Every market is a process of social and power relationships. In every market there are price makers and price takers. The oil market, however, is no ordinary market, and the struggle to control the oil market, therefore, is no ordinary struggle. With oil being rudimentary to global production/accumulation and the monetary system remaining commodity-based, control of the oil market translates into enhanced power in all other markets. But to control the oil market, the principal player, which is undoubtedly the United States, has to develop a strategy of intervention at the source, military or otherwise, that cuts down to size other players. Consequently, the United States infuses tensions in oil producing areas, lowers the degree to which oil states retain sovereignty over oil, and keeps at bay other major players. These are measures that represent the collateral necessary to lay the foundation of the oil-dollar standard. This unrelenting power exercise constitutes the cornerstone of the commodity-money or, concretely, the oil-dollar based global monetary system.

On the surface of things, oil prices change in response to economic and geopolitical factors. In recent history, however, the amplitude of oil price variations has been more systematically attributed to growing Iran-related geopolitical risks and abundant liquidity as distinct from refinery margins and smaller cushions (a cushion being the size of the band between supply and demand). The oil bubble has come to siphon part of excess liquidity, strengthen the dollar, and bolster U.S. imperial rents. Despite the fact that very high international oil prices may thwart an already fragile global recovery, which has been running on empty insofar as jobs are concerned, U.S. raucous war-on-Iran hubris continues to rattle the market.

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Below the surface, however, oil prices are too important to be left to the “market.” With the oil-dollar standard holding, rising oil prices dampen the performance of all importing economies to a higher degree than they do the U.S. economy. Oil price variations therefore engender a shift in the degree of power enjoyed by the U.S. economy vis-à-vis other economies. In the ongoing depressive cycle, which does not budge in spite of rising debts, reasserting U.S. stature through the oil control mechanism gains ground. Financial capital has been altogether robust as a result of expanding U.S. indebtedness and rising fictitious capital—defined as accumulated claims held against the capability of the state to honor its debts. And capital as whole has shown robustness as a result of debts burdening working people in ways that reduce their means to acquire a decent living. Pauperizing working folk in times of a predominant crisis in social ideology raises the real share of wealth acquired by the ruling elites. In a sense, rising debts or fictitious capital have had non-fictitious and dire effects on the working classes in the more advanced economies. But the real dire consequences of expanding fictitious capital fall upon the peoples of the Middle East. Wars of aggression meant to underwrite expanding U.S. debts by staking claims to oil rise in intensity because of the perceived weakness of the bond tying oil to the dollar. Oil prices therefore have much more to say about the state of the global economy than simply the cost of petrol at the pump.

**Volatile oil prices**

Crude oil prices exhibit high variability. The OPEC Reference Basket Price reached US$140 per barrel in July 2008, it declined to US$35 by the end of that year, and now prices are over US$100 once more. Financial speculation, mainly the buying of crude oil futures, was behind the 2008 price surge, and the present hike is driven by speculation around a geopolitically charged future. It is worth noting that the much talked-about geological considerations relating to oil finiteness are not responsible for the oil price rises of either 1973 or 2004. Oil reserves matter in the long run, but current oil prices are not determined by beliefs about long-term sustainability. These geological considerations have an impact only on the forward-looking or long-term

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2 This is the fairy tale market in which many participants share a level playing field.
price. But geopolitical problems unnerve the market instantaneously and are becoming portentous by the minute. Problems in the Gulf, past and present, have gained the semblance of permanence and are rising in intensity along with the rant of an inevitable attack on Iran. The foremost short-term concern influencing oil prices relates to a sudden disruption of supply and a higher risk of a diminution in the cushion provided by Saudi Arabia, the country that provides the bulk of surplus capacity.\(^6\)

