3.3 Beyond the Petrodollar Regime

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Climate change is the product of structures, not just policies. The political-economic system that has produced the real prospect of climate catastrophe is one that the British state has played a lead role in constructing and maintaining. British capitalism and state power internationally have long been deeply implicated in the economics of fossil fuels – in the broadest sense of the term – and have a vested interest in perpetuating the status quo for as long as they can get away with it. If we are to stand any chance of preventing a cataclysm, we need to understand this particular web of interests in terms of how it came together, how it operates today, and how it can be dismantled.

We tend to divide the post-war international political economy into two historical epochs. From the 1940s until the 1970s, the broad consensus was for social democratic Keynesianism, where the state played a central strategic role in a mixed capitalist economy. Then, from the 1980s onwards, the neoliberal era saw the progressive gains of the previous decades rolled back, as the dubious logic of market efficiency was invoked to justify a radical shift in the relationship between the state and private capital, to the benefit of the latter. What is not fully appreciated is the part that a significant set of nationalisations played in the chain of events that broke the Keynesian consensus and ushered in the neoliberal era.

In continuation with the prior history of capitalism, post-war social democracy in the West was built, to a large extent, on the exploitation of the global south. Key commodities such as fossil fuels were secured on favourable terms, not through free trade, but through the power relations and structured forms of state violence at the heart of the imperial project. Oil was extracted, refined, shipped and sold by Western firms enjoying outrageously iniquitous commercial relations with global south producer states whose governing elites often owed their position to military and diplomatic support from the imperial powers.

Take one episode as an illustration. In 1951, the Iranian government took control of the country’s oil industry from the Anglo-Iranian Oil Company (now known as BP), intent on securing export revenues for poverty alleviation and economic development. If there was one thing Britain’s post-war Labour government was not going to stand for, however, it was the nationalisation of a major industry to serve the economic needs of the masses. Crippling sanctions were imposed on Tehran by the Attlee administration, paving the way for a CIA-MI6 organised coup in 1953 under the subsequent Conservative government, and the ensuing quarter century of the Shah’s sadistic rule. Reliable economic management had been restored, at least for the time being, but the forces of anti-colonial nationalism in the region could not be fully suppressed.

Gradually, through the 1960s and into the 70s, the oil industries of the global south producer states were taken under state control, either by radical nationalist governments or by conservative regimes scared of being outflanked and politically undermined by their radical counterparts. The culmination of this process was the 1973-74 oil crisis, when the producers used their newly secured control to both raise prices and apply geopolitical pressure on the West for its support of Israel during the October 1973 Arab-Israeli war. The result was twofold: a seismic worldwide inflationary shock dealing a hammer blow to the post-war Keynesian consensus, and the emergence of the ‘petrodollar’ as a vital lubricating element in the coming transformation of the global economy.

As the oil crisis sent producer state revenues skyrocketing, much of this petrodollar capital was recycled, via Wall Street and the City of London, into loans to global south countries negatively impacted by the inflationary shock. When the US Federal Reserve sharply increased interest rates to combat inflation, those south countries who had borrowed in dollars to weather the storm were plunged into sovereign debt crises, which in turn provided the opportunity for the West to impose neoliberal structural adjustment programmes on southern debtors, on terms favourable to their own corporations and investors. The nationalisation of fossil fuel production, particularly in the Middle East, had thus helped to create the conditions in which the post-colonial state-led development model elsewhere in the south could be dismantled, and in which Western capitalist interests could be reasserted worldwide through the emerging neoliberal paradigm.

The cracking open of global south economies was not the only way in which the imperial powers gained from the rise of the petrodollar. With the shift in emphasis on securing export revenues for poverty alleviation away from export industry and towards financial services, trade deficits opened up, which needed to be balanced by capital inflows from abroad. Gulf petrodollars were available to help meet this need, with the burgeoning Anglo-American financial complex on hand to absorb them. Growing Gulf economies also became a lucrative export market for...
the West, helping to contain trade deficits to some degree. These processes were slightly in abeyance during the oil price slump of the 1980s and 1990s, but went into overdrive as the price soared in the first decade and a half of the 21st century, when demand for fossil fuels sharply intensified in the context of a global economic boom.

