

# **Putting the state in its place: US foreign policy and differential capital accumulation in Middle East 'energy conflicts'**

***Shimshon Bichler and Jonathan Nitzan***

*Department of Political Science, Hebrew University,  
Jerusalem, and Department of Social Science and Commerce,  
Marianopolis College, Montreal, Quebec*

## **ABSTRACT**

This is the second in a series of two articles looking into the interaction between differential capital accumulation and Middle East 'energy conflicts'. Examining the historical record since the late 1960s, we find US policies to have been increasingly consistent with the coinciding differential interests of a Weapon-dollar-Petrodollar coalition of large defence contractors and oil companies. Contrary to aggregate views which emphasize the 'national interest' or the broad imperatives of capital accumulation – but in line with the differential interests of these companies – US policies in the region seem to have contributed towards greater instability, imposed limits on the free flow of oil and led to higher unstable prices. Most significantly, every 'energy conflict' since the late 1960s was preceded by adverse drops in the differential rate of profit of the large oil companies, which then promptly recovered in the wake of the ensuing crisis. While the US government was officially seeking regional conciliation, it passively or actively endorsed each one of these conflicts. The current peace drive between Israel and its Arab neighbours is overshadowed by negative differential profits for the oil companies and depressed weapon sales for the arms contractors. Left unresolved, these predicaments could eventually culminate in a new 'energy conflict'.

## **KEYWORDS**

Capital accumulation; oil; arms exports; multinational corporations; Middle East conflicts; US foreign policy.

## 1 INTRODUCTION

The literature on the postwar Middle East usually treats regional conflicts and energy crises as related though essentially distinct phenomena. Wars are commonly seen as arising from a combination of local conflicts complicated by superpower interactions. Energy crises, on the other hand, are generally perceived as a consequence of changing global market conditions and institutional arrangements (such as the Organization of Petroleum Exporting Countries, OPEC). Some conflicts – for instance, the 1990–1 war between Iraq and the US-led coalition – have been partly attributed to a struggle over the control of crude reserves, whereas others – specifically the Arab–Israeli wars of 1967 and 1973, and the Iraq–Iran conflict of 1980–8 – were seen as having aggravated ongoing energy crises. Until now, however, there has been no unified theory of ‘energy conflicts’ – that is, a framework which integrates militarization and conflict with global energy flows and changing oil prices. Moreover, existing writings on the subject of oil and war in the Middle East tend to deal rather inadequately or not at all with the potential role of *capital accumulation*.<sup>1</sup>

In an earlier article (Nitzan and Bichler, 1995) we offered a new interpretation which seeks to analyse a whole string of Middle East wars within a coherent framework of ‘energy conflicts’, emphasizing the centrality of accumulation. (The two articles form a coherent whole, and although some of the key findings of the first article are summarized below, they do not offer a substitute for the overall framework and the full range of evidence provided there.<sup>2</sup>) Our methodological starting point was the *differential accumulation of capital*. We argued that in mature capitalism, the ultimate driving force is not the augmentation of hedonic pleasure, but the attainment of differential gain. With the development of communication and the integration of financial markets, there emerges a so-called ‘normal rate of return’ – a subjective but forceful norm which capitalists tend to equate with ‘business as usual’. The antagonistic essence of business, however, requires businessmen to do *better* than the average, that is to achieve a *differential* rate of return. Driven by the quest for differential accumulation, capitalists seek to expand their own profit *faster* than the ‘normal’ rate of return, which is in turn equivalent to raising their distributive share in the overall flow of profit (provided the differential rate of accumulation exceeds the growth in the number of firms). As capitalism develops and expands, the dictates of differential accumulation become paramount in both business and politics. For the corporate executive, the task is now commonly defined in terms of ‘beating the average’ and ‘exceeding the normal’, whereas for the state manager, national success often appears synonymous with large home-based companies outperforming their counterparts in other countries.

Seen as a *habit of thinking*, the principle of differential accumulation enables us to focus on the convergence of politics and business without resorting to conspiracy theory. Captured by the same set of conventions, corporate executives and state managers could act to advance differential accumulation without having to collude either overtly or covertly. Although the *practice* of conspiracy is often expedient in facilitating collective action, elevating it into a *theoretical principle* tends to endow 'actors' with far more autonomy than they in fact possess. Our own premise is that the progressive concentration of power brought by differential accumulation also tends to make the rules of the game much more rigid and confining. The 'normal rate of return' today is a force far more potent than it ever was: although it enables the amalgamation of power on an unprecedented scale, the business and political holders of that power are decreasingly free to exercise it as they wish. In late twentieth-century capitalism, 'beating the average' is no longer a privilege but an obligation. In this sense, modern accumulation has become less of a free quest for *material* well-being and utility and more of a deterministic drive towards *economic and political power*. It is this latter property which makes differential accumulation so crucial for the emerging field of international political economy, and that is why we placed it at the centre of our analysis of armament and oil.

Starting from this premise, we argued in Nitzan and Bichler (1995) that from the early 1970s there arose a *Weapon-dollar–Petrodollar coalition* of large, mostly US-based armament and oil companies whose interests coincided in the Middle East. Our empirical examination focused specifically on an Arma-Core which we defined to include sixteen leading US defence companies, and on a Petro-Core comprising the world's six largest non-government oil companies.<sup>3</sup> These core groups were also complemented by engineering and construction giants like Bechtel, as well as financial institutions with significant energy dealings. The interests of these companies, we maintained, were served not by greater regional stability and by free-flowing and moderately priced oil but rather, on the contrary, by an atmosphere of continuous instability and energy crisis. The effect of recurring Middle East 'energy conflicts' on oil prices helped the leading oil companies counteract the incessant forces of competition, enabling them to keep their long-term profitability above the big economy's average. At the same time, such conflicts also promoted an arms race in the region (which from 1974 became the world's largest market for imported weapons) and helped to alleviate the pressure on the US arms contractors of falling military spending at home. What made this convergence of interests particularly enduring was its reinforcing dynamics: on the one hand, militarization accentuated regional tensions and conflicts which helped to maintain and raise oil prices, while, on the other, higher oil prices brought larger petroleum revenues for the region's

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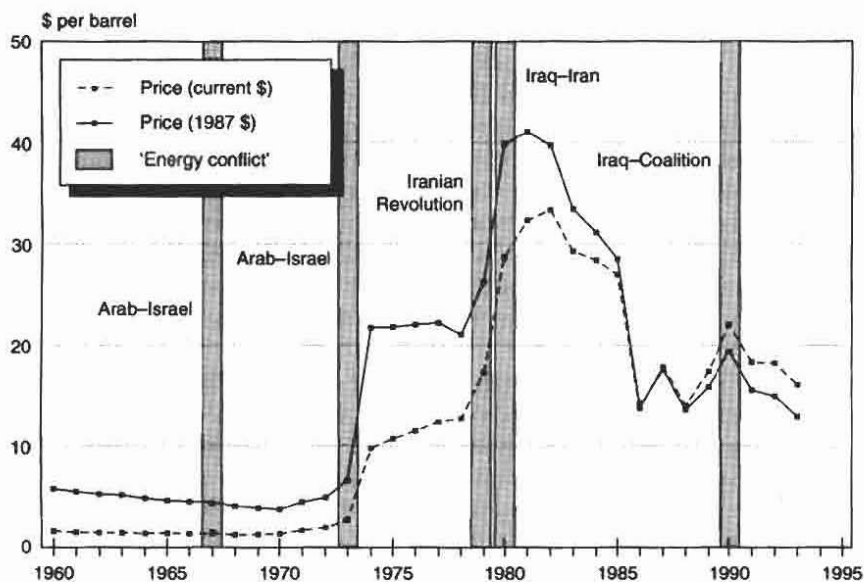


Figure 1 Crude oil prices (annual averages)

Source: Crude oil prices are from IMF, *International Financial Statistics Yearbook*, 1986, pp. 170-1; 1994, p. 169. GDP price deflator is from US Congress, *Economic Report of the President*, 1994, Table B-3, 176.

Note: Crude oil prices for 1960-84 are given by the price of Saudi Arabian light (Ras Tanura), and for 1985-93 by the average world spot price. The 'real' price of oil is obtained by dividing the nominal figures by the US GDP implicit price deflator.

governments, which were then partly channelled into the purchase of imported arms in preparation for new conflicts. The pattern of oil prices – in both nominal and real terms – is charted in Figure 1, where we also note their relation to the outbreak of 'energy conflicts'.

Although this regime of tension and crisis was generally beneficial for the Weapondollar-Petrodollar coalition, there were nevertheless certain differences between the interests of the armament and oil companies comprising that coalition. For the former, arms exports constituted a net addition to sales, so their gain from Middle East militarization and armed conflict was practically open ended. For the latter, however, the consequences of tension and hostilities were beneficial only up to a certain point – first because excessively high prices tend to encourage energy substitution, weaken profits in downstream operations and lure entry from potential competitors and, second, since regional instability could spin out of control and undermine the close cooperation between the companies and the oil-producing countries. Given these qualifications, we argued that while the armament companies would tend to have few

reservations about further militarization and conflict, the oil companies were likely to be more cautious. Specifically, we hypothesized that as long as the large companies of the Petro-Core enjoy a combined rate of return in excess of the big economy's 'normal' (approximated by the average net rate of return for the Fortune-500 group of companies), they judge their performance as satisfactory and prefer the continuation of 'tension without war'. However, when their rate of profit falls below the big economy's average – that is, when their *differential* rate of accumulation turns negative – the oil firms become more inclined to accept open hostilities as a means of achieving higher conflict-driven prices and better rates of return.

When this happens, the more aggressive stance of the large oil companies brings them into a temporary consensus with the leading armament firms, and it is at this point, when the Weapondollar–Petrodollar coalition becomes united, that a Middle East 'energy conflict' is more likely to erupt. The pivotal significance of differential oil profits is illustrated in Figures 2a and 2b.<sup>4</sup> The first of these charts contrasts the rate of return for the Petro-Core with the comparable rate for the Fortune-500, whereas the second plots the difference between the two rates (expressed in percentage points). In both diagrams, a dark area denotes a 'danger zone' – a period of negative differential accumulation when the Petro-Core profitability falls short of the big economy's average. The evidence arising from these charts is rather remarkable. First, *every one* of these 'danger zones' was followed by the outbreak of an 'energy crisis': the 1967 Arab–Israeli War, the 1973 Arab–Israeli War, the 1979 Islamic Revolution in Iran, the outbreak of the 1980–8 Iraq–Iran War and, recently, the 1990–1 Gulf War. Second, the onset of *each* of these crises was followed by a reversal of fortune, with the Petro-Core's rate of return rising above the comparable big-economy average. And finally, *no* 'energy conflict' has erupted without the Petro-Core first falling into the 'danger zone'. In 1992, Petro-Core profitability dropped once again into a 'danger zone' and political tensions intensified. In 1993 President Clinton launched two massive missile attack on Iraqi targets. In mid-1994, war broke out in Yemen between Aden and Sanaa and, in October, with the Petro-Core's differential profitability still negative, Clinton dispatched US forces once more to the Gulf in order to counteract an alleged Iraqi military build-up against Kuwait. As of 1995, however, the 'danger zone' remains open and – provided our historical framework is still valid – could eventually culminate in a new 'energy conflict'.<sup>5</sup>

Since causality is always a speculative concept, one may argue that this association between differential accumulation and energy conflicts could be merely a coincidental proxy for other, more significant causal relationships. For instance, conflict may be the consequence of movements in

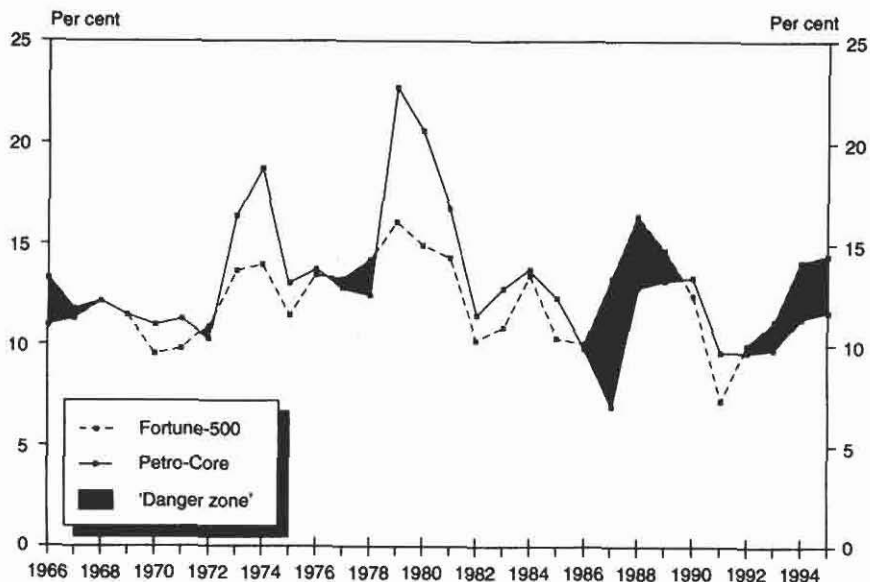


Figure 2a Rate of return on equity: the Fortune-500 and Petro-Core, 1966-95

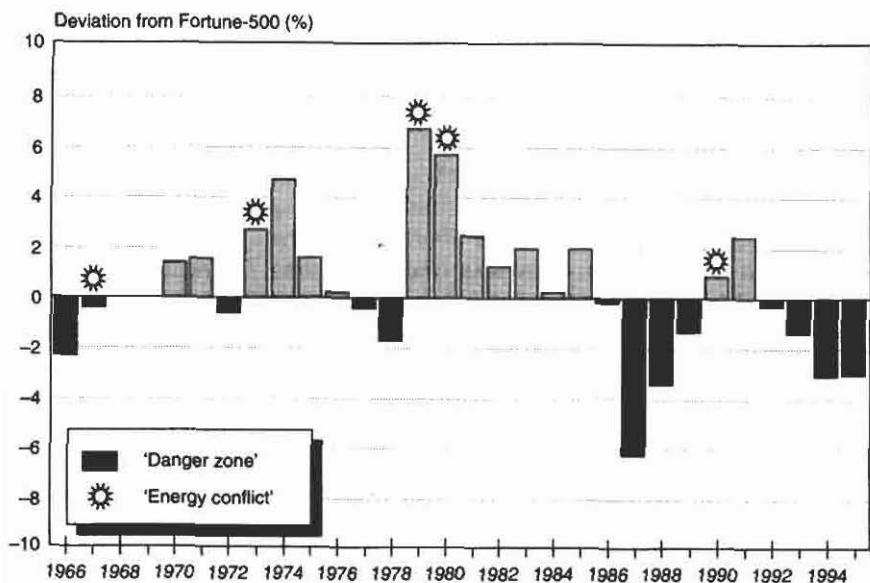


Figure 2b Petro-Core profit differentials and Middle East 'energy conflicts'

Source: For the Petro-Core profit, data are from Standard & Poor's Compustat Services (1986); 'The Fortune 500' (various years); 'The International 200' (various years); 'The Fortune International 500' (various years); 'Guide to the Global 500' (various years). Profit for the Fortune-500 are from the 'The Fortune 500' (various years).

Note: For the Fortune-500 companies, data pertaining to 1992-3 are charted without SFAS 106 special charges.

profitability rather than *differential* profitability. This, however, does not seem to be the case here. Figures 2a and 2b show that the rate of profit of the Petro-Core fell in 1969–70, 1972, 1975, 1977–8, 1980–2, 1985–7 and 1991. Energy conflicts, on the other hand, erupted only in 1967 (after the Core's profits were rising), in 1973 and 1979–80 (after they were falling) and in 1990 (after they were rising). In addition, despite falling profitability, no new energy conflict broke out in 1969–70, 1976, 1983 or 1988. Clearly, there is no straightforward connection between movements in the simple rate of profit for the Petro-Core and the occurrence of conflicts.

