

## **Two pillars of US global hegemony: Middle Eastern oil and the petrodollar**

[W]hoever controls the Middle East controls the global oil spigot and whoever controls the global oil spigot can control the global economy, at least for the near future. (Harvey 2005: 19)

Throughout recent history, the oil-rich regions of the Middle East have played a key role in determining US foreign policy. This is simply because the Middle Eastern oil regions currently account for 65 per cent of the world's proven oil reserves, and 30 per cent of its day-to-day production, and therefore the Middle East has been the geographic centre of gravity of the world oil industry (Renner 2003). They are therefore a truly vital strategic US interest. Since the new and bountiful discoveries of cheaper oil in the Persian Gulf just after the Second World War, oil from the Middle East has gradually come to displace US oil. Without direct and secure access to this resource, the world economy would fall into a very serious crisis, and the position of the leading power, the US, would be dealt a mortal blow. In order to continue growing, the US-dominated world capitalist economy needs plenty of cheap and readily available oil. The Middle East supplied 22 per cent of US oil imports, 36 per cent of OECD Europe's, 40 per cent of China's, 60 per cent of India's, and 80 per cent of Japan's and South Korea's in 2006 (Energy Information Administration Annual Energy Review 2006).

But this dimension cannot be reduced solely to matters of economic prosperity, even though it represents a part. Above all, the oil dimension in US foreign policy is a strategic one which mainly concerns exercising global power, a central part of US global hegemony. The purpose of this essay is to seek some understanding of how and why the oil of the Middle East came to play a central role in the rise and continuation of the hegemonic position of the US.

When a hegemonic power imposes its political and economic authority over a region, it does so in relation to its allies and its local protégés. Gramsci used the term ‘hegemony’ to signify that the dominant power leads the system in a direction that not only serves the dominant group’s interests but is also perceived by subordinate groups as serving a more general interest (Gramsci 1971: 106–120, 161). Harvey’s usage of the term is similar: ‘the particular mix of coercion and consent embedded in the exercise of political power’ (Harvey, 2005: 36). US ally Japan and West European economies are dependent on oil imports from the Middle East, and US protégés in that region, the oil monarchies, require US protection and military and political support. Through its influence over the oil-rich regimes in the region, the US has consolidated its strategic presence in the Middle East by effectively controlling the ‘global oil spigot’. This seems also an effective way to ward off any competition for top position in the global hierarchy as all its competitors are heavily dependent on this essential source, oil, coming from the Middle East.

It was during the First World War that the US accorded to the Middle East region a strategic importance due to its rich oil resources. At that time, Britain’s declining global empire was controlled key oil-producing regions of the Middle East. During the First World War, keeping those oil-rich lands under British control was a crucial goal for the British government. Sir Maurice Hankey, the powerful secretary of the British War Cabinet, wrote to the foreign secretary, Arthur Balfour, during the war’s final stage, that ‘oil in the next war will occupy the place of coal or at least a parallel to coal’. Therefore, Hankey said, ‘control over these [Middle Eastern] oil supplies becomes a first-class British war aim’ (given in Yergin 1991: 185–188). For a detailed analysis of Great Power rivalry over Middle Eastern oil, see James A. Paul’s summary (2002).

Oil surpluses of the 1930s quickly disappeared during the Second World War, and the US, the new hegemonic state within the capitalist world, began to rely on foreign oil in the

1940s. With only 6 per cent of the world's population, the US accounted for one-third of global oil consumption. Energy security, since then, has become an essential dimension of US state security, meaning the uninterrupted availability of energy sources at an affordable price and unwavering access to foreign oil reserves. The question of US influence over Middle Eastern oil-rich countries has become increasingly important since the Second World War. Between 1940 and 1967, US companies increased their control of Middle Eastern oil from a mere 10 per cent to over 60 per cent. (Monthly Review 2002). The so-called 'Carter Doctrine' of January 1980 perhaps symbolises this heightened significance of the region's oil for the US state more than anything else: 'Let our position be absolutely clear: An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force' (given in Klare 2004: 45–47). President Jimmy Carter, in his annual State of the Union Address to Congress, also reiterated his plans to increase military spending by 5 per cent, with special emphasis on developing a 100,000-man 'rapid deployment force' capable of intervention in the region. President Carter himself did not use the term 'Carter Doctrine' to refer to his policies in the Middle East in any public statement during his term in office. However, the label was used later in official US documents (see Meiertons 2010).

