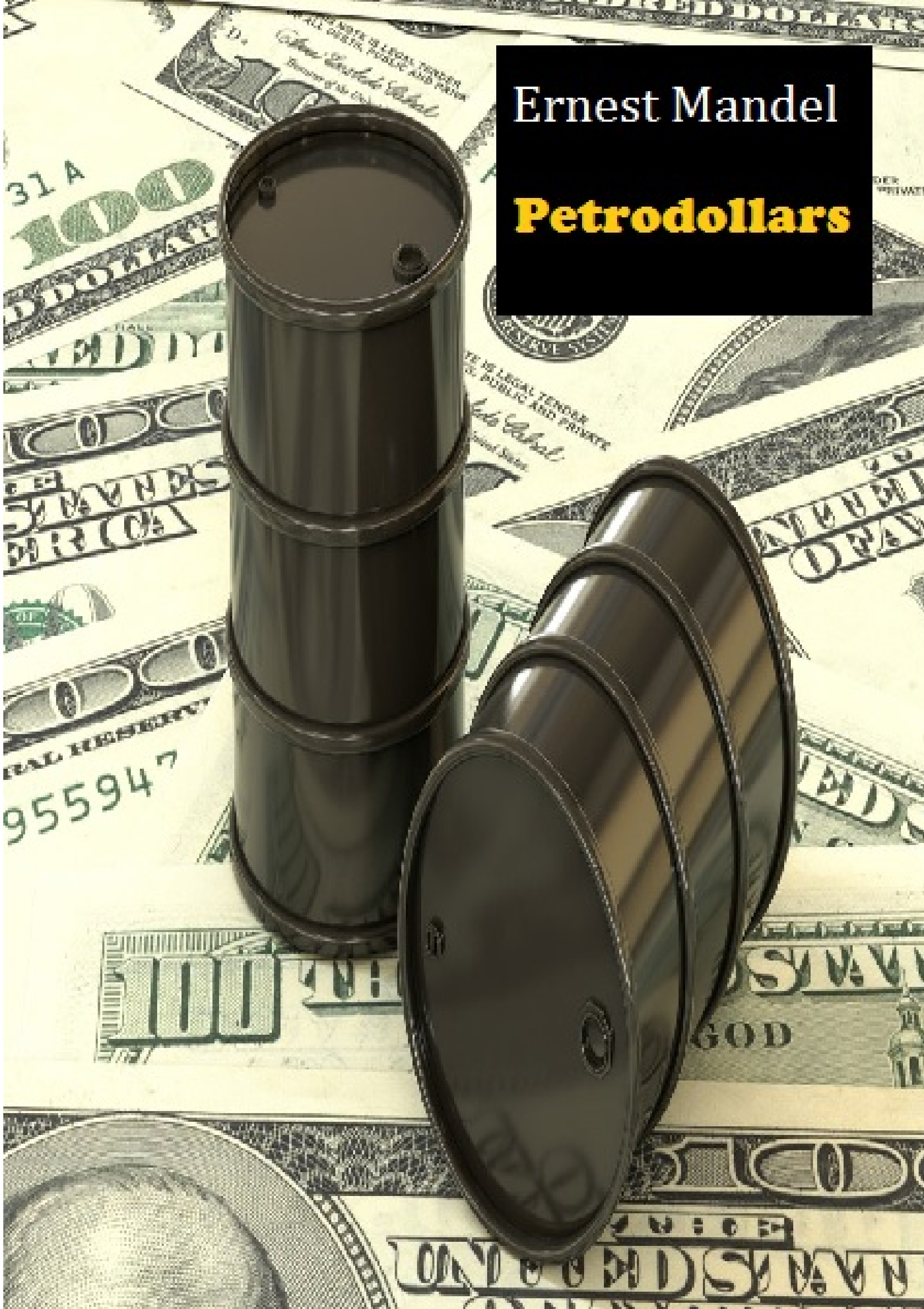
Ernest Mandel

Petrodollars



Ernest Mandel

Petrodollars: An Arab and Iranian finance capital emerges

(October 1974)

Written: October 1974.
Source: *Inprecor* no. 10 (Oct 17, 1974) pp. 11-15.
Transcription/Markup: Martin Fahlgren in 2015 for the Marxists Internet Archive.

