “natural.” Given the high pace of capital accumulation in the oil sector, speaking of AR is absolutely irrelevant to the production of oil. Yet, Massarrat keeps referring to natural monopoly and monopoly rents in orthodox terms. He writes

Landed property excludes this natural basis [raw materials] belonging to it from production until it receives a fee. This will not happen until the social need for this raw material exceeds the supply in the long term and the market value, and with it the market price therefore rises above general price of production [...] employed in the sphere. The difference between the market price of the commodity in question and the general price of production is then (as a particular form of surplus profit, of the *natural monopoly* profit which enters into the price of commodity) transformed into *absolute ground rent* by being appropriated by landed property. (1980: 32, emphasis added)

The influence of Massarrat’s interpretation of Marx on the subject of oil and rent is unmistakable. This influence, of course, can be seen in three ways: (a) the interpretation of Marx’s AR based on the pervasive notion of monopoly, (b) the (axiomatic) comparison of oil and coal, relying on the apparent bulkiness and purported higher production cost of the latter, and (c) the alleged application of AR to oil. For instance, Nwoke argues that “The ‘monopoly ownership’ of Third World landlord governments would be stronger, and the magnitude of absolute rent exacted by them would be greater, as the demand for minerals expands and the supply of rich mineral deposits becomes more limited” (1987: 30). The orthodoxy becomes a bit more transparent when Nwoke “[concludes] that OPEC has only succeeded temporarily as a cartel in capturing absolute rents for its oil-exporting member governments” (ibid., 103).

Parallel with Massarrat’s, Nore also begins with the axiomatic yardstick of “marginal energy producer on a world scale, measured in energy units,” and concludes that such a measure must be “the basis for *the final price of oil to the consumers*.” This price, he says, must be above the production price of oil but equal to the price of production of the “marginal energy producer”¹⁷ (1980: 70–71, emphasis added). This is how Nore speaks of the total amount of surplus profits in the oil industry. Now the remaining question is the distribution among the importing states, oil companies, and the producer country. What is the mechanism for such a distri-

bution? Save for the importing states, Nore “focuses attention on a political element in the determination of absolute rent,” which is now the subject of the “struggle between the owners of a nonreproducible property and the producers of commodities.” Nore then concludes that “the surplus profit captured by the oil company [is] monopoly profit, [the source of] . . . high level of concentration . . . due to its character as ‘natural monopoly’ and its strategic importance” (ibid., 71).

Finally, Nore appears to have taken his argument, over AR, one step further and wonderfully turned the table against the “shortcoming of Marx’s treatment.” But, alas, a cursory inspection of all this clearly reveals that Nore’s revision of Marx is not without a hefty price of self-indictment; it simply comes at the staggering cost of accepting the fallacious construction of commodity energy, an arbitrary depiction of AR, and orthodox vision of competition and “natural monopoly” (1980: 71–72). Also Nore’s casual pronouncement of oil’s “strategic importance” in the same sentence is but icing on the cake of bourgeois monopoly (1980: 71). The political elements, and indeed the struggle of OPEC rentier states, are too important to be described in arbitrary terms. The oil crisis of 1973–74 has revealed that the struggles of the rentier states over the distribution of oil surplus profits were entwined with the worldwide restructuring of oil industry and *competitive* formation of differential oil rents across the globe. Hence these struggles themselves are neither arbitrary nor without a limit.

In the remainder of this section we need to clear up two additional, yet interrelated, issues: (a) the alleged cartelization of oil even after the oil crisis of 1973–74 and (b) the credibility of conspiracy theories. On both of these points that potentially feed each other and that perhaps may have possible implications for the questions, such as U.S. alleged hegemony or U.S. intervention in Iraq, it is worth quoting Fine and Harris at length, via two separate paragraphs. The authors simultaneously illuminate and obscure the very essence of the 1973–74 oil crisis as follows:

If we now put aside the oil crisis of the early 1970s and examine its results, we can see how the oil industry discovered a solution to the erosion of the world cartel and the pressures on domestic U.S. production. The large increases in the price of oil have sustained the profitability of producers in the U.S.A. and have guaranteed sufficient revenue in the world production to bind the majors and nonmajors together in a cartel that now

includes both. The result of this has been to create enormous surpluses on the production of oil from those reserves, nearly all, that are less costly to exploit than those in the U.S.A. What . . . OPEC nations and other countries have been able to do is to appropriate some of those surpluses. *That they can do so is a result and not the cause of the oil price increase.* (1985: 86–87, emphasis added)

To some extent, *this might read like a conspiracy theory of the oil price increases* in which the latter was a solution to the problem of the industry. *Certainly, such a possibility should not be discounted* and such theories abound in discussion of the oil crisis. Some argue that the crisis was a U.S. device to improve its competitive position relative to its industrial rivals by forcing a high price of oil upon them, others that it was a device to improve the U.S. balance of payments position through the recycling of petro dollars. These may or may not have been the effects or the intentions of the actions of the various agencies involved, but the solution to the industry's problems came about through a definite process that can be recognized. (1985: 87, emphasis added)

The authors correctly point out that the rise of OPEC surpluses is the effect of larger surpluses that have emerged in the global industry. Yet, they treat the emerging competition in the post-1973 decartelization of oil as a newly formed cartel that binds “the majors and nonmajors together,” despite the very fact that the era of the price fixing, deliberate division of the international markets, and unmediated control of production is over. By focusing on the consequence of the crisis on the U.S. oil production, Fine and Harris point out that “*this might read like a conspiracy theory of the oil price increases in which the latter was a solution to the problem of the industry.*” The phrase “might read” here, however, has a methodological connotation for the phenomenon of conspiracy that precisely points to the mode of appearance of the (raw) concrete and thus cries for *real* abstraction and dialectical (informed) appropriation. Yet, conspiracy hypotheses often play as the premise and as the end result at the same time and thus are not capable of overcoming their own tautological status.

It is therefore instructive to ask: why should the “majors” knowingly conspire against their own interest, particularly when it comes to surrender of their control over the bulk of world oil reserves and, not to mention, their incomparable position in the worldwide pricing of oil? And, more importantly, why would the majors (or nonmajors) be interested in making the domestic U.S. oil production free of “pressures,”

when indeed such a relief will have to be eroded soon through the global restructuring of the entire industry in which a significantly higher magnitude of the differential oil rents will become the norm also for the so-called new U.S. oil? In other words, why in the world would the old cartel (the majors) wish to swap their old exclusive position with a “new cartel,” shared with nonmajors? Is it not the forces of real capitalist competition, which have been gathering strength all the while through the transitional period of 1950–72, that ultimately led to the grand implosion of 1973? Doesn’t the phrase “the cartel that now includes both” further fuel the spread of confusion in the minds of some scholars, who tend to blend the notion of monopoly with hegemony, and encourage them to falsely rely on the “character of monopoly in the industry and an interpretation of the role of the dominant state in the oil sector, the United States” (Bromley 1991: 58)? And wouldn’t this very observation invoke the ghosts of old conspiracies once again?

Finally, on their face value, conspiracies are not suitable candidates for objective empirical verification reflective of the mediating institutions. The illusion of conspiracy, like the reflection of mirage, depends upon the real (mediating) material basis that is beyond the realm of conspiracy itself—shown in Bina (1985: ch. 2). However, in the case of the International Oil Cartel under the Achnacarry (1928–72), the perceived coincidences of conspiracy, while necessary, obtains sufficiency by the very existence of the unmediated cartel itself. Hence Achnacarry, due to its mission and administrative nature, was a giant conspiracy onto itself. In other words, cartels and conspiracies are a complimentary aspect of a phenomenon that drives its livelihood from the lack of mediation and mediating institutions. Therefore, mislabeling and mischaracterization of the post-1973 decartelization (and globalization) of oil should alert us to double trouble and indeed a double misunderstanding. And, it is within this context that with all due respect we are tempted to ask: what is “[c]ertainly, such a possibility should not be discounted” supposed to mean?¹⁸

Concluding Remarks

Capitalist social relations act much like volcanoes or hurricanes. Once they have gathered strength and become a formidable force, they devise their own laws and externalize their own mechanisms of enforcement. The post-1974 globalization of oil is not an exception to this rule. The crises that followed in the late 1970s, mid-1980s, and beyond owe their

epochal identity to the oil crisis of 1973–74, in which the valorization of landed property in oil obtained global dimension. Consequently, the past three decades of oil production must be carefully distinguished from the prior eleven decades, before the oil crisis of 1973–74. This distinction must not be made on the basis of quantity alone but quality: the epochal and universal quality of post-cartelization and post-Pax Americana.