More than 30 years have passed since the first expression of the Carter Doctrine, and the significance of the oil-rich Middle East for the global position of the US remains as one of the central pillars of world politics. It ensures, with the use of violence if necessary, that Middle Eastern oil remains accessible, free-flowing, cheap, and under US control.

In the rest of this essay, I will focus on three interrelated issues in order to appreciate this complex relationship, and to explain the role played by Middle Eastern oil, pricing of oil,

and links between the region's oil trade and arms trade in sustaining the unique position of the US as supplier of the world's reserve currency.

### **The emergence of the US as global hegemonic power**

During the early part of the 20th century, the US patiently put key stepping stones in place to build its state as a modern imperial power. Once the dominance of the industrial North over the agrarian South was established soon after the American Civil War, the US government initiated essential foundations of its world system of control, first in Latin America and the Philippines, and then in Western and Central Europe, Japan, Korea, and the Middle East. Its superior army, high-tech weapons systems, and globe-trotting military and intelligence networks have of course been central to this project. But equally important, if not more so, has been its strong grip on the world economy, trade, and financial markets, mainly through the role played by the US dollar as the world's universal currency or reserve currency.

Reserve currencies are held by governments and institutions outside the country of issue and are used to finance international economic transactions, including trade and the payment of debts. Reserve currency status is not just an international status symbol. It brings international *seigniorage*, benefits for financial institutions of the issuing country, relaxation of the external constraints on macroeconomic policy, and wider geopolitical consequences of exercising currency hegemony. How did the US currency achieve this status?

During the war, the dollar became a world currency, equal in strength to the British pound. Among others, Eichengreen (2008) explains this process in detail. In one of his recent volumes, he traces the rise and fall of the dollar system with more recent data (Eichengreen 2011). Eichengreen sees, in particular, the Suez crisis of 1956 as the landmark event undermining once and for all the importance of the British pound sterling.

During the war, European economies were short of capital, which meant high rates of return for the US loans, which further strengthened the dollar, and pushed the French and the British to peg their currencies against the dollar at depreciated rates during the 1940s and 1950s (Kennan, 2000, pp. 449-454)).

Dollar hegemony has always been critical to the future of the US-dominated global hierarchy, and due to its extensive financial and political consequences even more so than its overwhelming military power. In turn, the US economy is intimately tied to the dollar's status as a reserve currency for dealing with trade deficits and keeping the interest rates low at home. The continuing dominance of the US dollar was not only a matter of simple economics and finance, but was also 'deeply rooted in the geopolitical role of the United States' (for a detailed explanation, see Gokay and Whitman 2004: 65–69).

The central place that the US superpower, 'actually existing American empire' in David Harvey's words, has come to occupy in the global system rests on a particular convergence of structure and history (Harvey 2005: 6). The most crucial and conclusive phase in this process occurred during and after the Second World War. Only after the twin disasters of the 1929–30 Depression and the Second World War did the world capitalist system obtain a new lease under the hegemonic leadership of the US. This reorganisation of capitalism could not have been accomplished without the uneven development of certain structural characteristics that also shaped the post-war leadership of the US imperial state. This process was well examined by Peter Gowan under the apt title *Contemporary Intra-Core Relations*: 'the empire-state offers a mechanism for managing the world economy and world politics which is sufficiently cognisant of trans-core business interests' (Gowan 2004: 490). This required that the US create a new international monetary system advocating new trade regimes and imposing new development strategies. US-dominated international institutions, the International Monetary Fund (IMF) and the World Bank, came to dictate and conduct the