The increase in oil prices since the October War of 1973 has considerably increased the currency incomes of the oil-producing countries, especially the Arab oil producers and Iran. This enormous income – estimated to reach $75 thousand million during 1974 – can be utilized in the following ways:

1. It can be hoarded, that is, held by central banks in the form of backing for national currencies or in the form of gold or currency hoarded by private proprietors.

2. It can be placed on a short-term basis in foreign bank or international institutions or utilized to purchase public short-term bonds in the imperialist countries (treasury bonds).

3. It can be spent unproductively on importing materials that do not enter into the process of reproduction of commodities: arms, luxury items, and so on.

4. It can be used to import productive goods serving to accelerate the accumulation of capital and the production of commodities within the oil-producing countries. (Imports of food and consumer commodities serving to reproduce the labor force also fall into this category.)

5. It can be put into long-term investments abroad. Here several categories must be distinguished:

* investments in liquid values (stocks and bonds)

* nonliquid investments

* buying of shares in industrial, financial, commercial, or transport companies and the creation of new firms of this type with participation in the management.

Of these five forms of utilization of "petrodollars," only the first has a deflationary effect on the economy of the imperialist countries and may therefore be considered a supplementary, although extremely marginal, factor in the economic recession now under way. To speak, as do certain politicians in imperialist countries, of "sixty thousand million dollars withdrawn from the Western economy" because of the balance of payments deficits of some imperialist countries is to forget that the majority of this $60 thousand million remains in the West or is returned there in the form of payment for supplementary commodity purchases or in the form of various investments.

In fact, the opposite thesis has much greater foundation. By being placed on a short-term basis in American or European banks, petrodollars feed the inflation of credit and thereby the inflation of paper money rather than contributing to deflation.

It is true that part of these petrodollars have served to "soak up" American and English treasury certificates, which are thus withdrawn from their usual buyers (the private banks), and this has contributed to reducing these banks' possibilities of extending credit. But the real cause of this restriction of credit lies not in the buying of short-term public bonds by the oil exporters, but rather in the fact that the American and British central banks, engaged in a deliberate policy of deflation and restriction of credit, have not expanded the volume of their operations on the world monetary market in proportion to the growth of the purchase of these bonds by the "Arab sheikhs."

At present, it is difficult to estimate the proportion in which the income of the oil producers is divided among the five means of utilization mentioned above. In general, however, it can be estimated that $30 thousand million will be used in 1974 to increase imports of commodities and to make various investments within the oil-producing countries (categories 3 and 4), while $35 thousand million will be invested abroad (categories 2 and 4), the rest most probably being hoarded.

The investment programs already planned by the oil-producing countries for coming years are extremely extensive. Saudi Arabia has developed a five-year plan whose budget is about $60 thousand million (at the current value); Algeria has a four-year plan for 1974-77 calling for $22 thousand million of investments. Kuwait plans to invest more than $4 thousand million in the 1974-75 fiscal year alone. It can thus be predicted that the cumulative balance of payments deficits of the imperialist countries arising from the high oil prices, all other things being equal, will diminish considerably in coming years because of the increase in the supplies of equipment, patents, and technical assistance they will send to the oil-producing countries. This is not true of the balance of payments deficits of the semicolonial countries that do not export oil; their deficits threaten to worsen.

A new finance capital emerges

At the Tenth World Congress of the Fourth International, many delegates were surprised, and probably even a little shocked, at our assertion that the enormous and rapid accumulation of capital in the hands of the owning classes of the oil-producing countries due to the big rise in oil prices was giving rise to the emergence of a new, autonomous Arab and Iranian finance capital.

Since that time, what had appeared as a potential tendency has fully flowered. The purchase by the shah of Iran of 25 percent of the stock of the West German Krupp trust was the generally perceived signal of the appearance of a new, independent sector of international finance capital.