Another possible explanation is that conflicts were triggered not by setbacks for the Petro-Core but rather by the simultaneous decline in real oil revenues for OPEC: such declines would have made their regimes more unstable and increase their readiness for conflict. The facts, however, do not seem to support this explanation either. For instance, UN *Statistical Yearbook* data suggest that Egyptian oil exports rose from \$35 million in 1970, to \$47 million in 1972 and to \$93 million in 1973. If wars were indeed contingent on falling state revenues, this should have worked *against* the Arab–Israeli conflict in 1973. Similarly, the Iraq–Iran War erupted in 1980, after oil revenues for the two countries were climbing rapidly, reaching \$18.4 billion for Iran and an all-time high of \$26.9 billion for Iraq, and ended in 1988 after they fell sharply to \$12.7 billion for Iran and to \$15.9 billion for Iraq (US Department of Energy, 1995: 23, 93). Finally, the 1990 Iraqi invasion into Kuwait occurred after several years of *stable* oil production: the value of Iraqi annual crude oil output remained more or less stationary between 1987 and 1990 at around \$14.7 billion (*ibid.*). Of course, prior to his invasion of Kuwait, Saddam Hussein was under growing financial strain accumulated during his years of fighting against Iran, so he needed much more than stable oil earnings to resolve his problems. Nevertheless, as we shall argue below, this rationale was hardly sufficient to outweigh a clear threat of forceful US intervention, had there been one. In short, regional factors are crucial but their role is better understood as part of a broader political-economic context which emphasizes the processes of differential accumulation and the dynamics of the Weapondollar–Petrodollar coalition.

Taken at face value, our findings suggest that the corporate members of this coalition were not 'free riders' on the roller-coaster of Middle East conflicts. Indeed, the evidence indicates not only that these companies have *eventually* gained from militarization and oil crises, but more fundamentally, that adverse drops in their differential profits have been a most effective *leading* indicator for upcoming 'energy conflicts'. It is hard to dismiss such evidence as a mere statistical mirage. By the standards of empirical social science research, the link between differential

accumulation on the one hand, and militarization, 'energy conflicts' and oil crises on the other, is far too systematic and encompassing to be ignored, and calls for further analysis.

Underlying the statistical picture depicted in the charts lies the convergence of two long-term developments: the growing *commercialization* of the weapon trade and the increasing *politicization* of the oil business (Nitzan and Bichler, 1995). With unstable procurement at home, the Arma-Core has grown dependent on the commercial arena of foreign weapon sales, while for the Petro-Core, international competition and technological developments have spelt excess capacity which could have been counteracted only through a broader political realignment with their host and parent governments. This progressive amalgamation of the economic with the political means that the role of differential accumulation cannot be understood in isolation from the state. The purpose of this article is to look more closely at this issue, focusing specifically on US foreign policy in the Middle East. If differential accumulation by the Weapondollar-Petrodollar coalition was indeed a principal 'regulating' force in the recent history of Middle East militarization and conflicts, it must have affected US foreign policy. That this was indeed the case is crucial for our thesis: in Nitzan and Bichler (1995) we outlined the 'mechanism' leading from accumulation to the arms trade, to the politics of oil, to 'energy conflicts'; the picture now needs to be completed by accounting for the role of US policy.

The main issue is not to uncover conspiracies (although that should not be ignored either), but rather to demonstrate *convergence or divergence of interests*. Specifically, by examining the historical record since the late 1960s, we seek to answer two interrelated questions: (1) has US foreign policy in the Middle East worked to accommodate and advance the differential accumulation interests of the Weapondollar-Petrodollar coalition? (2) was this policy also consistent with the interests of other US 'societal groups', and if not, could it be seen as transcending the interests of particular groups, seeking instead to defend some broader 'national interest'?

## 2 THE STATE AND ACCUMULATION: A BRIEF DIGRESSION

The nature of these questions is to some extent affected by current theoretical controversies about the role of the state in international political economy. A crucial stumbling block in resolving these controversies is the absence – by fault or design – of a clear empirical focus on accumulation. The 'functionalist' branch of marxism, led by writers such as O'Connor (1973) and Cohen (1978), offers a framework which in our view is too encompassing. Their notion that the capitalist state is captured by



the 'structure of accumulation' may be correct, but the manner in which this idea has often been presented is dangerously close to a tautology. The difficulty arises when institutions such as the welfare state, price controls and public investment, which seem counter to the 'raw' capitalist interests, are nevertheless interpreted as 'necessary' or 'required' in order to maintain the long-term viability of the system as a whole. Unfortunately, the search for 'historical laws of motion' always carries the danger of turning useful hypotheses into rigid dogmas. By viewing capitalist development much like a natural process, the functionalists have effectively turned Hegel's 'cunning of reason' into the 'cunning of the capitalist system' – and in the process made their approach increasingly difficult to refute. The problem is further aggravated if we follow Wallerstein (1974), who sees states as 'agents' of a broader capitalist 'world system'. The system is said to develop and restructure itself in a way which best accommodates its fundamental interest of global accumulation, but then the nature of accumulation – that is, *what is being accumulated* and, most importantly, *towards what end* – remains vague. In contrast to their functionalist counterparts, 'instrumentalist' marxists, such as Domhoff (1983) or Engler (1977), have opted for a lower level of abstraction, accentuating the primacy of big business. However, their common preoccupation with institutional structures often comes at the expense of a clear insight into the financial essence of accumulation. And so, although the instrumentalists' premise is perhaps more manageable, their empirical analyses still leave out an indispensable component.

According to Krasner (1994: 17), the alleged failure of marxism has left only 'two real candidates for understanding the contemporary international environment – power politics, including realism and its variants, and liberalism'. Their advantages in his opinion are manifold: 'Both are actor-oriented perspectives. Both have made plausible empirical claims. Both have heuristic power. And both can draw on many of the powerful analytic techniques that have been developed in recent years by economics.' Yet, this confidence is hardly warranted since realism and liberalism also share a principal deficiency: they both neglect the *central* role of accumulation. The liberal emphasis on the individual 'societal actor' creates a framework in which historical developments, including the behaviour of the state, are *inherently random*, subject to the changing pressures exerted by the numerous participants. This, of course, is perfectly legitimate, but the consequence is a vision in which the process of capital accumulation is no longer the main driving force of capitalist development. And, indeed, liberal writings – including those which analyse the behaviour of firms – commonly fail to provide a coherent political-economic theory of accumulation.

Unlike the liberals, realist (or statist) writers, such as Krasner (1978a), Lipschutz (1989) and Waltz (1979), do emphasize the existence of a

central historical tendency – namely, the tendency of the state (particularly the strong state) to subjugate ‘societal actors’ to the ‘national interest’. Krasner (1978a: 12) defines the national interest as ‘the utility of the community’, which he equates with ‘the goals that are sought by the state’. In his opinion, this definition of the national interest makes statist theory superior to its marxist counterpart since it is consistent not only with the state failing to serve the interest of capitalism, but also with state officials acting to *undermine* that interest (ibid.: 15–17). In other words, instead of the ‘capitalistic determinism’ of functionalist marxism we now have the ‘cunning of the national interest’. The upshot is that the process of accumulation – to the extent that this is even mentioned – becomes merely a means of augmenting state capabilities. In this sense, liberalism and statism could offer satisfactory alternatives to marxism only if we accept that accumulation no longer constitutes the *essence* of capitalism.

### 3 DIFFERENTIAL ACCUMULATION AND US FOREIGN POLICY IN THE MIDDLE EAST

Our findings – both in Nitzan and Bichler (1995) and in this article – corroborate our basic hypothesis: they suggest that, over the years, the politics of weapons and oil in the Middle East – including the contours of US foreign policy – were increasingly affected by the differential accumulation of the Weapondollar–Petrodollar coalition. Unfortunately, situating these findings within the existing literature is not an easy exercise. As noted earlier, the separate emphasis on the issues of war and energy means that up till now, there has been little systematic attempt to develop a comprehensive account of ‘energy conflicts’, let alone to integrate this into a coherent framework of accumulation. The consequence is numerous explanations for individual wars and an equally voluminous literature on oil crises, but no encompassing attempt to tie the two as part of a central historical process. Under these circumstances, our task is not to explain *each individual conflict* better than existing accounts, but rather to provide a general framework consistent with *a whole array of conflicts*. On this count, the emphasis on differential accumulation and the Weapondollar–Petrodollar coalition seems to have produced a highly robust result. Our approach is particularly powerful in being theoretically coherent and non-eclectic, historically consistent over the past three decades, and, most importantly, rooted in the central process of differential accumulation. Finally, up to date, this approach has yielded a perfect predictive record.

Situated in the broader conceptual context of state theory, our approach and findings appear consistent, to a greater or lesser extent, with both marxist and liberal views. They do not sit well, however, with

the statist approach. Instrumentalist marxism argues that state policy is responsive to the profit requirements of the largest corporations, and if the latter could be defined in differential terms, this branch of marxism could easily endorse our evidence. The overlap with functionalist marxism is more limited. The functionalist emphasis on the fundamental primacy of accumulation is in line with our own, though *differential* accumulation for the Weapondollar–Petrodollar coalition need not be consistent with, and may even run against, the long-term interests of the ‘capitalist system’. For instance, in his recent writings about the Middle East, Bromley (1991a, 1991b) identifies secured access to relatively cheap oil as essential in underwriting US hegemony over global capital accumulation – a goal which clearly conflicts with attempts to destabilize the region and raise energy prices. (Of course, since the interests of the ‘capitalist system’ or ‘US hegemony’ are usually not that well defined, to the extent that state managers tend to identify the ‘system’ with its largest corporations, the differential growth of these companies could be seen as synonymous with the viability of capitalism.) Liberals should find it difficult to endorse differential accumulation as the *principal* force driving state policy, though they could accept our results on different grounds. Given its emphasis on the multiple dimensions of societal interactions, liberalism by definition rules out the overriding *determinism* of accumulation. For liberal writers, differential accumulation could be seen as one of many factors affecting the state, but certainly not as the ever-present, dominant one. However, the empirical findings may stand even without the general principle. Indeed, a liberal could interpret our evidence much more loosely, by associating the link between differential accumulation and ‘energy conflicts’ with the *ephemeral* power position of the oil and armament companies.

In contrast to these overlaps with marxism and liberalism, the statist view and the principle of differential accumulation appear contradictory on a number of substantive counts. First, although the accumulation of capital can be seen as contributing to state capabilities, *differential* accumulation cannot. From an overall statist perspective, promoting the growth of Exxon and General Dynamics *at the expense* of non-defence and non-energy firms such as Philip Morris, Coca Cola or Merck makes no sense. Second, the notion that access to Middle East oil is in the ‘national interest’ of the United States is far too general. To be worthy of its name, the ‘national interest’ must be related to the *broad* interests of society. As far as the Middle East is concerned, this certainly includes secured oil supplies, but also stable and preferably low petroleum prices, which are all crucially dependent on *regional stability*. On these counts, however, the evidence in this article suggests that from the early 1970s, US foreign policy in the Middle East was increasingly working *against* the national interest. Alternatively, if the ‘national interest’ is what state

officials define it to be, this interest seems (at least in this case) less in line with the general good of society and more attuned to the particular needs of the weapon and oil producers. Third, some realists, such as Krasner (1978a, 1978b), claim that after the end of the Second World War, the ideological desire to contain Communism overshadowed the lesser material commitments to secured supplies and market competition. On the face of it, this thesis seems validated by the current US-supported 'peace blitz' in the Middle East, following the collapse of the Communist threat. On a closer look, however, the evidence tells a somewhat different story. The current peace drive may be concerned with stabilizing the eastern Mediterranean, but this in itself is part of a broader attempt to build a new pro-western alliance against Islamic fundamentalism. Indeed, since the early 1990s, American arms export agreements with Middle East governments have reached all-time highs, and their continuous ascent could spell further turmoil down the road. (Given its many overlaps with statism, functional marxism too is open to similar criticisms. However, since accumulation is largely ignored by the former while being the centrepiece of the latter, for our purpose the two approaches could not be lumped together even provisionally.)

The statist view is vulnerable, at least in part, because it emphasizes *stated* (or *assumed*) goals instead of *actual policies*. Krasner (1978a: ch. 2), for instance, defines the national interest inductively by ranking the declared aims of state officials, and then goes on to show that these stated aims have on occasion contradicted the interests of the large petroleum companies. The problem is that this confuses presentation with intention. There is very little *a-priori* reason to accept that state officials want low oil prices or greater competition just because they say so. People in power rarely admit that their actions contradict the common good, so the fact that state managers declare their commitment to stable oil supplies at cheap prices is not necessarily illuminating of their true goals. Furthermore, even if they sincerely believe what they say, that in itself tells us little about what they actually do. Hence, a valid test for the statist thesis must go beyond declared goals, and look at *actual policies* and their *eventual effects*.

These considerations become important as we move from the 'free-flow' period of the pre-1970s, to the 'limited-flow' era of the oil crises (for more on this terminology, see Nitzan and Bichler, 1995). Up until the late 1960s, the interests of the oil companies in free access to oil deposits and in stable and moderate prices could be viewed as coinciding with the broader interests of the US economy (or its capitalist class). In the subsequent period since the 1970s, however, the interest of these firms was not so much in concessions, but in unstable, high prices. Contrary to the portrayal by Krasner (1978a: 39–40) of a negative trade-off between the level and variability of petroleum prices, the relationship

between them since the late 1960s became *positive* (see Figure 1 above). In other words, from the late 1960s on US policy makers had to 'choose' not between low and variable oil prices as opposed to high and stable ones, but rather between low and stable prices against high and volatile ones. This fundamental change brought to the forefront the inherent *conflict* between the Weapondollar–Petrodollar coalition and the so-called 'national interest'. If until the late 1960s one could conceivably explain US policy tolerance towards higher prices as an attempt to achieve the more important goal of stable and secured supplies, since the 1970s this no longer held true. From the first 'mini' energy crisis of 1967, higher prices could no longer be seen as a necessary cost for achieving secured and stable supplies. If anything, higher oil prices were increasingly caused by and, in fact, contributed towards greater instability.

Given this potential clash between the 'national interest' and the differential needs of the Weapondollar–Petrodollar coalition, the statist view must demonstrate that *whenever this clash arose*, US policy supported the former rather than the latter. In what follows, we look at the background of each of the 'energy conflicts' – the Arab–Israeli wars of 1967 and 1973, the Iranian Revolution of 1979 and the Iraq–Iran war of 1980–8 and, finally, the 1990–1 war between Iraq and the US-led coalition. Taken as a whole, our findings do not support the statist interpretations (and to some extent they also undermine the functionalist marxist view). Instead, they show, first, that US foreign policy *objectives* in the Middle East were far less coherent and much more flexible than argued by statist writers; and second, that while the *actual* policies were sometimes consistent with both the 'national interest' and the particular interests of the Weapondollar–Petrodollar coalition, *whenever these interests differed – and that was increasingly the case during the new 'limited-flow' era – US policies tilted in favour of the coalition, even at the cost of sacrificing the 'national interest'*.

#### 4 THE 1967 ARAB–ISRAELI WAR

Analyses of the June 1967 War are customarily cast in terms of three regional processes, none of which is directly related to energy. One process is the growing ethnic and cultural antagonism between Arabs and Jews which has intensified since the turn of the century, evolving after 1948 into a nationalistic clash between Israel, the Palestinians and the Arab states (Safran, 1978). A second process concerns the barriers on rapidly growing population imposed by an acute shortage of water, a problem which many writers tend to see as lying at the root of the conflict between Israel and Jordan, Syria and Lebanon (Kelly, 1986; Naff and Matson, 1984; Rabinovitch, 1983; and Sexton, 1990). The third process, which has received considerable attention in recent years, is the

development since the 1950s of nuclear weapons by Israel (Hersh, 1991). According to Aronson (1992, 1994), the nuclear arms race was the focus of internal ideological and political struggles within the Israeli elites and the main determinant of Israeli foreign and security policies.