modus operandi of such development strategies. The post-war state of ruin, in both physical and economic senses, in much of Europe, Asia, and parts of Africa, which created a power vacuum in the world system, provided conditions for this total restructuring of international trade and finance under the leading role of the US and its multinational companies. The economic and financial system in France was exhausted, the whole of the German state was disintegrated, Britain was on the brink of bankruptcy, and the Japanese economic system was completely shattered and disorganised after the collapse of its imperial state. All these countries needed urgent economic assistance of some kind and they looked to the US for that. With the crumbling of international competitive capital, only the US remained as a secure capitalist state capable of determining the terms of a new world economic order. For the next two decades, the American economy was able to produce and sell all the vital industrial products so much more efficiently than other industrial powers that it could outperform producers in these other countries' home markets. Hence, the world system had entered a new phase in which the conditions were ripe for the US, the only superpower capable of restructuring the capitalist world economy according to its own vision.

The first task in rescuing the global capitalist order was to reorganise the nation states of Europe and Asia as willing members, while placing the US at the command centre of the world system. Hence emerged the *Pax Americana*, a historically specific inter-state system; in other words, what Peter Gowan fittingly referred to as the 'protectorate system', a US-centred global 'hub-and-spokes' arrangement (Gowan 2002). Economically, this required the creation of a new international monetary system that could provide the necessary movement of capital for the reconstruction process, and the construction of a system of world trade that could eliminate the persisting effects of the Depression and the war. The post-war restructuring began at the Bretton Woods Conference in 1944, which adopted a gold standard for world currency, and encouraged the rapid expansion of direct foreign investment and

world trade. The Bretton Woods system was an international monetary framework of fixed exchange rates. Drawn up by two leading powers, the US and Britain, John Maynard Keynes was one of the architects (Gokay and Whitman 2009). The pre-war gold-exchange system remained in place as the currency standard, except that it substituted the dollar for the British pound as the key reserve currency. This meant that all economies that were to be part of this system would be required to recognise dollars as their basic reserve currency and link their own currency to its value. The US dollar, however, enjoyed immunity from any currency instability, because it was, as the universal/reserve currency, pegged to the value of gold, which was fixed at \$35.00 an ounce. The Bretton Woods system was a natural consequence of the already obvious, global, economic supremacy of the US. Huge amounts of gold were accumulated by the US, primarily from Britain and the Soviet Union through the Lend-Lease programme, which required payment in gold for war-time assistance, to both military and civilian sectors. Lend-Lease agreements were first formulated in December 1940, and then formally set up seven months later. By the end of the war, the bulk of the world's gold supply was held by the US in Fort Knox, Kentucky, and the massive supremacy of US industrial production guaranteed that it would enjoy huge surpluses in its balance of trade (IMF, March 2006).

In the wake of the so-called economic miracles of the 1950s and 1960s ('the Golden Age of Capitalism', as Eric Hobsbawm called it [1994: 285ff.]), the high growth rates, technological innovation, social and geopolitical peace, and rapid development of US-led Western capitalist economies enabled them to accumulate millions of dollars as reserves (Mann 1995: 104–105). As a result, these years witnessed steadily rising levels of investment, and a continual boom.

As the 1950s and 1960s passed, an inequitable distribution of power and wealth within the Bretton Woods system led the US to overreach the advantages offered by the

dollar's reserve currency role. The US became more and more inflationist with regard to the value of the dollar, particularly with respect to Japanese and West European economies. As the dollars accumulated in foreign banks, the actual value of the dollar sank against gold. Gold flowed progressively out of the US during this period: US gold stock dropped from over \$20 billion in the early 1950s to less than \$9 billion by 1970. Nervousness about this gold depletion was expressed in the early years of the Kennedy Administration, but it didn't become a crisis until the late 1960s and early 1970s when the US balance of trade became negative (Gokay and Whitman 2010).