Finance capital is banking capital (money capital) that is invested in the productive sector (industry, transportation, etc.) and participates in the control of these sectors, even monopolizing that control. In this sense, it is distinct from *rentier* capital, which is content to hold stock portfolios and clip coupons.

The information that is steadily flowing in about the behavior of the possessing classes that are collecting the income from the export of petroleum leaves no room for the slightest doubt that the dominant sections of these classes are now going beyond the stage of rentier parasitism (of the type of the old Egyptian pashas) and are beginning to behave as typical representatives of finance capital.

The case of the Iranian bourgeoisie, which henceforth will be represented in the administrative council of the Krupp trust, is in no way an isolated example. In the field of real estate, the Kuwait Investment Company, founded in 1961, has bought the island of Kiawah in the United States, where it intends to create a big tourist center. It has taken a predominant share of a redevelopment project in the center of the city of Atlanta, Georgia, also in the United States. It has launched a gigantic public offer (a total of $260 million) for the St. Martin's Property Corporation in London. It has also acquired control of two maritime companies, one linking Cyprus and Britain, the selves, Arab finance capital, associated with big imperialist monopolies (with the Arabs often holding financial and political control), is engaged in a whole series of big industrial monopolies, is engaged in a whole series of major industrial projects. The Saudi Arabian company Petromin, together with the Marcona international consortium (including American, Japanese, and West German groups), is building a $500 million rnetalurgical factory in the Jubail region of Arabia. The Arab Maritime Petroleum Transport Company owns four oil tankers with a total value of $240 million. The emirate of Abu Dhabi is launching a $300 million project to build a liquified gas factory on Das island in association with an American and a Japanese group. Saudi Arabia is building a $100 million nitro-grain factory with the German trust Hoechst; it is building a $300 million methanol gas factory with the Houston Natural Gas Company, and a petrochemical complex in Jubail with the Japanese Mitsubishi trust. Dow Chemical is associated with Iranian capital in building a $500 million petrochemical factory in Iran. A Franco-Lebanese group around J.J. Carnaud and Forges de Basse-Indre are associated with a private Saudi group in manufacturing metal containers (59 percent of the capital is Saudi). And last week the news came through that the shah of Iran was instrumental in bailing out the bonds of

Grauman Aviation in the United States, which is manufacturing the Phantom fighters.

Veritable banks and investment companies (in which Arab or Iranian finance capital is generally dominant) have been created in association with the greatest names in imperialist finance capital in order to finance industrial and other projects. Some examples are: the Union des Banques Arabes et Françaises (Credit Lyonnais); the Banque Arabe et Internationale d'Investissements (with a consortium of thirteen European banks); the Compagnie Arabe et Internationale d'Investissements; the Middle East International Fund; the Arab Bank of Jordan; the El Ahli Bank of Kuwait; the Banque d'Investissements et de Financement INF! (the Audi Lebanese bank, plus private Arab stockholders, plus the Hambros Bank of London, plus Namura Securities of Tokyo, plus the Banques Populaires of France); the Compagnie Financiere Arabe (54 percent Arab shares and 46 percent divided among the Bank of Tokyo, Manufacturer's Hanover Trust, and the Banque de ['Union Europeenne); the Kuwait Investment Company; and the Kuwait Foreign Trading Contracting and Investment Company.

The last-mentioned outfit is feverishly working at creating financial and industrial enterprises in the Middle East and Africa. It has created investment societies in Egypt, the Sudan, and Senegal. It has participated in launching enterprises in Egypt (cement), Uganda (a tannery), the Sudan (a transport company), Senegal and Nigeria (a real estate firm).

The balance sheet is clear: We are dealing here with the activity of enterprising finance capital and not with a parasitic rentier capital. The best table of the connections of Arab and Iranian finance capital was published in the

September 26, 1974, issue of the French employers magazine Entreprise.

Just stooges for the oil trusts?

Two objections have generally been advanced to our thesis that a new autonomous Arab and Iranian finance capital has emerged.