As has been demonstrated, globalization of oil is the manifestation of the worldwide unity and contradiction of all the oil regions in global competition, and the oil spot prices are its momentary reflection. Globalization of oil reveals the worldwide valorization of the oil deposits manifested in global formation of differential oil rents, given the worldwide differential productivity of oil production. Thus, the production price of the least productive oil region regulates the production price and thus market price of all oil globally. There is no Malthusian scarcity of oil in this interdependent system if the price is right. And, in this globalized world, neither an honest motivation for self-sufficiency nor the deceitful cry for power projection under the guise of national security (and strategic oil) leads to lower or higher oil prices and/or any significant provision of “secure” oil outside of the global system. In other words, global oil is not kind to those who wish to have their cake and eat it too. Finally, neither the fanciful drilling in Alaska’s ANWR nor the reality of the unlawful, shameless, and humiliating U.S. invasion of Iraq has any legitimate (objective) cause in acquiring access to oil for the sake of alleged self-sufficiency.

Notes

1. The word “critical” is used here in the subtitle in order to distinguish our framework from the majority of heterodox, radical, and neo-Marxian economic approaches that are troublingly steeped in orthodox methodology. This paper (submitted in 2005) observes the thirtieth anniversary of the original idea and the twentieth year of publication of *The Economics of the Oil Crisis*.

2. This passage is selected from Marx (1970: 210–13) rather than Marx (1973: 105–7) for the fluency of the translation.

3. The Redline Agreement is the infamous Cartel decision, which made the Iraq Petroleum Company (IPC) conspire against Iraq and withheld 99.5 percent of Iraqi territory from any attempt at exploration. This agreement was a part of a larger gentlemen’s secret arrangement made in the Achnacarry Castle, Scotland, in September 1928. For further suppression of the oil discoveries in the Middle East see Blair (1976: 81–85). Blair rightly observes:

Contrary to the widespread and long-standing impression that cartels are somehow inherent in the nature of things, the fashioning of these arrange-

ments was the product of a great deal of very hard work. According to the cartel's minutes, which came into the hands of the Swedish investigating committee, the group held 55 meetings in 1937 at which 897 subjects were discussed; in 1938, 49 meetings were held at which 656 subjects were discussed; and in 1939, 51 meetings were held at which 776 subjects were discussed. (1976: 65, emphasis added)

4. This distinction is crucial for the recognition of landed property in the context of the 1970s oil nationalizations.

5. The original basing point, established at the Gulf of Mexico, was centered on the wellhead cost of U.S. oil. The phantom freight was the bizarre calculation of the cost of delivery of oil from the Gulf of Mexico to any destination in the world regardless of its location of production and its point of origin.

6. The Organization of Petroleum Exporting Countries (OPEC) was formed in 1960. The original founders were Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela.

7. This is the same International Energy Agency whose accurate description was anticipated in the U.S.–U.K. Memorandum of 1964. Ironically, this “accuracy” also reveals the petrified quality of U.S. foreign policy in tandem with the As Is Achnacarry Agreement during the Pax Americana.

8. We believe that the era of Pax Americana ended in the late 1970s and with it the hegemony of its hegemon, the United States; see Bina 1993, 1994a, 1994b, 1994c, 1995, 1997.

9. Some writers saw this as a temporary setback for the United States. See, for instance, Bromley (1991: 205–8) and my review of it in Bina (1994b). On the U.S. hegemony, besides the misconception of monopoly, a methodological trouble with Bromley is that it starts with the conjunction of categories that are themselves in need of theoretical grounding.

10. The neoclassical theory of exhaustible resources contends that scarcity rent must be added to the marginal extraction cost of oil. This reflects the intertemporal opportunity cost of exploitation of oil, shown in terms of the rate of interest in Hotelling (1931). No concept of landed property can be found here, because “scarcity rent” is the measure of opportunity cost of intertemporal allocation. Hence, $MC + \text{Scarcity Rent} = \text{User Cost}$.