In parallel with the decline in gold stocks and competitive trade, US corporate profits also began to decline in the face of competition from Germany and Japan. After this, the US lost some of its power over global trade and finance. Collectively, these trends indicated the beginning of a long decline in the comparative dominance of the US economy. The late 1960s and early 1970s were particularly harsh times for US finance: the dollar was weakened further, which opened the door for other central banks to diversify and start keeping alternative currencies as a hedge against any steep decline in the value of the dollar. French president de Gaulle, witnessing the sharp decline of confidence in the US economy and currency, happily sold US dollars, eventually accumulating more gold than Fort Knox (Time Magazine 1965). The Bank of England joined the French in demanding gold for dollars, which accelerated a run on the dollar, provoking a currency crisis that lasted until the middle of 1971. At that point, bowing to a tripling of the US balance of trade deficit and an increasing outflow of capital, President Nixon announced a series of drastic changes in the world's currency arrangements. In a dramatic televised address to the nation on 15 August 1971, Nixon declared an end to the Bretton Woods fixed dollar-gold link, which meant that the US would no longer honour the dollars for gold valued at a fixed rate, but would only agree to a system of floating exchange rates, whereby each currency would be valued

according to world demand (El-Gamal and Jaffe 2010: 4). At one stroke, the US president invalidated 25 years of currency agreements, and introduced a prolonged period of currency instability (Fouskas and Gokay 2012: 65–68).

The US administration's spectacular end to the convertibility of the dollar reinstated the economic autonomy of the US state. The US dollar, however, no longer convertible into gold at a fixed price, entered into a process of prolonged decline. The devaluation led almost immediately to an explosion of global price inflation and a collapse of share values on equity markets, which in turn restored the US balance of trade. With this radical shift, the dollar became an irredeemable currency, no longer defined or measured in terms of gold, and no longer restrained in its printing.

From the early 1970s onwards, the unspoken objective of all US administrations has been to slow down the decline of the US economy. First and foremost, it was a serious crisis inspired by a significant loss of confidence in the dollar. As a result, the dollar was left 'floated' in the international monetary market, which weakened its position as the hegemonic currency. Now the dollar had no firm backing other than the 'full faith and credit' of the US government. From that point on, the US had to find a way convincing the rest of the world to continue accepting every devaluated dollar in exchange for economic goods and services the US required getting from the others. It had to find an economic reason for the rest of the world to hold US dollars: oil provided that reason and the term *petrodollar* became the crucial link in this. Since the 1971 devaluation, the petrodollar has been at the heart of US dollar hegemony (Fouskas and Gokay 2005: 16–19).

### **Petrodollar system**

After 1971, the US economy entered into a long period of instability. During this period there were a number of recessions, including a mini recession in 1971, a deeper and larger

recession from 1973–75, a period of hyperinflation from 1979–80, a severe recession in 1981–82, a real-estate bubble and stock market panic in 1987, and a deep recession in 1992–93. Nine of the 22 years from 1971–93 were ‘economically troubled’, together with the years in-between reflecting uneasy transitions from one crisis to another. The one persistent effort that marks this volatile period was a forceful attempt by the US to restore the role of the dollar as the universal reserve currency by linking the dollar to yet another commodity: petroleum, thus creating the petrodollar. The petrodollar system provided some strength and prestige to the US currency, and shifted the focus of global politics to the oil-rich Middle East.