According to the first group of critics, the Arab and Iranian governments and businessmen are nothing but stooges for the oil companies, particularly of the Rockefeller group (Exxon, formerly Esso). A number of factors have been variously cited in support of this objection: the enormous superprofits raked in by these trusts since the October War; the fact that a not negligible part of the petrodollars are deposited in the Rockefeller-controlled Chase Manhattan Bank; the sensational reentry of the Rockefeller group into the Egyptian market; the policy of Kissinger (a former adviser, very well paid, of Rockefeller) obligating Israel to gradually withdraw from some of the occupied Arab territories. For the most paranoid representatives of this version of things, even the Watergate affair and the accession of Nelson Rockefeller to the post of vice-president of the United States were part of a vast conspiracy of the oil trusts.

It is incontestable that these trusts have made fat profits from the oil price increases decided on by the governments of the cartel of oil exporters. It should be stressed that this includes not only American trusts, but European ones as well, Royal Dutch Shell and British Petroleum, for example. There is no reason to deny that there is a certain confluence of interest between the Arab and Iranian finance capital (and governments) on the one hand and the imperialist oil trusts on the other.

But it is one thing to affirm that there is a certain confluence of interest between two separate and autonomous groups of capitalist proprietors and quite another thing to affirm that there is an identity of interests between them or that one group is clearly subordinate to the other. It is sufficient to examine the development of the "oil crisis" during past months to see that the thesis of an identity of interest between the Arab and Iranian owning classes and the imperialist oil trusts is untenable.

During the last meeting of the OPEC (Organization of Petroleum Exporting Countries), it was decided not to change the sales price of oil, but only to increase the charges and taxes payable by the trusts. The exporting countries warned the Western consumers that any new increase in the consumer price would be the result not of an arbitrary decision of the Arab and Iranian governments but of the refusal of the trusts to pay for the taxes by reducing their superprofits.

More important than that decision, which nevertheless had a symbolic value, is the fact that the governments of the Arab countries are now transferring ownership of the oil wells – to their own benefit and at the expense of the imperialist trusts. Exactly how the nationalization of Aramco corresponds to the "interests" of the Rockefeller group is a mystery that our critics have yet to shed light on.

A variant of this objection consists in stressing the exclusively or principally political nature of the increase in the price of oil. According to this view, the aim of the Arab governments is not to accumulate capital, but to oblige the imperialist governments to abandon their one-sided support to Israel in the Arab-Israeli conflict.

That the Arab governments are seeking to use their new economic and financial power to modify the political and military relationship of forces in the Middle East in no way contradicts the thesis of the constitution of a new Arab and Iranian finance capital. It would remain to be explained how the bourgeois governments of Iran, Nigeria, and Venezuela – all of which are taking part in the policy of raising oil prices – happened to have acquired an identical primordial political interest, an explanation that is that much more difficult to come up with when account is taken of the manifest antagonism between the regime of the shah of Iran and that of the Iraqi Baathists, an antagonism that far and away transcends the largely nonexistent sympathy of the shah for the Palestinian cause, not to mention his sympathy for Arab nationalism, which is nil.

It is obvious that what unites all these owning classes is not a common political interest or project, but the possibility at a given moment in the history of international capitalism in decline of *profiting from a major redistribution of the surplus value extracted on a world scale from the proletariat and semi-proletariat*. This redistribution is to take place at the expense of the imperialist bourgeoisie and to the profit of the bourgeoisie of *certain* semicolonial countries.

Following the second world war, imperialism generally saved its domination of the countries of Asia, Africa, and Latin America (with the exception of China, North Korea, North Vietnam, and Cuba) by transferring political power to the local ruling classes, transforming its direct rule into indirect rule, and elevating the colonial bourgeoisie to the rank of junior partner in its exploitative enterprise. But it succeeded in carrying out this transformation *without any major transfer of surplus value, of profits*. Now the colonial bourgeoisie is cashing in on twenty-five years of colonial revolution, presenting its bill – and a spicy bill it is! It is demanding a major part of the surplus value extracted from the producers of the semicolonial countries. In the oil-exporting countries, it has done this, at least temporarily, by taking advantage of an emminently favorable conjuncture.