Yet the conflict was also related, even at that early stage, to the growing global significance of the Middle East. The 'free-flow' era after the Second World War was marked by US concerns for assuring access to the region's oil fields. During the late 1940s and early 1950s, many in the State Department saw Israel as a disturbing factor which might provoke anti-American sentiments, weaken the US position in Iran, Turkey and Greece, and possibly lead to a loss of control over the oil routes (Gazit, 1983a). In this sense, official US foreign policy appears to have followed a combination of material and ideal goals much like the one accentuated by statist writers such as Krasner (1978a, 1978b) and Lipschutz (1989), and indeed, during that period the State Department emphasized relations with Arab oil producers while downplaying any open support for the Jewish state.

Until the mid-1950s, the military burden of protecting western interests in the oil routes was assumed by Britain, but in 1956 Britain and France lost some of their key strongholds in the Middle East, and in 1958 the United States made its first military foray into the region. From the late 1950s, concerns for the free flow of oil were heightened by a combination of rising Arab nationalism and increasing Soviet intrusion into the region. Following the 1954 seizure of power in Egypt by Nasser, the emergence of Pan-Arabism presented a growing threat to the feudal regimes of Saudi Arabia and surrounding sheikhdoms. Faisal, the pro-American king of Iraq, was assassinated and succeeded by an anti-western military junta, and the Baghdad Pact of 1955 fell apart. This, together with the Egyptian-Syrian union, attempts to topple King Hussein in Jordan, and Syrian subversive involvement in Lebanon contributed towards a reassessment of US policy in the region.

Under the new 'Eisenhower Doctrine', the United States now assumed military responsibility for the Persian Gulf and the Arab Peninsula (Gold, 1993: 35). In addition, it also started fortifying its positions on the external perimeter of the oil region. In 1958, Israel became a 'strategic asset', recognized for its stable, pro-western characteristics and conceived as a potential logistical base (Safran, 1978: ch. 20).<sup>6</sup> Although the US State Department, during both Truman's and Eisenhower's presidencies, was not particularly interested in such Israeli services, the CIA was and it began fostering secret liaisons with Israeli politicians and security officials. One of these relations was linked to a proposal by Ben Gurion that Israel create a peripheral pro-American alliance with non-Arab countries such as Turkey, Iran and Ethiopia, to help contain Arab radicalism. Part of this new alliance was a secret agreement – code-named KK Mountain –

according to which the Israeli intelligence service Mossad would become a permanent paid 'subcontractor' for the CIA, carrying out operations which for various reasons were better delegated to non-US elements. Assuming its new role, the Mossad quickly became involved in numerous proxy undertakings in Africa and the Middle East. Among others, these included agitating and financing the 1961 Kurdish revolt to destabilize the pro-Nasser regime in Iraq and, in 1962, sending arms and providing training to the Royalists fighting against Egyptian and Soviet forces in Yemen (Cockburn and Cockburn, 1991: ch. 5).

These and similar operations were allegedly part of the CIA's effort to have the new Kennedy administration pay more attention to the Middle East (*ibid.*). The role of the CIA is especially noteworthy because after the Second World War and particularly from the early 1950s, the agency's Middle Eastern operations were almost exclusively handled by the ARAMCO partners (Chevron, Texaco, Exxon and Mobil) and Bechtel (McCartney, 1989: ch. 10). Despite his favourable attitude towards the petroleum industry and the close oil connections of some of his top officials,<sup>7</sup> Kennedy was not swayed and continued to pursue a policy of appeasement towards Nasser. However, his 'New Look' doctrine also permitted, for the first time, American military shipments to Israel. Contrary to the 'nuclear-containment' policy of his predecessors, Kennedy emphasized the use of conventional weapons and direct involvement against Soviet subversion. In 1960, he announced that he was not opposed to a 'military balance' between Israel and the Arab countries, and in so doing he opened the door for a regional arms race (Gazit, 1983b; Safran, 1978: 581).

Initially, this change may have been partly motivated by Kennedy's desire to check Israel's nuclear development programme and to prevent an out-of-control nuclear arms race between Israel and Egypt (Gazit, 1983b: 49–56). But towards 1966, when attempts to appease Nasser seemed to be going nowhere, Kennedy's successor, President Johnson, began fortifying 'special relations' with the Israeli army, buttressed with large military shipments to counteract the growing Pan-Arabist threat. Despite his preoccupation with the intensifying Vietnam conflict, Johnson was worried about the fighting in Yemen, where Egyptian troops had on a number of occasions crossed the border into Saudi Arabia. After the end of US involvement in Libya and in the Congo, Washington ceased its economic support to Egypt and instead moved to give overt assistance to Israel, both economically and militarily. In 1966, at the height of its entanglement in Vietnam, the United States began sending Israel *heavy* assault weapons, including tanks and aircraft, for the first time.

In that year, Soviet involvement in the region seemed more threatening than ever. First, Britain announced it would soon be leaving Aden, notwithstanding the ongoing Soviet-backed war in neighbouring Yemen,

just south of the world's richest oil fields; then, the pro-Soviet Ba'ath party staged a coup in Syria; and finally, Kosygin was promoting a socialist union between Egypt, Syria, Algeria and Iraq, which would have engulfed Saudi Arabia from the west and north. Given its difficulties in Vietnam, the United States was not prepared to counteract these developments directly, but Israel certainly was and did. Towards the end of the year, the Arab-Israeli dispute was again heating up. In November, Israel staged a massive raid into the Jordanian town of Samoua, officially in retaliation for guerrilla attacks. Then, in April 1967, an Israeli tractor sent to cultivate a demilitarized zone just beneath the Golan Heights sparked a border skirmish which ended with humiliating Syrian losses. Adding insult to injury, the Israelis went on to announce their intention of forcibly dethroning the Damascus regime. Faced with mounting challenges to his Pan-Arab leadership, Nasser was more or less compelled to respond, moving two army divisions into the Sinai desert and closing the Straits of Tiran. There are, of course, other explanations. Aronson (1994), for example, sees the turn of events in a rather different light, arguing that the escalation was in fact an unintended consequence of Nasser trying to stop the development of nuclear weapons by Israel. But one way or the other, it is clear that the Americans (like the French and British before them) hoped that Israel would use the opportunity to topple Nasser, and the closing of the Tiran Straits now offered the pretext for a pre-emptive strike.

Contrary to popular belief, the Israeli and American leaderships had little doubt about the outcome of the looming war.<sup>8</sup> The certainty of Arab defeat was also known to Nasser – as well as to the other Arab participants – but given their internal disputes, they found it politically impossible to ignore Israeli provocations and were thus increasingly drawn towards a point of no return.<sup>9</sup> Following the closure of the Straits of Tiran, Israel scheduled its attack for 25 May, but it had to wait until 6 June, after Meir Amit, head of the Israeli Mossad, returned from an emergency trip to Washington with the 'green light' to 'break Nasser's bones asunder' (Haber, 1987: 214–16). And so, by maintaining its loyalty to US strategic interests in the region, Israel had finally succeeded in joining the US orbit as a formal satellite, a process which would further intensify during the 1970s and 1980s.

Preoccupied with the 'free flow' of oil, the Petro-Core may have viewed the war's outcome as highly favourable: Soviet aspirations were undermined and the cause of Pan-Arabism suffered a serious blow. However, the companies must also have noticed the positive effect the war had on their differential profitability (see Figures 2a and 2b) – an ominous sign that their 'free-flow' system was itself coming to an end.<sup>10</sup> And as if to hasten this process, the aftermath of the war was marked by increasing arms exports. Rewarded for its victory, Israel began receiving F-4



Phantom aircraft which were previously sold only to Britain and Germany. With this, the door was now open for an arms race of sophisticated weapons, a race which would eventually help 'limit' the flow of oil and introduce the petroleum business into the new era of 'crisis'.

## 5 THE 1973 ARAB-ISRAELI WAR

The 1968 presidential elections in the United States brought a new administration which was very attuned to the coinciding interests of the Weapondollar-Petrodollar coalition. Nixon's campaigns were supported heavily (and not always legally) by contributions from both oil and armament companies (Sampson, 1975: 205-6; 1977: 151-52, 195), while his Secretary of State Kissinger enjoyed close connections with the Rockefellers and proposed an aggressive realpolitik which at more than one point entertained the feasibility of 'limited' nuclear war (Barnet, 1983: 178-9).<sup>11</sup> In the eyes of the Nixon-Kissinger administration, the 1967 war did little to secure US interests in the Middle East. Gaddafi's 1969 showdown with the oil companies in Libya and the attempted coup in Saudi Arabia were disconcerting reminders of pending regional hazards, suggesting that, if anything, the United States should pay more rather than less attention to this troubled area.

That, however, was easier said than done. In 1969, the United States began withdrawing its troops from Vietnam, and with warmer relations with China and the declaration of *détente*, the new 'Nixon Doctrine' called for a lower budgetary commitment to defence. Instead of Kennedy's strategy of preparing for '2½ wars', Nixon and Kissinger offered resources for only '1½ wars' and in 1969 domestic military spending started to fall. From a statist perspective, these budgetary constraints weakened US capabilities in the Middle East precisely as this region was about to become one of the most sensitive in the world (Gold, 1993: 40). Moreover, Britain's withdrawal from its last stronghold in the Persian Gulf and the loss of the last US strategic air base in Libya created a regional vacuum. The solution, as stipulated by Kissinger, was for the United States to concentrate only on 'core conflicts', leaving 'peripheral conflicts' to be handled by local pro-American forces. The consequences were twofold. First, the United States embarked on massive arms exports, mainly to Israel and to the 'twin pillars' Iran and Saudi Arabia, and later also to Egypt and other countries. Second, State Department attempts at settling the Arab-Israeli conflict were now frustrated by White House support for Israel (Safran, 1978: ch. 23). With Middle Eastern affairs increasingly handled by Nixon and Kissinger rather than State Secretary Rogers (Kissinger, 1979: 1285, 1289), Israel was now used as a threat against anti-American Arab countries. Kissinger was particularly intimidated by what he regarded as deliberate Soviet challenges,

and in 1970 worked out a plan together with Israeli Ambassador Rabin for a joint US–Israeli attack on Syria, which jeopardized King Hussein of Jordan.

These observations do not sit well with the statist view. First, given the split between the conciliatory position of the State Department and the aggressive stance of the President, it is not clear what ‘national interest’ American policy makers were trying to achieve. Second, the type of cannon diplomacy entertained by Kissinger does not look particularly conducive to regional stability. Indeed, according to Safran (1978: ch. 23), the United States continued to send arms to the region despite its own fears that an Israeli victory against Arab aggression would cause chaos and seriously disturb the flow of oil.

Seen from the perspective of the Weapondollar–Petrodollar coalition, however, US foreign policy no longer looks so ambivalent. Declining military spending at home had an unambiguous negative impact on the large defence contractors (Sampson, 1977: 214–21), and with pressures from these embattled contractors coinciding with his own strategic outlook, Nixon took another step towards the commercialization of arms exports. His new doctrine stipulated that the burden of defending US allies – financially as well as in manpower – should now be borne by those allies themselves (Ferrari *et al.*, 1987: 21). In order to do that, explained military contractor David Packard (then acting as Deputy Secretary of Defense), the United States was ready to ‘give or sell [to these allies] the tools they need for this bigger load we are urging them to assume’ (quoted in Sampson, 1977: 243). In the Middle East, the Nixon Doctrine meant the dawn of a new arms race. Unable to pay for its rapidly rising military imports, Israel continued to receive most of them as aid – officially in order to restore the region’s delicate ‘balance of power’ but arguably leading towards an opposite end.<sup>12</sup> The most significant developments, however, were on the Iranian front.

With their newly acquired freedom to sell, US armament companies were actively courting the Shah of Iran whom the US administration was now promoting as the ‘policeman of the Gulf’. On their visit to Tehran in 1972, Nixon and Kissinger reputedly agreed to sell Iran ‘virtually any conventional arms it wanted’ (cited in Sampson, 1977: 252). Given the decline in domestic military expenditures, this commitment was a much-needed lifeline for many of the largest defence contractors. The extent of arms exports, however, depended crucially on the petroleum revenues of the Peacock Throne, something which both Nixon and Kissinger could not have failed to appreciate.<sup>13</sup> And, indeed, the oil industry, too, was now undergoing a profound transformation. With weakening prices and falling profitability (see Figures 1 and 2a), the large petroleum companies came to realize the potential benefit of a stronger OPEC. The cartel’s apparent resolve to control output impressed

the oil majors, and their London Oil Policy Group was now ready to accept a new revenue-sharing agreement (Odell, 1979: 105, 215). But although the price of oil started to rise in 1971, the Petro-Core's rate of profit continued to linger and, in 1972, fell dangerously below the Fortune-500 'normal'.

And then came the October 1973 'energy conflict'. The war brought a sharp increase in prices and restored the oil companies' differential profitability high above the big economy's average. At the same time, it also generated dramatic increases in the oil revenues of Arab countries with immediate consequences for the arms trade: in 1974, the Middle East surpassed South-East Asia as the world's largest market for imported weapons, with over one-third of the global trade.

While there is no evidence to implicate the US administration as an instigator of the conflict, there are numerous indications that it did little to prevent it. The war did not catch the Nixon government by surprise. Warned by Faisal already at the beginning of 1973, the ARAMCO partners were aware of what was coming and they did not keep that knowledge to themselves (Blair, 1976: 266-8; Sampson, 1975: 243-8; and Yergin, 1991: 593-7). A similar message came from a CIA study (incidentally co-authored by the same analyst who anticipated that the 1967 war would last only six days) which concluded that the Egyptians were planning to attack Israel (Cockburn and Cockburn, 1991: 171). Indeed, Kissinger was directly informed of the impending assault, both by Jordan's King Hussein (who between 1957 and 1977 was a paid CIA agent) and by sources close to Sadat (Neff, 1988: 105).

These preliminary exchanges raise two related questions. If, as stipulated in the statist literature, Nixon and Kissinger were indeed concerned with maintaining regional stability, why did they not heed Saudi requests that the United States soften its support for Israel? To suggest that this was because the administration was by then irrevocably committed to the Israeli cause is not persuasive, for if that was the case, why did it fail to warn the Israelis of the coming calamity? Indeed, why did Kissinger caution Israel not to fire the first shot when it finally realized that Egypt and Syria were about to attack? One common interpretation is that Kissinger wanted the Arabs to win their self-respect and some territory which would then be traded for peace through his own mediation (see, for example, Hersh, 1991: 227). However, from a statist point of view, Kissinger was walking on a tightrope here. The problem, according to his own admission, was how to achieve a 'balanced' outcome - one in which the war ends after Israel recovers some of its earlier losses but before it has the chance to destroy its opponents. For Kissinger, this must have been a real problem. He had absolute confidence in Israel's military ability and feared that an Israeli victory would be devastating for US regional interests (possibly by

inciting leftist coups and encouraging Soviet intervention). Yet despite the obvious danger, he stuck to his plan, moving to broker a ceasefire only at the last moment, after Israel had threatened to use nuclear weapons (Safran, 1978: ch. 23).

These covert ambiguities and the accompanying political acrobatics suggest that strategic considerations may have been only part of the story. Attuned to the plight of the oil and armament industries, it is not unlikely that Kissinger had also given some thought to the probable effect an oil crisis would have had on their coinciding interests. And, indeed, the unfolding of events after the war is not inconsistent with this conjecture.

With the dual rise of inflowing petrodollars and outgoing weapon-dollars, the resolution of the Israeli-Arab conflict became decreasingly appealing. US diplomats were now more concerned with maintaining the region's 'balance of power'. Thus, the ambassador to Egypt recommended that the United States start sending weapons to that country, while his counterparts in Kuwait and Saudi Arabia were explaining the merits of American-made aircraft to local rulers (*New York Times*, 21 June 1975, cited in Frenkel, 1991: 76). Working now for the new Ford administration but still pursuing his original plan, Kissinger helped to establish an 'interim agreement' between the warring factions.