A petrodollar is a dollar earned by a country through the sale of oil. The term ‘petrodollar system’ derives from the way the diplomatic relations between the US and Saudi Arabia linked the sale of oil to the dollar through a series of negotiations and agreements concluded during 1972–74 period. As a result, the US government reached a series of agreements with Saudi Arabia, known as the US-Saudi Arabian Joint Economic Commission, to provide technical support and military assistance to the power of the House of Saud in exchange for accepting only US dollars for its oil (Department of the Treasury 2002). This understanding, much of it never publicised and little understood by the public, provided the Saudi ruling family the security it craved in a dangerous neighbourhood while assuring the US a reliable and important ally in the Middle East (Kaiser and Ottaway 2002). Saudi Arabia was and remains the largest oil producer in the world and the leader of the Organisation of Petroleum Exporting Countries, OPEC (US Energy Information Administration 2014 a). It is also the only member of the cartel that does not have an allotted production quota, which makes it the ‘swing producer’, meaning that it can increase or decrease oil production to bring about an oil drought or glut in the world market. Saudi Arabia hence practically determines, or has the means to determine, oil prices. Soon after the agreement with the Saudi

government, an OPEC agreement consented to this, and since then all oil has been traded in US dollars (Klare 2004: 40–45).

Now why would this matter so much?

Oil is not just the most important commodity traded internationally. It is the key industrial mineral; it has a central role in modern economies, without which no modern economy works. If you don't have oil, you have to buy it, and if you need to buy it on the world markets, you commonly have to purchase it with dollars. This provides an essential base for the dollar's reserve currency status: other countries buy and hold large reserves of dollars (in the same way they buy and hold gold) because they cannot purchase oil without dollars. This made the 'petrodollar' a de facto replacement for the pre-1971 gold-dollar standard, guaranteeing a constant demand for dollars whose value was linked to oil through the OPEC pricing standards. In 2002, a former US ambassador to Saudi Arabia told a committee of the US Congress: 'One of the major things the Saudis have historically done, in part out of friendship with the US, is to insist that oil continues to be priced in dollars. Therefore the US Treasury can print money and buy oil, which is an advantage no other country has' (Nixon 2003).

This system of the US dollar acting as global reserve currency in oil trade keeps the demand for the dollar 'artificially' high. This allows the US to print dollars at next to no cost to subsidise increased military spending and consumer spending on imports. As long as the US has no significant challengers and the other states have faith in the US dollar, the system operates well (Spiro 1999: 121). This has been the situation and the crucial basis for the US economic hegemony since the 1970s. Needless to say, this system also empowers the US administration to compellingly control the world oil market. The dominance of the dollar is not simply the result of the size of the US economy; it is also the result of two other things: global politics and finance. In this scheme, the industrialised countries had to purchase oil,

either from OPEC or from one of the smaller oil producers, but they could conduct these purchases only by pricing and buying oil in dollars, thus restoring the dollar's role as a required reserve currency (see among others Gokay and Whitman 2004: 64–65).

So long as OPEC oil was priced in US dollars, the US government benefited from a double loan. The first portion of the loan was for oil. The government could print dollars to pay for oil, and the US economy did not have to generate goods and services in exchange for the oil since OPEC used the dollars for all traded goods and services. Obviously, the strategy could not work if dollars were not a means of exchange for oil. The second part of the loan was from all other economies that had to pay dollars for oil but could not print currency. Those economies had to trade their goods and services for dollars in order to pay their oil imports to OPEC producers (Spiro 1999: 121).

In this situation, dollars rapidly accumulated in foreign banks, particularly those serving petroleum-exporting countries. This petrodollar overhang created an additional financial issue: unlike Western Europe and Japan, most of the oil-exporting countries had limited possibilities for domestic development and consumption, and therefore they could not invest most of this money. Many of these economies in the region are structured strictly on 'rents' from oil, which provide most of the export earnings and state revenues. Despite their extensive oil wealth, the oil-rich countries of the Middle East have failed to develop a diversified economic base. All finished manufactured goods as well as financial and high-tech services are imported and controlled by Western multinationals. Adam Smith once commented that the Tartars and other Asian nations may be rich precisely because they are resource poor. 'In the Middle East, ... the political process is that the rulers do not tax citizens or businesses, but hand out selective privileges, financed by oil revenues, against loyalty and support from a largely parasitic private sector' (Noreng 2006: 87–88). Some efforts were made to redistribute oil revenues across the populations by subsidising housing,