To get an idea of the enormous haul that is involved here, one must take account of the fact that the average cost of extracting one barrel of oil in the Middle East does not exceed 10-12 U.S. cents. Two years ago, the oil companies were asking $2-3 for that barrel! Today, they are selling it for $11.65 (to which, obviously, must be added the profits they make in transportation, refining, wholesale reselling, etc.). But of that $11.65, the amount of surplus value going to the owning classes of the exporting countries was $9.23 before October 1,1974, and has been $9.74 since that date. Before October 10,1974, $2.42 remained in the hands of the oil companies ($1.99 since that date). *That still represents more than ten times the cost of extraction!*

Once upon a time, the surplus value was divided 90% for the oil trusts and 10% for the local owning classes. Later, the proportion moved to 75%-25%, then to 67%-33%, then to 50%-50%. It has now been turned around to 20%-80%, if one considers only the price of the oil exported by the producing countries. Taking account of all the profits made by the trusts in transport, refining, distribution, and so forth, the division is still not very far from 40%-60%.

The revenge of the Third World ?

The second objection to our thesis of the mergence of an autonomous Arab and Iranian finance capital comes from a diametrically opposite direction from the first. It affirms that it is not a question of a re-division of profits among possessing classes, but rather of a general revenge by the "Third World," a counterattack of the "poor countries" against the "rich countries." There are countries, this thesis runs, who have based the whole of their "prosperity" on "cheap energy." This era has now been turned around. The *peoples* of the "Third World" are now going to improve their living standards at the expense of the rich *peoples*. Furthermore, is it not true that most of the petrodollars are held by state or public institutions? How can one talk of "finance capital" when one is dealing with public property? Won't the income in dollars benefit all the inhabitants of the exporting countries?

Let us state right off the bat that the claim that the Arab and Iranian banks and investment companies are all or nearly all public institutions is vastly exaggerated. The Kuwait Foreign Trading Contracting and Investment Company has 25% of its stock in private hands. In the Kuwait Investment Company, the private shares account for as much as 50%. In most of the joint banking ventures referred to above, the private stockholders are not all foreigners; some are Arabs. Their share of the stock approaches or surpasses 50%.

Next, let us recall that in the semicolonial countries the separation between "public" and "private" is often largely fictitious, just as it was during the era of primitive accumulation of capital in Europe during the sixteenth, seventeenth, and eighteenth centuries. The sheikhs, emirs, and kings treat the public budget as their own private domain. Corruption, theft, and extortion are the classic sources of *private* accumulation of capital by the high dignitaries and functionaries of all these countries.

And that, we might say in passing, is the *qualitative* difference, which reveals a difference in class structure, between these countries and the bureaucratized workers states, despite the apparent similarity in the matter of the nationalization of the large-scale means of production. The Soviet and Chinese bureaucrats endow themselves with considerable material advantages in consumer goods. But they are unable to accumulate private capital in the manner of a Trujillo, a Houphouet-Boigny, an emir of Kuwait, a president of the Philippines, or even a simple, corrupt Hong Kong police chief, who has just been accused of having accumulated the equivalent of 1 million American dollars in the space of a few years in the form of bribes paid by gangsters.

The assertion that the "Arab masses" as a whole will benefit from the oil price increase is true only in the exceptional and marginal cases of very sparsely populated countries like Kuwait. The per capita income in Iraq, which is a large oil exporter, presently stands at about $370 per year. In Egypt it is $220. In spite of all the projects of "Arab solidarity," in spite of the Kuwait Fund for Arab Economic Development, in spite of the Arab Bank for Economic and Social Development, the Arab Investment Company, and the Saudi Arabia Development Fund – which taken together command several thousand million dollars – these figures will not increase substantially in coming years.

The notion of "Arab solidarity" is scarcely appropriate as far as distribution of investment of surplus value is concerned. In this regard, let us cite the British daily The Guardian of October 9, 1974: The fact is that immense question marks hang over the security and profitability of large-scale investment in the Third World. And in this respect, the Gulf oil rulers or the shah of Iran operates on as faultless a capitalist basis as any corporation or bank in London or New York."