This time, the United States held the carrot as well as the stick: it could use Israel as a threat against pro-Soviet Arab regimes, but also force it to return occupied Arab land to those who promised to leave the Soviet orbit and cross the floor into the American side (Safran, 1978: ch. 25). This premise, which brought the end of the oil embargo, continues till the present and underlies much of the peace process of the 1990s.

However, during the mid-1970s, with an eye to the background interests of the Weapon-dollar-Petrodollar coalition, the administration was also careful to insist that interim agreements should not evolve into a comprehensive settlement. When in July 1975 the Israeli government appeared willing to go to a peace conference in Geneva, President Ford was quick to threaten that such a move would cause the withdrawal of US assistance (*New York Times*, 3 July 1975). The imperative of maintaining tension was spelled out clearly less than a year later. Appearing before the Jewish-American Congress in April 1976, Kissinger effectively asserted that a comprehensive Middle East peace depended not so much on the warring factions, but rather on the superpowers first agreeing on their respective spheres of influence (reported in Meyer, 1976: 157).

These pursuits on the armament front help to shed some light on the apparently confused energy policy of the US administration during that period. Based on his analysis of over 1,000 State Department cables and papers obtained under the Freedom of Information Act, Yergin (1991:

84) concluded that, between 1974 and 1981, the US government in fact objected to higher oil prices. This conclusion seems consistent with the statist stand, but then Yergin simultaneously inferred that the government did not want to see those prices lowered either (*ibid.*: 643). In Yergin's opinion, this indecisiveness was rooted in a conflicting quest for lower energy costs at home, coupled with a richer and thus more stable Middle East. Yet how could this presumed search for stability be reconciled with massive US arms shipments whose dubious contribution to peace was questioned even by the administration itself? And what about the support of Kissinger and the International Energy Agency for a 'minimum safeguard price' as a means of protecting *western* interests (Sampson, 1975: 306; Turner, 1983: 184). Yergin's explanation implies that the US government was willing, in line with the realist view, to undermine the interests of both the large oil companies and the leading arms exporters. In light of available evidence, however, this hardly seems plausible. In our view, a more convincing straightforward interpretation is that the administration was in fact interested neither in lower oil prices nor in Middle East stability. By the mid-1970s, the interaction between petrodollars and weapondollars had already given rise to an increasingly powerful coalition with a vested interest in regional instability. Initially, these interests were somewhat blurred by the imaginative use of language to equate arms shipments with 'stabilization'.<sup>14</sup> Eventually, however, as the virtues of this Orwellian equation became decreasingly apparent, the true forces at play were coming into focus.

The rising influence of the Weapondollar-Petrodollar coalition coincided with the new policies of Carter. Unlike Nixon's, the 'Carter Doctrine' moved from emphasizing loyal regional forces (the 'twin pillars' and Israel) to a reliance on direct military intervention. With growing nervousness on the part of the Saudi pillar – first in response to Soviet involvement in the Horn of Africa, and later as a consequence of Soviet participation in the Yemen conflict – Carter and his National Security Advisor Zbigniew Brzezinski decided to build a 'Rapid Deployment Joint Task Force', or RDJTF (Long, 1985: 62). As they saw it, the lesson from the Iran affair was that the United States should not count on local proxies and must use its own forces to protect its own interests (Quandt, 1979: 543). This fitted well with the broader strategic rethinking in Washington. According to Brzezinski (1983: 454), events and decisions in 1979–80 had fundamentally altered the US global strategic position. The Middle East – which was previously seen as semi-neutral and protected from Soviet power by a defence belt comprising Turkey, Iran, Pakistan and Afghanistan – no longer seemed invincible. As a consequence, US dual commitments in Europe and the Far East were now supplemented by a third strategic commitment towards what came to be known as 'West Asia'. The resources needed to support this

new pledge, however, were unavailable and so in order to bypass Congressional objection, part of the military deployment was financed by Saudi petrodollars (Gold, 1993: 51).

Thus, notwithstanding his desire to promote world peace, Carter was also subject to considerable pressure to act otherwise. At home, his was the first administration to raise domestic military spending after almost a decade of decline. In the international arena, Carter indeed announced a policy of restraints on arms exports which, in its first fifteen months, led to the cancellation of 614 requests from ninety-two countries worth over \$1 billion (Ferrari *et al.*, 1987: 25). Yet, despite these limitations, and contrary to the new statist stand on the principle of American 'self-defence', total US arms exports continued to increase (albeit more slowly), particularly to the Middle East. Somewhat paradoxically, Carter, who was often perceived as a peace-maker promoting conciliation in the region, was also the president who contributed the most towards opening the Arab market to US weaponry. In 1978, towards the Camp David Accord, he initiated the first 'combination deal', whereby US armament producers *simultaneously* equipped several warring factions – a pattern which was then promptly institutionalized by other arms-exporting countries as a means of promoting peace through arms sales.<sup>15</sup>

## 6 THE 1979 IRANIAN REVOLUTION AND THE 1980–8 IRAN–IRAQ WAR

Yet the ongoing rearmament during the mid-1970s was merely sufficient to keep oil prices from falling, and in the absence of a serious upheaval, the Petro-Core's profitability in 1977 and 1978 again dropped into the 'danger zone' below the big economy's average (see Figures 2a and 2b). By now, however, the key players must have been well aware of the impact on prices of a major crisis which, incidentally, was already in the making. The Islamic Revolution that began in 1978 failed to have a significant effect on the market, but the potential was clearly there. In this light, the involvement of the US administration in the onset of the 1979 oil crisis is interesting: despite the delicate situation in Iran, Carter quickly granted asylum to the ousted Shah, thus triggering the hostage crisis. When Iran threatened to withdraw its US banking deposits, the President immediately retaliated by seizing Iranian assets. This sequence of events has given rise to allegations that the US government was unduly influenced by Carter's special relations with the Rockefellers who feared losing their extensive loans to Iran.<sup>16</sup>

The hostage crisis in Iran sparked panic and the price of oil began to rise, but the regional upheaval continued. In late 1979, the Soviet Union invaded Afghanistan, and in 1980 the Iraqis attacked Iran. Oil prices were now climbing beyond \$30 per barrel, pulling the Petro-Core's

profitability safely out of the 'danger zone'. And with Middle East oil revenues on the rise, the flow of imported weapons was also growing rapidly. To some extent, both the invasion of Afghanistan and Iraq's assault on Iran were rooted in the rising threat of Islamic fundamentalism. However, there are indications that the US government had additional apprehensions which were not wholly antagonistic to the Khomeini regime. According to several sources analysed in Cockburn and Cockburn (1991: 317–18), during the last year of his administration, Carter embarked on a 'sting operation' which, if successful, would have both helped his re-election and caused the Iranians to renew their demand for American weapons. The underpinning of his strategy was relatively straightforward. With much of their sophisticated arsenal made in the United States, the Iranians were crucially dependent on US-made spare parts and ammunition. In this context, a major conflict (preferably starting before the 1980 elections) could convince Iran to release the hostages in return for American military resupply. The unsuspecting carrier of that plan was Iraq's Saddam Hussein. With blessings from Jordan and Kuwait, promises of Saudi finances and, most importantly, an indirect but clearly warm endorsement from Brzezinski, Hussein began to advance his forces into Iran.<sup>17</sup> Unfortunately for Carter, the 'sting' was only partly successful. Once Iraq launched its attack, his administration condemned it and began soliciting the Iranians to trade hostages for spare parts. But that was too late. Apparently, Iran already had a secret agreement with the US Republican Party that the hostages be released only after the elections, so although the weapons were ready to flow, Carter was no longer there to benefit from it.<sup>18</sup> The gains for the Weapondollar–Petrodollar coalition, however, were positive – in fact, more so with Reagan in office than Carter.

During Reagan's presidency, the Middle East was defined – in some sense paradoxically – as being increasingly important for the US 'national interest'. In 1983, Reagan created a new military central command (CENTCOM) to include the entire area of 'West Asia' from India to the Horn of Africa.<sup>19</sup> The reallocation of land forces within CENTCOM suggested a move from deterrence to defence, but at least initially, CENTCOM was incapable of countering a Soviet challenge even against the oil zone in southern Iran, not to mention a larger operation (Gold, 1993: 69). More importantly, lacking the necessary funding, the new focus on West Asia had to come at the expense of American military commitments in Europe and East Asia – this at a time when the significance to the United States of Middle East oil, as well as the Soviet danger, were in fact *declining* (see Section 7 below).

Interestingly, though perhaps not surprisingly, this renewed pre-occupation with the 'Soviet menace' in the Middle East came as the power of the Weapondollar–Petrodollar coalition was reaching new

heights. Vice-President Bush – a former Director of the CIA and an oil millionaire in his own right – had a close acquaintance with the petroleum industry and strong Texas ties. As his first Secretary of State, the President nominated Haig, previously a director of Chase Manhattan and president and chief executive officer of United Technology.<sup>20</sup> Reagan also nominated Donald Regan, a partner and chairman of Merrill Lynch, as his Treasury Secretary. Merrill Lynch is one of the country's largest brokerage houses and, like Chase Manhattan and United Technology, has a special connection with the Middle East. In 1978, the company acquired White Weld, an international investment firm that advised the Saudi Arabian Monetary Agency (SAMA) on how to manage its \$100 billion portfolio and guided the investment of a daily inflow of about 450 million petrodollars. As his Assistant Secretary for International Affairs, Regan nominated Mulford, who until then had managed White Weld's operations in Saudi Arabia (*Business Week*, 22 July 1985). Other oil-related appointments were the nomination of Volker as Chairman of the Federal Reserve Board, and then his replacement by Greenspan – the former was linked to the Rockefeller group and the latter was a director of both Mobil Oil and J. P. Morgan prior to his appointment.

However, the most important representatives of the Weapondollar–Petrodollar coalition who found their way into the Reagan administration were several veterans of the Bechtel Corporations – the world's largest contractor of military installations and energy-related projects.<sup>21</sup> Bechtel has had a long history of building political ties at home and abroad (cf. McCartney, 1989). Among other things, the company was the driving force behind the election campaigns of Hoover, Eisenhower and Reagan; it had close associates in the CIA (including Agency Directors McCone, Helms and Casey); it courted special relations with the Dulles brothers; and it has dominated decision making at the Atomic Energy Commission and the Export-Import Bank. On the international scene, Bechtel acted simultaneously as an arm of the CIA and as the unofficial representative of foreign governments, particularly Saudi Arabia, in the United States. These and numerous other connections (often supplemented by substantial bribes and clandestine operations)<sup>22</sup> helped win Bechtel some of the world's largest construction projects. But what made these projects so valuable to begin with was the 'energy crisis' unfolding from the early 1970s.

Bechtel entered the Middle East after the Second World War as a major contractor for the ARAMCO partners, but until the consolidation of OPEC its activities in the region remained restricted by the limited petrodollar earnings of local governments. With the price explosion of the early 1970s, however, came a growing flow of contracts, including the construction of natural gas projects in Algeria and Abu Dhabi, power stations in Cairo, and refineries, airports and entire petrochemical cities



in Saudi Arabia. In addition, many of the company's other energy-related projects – such as Quebec's hydroelectric James Bay complex, the Alaska oil pipeline, Indonesia's liquefied natural gas facilities and nuclear reactor plants in the United States and elsewhere – were themselves partly the consequence of rising oil prices. The company also became a major constructor of military installations, mainly for US forces, but also for other sovereigns, particularly in cash-rich Arab countries.

By the early 1980s, Bechtel's international operations had risen to over one-half of its business, and the person who had guided this transition since the mid-1970s was the company's president George Shultz. Towards the 1980 election, Shultz became concerned with the proposed policies of Ronald Reagan who vowed to make government smaller. Such policies would have seriously threatened Bechtel's business, but after a series of 'coordination meetings' with Bechtel executives and associates of the Rockefeller group, the presidential candidate had modified his stance sufficiently to make Shultz an unreserved supporter. Once in office, Reagan began to draw on the talent of Bechtel officials. As his initial Defense Secretary, he chose Weinberger, until then a Bechtel vice-president, and in 1982 he asked Shultz to replace Haig as Secretary of State. Other Bechtel veterans with key positions in the new administration included Allen (National Security Advisor), Davis (Deputy Secretary of Energy) and Habib (who was acting as Reagan's Special Envoy to the Middle East while still on Bechtel's payroll).

The convergence of oil and armament interests in the Reagan administration was paralleled to some extent in their own boardrooms, mainly through interlocking directorships. For example, during the 1980s, the chairman and chief executive officer of Standard Oil of Indiana (Swearingen) was a director of both Chase Manhattan and Lockheed; the board of directors of McDonnell Douglas included a director of Phillips Petroleum (Chetkovich) and a director of Shell Canada (McDonald); the chairman and president of United Technologies (Gray) was a director of both Exxon and Citibank; Boeing shared one director with Mobil and three with Chevron, including the latter's chairman (Keller); and the Chevron board included a director from Allied Signal (Hills) and the president and chief executive of Hewlett Packard (Yound) (*Moody's Industrial Manuals*; Adams, 1982). Such interlocks facilitate a sharing of common interests and they serve as an informal mechanism for the transmission of views that permit strategic action to be coordinated.

Whether the oil and armament corporations indeed cooperated in order to advance their common Middle East interests remains an open question, but the policies of the Reagan administration certainly seem consistent with such an endeavour. At home, Reagan helped to consolidate the Weapondollar–Petrodollar coalition by embarking on the largest defence build-up in peace time while simultaneously reducing

corporate taxes. The result was a rapidly rising budget deficit – but for the arms and oil business this meant much larger earnings.<sup>23</sup> And in the Middle East, the new administration continued the policies of its predecessors, though apparently with much greater vigour. Instead of Carter's approach that arms exports should be an 'exceptional foreign policy implement', Reagan took the view that they were 'an essential element of [US] global defence posture and an indispensable component of its foreign policy', and moved to eliminate many of the restrictions previously imposed on them (US Congress, Office of Technology Assessment, 1991: 20). However, in order to pay for the outgoing weapons (the administration was increasingly incapable, both financially and politically, of delivering them as aid), there was a need to continue nourishing Middle East 'energy conflicts', a task to which Reagan turned with little delay.

In Iran, the administration was quickly implicated in the so-called Iran-Contra Affair. Building on the earlier success in freeing the embassy hostages in Tehran, the United States was now sending weapons in return for the release of hostages captured in Lebanon by Iranian-backed forces (and for cash payments which were then partly diverted to finance the Contra rebels in Nicaragua).<sup>24</sup> However, these aspects of the scheme were only part of the picture. Another goal, less publicized though certainly no less important, was to enable Iran to hold against Iraq – but only just, so that the war could continue without a victor.<sup>25</sup> Arms shipments to sustain the Iranian war effort – in excess of \$500 million annually according to some estimates<sup>26</sup> – were handled by Israel. At the same time, the Americans also kept promoting the Iraqi cause. This was done in a variety of ways: by renewing diplomatic relations; by providing military intelligence; by granting low-interest loans; by encouraging Saudi financial assistance; by asking the Gulf states and Egypt to deliver more than \$1.5 billion worth of arms and ammunition; and, finally, by allowing over \$5 billion of US credit – partly guaranteed by the Agriculture Department – to be covertly (and possibly fraudulently) used for Iraqi purchases of US machinery and technology with military and nuclear applications (*Business Week*, 13 July 1992; Waas and Unger, 1992). To facilitate payments for the war effort, it was suggested in 1984 that Bechtel construct a multibillion-dollar pipeline from Kirkuk to the Jordanian port of Aqaba which would help to make Iraqi oil shipments safe from the hazards of the Gulf. The undertaking was endorsed by CIA Director Casey and in order to guarantee the project against Israeli bombardment, Bechtel sought additional help from a number of key figures, including Swiss oil magnate Rappoport, Attorney General Meese and National Security Advisor McFarlane. Rappoport, with his reputed CIA connections and a long-term friendship with Israeli Prime Minister Peres, was able to obtain a written Israeli

promise not to attack the pipeline in return for an overall premium of about \$650 million – payable in ten equal annual instalments which would then be partly diverted to Peres's Labour Party. To secure the arrangement further, Peres was willing to freeze in a 'salvage fund' \$400 million out of US military aid to Israel, and Meese and McFarlane laboured to arrange that the scheme be approved by the Overseas Private Investment Corporation (*Business Week*, 22 February 1988; Frenkel, 1991: 30–4).