education, and health care. But mostly, oil money was used to support excessive consumption, corruption, and gross waste. The Nixon Administration responded ‘creatively’ by coaxing these countries into purchasing US Treasury bills and bonds, which performed as yet another subsidy for the US economy. This has, since that time, been the primary strategy for the US administration to deal with its colossal trade deficits by keeping domestic interest rates low (Kaiser and Ottaway 2002). The cash balances of oil exporters soon found their way into the US-controlled international banking system, and these petrodollars went straight back into the US economy at zero currency risk. Some of this cash was recycled as loans, with some interest of course, to oil-importing countries, mainly by US-controlled international financial institutions.

For a long time everything worked smoothly. But the end of the Soviet-controlled socialist bloc economies in Eastern Europe and the emergence of a new single Europe and the European Monetary Union in the early 1990s began to present an entirely new challenge to the global position of the US economy. In particular with the creation of the euro in late 1999, a totally new factor was added to the global financial system. Within a relatively short period, the euro has emerged as a realistic alternative, establishing itself as the second most influential currency in the world’s financial markets. If a considerable part of petroleum trade were to use euros instead of dollars, many more countries would have to hold a greater part of their currency reserves in euros. According to a June 2003 HSBC report, even a moderate shift, as small as 15 per cent, away from dollars, or a change in the flow, would create considerable changes (HSBC 2003). The dollar would then have to openly battle with the euro for global trade and financial markets. Not only would Europe not require dollars anymore, but also Japan, which imports more than 80 per cent of its oil from the Middle East, would have to switch most of its dollar assets to euros. The US, too, currently being the world’s second largest oil importer after China, would have to retain a significant amount of

euro reserves. This would be catastrophic for US efforts at monetary management: the US administration would be compelled to drastically change its current tax, debt, and trade policies, all of which are relentlessly volatile.

Today, US citizens spend \$700 billion (US) a year more than they generate, so they require a reserve of an additional \$700 billion. This means that, on average, each US citizen benefits from \$3,000 more imported products per year than he/she earns (US National Debt Clock 2006). They acquire this large amount of money from the Central Banks of China, Japan and European countries, thanks to the US dollar's status as global reserve currency and the simple fact that all other central banks hold dollar reserves. China is the principal holder of US currency reserves with \$853.7 billion, and Japan is the second biggest with over \$850 billion in dollar assets (Bloomberg 2006; Mainichi News 2006). So the rest of the world are producers and sellers: Japan, China, India, Brazil, the EU, and the rest. The rest of the world invests, produces, and exports to the US. They lend more and more to the US. This situation is, however, considered unstable and very risky by experts. The increasing instability of the US economy is emphasised by a major 2005 report from the IMF (IMF 2006 which pointed out that the US economy is increasingly being maintained by what it described as 'unprecedented borrowing' from foreigners. The report went on to describe the US deficit as unmanageable and risky in the long term.

### **Weapon-dollar-petrodollar circulation**

The politicisation and concentration in the Middle East of the oil business went hand in glove with the region's commercialisation, privatisation, and concentration of the global arms trade. In the 1950s, some 95 per cent of US armament exports had been provided as foreign aid, whereas by 1980 the foreign aid as armaments had fallen to 45 per cent and by 2000 to less than 25 per cent. From the early 1970s onwards, when the petrodollar became an essential