11. Some neoclassical economists assumed that all oil should be considered as produced at the time of discovery; hence oil reserves should be treated as inventory. Thus there is no room for rent other than market power and monopoly; see Adelman (1986, 1990).

12. For a critical review of competition see Bina 1985 (ch. 6), 1989a; Clifton 1977; Semmler 1984; Shaikh 1980, 1982; Weeks 1981 (ch. 6).

13. There is no shortage of vulgar interpretations of Marx's theory of rent in the oil literature. A recent invention can be found in Mommer (2002: 1–29), where he renames Marx's AR “customary ground rent” for payment of royalties. The rest of the volume is replete with ad hoc governance structures without any theoretical grounding in respect to the competitive unification of global oil industry.

14. In the mid-1980s crisis, Texans told the following joke: “Do you know why Mercedes has no seat and no wheel this year?” The answer was: “Because the oilmen lost their behind and they don't know which way to turn.” At this time the brief ploy of “swing production” by Saudi Arabia was a self-defeating project. On the one hand, withholding the production cut the total rent revenues via quantity. On the

other hand, flooding the market (which is only possible for a limited time) cut the total rent revenues via price.

15. The sluggish decline of the oil prices, in the presence of excess supply, is not due to the orthodox presumption of market power; it is rather the consequence of the peculiarity of the oil production itself.

16. Massarrat and I were the first, albeit independently of one another, to analyze the oil crisis of the early 1970s, and indeed theorize the oil and energy industry, in terms of the complex interaction of capital and the landed property via Marx. He has focused on U.S. coal while I zeroed in on U.S. oil in order to address the globalization of oil and energy industry through the epicenter of the oil crisis.

17. Another glitch in Massarrat's approach to rent is an arbitrary designation of price of oil by focusing on the market price of its final derivatives (in Nore's words: "final price of oil to consumers" [1980: 70]). Again, this arbitrary switching, which leads to the conflation of several different production processes, produces confusion as to what rent really is. In other words, once the crude oil is valorized, sold, and has left the market, it no longer should abide by the rule of Marxian rent and the realm of landed property. Otherwise, we are back to the bourgeois notion of rent as market power. J.M. Chevalier (discussed in Bina 1989b: 95–97) is also trapped in this orthodox conundrum. Chevalier relies on monopoly rent and four different types of differential rents, namely, (a) quality rent, (b) position rent, (c) mining rent, and (d) technological rent; for a contrary view see Bina 1985, 1989b, 1992.

18. The early 1970s oil crisis led, inter alia, to fanciful conspiracy views that gradually subsided by the durable reality of the globalization of oil. Yet, the residue of this uncritical, and indeed silly, approach to oil has not disappeared from the distorted imagination of the conspiracy buffs. The case in point is the recent revival by Nitzan and Bichler. They state: "Our analysis centers around [sic] the process of *differential capital accumulation*, emphasizing the quest to exceed the 'normal rate of return' and to expand one's share in the overall flow of profit" (1995: 446, emphasis in original). The authors mockingly characterize the post-1973 oil crises as "energy conflicts" and emphasize that these prearranged and conspiratorial conflicts are the consequence of "quest [by the oil companies] to exceed the 'normal rate of return' and to expand one's share in the overall flow of profit" (ibid: 446). They point out that their "methodological starting point" is the differential rate of return, albeit misconstrued as differential capital accumulation (Bichler and Nitzan 1996: 609), yet their end result is also differential rate of return. Thus, given the authors' repeated rendition of the conspiratorial (neoclassical) oil monopoly here and throughout their later works, neither capital accumulation nor state find any place in their tautological fantasyland. However, what is sadly astonishing is the reliance, by certain self-proclaimed Marxist authors, on this illusory orthodox scheme, which is constituted as the main ingredient of a purported claim to a brand-new radical explanation that the oil—albeit from the back door and in a mocking and fictitious manner—is the cause of the war and the 2003 U.S. invasion of Iraq (see, for instance, Boal et al. 2005a, 2005b).

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