In the end, for reasons which are still not entirely clear, Iraq decided not to proceed with the project. In a certain sense, however, the cancellation was part of a new trend of declining exports to the Middle East. The reason was twofold: since 1980, Middle East oil production had begun to drop sharply and then, in 1982, the price of oil too started to fall. The net result was a sharp decline in the region's oil revenues – from \$197 billion in 1980 to a mere \$52 billion by 1986 – and a consequent reduction in the demand for civilian and military imports (United Nations, *Statistical Yearbook*, 1980, 1986).<sup>27</sup> These developments were not entirely surprising. A decade of 'crisis' was finally having its effect on the demand for oil, particularly through the development of alternative energy sources and improved energy efficiency.<sup>28</sup> High prices were also affecting the production side, inducing an increase in non-OPEC exploration and a consequent growth of reserves and output. In addition, there were growing cleavages between the large oil companies and their host countries, as the latter (particularly Saudi Arabia and Kuwait) were beginning to diversify into downstream activities of refining, transportation and marketing (*Business Week*, 12 September 1983, 7 March 1988, 21 March 1988, 17 October 1988; *Time*, 27 July 1988). And finally but perhaps most importantly, the Iraq–Iran War was decreasingly seen as a 'threat' for western energy supplies.

In some important respects, the situation in the early 1980s differed from that which prevailed after the 1973 Arab–Israeli War. In the earlier conflict, the anti-Israel alliance of the Arab countries lent credibility to the threat of the 'oil weapon' and helped to augment fears of a future shortage. By the 1980s, however, the OPEC front was no longer united and two important members of the cartel were themselves military foes. The disturbances occurring in the Persian Gulf, particularly the so-called 'tanker war' and attacks on oil ports, aroused nervousness in the oil market and perhaps exerted a positive influence on oil prices. Yet rivalry prevailed instead of cooperation, and with the prolongation of hostilities in the Gulf, the likelihood of reorganizing OPEC to restore its earlier cohesion diminished. Indeed, the overriding need of both Iran and Iraq for new weapons and ammunition only intensified the problem as the two countries stretched their production to the limit in order to finance their war effort.<sup>29</sup> The Iraq–Iran War thus contributed towards a new

situation of *falling* oil prices with potentially detrimental implications for the Weapondollar–Petrodollar coalition.

Initially, Saudi Arabia agreed to provide a ‘cushion’ for the oil revenues of other OPEC members by selling its own output at the cartel’s official price and by adjusting its production to eliminate the pressure of excessive supply on this official price. The cost for the Saudis was substantial – they had to reduce output from around 10 million barrels per day in 1981, to about 3.5 million in 1982 and, finally, to a mere 2 million in 1985 (*Time*, 17 February 1986) – but the strategy failed to stop the price decline. Eventually, Saudi Arabia reversed its stance and started to raise output, thus aggravating the panic and causing prices to tumble even further.

With the price of crude oil dropping below \$10 per barrel in 1986, the Petro-Core’s rate of return was now once again in the ‘danger zone’ (see Figures 2a and 2b). At that point, Vice-President Bush was sent to the Middle East with the task of *openly* asking Saudi Arabia to reconsider its actions and reinstate lower levels of production. Bush insisted that the government of the United States was ‘fundamentally, irrevocably committed’ to maintaining the free flow of oil and ‘the interest in the United States is bound to be cheap energy prices’. However, the Vice-President also emphasized that ‘[there] is some point at which the national security interests of the United States say, “Hey, we must have a strong, viable domestic interest”’ (*New York Times*, 7 April 1986).

The US administration had another reason to worry about developments in the Middle East: lower oil prices meant an overall reduction in arms exports to the region, and as if to make a bad situation even worse, US exporters suffered further by losing market share to rival companies based in other countries. The general trend is evident from the distribution of arms transfers to the Middle East given in Table 1. Until the late 1970s, the market was clearly dominated by the two superpowers, but from the early 1980s there was a rapid intrusion of other suppliers from Europe, China and the developing countries. Despite the considerable relaxation of export restrictions under Reagan, the United States has remained the last country among the major arms suppliers in which the export of weapons was still not entirely subjugated to commercial considerations. Thus, with the exception of covert shipments, the loss of the Iranian market and the government ban on exports to Iraq effectively excluded US-based firms from supplying the Iran–Iraq conflict which proved to be the most expensive armed conflict since the Vietnam War.<sup>30</sup> The gap created by the absence of the United States was quickly filled by suppliers from another fifty-two countries, which often supplied both Iran and Iraq simultaneously.<sup>31</sup> What made these developments particularly worrisome for the Arma-Core was that they occurred precisely at the time when domestic military procurement in the United States began to decline after a decade of ongoing increases.

## ARTICLES

Table 1 Arms exports to the Middle East

Period	Total (\$ million)	Distribution by source (percentage of total) <sup>a</sup>		
		United States	Soviet Union/ Russia <sup>b</sup>	Others
1964-73	9,447	34.4 <sup>c</sup>	50.2	15.4
1974-8	29,000	47.6	25.9	26.6
1979-83	65,355	21.7	31.2	47.0
1984-8	89,065	18.3	29.9	51.8
1989-93	62,200	26.0	16.1	57.9

Source: US Arms Control and Disarmament Agency (1975: 70, 1980: 160, 1985: 134, 1993-4: 148); US Department of Commerce, Bureau of Economic Analysis (1991: Table 550, 340).

Notes:

<sup>a</sup> Totals may not add up to 100 per cent because of rounding.

<sup>b</sup> Russia from 1992.

<sup>c</sup> Data for the United States are for fiscal years. Total does not include the resupply effort to Israel following the 1973 Arab-Israeli War.

For US-based producers, the shifting market shares meant a change in the underlying relationships between oil revenues and arms imports, as illustrated in Figure 3. The chart relates the dollar value of arms deliveries into the region in a given year ( $t$ ) – from all sources as well as from the United States alone – to the overall level of Middle East oil income three years earlier ( $t-3$ ), with all data denominated in constant 1987 prices (as we explained in Nitzan and Bichler, 1995, changes in oil income have an immediate effect on the level of import *agreements*, but the weapons are usually *delivered* only later, with an average lag of three years). The comparison shows clearly that while the effect of oil income on *total* arms deliveries remained more or less stable, towards the early 1980s the impact on imports originated in the *United States* shifted downwards. So although overall arms exports were still dependent on the region's petrodollar revenues, a larger share of those revenues was now flowing to firms based outside United States.

Together, the combination of a weakening oil market and a relative decline of US-based weapon exporters created powerful pressure towards a new 'energy conflict' in the Middle East, a conflict which would hopefully restore the sagging profitability of the large oil companies and re-establish the leading role of American-made military hardware and construction services.

## 7 THE 1990-91 GULF WAR

From a statist perspective, however, the US administration had little reason to embark on an aggressive Middle East campaign. Indeed,

PUTTING THE STATE IN ITS PLACE

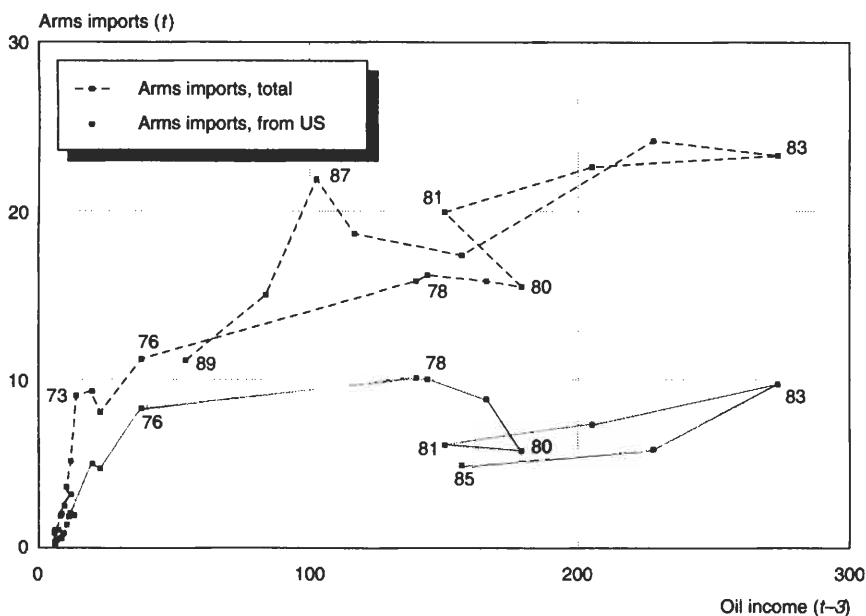


Figure 3 Middle East oil income and arms imports, 1963–89 (\$ billion, 1987 prices)

Source: Middle East oil income for the 1964–78 period is computed from American Petroleum Institute data as reported in Bina (1985: Table 27, 131–2) and from *BP Statistical Review of World Energy* (various years); for the 1979–89 period, income is assumed equal to the region’s oil exports, taken from the *UN Statistical Yearbook* (various years). Total arms imports are from US Arms Control and Disarmament Agency (various years). Current price series are deflated by the US GDP price deflator from US Congress, *Economic Report of the President* (1993: Table B-3, 352). Arms imports from the United States are from Ferrari *et al.* (1987: Chart 2, 6). Original constant price data with 1985 as a base year were converted to a base year of 1987.

according to the analysis in Gold (1993: 75), during Reagan’s second term in office the Middle East was becoming *less* important for the United States. First, after their entanglement in Afghanistan, the Soviets were no longer perceived as marching towards the Straits of Hormuz. Second, the expansion of non-OPEC output, together with greater conservation and new energy-saving technologies, lowered the significance of imported Middle East oil. Third, and most important, the experience of the Iran–Iraq War seemed to suggest that regional conflicts could linger without having a detrimental effect on the price or availability of oil. Nevertheless, the administration continued to insist that the Persian Gulf was vital to US interests. In a speech given in 1987, Secretary of Defence Weinberger emphasized the long-term significance of the

Middle East, reminding his audience that it still contained 70 per cent of the world's proven reserves. The role of the United States, he said, was to assure the region was secure, stable and, above all, free from Soviet influence and intervention. According to strict guidelines issued by Weinberger, the US military was practically prevented from intervening in any conflict short of a world war. The only exception was the Middle East which, despite the above considerations, was deemed sufficiently important to warrant direct American military intervention (*ibid.*: 76).

Seen from the perspective of the Weapondollar–Petrodollar coalition, however, an aggressive US policy was in fact all but crucial. The declining significance of Middle East oil, the inability of the Iraq–Iran conflict to raise or even maintain prices and the weakening arms exports of US producers were the very reasons why, for these firms, a stronger American ‘stand’ in the region was almost indispensable. And so, in 1986, when Vice-President Bush was on his mission to Saudi Arabia in an effort to raise oil prices by peaceful means, the US administration was also embarking on a new trend of growing *direct* military involvement in the region – a development which eventually culminated four years later in Operation Desert Storm.<sup>32</sup>

The first target was Libya's ruler Colonel Gaddafi, who was increasingly blamed for fostering international terrorism. A Sixth Fleet armada of more than forty-five warships, including three aircraft carriers with over 200 planes, was dispatched in March to ‘enforce the principle of freedom of the seas’ against Gaddafi's extension of Libya's territorial waters to the 32nd parallel. But as US administration officials later acknowledged, the real purpose of the operation, code-named Prairie Fire, was rather different. The plan was to provoke a military response by Libya, against which the US forces would then retaliate with escalating counter-strikes – including the destruction of the Libyan air force and bombing raids on the country's oil fields. Gaddafi, however, failed to pick up the bait and did not respond in any meaningful way (*The Gazette*, 29 March 1986; *Time*, 7 April 1986). A new opportunity arose a month later after a terrorist attack on a West Berlin discotheque ended with numerous injuries and one dead American soldier. The blame for the attack was immediately put on Libya and the fleet was sent once again towards Gaddafi's 32nd ‘line of death’. But the Libyan ruler, whom Reagan called the ‘mad dog of the Middle East’, held his fire and the military exchange was limited (*Time*, 21 April 1986). Incidentally, the Syrians, who were also blamed for being involved in the West German bombing, came out against ‘US aggression’ in Libya and there were increasing reports about heightening Israeli–Syrian tensions (*Time*, 26 May 1986). The attempted escalation continued when, in August, information leaked by the administration to the *Wall Street Journal* suggested

that the United States and Libya were again 'on a collision course' (*Time*, 13 October 1986).

This policy of confrontation was presented as part of a new, stronger US stand against radical Middle East regimes. In 1987, however, Reagan abruptly abandoned the Libyan cause, shifting his focus back to the Persian Gulf. The official reason was again the Soviets. The 'tanker war', which since 1980 had already accounted for over 300 damaged oil vessels, was suddenly made into a top priority after the Kuwaitis requested US protection for their oil vessels in the Gulf. Initially, the administration appeared reluctant, but then quickly reversed its stance once the Kuwaitis turned to the Soviet Union (Gold, 1993: 79–104; Darwish and Alexander, 1991: 244–5). This, however, was only part of the story. Since the beginning of 1986, the administration was raising increasing concerns that Iran was getting the upper hand in its six-year war with Iraq. But then in November of that year, the Iran-Contra Affair began to unravel, suggesting that the US government was in fact contributing, and rather illegally, to the Iranian military cause. The embarrassing revelations forced the administration to reiterate its resolve against the Khomeini regime, and the Kuwaiti request provided the right opportunity. The Seventh Fleet assumed the role of protecting Kuwaiti tankers and now actively engaged with Iranian forces, attacking Iranian oil installations.

The intensified conflict and growing US involvement drew the more moderate Gulf states deeper into the militarization process. Countries such as Saudi Arabia, Kuwait, the United Arab Emirates and Oman were now seeking to purchase more US-made weapons and the Reagan administration was not inclined to refuse their requests.<sup>33</sup> The Congress, however, was less forthcoming and managed to block several large proposed deals.<sup>34</sup> Eventually, the Gulf states signed contracts with other suppliers and, in July 1988, US-based companies suffered the strongest setback when the United Kingdom signed the 'deal of the century' to supply Saudi Arabia with \$25 billion worth of military hardware, construction and technical support over the next two decades (*Business Week*, 12 September 1988). The end of the Iraq–Iran War in 1988 opened new business opportunities for companies which could help to rebuild the war-shattered infrastructures of the two countries. The scope of the work was fairly substantial – estimated at the time to exceed \$200 billion – but here too US corporations were facing fierce competition from non-US rivals (*Business Week*, 29 August 1998).

And so, when President Bush assumed power in 1989, the Middle East situation was still troublesome for the Weapondollar–Petrodollar coalition. Some of the coalition's representatives in the government were by now gone, but their successors were in most cases equally aware of the oil and armament interests at stake.<sup>35</sup> Despite a more direct US



involvement in the region, the price of oil had not recovered significantly. The rate of profit for the Petro-Core was still in the 'danger zone' below the big economy's 'normal' (see Figures 2a and 2b), and meagre petrodollar earnings by Middle East producers led to a lower demand for imported weapons, particularly from US companies. The gravity of the situation was succinctly summarized in February 1990 by the head of CENTCOM, General Schwarzkopf. Appearing in front of the Senate Armed Forces Committee, Schwarzkopf explained the crucial and growing significance of Middle East oil and warned of the impending danger to the west if one of the thirteen ongoing conflicts was to develop into a full-fledged war. At the same time, he also recommended that the United States increase its military exports to the region in order to match the disturbing advance in the market share of non-US producers. On the day of Schwarzkopf's speech, a 'prime Pentagon source' suggested to the *Wall Street Journal* that, with the change in east-west relations, the United States might now divert some of the funds previously used to maintain its European forces towards improving its ability to protect Saudi Arabia (cited in Frenkel, 1991: 9-13).