dimension of the US global hegemony, US defence production experienced a high degree of privatisation and internationalisation, followed by an unprecedented degree of mergers, acquisitions, and consolidations according to the pattern of ‘new multinational corporations’. From the early 1970s onwards, the Middle East became the world’s chief importer of weaponry, taking the lead from South-East Asia. In this way, a large amount of that oil income, petrodollars, started to be spent on buying armaments and hence turned into weapondollars. Tensions in the region, in particular the escalation of Arab-Israeli conflict, created the necessary conditions for a type of dollar recycling based on arms trade. Since the 1940s, the role of the Middle East in world accumulation had been intimately linked to oil exports, and from the 1970s onwards, this trade became the basis of the petrodollar system, which was then accompanied by another dimension: turning a large amount of this oil income into weapondollars (Nitzan and Bichler 2002: 25). These two flows provided a powerful new lease of life for the US economy, inasmuch as their combination was associated with the generation of substantial profits for the US arms manufacturing industry, American-British giant oil companies, and of course the US Department of the Treasury. Most importantly, these two flows (oil going out, and weapons coming in) were dollarised. Thus, for example, in 1974, Saudi Arabia’s arms imports were worth \$2.6 billion, whereas between 1985 and 1992 this figure increased ten times and reached \$25.4 billion. Throughout the 1970s and 1980s, the US increased its arms sales to Middle Eastern states, in particular during the Iraq-Iran war of 1980–88. The amount of arms sales to the region reached its peak in 1988 when ‘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, 4950 million to Saudi Arabia, and \$1.3 billion to other Middle Eastern countries’ (Nitzan and Bichler 2002: 261, f.n. 26). Sharply intensified armed conflict and quickly rising tensions in the Gulf region and (with the end of the Cold War) Central Asia and North Africa,

including the Pakistani/Indian conflict, meant much greater US military involvement in the region, and greater consolidation of the alliance between US arms manufacturing/weapons trade and energy interests.

Did any of these policies reverse the long-term relative historical decline of the US? The short answer is plainly no.

It did not take long for the contradictions of the system to break down. The entire system of petrodollar-weapon-dollar coalition managed to keep demand for dollars artificially high, and as the price of oil went up following the 1973 Arab-Israeli war, the demand for dollars intensified even further, raising the value of the dollar sharply and, as a result, once again subsidising US domestic and military spending. This form of speculative dollarisation, however, enhanced further the inflationary trends in the US, Europe, and Japan, intensifying the stagnation of the global economic system. The yin and yang of this petrodollar/weapon-dollar system also meant that US benefits were counterweighed by rising costs inflicted on other members of the world economic system. These were predominantly those countries recently emerged from post-colonialism, other weak economies, and periphery states, as the US practically exported its own economic and financial problems. Thus, when the system was faced with various crises (such as the 1973–75 recession, the hyperinflation of the late 1970s, and the sharp global recession of 1981–82), the US administration could successfully shift the negative effects onto its lesser partners, which then suffered the greater burden as world oil prices rose sharply after 1974. William Greider (1989) effectively demonstrates how the US shifted the effects of the 1979–83 crises were shifted to the periphery.

At the same time, rather than promoting sensible social investments in its allies in the Middle East, the US continued to encourage using the petrodollar/weapon-dollar overhang as an opportunity to promote the purchase of US Treasury bonds and bills, to deal with its current account deficit. As a result, the US increasingly came to depend on foreign investors

as the prime financial source for domestic account management, which had the effect of artificially increasing prices, leading to an inflationary surge that eventually weakened the perceived value of the dollar, triggering an acute fall in demand for dollars and a resultant upward spike in US interest rates (Kaiser and Ottaway 2002).

All this was an unsteady attempt by the US administration(s) to restore the global role of the dollar and US economic supremacy by linking the dollar to two key commodities of the world economy: petroleum and weapons. There were clear reasons underpinning the functionality of this weapondollar-petrodollar system. The first was economic, in that the Bretton Woods system never found a way to effectively recycle the massive profits and extensive speculation the global oil trade produced; the second was political, in that the administration(s) transferred the focus of global politics to weapons procurement and built-up, as well as to the petroleum production and conflict in the Middle Eastern region (Gokay 2005: 40–56).

Understanding how that system was first constructed and advanced with all those existing flaws and contradictions reveals important insights into the current state of the US hegemony and the root causes of its direct military involvement in the region since the end of the Cold War. What emerges is that all the wars and acts of military aggression conducted by the US since 1991 have been those of an economically declining power, rather than an indication of superiority. Andre Gunder Frank identified this strategic trend in post-Cold War US foreign policy as ‘Washington sees its military might as a trump card that can be employed to prevail over all its rivals in the coming struggle for resources’ (Frank 1999).