On the consumption side, demand for oil continues to rise annually by, on average, one to one and a half percent. An increase in the rate of growth of China and other parts of Asia over the past two decades has helped ensure this steady rise. Constraints on the production capacity of the cheaply extracted and sweet oil both in the upstream sector (OPEC countries) and in the downstream sector (the United States) are slowly coming into evidence. However, until this moment, supply constraints have not represented a problem, because more refineries are accepting the sour quality crude and, effectively, the cushion\(^7\) has been anything but tight. It must be said that the petroleum market cannot function effectively unless a certain volume of surplus production capacity is available. The extra volume is needed to offset the effects of strikes, storms, and smaller wars. No cushion, however, would suffice for a war that would result in the closure of the Strait of Hormuz, given that around a quarter of world oil supplies are flowing through this waterway. The concocted fear factor developing around this purposely trumped-up story is of unusual significance in feeding sharp oil price movements. Yet neither the integrated market nor intelligence services are daft enough to believe this fabrication regarding Iran's military capacity. Imagine that Iran's military means are potentially capable of blocking the Straits and withstand a U.S. assault in the Gulf; would the dollar, the United States, and the world as we know it be the same? The answer is definitely no. The dollar-based global monetary system relies on the competence of American intervention in order to control oil.\(^8\) If this capability is seriously shaken, the standing of empire and all that is attendant upon it will also be shaken. It is not the market that is scared; it is the market\(^9\) that uses scare tactics to pocket the premium of unease. Like Iraq, Iran's power is being

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\(^{9}\) This is the real market, which is constituted of financial capital and to which the state has been subordinated.
exaggerated in order to justify aggression. Militarism\(^{10}\) and U.S. control of the eastern flank of the Persian Gulf are far more relevant as provinces of capital accumulation than the contribution of puny oil revenues.

The price of oil is increasingly realized in futures markets. It rests on an assemblage of futures, spot, physical forward, and derivative markets where, with expanding liquidity, the futures markets lead. Participants in these markets include major financial institutions such as Goldman Sachs, Morgan Stanley, Merrill Lynch, Société Générale, and JPMorgan Chase. A large number of hedge funds and individual punters (locals) also take part in this market. Hedgers, one may add, are also speculators in view of their fear that the actual price is liable to be less favorable than the price that they are willing to ensure. In today’s oil market, therefore, the major players are speculators. These players are not only big enough to manage oil prices in a Schumpeterian co-respective way (i.e., they tacitly collude to raise profits); they create the fictitious transaction demands necessary to generate the liquidity or the cheap money that is required for a dynamic rise in profits. The principal point to discern from this, however, is that the price of oil moves in response to differential rates of return from investment in other markets and not solely by demand-supply concerns. Thus, in the presence of ample liquidity and low rates of return in other markets, invented perceptions, meant to shape demand in relation to the fear of a sudden Gulf war-related oil shortage, become the most powerful driving forces of this market. This induced demand raises the pace of activity in the oil market and subsequently strengthens the dollar’s position as a safe asset—issued by the strongest of places.

**Heightened worries**

Gulf-related geopolitical concerns and sanctions on Iran\(^{11}\) are not new and have always seeped into the oil market in one form or another. The market has operated with these grim analyses in the background and cohabitated with these conditions for many years. Recently, however, the stakes have risen. The views propagated in the United States by think tanks\(^{12}\) and the

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mainstream media about an inevitable strike on Iran elevate the stress level. Whoever feeds this information into the market further destabilizes, in no haphazard fashion, an already unstable oil price. The power emanating from U.S. geostrategic control of oil areas and high oil price variability are self-reinforcing elements of the same equation by which the United States boosts its own clout and negotiating position relative to other players. The dilemma for importers, specifically China, is to strike a balance between reducing U.S. control in oil areas so as not to become strategically squeezed in terms of oil supply but not weakening the United States too much to the point of loosening the oil-dollar standard, which would eventually precipitate a dollar devaluation/debt deflation process. Much of the handling of this fluid relationship depends on the United States calibrating three interdependent elements: the intensity of conflicts in strategic oil areas, the expansion of indebtedness without risk of devaluation, and the management of the supply of money in a way that commits international financial partners to dollarization, including how liquidity distributes the impact of oil price fluctuation between the U.S. economy and others.