This prescience coming only six months before the onset of the 1990-1 Gulf crisis implies that the US government could not have been too surprised by the subsequent turn of events. Indeed, according to James Akins, a former US ambassador to Saudi Arabia, and Joyce Starr, a senior associate at the Centre for Strategic and International Studies in Washington, the crisis was part of a 'long-term master plan to establish American military control over the world's richest oil fields'. The outline of the crisis, Akins and Starr point out, was in fact anticipated already during the mid-1970s in a *Commentary* article written by Robert Tucker of Johns Hopkins University, and in a *Harper's* magazine essay by an anonymous defence consultant with the pseudonym of Miles Ignotus. The latter even offered a scenario of direct US military intervention triggered by 'an Arab embargo or supply cut, an atmosphere of crisis, most probably in the aftermath of a short but bloody war. Then we go in ...' (*The Gazette*, 10 November 1990).

Although there is no direct evidence in support of this thesis, the indirect evidence seems ample. To begin with, such a 'sting' operation would not be inconsistent with previous US actions in the Middle East, including, for example, the events leading to the 1967 Arab-Israeli War and to the Iraqi attack on Iran in 1980. Second, from 1986, the Reagan and Bush administrations were actively seeking excuses for direct US intervention, first in Libya and then against Iran. And, third, the unfolding of events prior to the Iraqi invasion into Kuwait leave the impression that the United States did not go out of its way to prevent the coming hostilities.

In April 1990, the Pentagon identified Iraq as the only military threat large enough to justify prevailing defence spending (Cockburn and Cockburn, 1991: 354–5) and, indeed, a month later Saddam Hussein started threatening his Gulf neighbours with the dire consequences of their oil policies. With the Iran–Iraq War over, Hussein was under increasing financial strain – having to cope with an \$80 billion debt precisely at a time when he needed to rebuild his economy and army. To alleviate the pressure, he demanded that the Gulf states forgive the Iraqi debt and supply additional funds – which Hussein claimed was the least they could do to repay him for his ‘protection’ against the fundamentalist threat from Iran (Darwish and Alexander, 1991: chs 9–11). But the centrepiece of Hussein’s strategy was for OPEC to reduce output and raise prices, a policy which Saudi Arabia, the Gulf emirates and particularly Kuwait opposed – partly in order to limit Iraq’s rearmament aspirations and partly because Kuwaiti oil incomes were by now sufficiently diversified into downstream operations to benefit from more moderate crude oil prices (Darwish and Alexander, 1991: 256–65; Frenkel, 1991: 15–18; *Business Week*, 7 March 1988; 21 January 1991). Hussein’s eventual decision to capture Kuwait (effectively trying to resolve overproduction by a ‘merger’) may have been influenced by a variety of considerations which cannot be analysed here, but it is highly doubtful that he would have invaded knowing the United States would retaliate with force.

By July, with the build-up of Iraqi forces along the Kuwaiti border becoming all too evident, the United States deployed several combat ships on joint manoeuvres with the United Arab Emirates; but apart from these manoeuvres its message to Iraq was ambiguous and, at times, even encouraging. To learn more on the American position, Hussein summoned the US ambassador, April Glaspie. In the interview which was held on 25 July, a week before the invasion, Hussein explained his grievances against Kuwait, noting quite explicitly that Iraq intended to ‘take one by one’ its disregarded rights. Glaspie replied that the dispute was an internal Arab matter on which the United States had ‘no position’ and that she had a ‘direct instruction from the President to seek better relations with Iraq’. When Hussein mentioned his demand that OPEC push the price of oil over \$25 per barrel, Glaspie chose to respond that there were many Americans who would also like to see the price go above that level. On 28 July, Bush reportedly sent a message to Hussein that the use of force against Kuwait was unacceptable, but three days later Under-Secretary of State Kelly said to reporters that the United States had ‘no defence treaties with any Gulf countries’. On 1 August, despite the CIA’s conclusion that an Iraqi attack was imminent, the United States still failed to voice any explicit warning (Darwish and Alexander, 1991: 267–75).

The American stance changed drastically, however, once the Iraqis began crossing the Kuwaiti border on 2 August. Three days after the invasion, Defense Secretary Cheney and General Schwarzkopf convinced the Saudi royal family that their kingdom was Hussein's next target – a most implausible presumption by all counts, as US officials later admitted – and persuaded them to invite the deployment of 'infidel' forces on their land, something which until then the Saudis had always managed to avoid (Woodward, 1991: ch. 19). During the following months, Hussein apparently attempted to seek a face-saving diplomatic resolution, but to no avail. The negotiations failed at least partly due to a strong American reluctance to forgo the opportunities offered by open confrontation.

And, indeed, the consequences of the war were largely beneficial for the Weapondollar–Petrodollar coalition. The initial rise in the price of crude oil – from around \$14 per barrel in 1990 to nearly \$40 just before the onset of Operation Desert Storm – helped to pull the Petro-Core's profitability above the big economy's average (see Figures 2a and 2b). In 1991, the price per barrel declined to an average of \$22 (which, incidentally, was not much below what Hussein demanded on the eve of his invasion), but that was still sufficient to keep the Petro-Core out of the 'danger zone'.<sup>36</sup> The price revival raised Middle East oil revenues, and although their level was still far below that of the early 1980s, the war created a new sense of anxiety, particularly in Saudi Arabia and the adjacent sheikhdoms, thus driving them to convert a larger share of their petrodollars into weapondollars.

This time, the main beneficiaries were US firms, whose exports to the region surged by 45 per cent in just three years – from \$13.6 billion in 1989, to \$19.6 billion by 1992.<sup>37</sup> Part of the increase was in the export of civilian goods and services, mainly to Kuwait. During its short occupation, the Iraqi army engaged in a systematic plunder of Kuwait, stealing according to some estimates \$20–50 billion worth of goods. In addition, it also left behind war damages which could eventually cost up to \$100 billion to repair. Perhaps not surprisingly, some of the largest reconstruction contracts went to Bechtel, beginning with a \$1 billion task of extinguishing the 650 oil fires ignited by the retreating Iraqi army, and continuing with the multibillion job of restoring oil production, repairing refineries and rebuilding damaged infrastructure (*Business Week*, 18 February 1991, 6 March 1991, 11 March 1991, 17 February 1992; *Fortune*, 25 March 1991). Most of the export increase, however, was in the category of military goods and services, which rose dramatically to reinstate the United States once again as the region's prime supplier.

On 6 March 1991, while addressing a joint session of Congress after the Iraqi surrender, Bush exclaimed that 'it would be tragic if the nations of the Middle East and Persian Gulf were now, in the wake of the war,

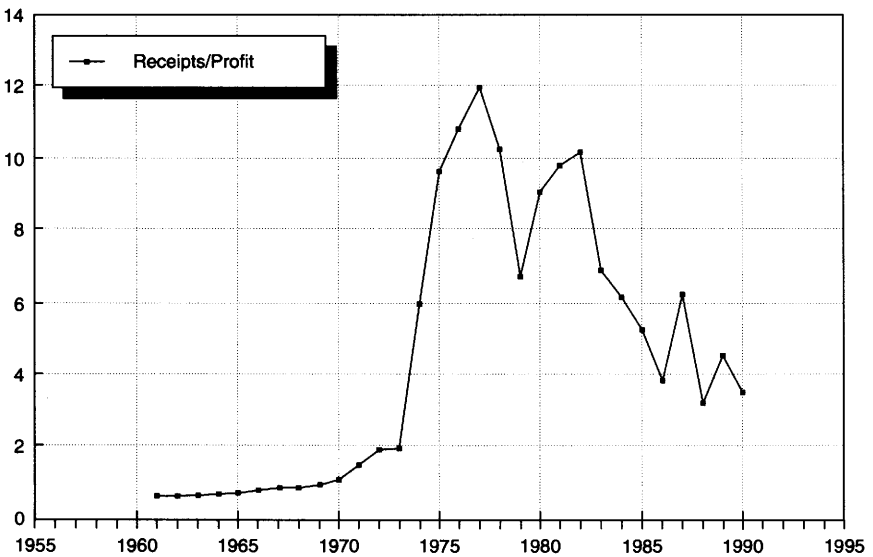
to embark on a new arms race' (*New York Times*, 7 March 1991). Then, on 30 May, he went further, calling the major arms-exporting countries to establish guidelines 'for restraints on destabilizing transfers of conventional arms' to the Middle East (*New York Times*, 30 March 1991). In parallel, however, the President also insisted that it was 'time to put an end to micro-management of foreign and security assistance programs, micro-management that humiliates our friends and allies and hamstringing our diplomacy'.<sup>38</sup> And so, in line with the principles of free enterprise, the administration instructed American embassies to expand their assistance to US-based military contractors, and even proposed to alter the 1968 Arms-Exports Control Act so that the Export-Import Bank could guarantee \$1 billion in loan-financing for US arms exports.<sup>39</sup> True to the time-honoured strategy of 'stabilization through military exports', Bush proposed in January 1991 (while the Gulf War was still going) that the United States sell Saudi Arabia over \$20 billion worth of armament – a deal which was so large that the administration eventually had to 'slice' it into smaller contracts in order to facilitate Congressional approval (US Congress, Office of Technology Assessment, 1991: 21).

And so, by 1990, after a decade of losing ground to rival sellers, the United States surpassed the Soviet Union as the largest weapon exporter to developing countries.<sup>40</sup> According to the US Department of Defense, export agreements signed under the Foreign Military Sales (FMS) Program during the 1990–2 period totalled \$51.3 billion – up 83 per cent from their total of \$28.1 billion in the previous three-year period (US Defense Security Assistance Agency, 1992: 2–3). This trend continues, and in 1993, US arms export deals set a new record of \$32 billion, more than twice their 1992 level (Congressional Research Service, reported in *The Economist*, 13 August 1994). The American 'comeback' was especially pronounced in the Middle East, so much so that it prompted British officials to complain openly that the United States was 'monopolizing' the region's arms trade (*The Independent*, 13 December 1992).

For the Weapondollar–Petrodollar coalition, the 1990–1 Gulf War was significant also beyond its short-term benefits. In a certain respect, the war marked the closing of a circle in the relationships between the region's oil-producing countries and the western, mainly US-based oil companies. One central aspect of this relationship is illustrated in Figure 4, where we chart the ratio between the oil income of Middle Eastern countries and the net profits earned by the six Petro-Core companies. During the 1960s and 1970s, rising Arab nationalism seemed to herald the decline of the oil companies which had previously dominated the region (on the 'demise thesis', see Nitzan and Bichler, 1995). With the ascent of OPEC and the nationalization of the region's oil resources came a dramatic increase in government oil revenues, and although this was accompanied by much larger petroprofits for the large oil firms, the

*relative* position of the host countries improved significantly. As we can see in the chart, the ratio of Middle East oil revenues to the Petro-Core's profit rose from less than unity in the early 1960s, to 11.9 by 1977. But since then the trend has reversed, with the ratio of petroleum revenues to petroprofits dropping to a low of 3.5 by 1990. Part of the reason was that lower crude oil prices during the 1980s affected the oil-producing countries more than they did the companies (in most cases, the former depend almost exclusively on upstream earnings, whereas the latter can offset some of the decline in extraction by the gains from cheaper inputs in refining). The main reason, however, was that from the late 1970s and particularly during the early 1980s, Middle East countries were attempting to stabilize prices by cutting their own output. Yet this was more than compensated by rising non-OPEC production where the private oil companies had a substantial stake – so the net effect was to augment company profits on account of receding Middle East earnings.

Indirectly, the 1990–1 Gulf War 'institutionalized' this decline of the host countries. During the 1950s and 1960s, the large petroleum companies were faced with increasing competitive challenges and, as we argued in Nitzan and Bichler (1995), their survival was in fact assisted by the growing politicization of the petroleum oil business and the accompanying 'energy crises' of the 1970s and early 1980s. But this



**Figure 4** Ratio of Middle East oil receipts to the net profits of the Petro-Core  
*Source:* For Middle East oil receipts, see Figure 3. For net profit of the Petro-Core, see Figure 2a.

politicization – despite its positive effect on profitability – meant that the oil companies had to share the control of output and prices with the newly empowered OPEC countries, and this they probably never fully accepted. Seen from the companies' point of view, the Gulf War changed things for the better. Although they retained their formal sovereignty, the oil policies of some of the Middle East's most important suppliers – notably Saudi Arabia, Kuwait and surrounding sheikhdoms – were now effectively subordinated to US dictates. Having realized that they are unable to defend themselves (and apprehensive that the Damascus Defence Agreement with Egypt and Syria might pose its own danger), these countries were now signing formal defence treaties with the United States and other western governments. And so, two decades after they were 'dethroned', the oil companies are again situated to have a primary role in determining Middle East oil policy. The front window still belongs to OPEC, but behind the scenes the demonstrated efficacy of US gunboat diplomacy (reformulated now as 'protection services') supports a more prominent role for the western oil companies.

## 8 TOWARDS A NEW 'ENERGY CONFLICT'?

From a statist perspective, the 1990s appear to have brought the United States closer than it ever was to securing its 'national interest' in the Middle East. After the 1990–1 Gulf War, the United States embarked on a 'peace blitz' to promote reconciliation between Israel and its Arab neighbours. As of 1995, Israel has signed peace treaties with the PLO and Jordan, established diplomatic relations with Morocco and warm – if informal – relations with some of the Gulf emirates, and is negotiating the crucial agreement with Syria. The Gulf states have endorsed US protection, and access to their oil at low prices seems assured. A full analysis of this process is of course somewhat premature, but the thrust of it seems clear enough.

First, with the collapse of the Soviet Union and the rapid capitalization of the 'emerging economies' in Asia, Latin America and eastern Europe, Middle East governments feel compelled to open their own economies to trade and investment. Soviet aid and military support are gone for good (Russia now demands full payment for its weapons and other exports), and the attention of the industrial countries is increasingly diverted to countries like China, India and Brazil. Under this new world order, many Arab elites have realized they must join the global market or risk the spectre of economic crises and internal turmoil. Israel, too, was in a similar predicament, although its own situation is now far more comfortable. Until the mid-1980s, the Israeli economy was characterized by a tight oligopolistic structure in which differential accumulation by the largest conglomerates was supported through a

regime of high military spending and rapid inflation (Bichler and Nitzan, 1996). Since the late 1980s, however, it has become increasingly evident that this economic order is no longer sustainable (Nitzan and Bichler, 1996a; 1996b; Nitzan, 1996a). The core firms of the big economy have grown 'too large' for the domestic market and their reliance on high inflation and burdensome military budgets created a threat of fiscal crisis and macroeconomic collapse. In 1986, after the 1983 stock market crash, massive wage erosion and record-high real interest rates, annual inflation was finally brought down from over 500 per cent to less than 20 per cent. The government also moved to reduce domestic military spending and, as if to make a bad situation worse for the large companies, in 1987 the world market for exported arms went into a tailspin, pushing Israeli exports down to insignificant levels even by domestic standards.<sup>41</sup> This massive structural economic change coincided with the 1987 outbreak of the Palestinian Intifada (or uprising) which seriously undermined Israeli self-confidence. By the late 1980s, these converging developments contributed to a significant drop in corporate profitability and a fundamental change of heart on the part of the Israeli elite.<sup>42</sup> The alternative path, which the Israelis probably recognized faster than some of their Arab neighbours, was regional reconciliation and eventual integration into the Middle East economy. This would benefit Israeli companies, initially because regional stability and the removal of the Arab boycott opens for them vast business opportunities outside the region and, subsequently, because Israeli technological and infrastructural superiority makes it a likely regional base for foreign investment.