If that's where "Arab solidarity" stands, even more of the same goes for "solidarity of the peoples of the Third World." Of an expected net oil income for 1974 of $75 thousand million, the oil-exporting countries will accord only about $3 thousand million to the semicolonial non-oil-exporting countries in the form of aid. That is but a fraction of the additional expenses that will be imposed on these countries by the rise in oil prices.

To be sure, the investment of a part of the growing income of petrodollars in some Arab countries and Iran will accelerate the economic development of these countries. They will thus end up having an infrastructure, including an infrastructure for heavy industry, which will favor their industrialization. That, after all, is what capital, finance capital included, accomplished in other countries, in other epochs, and under other circumstances. But here it is a matter of a *capitalist* development, which in no way will guarantee a rapid, not to mention automatic, rise in the living standards of the masses (except, we repeat, in half-empty countries like Kuwait and Libya).

Capital investments will be made on a priority basis in sectors with a very high organic composition of capital, sectors that employ a small labor force (petrochemicals, organic chemicals steel). The ravages wreaked on the peasantry and artisans by inflation and the extension of the money economy threaten to eliminate many more jobs than the new, ultramodern industry will create. Endemic unemployment and underemployment will continue to rack Iran, Egypt, Algeria, Iraq, and Syria, not to mention the even less developed Arab countries. Under the pressure of this unemployment and the general consequences of a social structure dominated by the accumulation of capital (including, more and more, of private capital), the gap between rich and poor, capital and labor, will widen rather than disappear. The Brazilian model of growth is there to confirm this. Thus, it is not a question of a "victory of the poor countries over the rich countries," but very clearly a redistribution of world surplus value among different groups of owning classes, even if some of the inhabitants of the countries involved may obtain a few crumbs left over from this rich banquet.

Law of uneven and combined development

For this same reason, it would be premature (to say the least) to conclude from the emergence of a new autonomous Arab and Iranian finance capital that the social character of the Arab countries and Iran has changed, that they have been transformed from semicolonial countries into new imperialist powers. Financial ownership of the principal industrial companies of a country is only one of the criteria determining its character as a semicolonial or imperialist country. The social structure, the degree of underdevelopment, the weight of pre-capitalist survivals in its relations of production, its place in the world market, the nature of its political regime, and the nature and composition of its ruling class are some of the factors that must be combined with the first in determining the character of the country.

The sections of the Arab and Iranian owning classes that embody and direct the new autonomous finance capital of these countries are composed neither of managers nor of engineers, but of proprietors who maintain their grip on the land, the state, and the ultra-parasitic forms of rule. This not only means that technological know-how must be imported from the imperialist countries, which demonstrates the dependence of these countries and imposes the form of joint ventures on the important industrial enterprises. It also means that the new finance capital (like Russian finance capital before 1917) has no interest in a real agrarian revolution, which would deprive it of an important fraction of its holdings. But without such an agrarian revolution, no decisive break with underdevelopment is possible.

The appearance of an autonomous Arab and Iranian finance capital – like the emergence of an autonomous Brazilian finance capital – marks the *beginning of a process* of change, and not its end. Should the imperialist powers unleash a military aggression against the Arab countries to recover control of oil resources, it would clearly not be an interimperialist conflict in which the world proletariat should not take sides. On the contrary, it would be an imperialist attempt to maintain and reinforce the dependent semicolonial status of the Arab countries threatened with collapse. It would be a war of plunder by the imperialists and their agents to get their hands on the oil of others. On the part of the Arab countries, it would be a legitimate war against foreign plunderers for defense of the right and possibility of freedom and independence. Under these conditions, the sympathy and support of the world proletariat would be on the side of the Arab countries.

But approaching the problem from a class point of view, in no way can the conflicts between imperialist control and the attempts of the Arab countries to establish independence, even if under the leadership of their owning classes, be given priority over the conflicts between the Arab masses and their own ruling classes. To keep quiet about these conflicts or to try to push them to the background under the pretext of "Arab anti-imperialist solidarity," not to mention "Third World solidarity against the rich countries" would be to pass to the other side of the barricades, that is, to support the exploiters against the exploited.