### **Impending scenarios: hegemonic reversal**

Since the end of the Cold War, the US has waged four wars in the region (two in Iraq, one in Afghanistan, and one in Libya) and is currently threatening more. Each conflict has of course

its own specific reasons related to local conditions. However, there is a common denominator: the need to keep the oil of the region ample and inexpensive, and most importantly, under firm US control, so that the US-led system of global capitalist economies can continue to grow. US strategists do not simply want to obtain oil, which is a simple matter if one has money. They also want to eliminate all potential competitors, safeguarding the region politically and militarily so that the flow of oil from the Middle East to world markets can happen under its direct control.

The US military is now dominant and its limitations are minimal. Its spending is almost as much as that of the next 11 countries combined ranked beneath it (SIPRI 2013, pp. 6-7 and 9.). Yet the economic power of the US has been in stagnation since the 1970s and has declined since the end of the Cold War. The world economic landscape is rapidly changing and a very different world is emerging. In particular, the US share of world trade and manufacturing is substantially less than it was just prior to the end of the Cold War, and its relative economic strength measured against the EU and the East Asian economic group of China, India, and the 'South-East Asian tigers' is similarly in retreat. The persistent use of US military power can therefore be viewed as a reaction to its declining economic power and not merely as a response to the post-Cold War geopolitical picture. US leaders see their superior military power as the key weapon that can be employed effectively to prevail over all rivals, and thus to stop this decline. The expansion of the Chinese economy, so far the closest contender for a global hegemonic position, is directly dependent on access to petroleum, and therefore securing access to the oil reserves in the region is a cornerstone of Chinese policy (Roberts 2005: 158–164). In September 2013, China's net imports of petroleum and other liquids exceeded those of the US on a monthly basis, making it the largest net importer of crude oil and other liquids in the world (US Energy Administration Information 2014 a).

In the Middle East, control of the region's oil resources, keeping the US dollar as the only currency used in the world oil trade, and using these effectively to prevent any challenge to the hegemonic position of the US are all interlinked and cannot be separated from each other. On 22 March 2003, at the beginning of the US-led war against Iraq, General Tommy Franks, chief commander of the US forces in Iraq, was explaining one of the key objectives of the Operation Iraqi Freedom as 'to secure Iraq's oil fields and resources' (CNN.com 2003). Securing US interests regarding the oil resources of the Middle East is not as simple as just going and militarily capturing key positions of a country. Political events since 2001 have clearly demonstrated that superior military forces of the US and its Western allies may take but cannot hold Iraq's, Libya's, or other Middle Eastern countries' oil. Far from staving off the downfall of the US economic and financial hegemony, the continuing military aggression and arrogance of the US state may instead push the regional powers to distance themselves from its strategic goals. Member countries of OPEC, for instance, have sharply increased deposits in other currencies including the euro and the Japanese yen, and placed less in dollars starting from 2001 and the Afghan War. OPEC members cut the proportion of deposits held in dollars from 75 per cent in the third quarter of 2001 to 61.5 per cent. US dollar-denominated deposits fell from 75 percent of total deposits in the third quarter of 2001 to 61.5 percent in the last quarter of 2004. During the same period, the share of euro-denominated deposits rose from 12 per cent to 20 per cent (FT.com 2004).

Competition for the rich oil resources of the Middle East played a central role in the 20th century's key military and political conflicts. Even the two major world wars, which happened in the first half of the 20th century, were intrinsically linked to competition for access to the energy-rich Middle East. If history provides any reliable guide to the future, the present century will more and more be marked by new wars for this still very significant but increasingly scarce natural resource in the region. 'This is the secret ticking bomb under the

global economic system in the twenty-first century. The only long-term solution is to significantly reduce our energy usage' (Fouskas and Gokay 2012: 139–140).

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