Indeed, the second factor underlying events in the region is that many American-based companies are also keen on the business prospects of an Arab-Israeli peace. Over the decade 1982-92, investment by US-based multinational firms in the industrialized countries yielded an average profit margin on sales of only 4.4 per cent - compared with a 7 per cent margin earned by their subsidiaries in 'emerging economies'. As a consequence, US direct foreign investment in these latter markets has now surpassed comparable investment in the industrialized countries (Nakhjavani and Nitzan, 1994; Nitzan, 1996b). Many western companies expect that, in the wake of a regional peace settlement, the Middle East will offer similar returns with intra-regional trade growing as fast as 50 per cent per annum. Such figures may prove to be over-optimistic, but they serve to explain current enthusiasm about the prospects of a 'peace dividend'.<sup>43</sup>

A third factor underlying the current peace drive is the conceived hazard of Islamic fundamentalism (*The Economist*, 4 April 1992, 13 March 1993, 6 August 1994). There is now an entire geographical region, stretching from Senegal in West Africa to Kazakhstan to Indonesia,

whose twenty-eight countries are inhabited by over half a billion Muslims. Many in the West perceive this as representing a potential threat to Euro-American culture or 'western civilization' (see, for instance, Huntington, 1993). In this context, a successful market-oriented alliance between Israel and its Arab neighbours is seen as offering an alternative model to Islamic fundamentalism, a model which will hopefully prevent a backlash in the eastern Mediterranean. In addition, a pro-American axis extending from Turkey through Syria, Lebanon, Israel, Jordan and Egypt could create a significant wedge separating the Muslim states of North Africa from those which lie east of the Persian Gulf. Such an axis is particularly important in view of the growing weakness of the Saudi regime, whose curtailed oil revenues make it increasingly vulnerable to external challenges and internal strife.

On the face of it, then, the Middle East seems bound for a period of relative stability: most Arab countries see the imperative of a new capitalistic world order and have accepted the existence of Israel; multinational companies have a stake in an 'emerging' Middle East; and a market-oriented axis in the eastern Mediterranean offers an ideological alternative and a military counterforce to Islamic fundamentalism. But the peace process works to undermine the Weapondollar-Petrodollar coalition, so that another 'energy conflict' could not be ruled out.

In 1992, after their brief recovery in 1990-1, the Petro-Core companies again fell into the 'danger zone' with their combined rate of return lagging behind the improved performance of the Fortune-500 (see Figures 2a and 2b). Despite massive rationalization in recent years, the crucial determinant of higher profitability remains the price of crude petroleum (*Business Week*, 8 August 1994). In other words, in order to 'beat the average', the oil companies will first have to see oil prices rising again. Under current circumstances, however, the likelihood of such an increase occurring on its own is rather small. Although long-term projections for the growth of newly industrialized and 'emerging' countries point to rising demand for oil, proven oil reserves, particularly in Russia and surrounding republics, could expand even faster.<sup>44</sup> Moreover, in the shorter term, demand growth is expected to be relatively moderate, cushioned further by tough competition and large inventories (*Business Week*, 10 January 1994, 8 August 1994). In other words, in the next few years, any significant increase in prices - if it is to occur at all - will necessitate an *atmosphere of crisis*.<sup>45</sup> The most effective, and for the time being the only way of establishing such an atmosphere, is through another 'energy conflict' in the Middle East.

Such a conflict will also serve the hurting members of the Arma-Core. Four years after the collapse of the Soviet Union, these firms continue to suffer from falling domestic military procurement, which dropped by 18 per cent to \$123.7 billion in 1993, down from their \$150.6 billion



peak in 1985.<sup>46</sup> For these companies, the pain is partly alleviated by growing US military export agreements, which in 1993 amounted to \$32 billion and now account for close to 21 per cent of all military-related orders (see Section 7). However, relying on foreign demand in peacetime may prove insufficient. Much of the current rise in US military exports is the consequence of American producers raising their own share in a contracting world market, so in order for those exports to continue and grow, the market itself will have to recover from its current downward trend. This is already happening in South-East Asia, where defence budgets are growing as fast as 5 per cent annually (Klare, 1993; *The Economist*, 23 July 1994), but in the absence of open hostilities in the Far East and with sales still falling or stagnant elsewhere, that may not be sufficient to reverse the global weapon slump. Of course, there is nothing to prevent defence contractors from operating in civilian markets and, indeed, many of them now enter into the 'emerging economies' where demand for civilian high technology offers new investment outlets. However, a conscious departure from the weapons industry implies heavy write-offs which the large contractors may not be willing to accept that easily. Thus, for these companies, too, a new 'energy conflict' in the Middle East will prove highly beneficial. Indeed, such a crisis would not only have the effect of raising their exports to the region, but it would also demonstrate the need, advocated by many Republicans in Congress, for higher military spending at home.

And so arises, once more, the dilemma between the 'national interest' and differential accumulation: while the American public stands to gain from Middle East stability, the Weapondollar-Petrodollar coalition would benefit from a renewed, albeit limited, conflict. This dilemma is reflected in the ambivalent policies of the Clinton administration. With the Soviet threat gone, official US goals in the region, as reformulated by the National Security Council, are threefold: (1) to promote democracy; (2) to advance the Arab-Israeli peace and undermine Islamic fundamentalism; and (3) to pursue a policy of 'mutual containment' towards both Iraq and Iran (*Ha'aretz*, 8 June 1993). The third goal, however, seems to some extent inconsistent with the previous two.

With Saudi Arabia vulnerable to internal and external threats, it is not clear that continuous antagonism against Iraq is the best way of stabilizing the Persian Gulf. An alternative policy which draws Iraq into the pro-American alliance may be far more effective in isolating Iran and undermining the cause of Islamic fundamentalism.<sup>47</sup> Israel, which until recently emphasized the 'Iranian danger' (partly as a means of bolstering its depreciated status as a 'strategic asset' for the US), is reported to have conducted secret negotiations with Iraq in 1994. The talks were allegedly mediated by European governments and business groups (primarily French) whose Middle East markets have been 'monopolized' by the

Americans and for which Iraq offers a lucrative alternative (*Ha'aretz*, 9 August 1994). However, in November 1994, perhaps after being reprimanded by Washington, Israel reiterated its support for the American policy of 'mutual containment'. One important reason for the US insistence, and here we return to the theme of this article, was that reconciliation with Iraq would have negative ramifications for the petroleum market.

Eager to resume its oil sales, Iraq has finally complied with all of the UN Security Council's preconditions and in September 1994 requested the removal of UN sanctions. However, this would have released onto the market an additional 1-2 million oil barrels a day at a time when petroleum prices are depressed, when Saudi Arabia is struggling with a fiscal crisis and when Petro-Core profitability is stuck below the big economy's average. Nevertheless, the danger subsided within a month, after, in October, Saddam Hussein reputedly moved 80,000 soldiers towards the Kuwaiti border. The Clinton administration reacted immediately, dispatching to the Persian Gulf a large number of warships and aircraft carriers, complete with a task force of 60,000 troops and 600 aircraft. Threats of a 'pre-emptive' strike by the US Defense Secretary Perry were reminiscent of the 1986 skirmishes with Libya – but here, too, a full-scale attack failed to materialize as Hussein, much like Gaddafi before him, quickly withdrew his forces (*The Economist*, 15 October 1994).

The Iraqi military threat may have been imaginary (indeed, it is not even clear that the movement of forces was in any way unusual). But the threat of an oil glut was very real, and that has been removed – at least for the time being. Indeed, since 1992, when the Petro-Core differential profitability again fell into the 'danger zone', American actions in the Gulf seem at odds with a commitment to regional stability and cheap, freely flowing oil. In January and June 1993, contrary to its own stance against the regional missile arms race, the United States launched two cruise-missile attacks on Iraqi targets. Then, in mid-1994, the Saudis, presumably with tacit US agreement, helped the forces of South Yemen in their war against the North, seeking to frustrate the prospects of a united, economically powerful neighbour.<sup>48</sup>

With domestic arms production still declining, the Clinton administration has been increasingly preoccupied with promoting foreign high-technology sales – military as well as civilian. 'The President', said an executive of a large US company, 'has recognized that, in the post-cold-war era, getting global contracts for US business is a matter of national security' (*Business Week*, 23 May 1994). The problem, however, is who will pay for this 'national security'. So far, the Gulf states have been financing their purchases by getting deeper into debt, but unless there is a significant rise in the price of oil, the buying spree will have

to subside. The obvious solution is another Middle East 'energy conflict'. Provided it is sufficiently severe, the occurrence of such a conflict is likely to pull the sluggish profitability of the Petro-Core above that of the Fortune-500, replenish the oil revenues of the Gulf states and help to pay for imported US weapons.

Of course, a new 'energy conflict' is by no means inevitable. In the absence of a new crisis, a *protracted* slump in oil prices hurts the differential profitability of the oil companies and hence progressively undermines their political leverage *vis-à-vis* other business groups with a vested interest in cheaper energy and a stable Middle East. Similarly, the longer world military expenditures remain in the doldrums, the deeper the retrenchment in the defence sector – via mergers and acquisitions, as well as through diversification into non-military activity, particularly civilian sales in 'emerging markets'. So unless an oil crisis erupts within the next few years, the Weapondollar–Petrodollar coalition could weaken, perhaps to the point of disintegration. But such disintegration may prove temporary. Oil remains the world's key source of energy and its perceived scarcity could offer ample opportunity for triggering future 'energy conflicts'.

## 9 SUMMARY COMMENTS

This article points to the need for international political economy to refocus its attention on capital accumulation, particularly on its *differential* aspect. The differential accumulation of capital – that is, the raising of one's profits faster than the average – has grown to become the main yardstick for corporate performance and a conventional gauge for foreign policy. Our outline of US foreign policy in the Middle East showed that, since the late 1960s, successive administrations have been increasingly accommodating to the differential interests of two corporate groups: the large oil companies and the leading armament contractors whose operations coincided in the region. Until the late 1960s, American policies were mainly preoccupied with assuring the 'free flow' of oil, but then the regional arena began to change. With declining US military involvement in Vietnam, US-based armament firms were turning their attention to the Middle East – precisely at a time when the global oligopoly of the oil majors was facing possible disintegration. Increasingly, the two groups of companies contributed to the emergence of a new oil regime of 'limited flow', where militarization and 'energy conflicts' helped to create an atmosphere of oil crisis. A Weapondollar–Petrodollar coalition of such companies grew around a vested interest in high oil prices. For the Petro-Core of the oil majors, higher prices generally meant higher differential profit margins, while for the Arma-Core of leading weapon exporters and engineering firms they implied

a larger demand for armament and construction services. Moreover, these interests interacted in an ongoing dynamic sequence: with greater militarization contributing to tension and conflict; with tension and conflict leading to higher prices, differential profits and regional oil revenues; and with higher petroleum revenues used to finance a renewed cycle of rearmament in preparation for future hostilities.

US policy in the region has become increasingly consistent with these interactive considerations. The popular opinion, influenced to some extent by statist ideology, is that from the late 1960s, the United States sought to achieve greater regional stability as a means of assuring ample oil supply at moderate prices. This view, however, is hardly supported by the evidence. Examining the course of US policy in the region, we showed that, by trying to strike a delicate (and rather cynical) balance between destabilization and high oil prices, this policy was effectively leading towards the very opposite end.

The statistical and institutional evidence suggests that, consciously or not, from the early 1970s onwards, successive US administrations were operating to counteract adverse drops in the differential profitability of the Petro-Core companies (and more generally, to accommodate the fortunes of the Weapondollar–Petrodollar coalition). The systematic pattern of this relationship is truly remarkable: *whenever* the rate of return of the Petro-Core fell below the ‘big economy’ average, there followed an ‘energy conflict’ in the Middle East; *each* of these conflicts ended with the Petro-Core’s rate of return rising above the comparable big economy average; and, finally, *no* ‘energy conflict’ occurred without the Petro-Core profitability first dropping below the big economy’s.

This pattern is consistent with but does not necessarily mean conspiracy. Our own preference was to go beyond the analysis of rational *actors* and focus on the *process* of differential capital accumulation as a new abiding force conditioning the actions of both politicians and businessmen. The realities of an ever more integrated world economy induce the consolidation of large political-economic coalitions between governments and corporate groups which, knowingly or not, find themselves caught in the imperative quest for differential gain. In an otherwise fragmented political arena, the differential power of these alliances often enables them to pursue policies contrary to perceived ‘national interests’ and even to the broad interests of the ‘capitalist class’. The experience of the Weapondollar–Petrodollar coalition in the Middle East offers an example of such pursuit, and could very well show the pattern of things to come.

In the context of recent theoretical debates on the role of the state, our findings could be seen as consistent with some marxist and liberal approaches, but not with realist ones. On closer examination, it appears that the so-called ‘national interest’ is not as coherent as some tend to believe. In the Middle East, for instance, it is not evident that US policy

makers in the 1970s were in favour of low as opposed to high oil prices; it is not clear how in the 1970s and 1980s they sought to promote stability via arms sales; their growing military commitment to the Middle East in the 1980s stood in sharp contrast to the region's declining significance and the lower threat of Soviet intervention; and indeed, these policy makers were not even sure what type of Israeli-Arab relations best served their interests: some, like Anthony Cordesman, emphasized the imperative of solving the Palestinian problem, while others, like Alexander Haig, insisted that military shipments were sufficient to manipulate Arab regimes (Cordesman, 1984: 981; Haig, 1984: 170; both cited in Gold, 1993: 168-71). Given these inherent ambiguities, where the 'national interest' could be interpreted in various and often contradictory ways, empirical testing becomes rather difficult.

In contrast to these ambiguities in the statist view, the principle of differential accumulation is relatively well defined and could stand the test of empirical evidence. It enables us to bring the process of capital accumulation back into the centre-stage of international political economy, and finally it yields predictions which the statist approach has so far been unable to provide.

## NOTES

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- 1 Even marxist accounts, such as Bina's much-cited study, *The Economics of the Oil Crisis* (1985), or the comprehensive synthesis of Bromley, *US Hegemony and World Oil* (1991), fail to provide any systematic evidence about the accumulation of capital.
- 2 Preliminary research on the topic appeared in an earlier series of four discussion papers: Bichler, Nitzan and Rowley (1989); Nitzan, Rowley and Bichler (1989); Rowley, Bichler and Nitzan (1989); and Bichler, Rowley and Nitzan (1989).
- 3 The Arma-Core includes, in alphabetical order, Boeing, General Dynamics, General Electric, Grumman, Honeywell, Litton Industries, Lockheed, McDonnell Douglas, Martin Marietta, Northrop, Raytheon, Rockwell International, Texas Instrument, Textron, United Technologies and Westinghouse. The Petro-Core consists of British Petroleum, Chevron, Exxon, Mobil, Royal Dutch/Shell and Texaco.
- 4 The methodological and empirical bases for these charts are discussed at length in Nitzan and Bichler (1995).
- 5 Prediction regarding this outcome must be interpreted with care because of recent accounting changes affecting reported corporate profitability. Since 1991, many large US-based firms have had to adjust their current profits to reflect the true cost of future retirement health benefits (as required by Statement 106 of the Financial Accounting Standard Board, or SFAS 106). The consequence, particularly in 1992 and 1993, was a very significant drop

in reported profit margins. For the Fortune-500, the net rate of return on equity dropped to 0.14 per cent in 1992 (compared to 10.04 per cent without SFAS 106) and then recovered to 8.63 per cent (still below the 11.26 per cent recorded without the SFAS 106 adjustment). In our charts, we plotted Fortune-500 profitability for 1992 and 1993 without the special SFAS 106 charges. Unfortunately, there are no comparable data for the Petro-Core firms which are reported here with the SFAS 106 adjustment whenever applicable. This may present a problem for 1992, when SFAS 106 charges for some US members of the Petro-Core (Chevron, Mobil and Texaco) were in excess of 10 per cent of their overall net income. By 1993, however, the large oil companies' adjustments were either completed or less than 10 per cent of their net profits.