Precisely to the extent that petrodollars stimulate the formation of an autonomous Arab and Iranian finance capital, they will stimulate the development of capitalism, of capitalist industry, of capitalist exploitation, of the capitalist decomposition of the ancestral village. The development of capitalism is inevitably producing the development of class struggle between Iranian and Arab capital on the one hand and the Iranian and Arab workers on the other, just as it did in Russia at the end of the nineteenth century. The more this class struggle develops, the more the autonomy of Arab financial capital will run up against a political, social, and military limit: its dependence on imperialist support in holding back the threatening social revolution.

In the Western press, much emphasis has been placed on the terrible political risks of an imperialist military intervention in the Middle East aimed at reestablishing imperialist control of the oil wells: a new rise of Arab nationalism, the emergence of new political leaderships even more strongly anti-imperialist than the Nasserists and Baathists of the past, a considerable increase in the influence of the Soviet bureaucracy in the Middle East, etc.

This is all incontestable. But the other side of the coin is often forgotten: the risks courted by the Arab owning classes in the event of a new rise of a mass movement that is not only anti-imperialist and antifeudalist, but more and more clearly anticapitalist.

If Sadat has eliminated the Soviet presence in Egypt and if the Arab bourgeoisie today is trying to eliminate this presence throughout the Middle East, it is not simply a matter of a diplomatic maneuver offered in exchange for a softening of the pro-Israeli policy of American imperialism. It is also because the Arab ruling class, progressively transforming itself into a bourgeois class, fears all anticapitalist forces. That is why a civil war raged for years in Yemen, why it is still raging in Dhufar, and why it could break out in the future in Jordan and even in Saudi Arabia or Iran. The Arab and Iranian ruling classes know very well that they have no other effective source of aid against their own exploited masses than that which they can get from the imperialist powers.

Under these conditions, the blackmail that is being used by both sides in the sordid bargaining over the redistribution of surplus value is a blackmail that is limited by a clear consciousness of common interest, which the international bourgeoisie can put in danger only by threatening its own very existence. There are times in the history of imperialism, and of the bourgeoisie in general, when it is driven to risk everything in an attempt to win everything. But it has not been demonstrated that things have already come to that point, not in Washington, nor in Riadh, and certainly not in Teheran.

The totality of the transformations that are expressed in the emergence of an autonomous Arab and Iranian finance capital built essentially through the accumulation of petrodollars can best be summed up as a new illustration of the law of uneven and combined development. After the second world war, the delay of the socialist revolution permitted a temporary new expansion of the productive forces. This occurred under imperialist domination, but under conditions of the accentuated decline of the international capitalist system as a whole, with aggravated conflicts and more and more explosive contradictions, not only between Capital and Labor, but also between the imperialist metropolises and the colonies. The systematic policy of the Soviet and Chinese bureaucracies in seeking alliances with the colonial bourgeoisie and the weakness of the alternative revolutionary leaderships of the workers and poor peasants of the colonial and semicolonial countries allowed the colonial bourgeoisie to come forward twenty years later and cash in on the formal political independence that imperialism had earlier been forced to grant so as to avoid the worst.

Suddenly commanding considerable capital resources in several countries, the colonial bourgeoisie is accumulating and investing this capital according to the model it learned from the imperialist countries. But it is doing so within a socioeconomic context that has not been fundamentally modified, a context that combines the middle ages (or earlier!) with contemporary technology, in which slaves who are not yet emancipated live side by side with modern financiers, in which the colonial bourgeoisie counts on making the maximum impositions on the imperialist trusts while nevertheless maintaining their dependence on imperialism.

The Arab owning classes have not yet broken with the Middle Ages at a time when they are nevertheless leaving the palaces of Beirut and the casinos of the Cote d'Azur in favor of industrial workshops and shipyards. Even with expenditures of thousands of millions of dollars, they are not able to shed this double skin, just as they are not able to eliminate underdevelopment from their society. That requires a social revolution. And neither the shah of Iran, nor the king of Saudi Arabia, nor the emir of Bahrein, nor the Egyptian bourgeoisie can preside over that social revolution. Instead, they will be overthrown by it.