U.S. oil control, or the degree to which regimes in oil areas relinquish sovereignty to the United States, is the principal collateral held against expanding U.S. indebtedness. In that sense, adventurous wars in oil regions allowing for more U.S. leverage over oil mediate the contradiction between the United States’ waning economic performance and indebtedness feeding financialization\(^{13}\) (i.e., the stage at which industrial capital behaves like financial capital). The omnipresence of conflicts and proxy wars in the Middle East and Africa also reflect lingering rivalries relating to the contradiction between the United States and others over its disproportionate acquisition of unearned or imperial rents, which increase by the risk premium attendant on global uncertainty. At present, the United States is continuously trying to redress power relations in view of the persistence of the tepid credit cycle, its precarious financial profitability, and the lackluster outcomes of the Iraq and Afghanistan campaigns. The sanctions on Iran are not intended to halt the nuclear program. These sanctions are a prelude to war. They weaken Iran structurally as a developing formation and ready it for assault, as was the case in Iraq.

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Conclusion

The oil-dollar standard is not an identity in which the value of a given currency has to be stable, which would, *a priori*, require the dollar to maintain a stable value\(^{14}\) in terms of commodities. At no time in recent history has there been a shortage of oil and at no time were oil prices even mildly steady. The strong link between the dollar and the price of oil, which is inherently unstable, is set by the degree to which U.S. power is established in relation to direct producers and importers. The variability of oil prices is partly managed to preserve U.S. imperial stature within a band in which global imbalances press for dollar devaluation on the one end, and the United States uses the threat of devaluation and debt deflation to extort holders of U.S. debts on the other. The principal concern for the United States arises from the level of liquidity that would raise the prices of oil at the pump to politically intolerable levels, and that is why of late there is talk of releasing strategic reserves\(^ {15}\). This talk may constitute an ominous signal that prices will be managed if Iran is attacked. The oil-dollar standard is in this sense a power defined commodity-money instrument both furthering and furthered by imperialist conquest.

Global capital is split on the issue of aggression against Iran along two lines: national capital acting within a controlled capital account environment and an internationally financialized free capital. The tacit collaboration of capital account constrained global elites, e.g. nationalistic Chinese elites, with the United States’ aggressive stance toward Iran will hold only to the point at which strategic losses in oil areas begin to critically destabilize China’s and others’ national economies relative to the erosion sustained to their dollar-denominated wealth holdings. Third world and other financial free flow capitals, in particular those that share in the grab resulting from increased financialization (i.e., free riders on U.S. imperial ventures), know well that a stable dollar relies heavily on the degree of U.S. control in oil areas. Thus, financialized or free riding capital will continue to support the United States unconditionally. As to the more nationally-based elites, keeping their wealth steady in the dollar is one thing and forfeiting the real source of their wealth, which is their hold on and performance of their national economies, is another. In one indication of the growing dissatisfaction over the United

\(^{14}\) Prabhat Patnaik, *The Value of Money*, op. cit.

States’ overly aggressive stance toward Iran, China, which has sparingly used its veto power in the past outside its own vicinity, vetoed the UN Security Council resolution calling for Syrian President Bashar al-Asad to step down—Syria\(^{16}\) being the gateway to Iran. The struggle within China between the left and right wings\(^{17}\) can be detected in the way capital controls have been settled\(^{18}\) so far in favor of the left (i.e., capital controls have not been lifted). China has been the main force breaking the embargo on Iran. The alternative petro-renminbi forming in Asia to pay for Iranian oil is disconcerting to the United States and may hasten the act of war sooner than thought. Has push come to shove and are the class alliances underpinning U.S. imperial racketeering coming undone?

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