- 6 The idea of turning Israel into a western logistical base was promoted relentlessly by Ben Gurion throughout the 1950s. His suggestion was to build American military bases in the Israeli Negev desert and to have the Israeli army participate in defending the region against the Soviet Union. On one occasion, Ben Gurion even proposed that the US finance a 250,000-strong Israeli military force dedicated specifically to such tasks (Gazit, 1983a: 16; Bar Zohar, 1975: 1320).
- 7 Some of these connections involved the Texas oil associations of Vice-President Johnson, the south-western and international oil affiliations of Secretary of the Navy Connally, the Rockefeller links of Secretary of State Dillon, and the long-term business partnership between CIA director McCone and the Bechtel family (Engler, 1977: 57-8; McCartney, 1989).
- 8 According to former Israeli ambassador to the United States, Abba Eban (1977: 185), many in the State Department were convinced of Israel's military ability to win a 'crushing victory' already in the 1950s.
- 9 After the war, Israeli Defence Force (IDF) generals such as Weitzman, Peled and Rabin admitted quite openly that Nasser had presented no real danger, a claim which was later reiterated by Prime Minister Begin. Ten days before the war, a secret CIA report delivered to President Johnson accurately predicted an Israeli victory within six days. Some US officials who hoped to avert a war communicated these assessments directly to Jordan and Egypt and, indeed, until the last moment, Nasser still hoped for a diplomatic solution (Cockburn and Cockburn, 1991: 140-54).
- 10 While official crude prices had not changed, fuel prices for western consumers had risen, thus boosting the profits of the oil companies while undermining them elsewhere in the economy.
- 11 Representatives of Rockefeller's Chase Manhattan were also involved in the network of activists around Nixon's career, and some of them accepted key posts in his administration. Volker, for example, was made Under Secretary of the Treasury for Monetary Affairs, Letty became Assistant Secretary of the Treasury, and Fiero became Director of the Office of Foreign Direct Investment in the Commerce Department (Barnet and Müller, 1974: 251; Turner, 1983: 105).
- 12 During the period between 1962 and 1966, Israel imported an average of \$107 million worth of weapons per annum. After the 1967 War - in 1967-9 - this average almost tripled to \$290 millions, now mostly coming from the United States. And with the new Nixon Doctrine, the annual levels for the 1970-2 period rose further, to an average of \$550 million (data from Israel Central Bureau of Statistics, courtesy of R. Graff).
- 13 Allegations that the US government was promoting higher prices as a

- primary means of funding US arms deliveries to the Shah were put forward on the CBS programme *Sixty Minutes* (3 May 1980). Kissinger declined to reply to the allegations (Chan, 1980: 244). Given his close relationship with the embattled Chase Manhattan, Kissinger many have also considered the effect of petrodollar deposits on the Rockefeller bank's balance sheet (Sampson, 1981a).
- 14 For example, Secretary of State Rogers (later a retainer for the Shah and a Sohio director) termed US military sales as having a 'stabilizing influence' as opposed to the 'invitation for trouble' posed by similar Soviet shipments (Engler, 1977: 242). A somewhat more sophisticated picture was painted by Kissinger (1981: 182) who explained that the 'balance of power is a kind of policeman, whose responsibility is to prevent peaceful countries from feeling impotent and aggressors from becoming reckless'.
  - 15 Israel was compensated for its withdrawal from the Sinai peninsula with two new air fields in the Negev desert worth \$2.2 billion, and a 'reorganization' package of fifteen F-15 and seventy-five F-16 aircraft valued at \$1.9 billion. The Egyptians were allowed to purchase fifty F-5 fighter aircraft worth \$400 million (with an option to buy more advanced ones later) and the Saudis bought another sixty F-15s worth \$2.5 billion (*Ha'aretz*, 3 April 1983). Cyrus Vance, who participated in the negotiations as Carter's Secretary of State, was later nominated a director of General Dynamics, one of the main beneficiaries of the agreement.
  - 16 The process which led to the seizure of Iranian assets is explained in Sampson (1981a, 1981b: ch. 17). During the period from 1976 to 1978, Iran borrowed \$3.8 billion to finance arms purchases. On the eve of the Iranian Revolution, an outstanding debt of \$500 million was owed to a consortium headed by Chase Manhattan, but Iranian deposits of \$433 million were also held by the bank. However, Chase Manhattan had no legal authority to hold onto the fund and the money was eventually seized only after the hostage crisis induced the US government to freeze Iranian assets. Rockefeller was not passive in the onset of this crisis. Sampson reveals how Kissinger (a special adviser to Chase Manhattan at the time) and McCloy (a former chairman of the bank) courted Carter (himself closely associated with the Rockefellers through the Trilateral Commission) until the President granted asylum to the Shah despite the fragile political atmosphere. (Kissinger later told Sampson that there was nothing subversive in these activities, arguing that it was inconceivable that 'a few private citizens' could affect government policy.) In the turmoil that followed, the government in Tehran threatened to withdraw its deposits from US banks and President Carter froze them, insisting that this was necessary in order to prevent destabilization of the banking system. That reasoning, however, was unfounded: first, only about \$8 billion of Iranian assets were on deposit in US banks which was markedly insufficient to destabilize the American banking system and, second, most of these deposits were held not in North America but in London. Yet, although the situation presented no meaningful threat to the American economy as a whole, some individual banks – notably Chase Manhattan and Citibank of the Rockefeller group – were vulnerable.
  - 17 Brzezinski, according to his deputy for Iranian affairs Gary Sick, made no secret of his desire to see Iran 'punished from all sides', and said that he would not object to an Iraqi action against it (reported in Cockburn and Cockburn, 1991: 392).
  - 18 The allegations about a deal between Iran and the Reagan campaign head-

- quarters were first made by Gary Sick and others (*New York Times*, 15 April 1991; Sick, 1991).
- 19 Syria, Lebanon and Israel remained in the European command EUCOM, but Egypt, now part of CENTCOM, was drawn closer to the US orbit through joint military exercises in 1982 with forces from the United States, Sudan, Somalia and Oman. The significance of Egypt increased further after a 1985 coup toppled Numeiri in Sudan.
  - 20 Haig had previously served as Nixon's Deputy Assistant for National Security Affairs and as the White House Chief of Staff, but his leverage was much stronger now. Shiff and Yaari (1984) allege that he gave Israel's Security Minister Sharon the 'green light' to invade Lebanon in 1982. United Technology, to which Haig later returned as a special consultant, exports helicopters and aircraft engines to the Middle East. Haig was able to persuade the Israeli government to install United Technology's engines in its proposed Lavi aircraft – although the IDF preferred the alternative engines made by General Electric.
  - 21 The Bechtel family owns about two-fifths of the company's shares while ownership of the remainder is spread among senior managers. The company could not be included in our statistical analysis of corporate profits because, until recently, its private ownership precluded the collection of appropriate data.
  - 22 Perhaps the largest bribe was the \$200 million paid to Saudi officials in return for the \$3.4 billion contract to build the new airport in Riyadh. The earliest covert operation involved the Syrian coup of 1949, after the Syrian government raised obstacles to the construction by Bechtel of a Saudi-Syrian pipeline.
  - 23 Because they are the largest profit makers, oil companies had the most to benefit from tax savings, and the gains were indeed substantial. For example, during the five years between 1976 and 1980, the petroleum-refining industry earned a total profit of \$99.2 billion of which it paid \$28.3 billion, or 28.5 per cent, in federal, state and local taxes. In the subsequent period between 1981 and 1986, after Reagan came to power, the industry's aggregate profit rose to \$121.2 billion, but its taxes fell to \$23.9 billion, which now represented an effective tax rate of only 19.8 per cent (computed from *Citibase*, 1990). According to a *Business Week* study (10 June 1985), corporations in the oil and gas industry, which in 1984 earned \$40 billion in pre-tax income, paid only \$3.3 billion – or 8.4 per cent – in federal taxes.
  - 24 According to the Iran-Contra Report issued by Special Prosecutor Walsh seven years after he began his inquiry, the operation was conceived and approved at the highest level of the US government, involving President Reagan, Vice-President Bush, Secretary of State Shultz, Secretary of Defense Weinberger and many other lesser officials (*New York Times*, 19 January 1994).
  - 25 According to retired IDF General Avraham Tamir, Defense Secretary Haig explained to his Israeli counterpart Sharon that the US goal was to 'prevent either side from winning' (Cockburn and Cockburn, 1991: 328, 339). Waas and Unger (1992: 65) describe in rather colourful language how the administration "'tilted" back and forth between support for Iran and support for Iraq, sometimes helping both countries simultaneously, sometimes covertly arming one side as a corrective to unanticipated consequences of having helped the other'.
  - 26 The *London Observer*, 9 September 1985, cited in Cockburn and Cockburn (1991: 393). Gary Sick claims that Israeli annual shipments were worth



- between \$500 million and \$1 billion (*Washington Post*, 5 December 1986, cited in Ferrari *et al.*, 1987: 35–6).
- 27 'We're all down now to nibbling crumbs', professed a frustrated US defence company executive during a 1985 air show in Paris: 'The damn oil boom has gone and there is not much money around any more' (cited in Ferrari *et al.*, 1987: 4–5).
  - 28 For example, according to the Federal Reserve Bank of Cleveland, real industrial output per unit of energy in the United States rose by more than 50 per cent over the 1973–85 period (*Fortune*, 3 December 1990). Overall, during that period the United States became 25 per cent more energy efficient and 32 per cent more oil efficient, whereas for Japan, the corresponding numbers were 31 per cent and 51 per cent, respectively (Yergin, 1991: 718).
  - 29 Tracing the financing of the Iraq–Iran War is a complicated task since both countries received substantial financial and material assistance from other sources. The government of Khomeini was supported by both Syria and Libya, while Iraq allegedly received \$30–60 billion in cash and replacement oil from Saudi Arabia and other Gulf states (*Business Week*, 4 June 1985; Stockholm International Peace Research Institute, 1987: 303).
  - 30 According to the Stockholm International Peace Research Institute (1987: xxvi), by 1987 the belligerent sides had together spent \$400 billion on combating each other.
  - 31 For the full list of known suppliers, see Stockholm International Peace Research Institute (1987: Table 7.8, 204–5). Some estimates suggest that Iraq imported about \$40 billion worth of arms during the period from 1980 to 1986, while Iran's foreign purchases amounted to \$30 billion. The overall stake of covert US shipments in these totals must have been limited. The prime suppliers for the war were based in France, the United Kingdom, West Germany, Italy, South Africa, the Soviet Union, China, North and South Korea, Vietnam, Israel, Taiwan and Brazil (*Business Week*, 29 December 1986). According to *Jane's Defence Weekly*, Iraq even supplied Iran, reselling through private dealers heavy weapons previously captured in the fighting (reported in Stockholm International Peace Research Institute, 1987: 307). For detailed accounts of the arming of Iraq during and after the Iran–Iraq War, see Darwish and Alexander (1991: chs 4–6) and Timmerman (1991).
  - 32 According to Waas and Unger (1992), the Bush visit in 1986 had another, not so peaceful side: they allege that the Vice-President was instructed by CIA Director Casey to encourage Iraqi aerial bombing attacks on Iran – attacks which would create a need for anti-aircraft defence systems and hopefully make Iran receptive to the administration's initiative of trading hostages for Hawk missiles.
  - 33 In 1988, the administration suggested increasing US arms exports by \$3.3 billion to a level exceeding \$15 billion – with proposed shipments worth \$3.6 billion to Israel, \$2.7 billion to Egypt, \$950 million to Saudi Arabia and \$1.3 million to other Middle Eastern countries (*New York Times*, 2 May 1988). This proposal did not prevent Secretary of State Shultz from declaring in front of the UN General Assembly a few weeks later that 'developing countries must help reduce the international tension and ease the arms race' (*New York Times*, 14 June 1988).
  - 34 In 1985, the Congress refused to approve the sale to Saudi Arabia of forty advanced McDonnell Douglas F-15 aircraft and, in 1986, blocked the sale of 800 General Dynamics Stinger missiles. In 1988, the US Senate voted to deny a Kuwaiti request for General Motors Maverick missiles and also forbade

- the sale of Stinger missiles to Oman (*New York Times*, 13 May 1988; *Time*, 25 July 1988).
- 35 Some of these included Brady, who previously ran Dillon, Read & Company when it was controlled by Bechtel and was now nominated Treasury Secretary, and Mosbacher, an oil businessman who now became Secretary of Commerce (during the 1990s, Mosbacher, together with Bush's Secretary of State Baker, joined the energy infrastructure giant Enron as special consultants). Bush also wanted Tower to become Secretary of Defense, but the former senator who acted as a retainer for five defence contractors failed the confirmation hearings and the post eventually went to Cheney – a strong supporter of 'Star Wars' and the Nicaraguan Contra rebels.
  - 36 Many oil executives actually felt relieved by the more moderate prices, which were still high enough to assure adequate profitability without drawing allegations of 'conspiracy'. To prevent such criticisms, some oil companies decided during the last quarter of 1990 to write off part of their profits as reserves for meeting the cost of future environmental regulations (*Business Week*, 11 February 1991).
  - 37 These figures are for total US exports to Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates and Yemen (computed from US Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States*, 1993: Table 1351, 813–16).
  - 38 This vision was expressed during the same postwar speech in which the President called for a wider Middle East peace (*New York Times*, 7 March 1991). To help erase some of the traces of such 'micro-management' in which both Reagan and Bush were explicitly implicated, the latter granted pardons in 1992 to six key figures in the Iran-Contra Affair, including Weinberger whose trial was just about to begin.
  - 39 US Congress, Office of Technology Assessment (1991: 21) and *New York Times*, 18 March 1991. Government support was not limited to defence contracts, of course. For example, despite their common praise for free competition, both President Bush and his Secretary of State Mosbacher did not hesitate to intervene personally on behalf of AT&T when Saudi Arabia appeared to prefer European contractors for its \$8.1 billion plan to expand the kingdom's telephone network (*Business Week*, 18 February 1991). The Clinton administration kept up the pressure and AT&T eventually won the contract.
  - 40 According to the US Congressional Research Service, this occurred partly due to the decline in Soviet exports which began during the late 1980s (*New York Times*, 11 August 1991).
  - 41 Military contracts for Israeli companies fell from 5.1 per cent of GDP in 1987, to 3.9 per cent by 1993 (Israel, Central Bureau of Statistics, 1993). According to data published by the Stockholm International Peace Research Institute, world exports of major weapon systems (in constant 1990 prices) dropped from \$46 billion in 1987, to \$18.4 billion by 1992. The Israeli stake in that trade fell to \$66 million in 1992, down from \$408 million in 1987 (see Nitzan, 1994).
  - 42 Net profits of the six largest Israeli conglomerates fell from 3 per cent of GDP in 1984, to less than 1 per cent by the early 1990s (see Nitzan and Bichler, 1996a).
  - 43 Since 1994, multinational companies from the US, Europe and Japan, which have never before set up shop in Israel, have been actively courting the government and local partners for a piece of the 'peace action'. Israel is now

- seen as a springboard to the 'emerging' Middle East – so much so that the large multinational corporations find themselves competing with firms from newly industrialized countries, such as Korea and Taiwan, for which the Near East now offers an even cheaper production base and untapped markets.
- 44 Future energy trends were analysed in a recent World Energy Council Conference in Cape Town (reported on *Bloomberg*, 14 October 1994).
- 45 The effect on oil prices of a crisis atmosphere is analysed in Nitzan and Bichler (1995).
- 46 Expressed in constant 1987 prices, the decline was much more severe, with overall prime contract awards dropping by 37.6 per cent – from \$159.5 billion in 1985, to \$99.6 billion in 1993 (military contract data are from the US Department of Defense, *100 Companies Receiving the Largest Dollar Volume of Prime Contract Awards*, 1985, 1993; constant-price data are derived by deflating original figures by the US GDP deflator from US Congress, *Economic Report of the President*, 1994).
- 47 Indeed, it was Saddam Hussein himself who suggested only a few days after he invaded Kuwait that his country could still be the region's guardian of US interests (Darwish and Alexander, 1991: 291–2).
- 48 Based on CIA sources, the *Sunday Times* reported that the Saudis even hired a Russian squadron of twelve Mig 29 aircraft, complete with pilots, to help the South Yemeni forces slow down the advance of the North (*Ha'aretz*, 8 August 1994).

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