By the eve of the 2016 Brexit vote, the Gulf Arab monarchies had amassed nearly $3tn in sovereign wealth, 40% of the world’s total, while Britain’s current account deficit had swelled to a potentially concerning extent, beyond 5% of GDP. Saudi Arabia accounted for a fifth of the net capital inflows financing that deficit while, thanks to the boom in exports of goods and services to the Gulf, Britain enjoyed a current account surplus with those states equivalent to 11% of its worldwide deficit (cancelling out the combined deficits with France and Japan, for example). Gulf wealth generated by fossil fuel production was therefore playing a significant role in sustaining the UK’s neoliberal economic model. This was dramatically illustrated in 2008 when the Treasury was spared the need to bail out Barclays Bank as gas-rich Qatar stepped in to rescue the troubled financial institution with a major capital injection, a deal which led to fraud charges against four of Barclays’ senior executives.

State violence remains a core component of these international relationships. A key strategic aim of the British state since the end of formal empire has been to remain a significant military force in the world, capable of supporting the US in enforcing ‘stability’ on the West’s terms, particularly in the fossil fuel heartlands of the planet. Britain cannot retain that status without its own arms industry, since dependence on foreign arms imports means operational and strategic dependence as well. But military production is expensive, hence the importance of arms exports to the British government, despite their dubious benefit to the wider national economy. Exporting a proportion of the weapons Britain makes for its own use renders the arms industry far more economically viable. And here again, Gulf petrodollars have a key role to play.

Since the end of the Cold War, UK arms sales to the Gulf monarchies, and Saudi Arabia in particular, have steadily risen, while those to the rest of the world are locked into long-term decline. The Gulf autocrats now buy over half of Britain’s arms exports, including the major weapons systems responsible for a series of atrocities in Yemen, alongside the creation of the world’s worst humanitarian disaster. Domestically, Gulf monarchical rule is buttressed by arms supplied by the West, internal security forces trained by the West and, in the final instance, security guarantees provided by the West.

The flow of fossil fuel revenues into the City of London and the UK arms industry is therefore explained less by pure market forces and more by the existential needs of anxious and insecure monarchies determined to remain on good terms with the global north powers on whose protection they have always depended. On our side, Gulf petrodollars help to sustain British neoliberalism, as well as the systems and means of violence that have long been intrinsic to the UK’s foreign relations. This state of affairs may generally be poorly understood and of little value to the general public, for whom the benefits of the status quo on economic and foreign policy are increasingly hard to discern. But it is highly valued by some of the leading elements of British capitalism, and within the conventional ideology of British politics itself.

So it is not just that there are fundamental vested interests at stake in the carbon economy for the likes of BP and Shell. Or even that those vested interests extend to the City of London and the British arms industry. It is that from Riyadh, Doha and Abu Dhabi to London, entire structures of power and wealth depend on the revenues generated by the continued production and consumption of fossil fuels, irrespective of whether those processes are destroying the prospect for decent life on earth. In confronting the looming disaster, therefore, we have to look
beyond the level of policymaking to the overarching systemic context.

As is so often the case with the climate crisis, a huge change is coming whether we like it or not, and the real question is what our role will be within it. In 2015, scientists at UCL concluded that 33% of the world’s oil and 49% of the world’s gas are going to have to stay in the ground just to restrict the global temperature rise to 2 degrees Celsius, which itself may not be enough to avert a runaway catastrophe. In other words, even if you are a fan of British neoliberalism and British military power, the petrodollars that have played such an important role in sustaining them may begin to dry up in the not too distant future.

The demand-side changes driving this process will not be under Britain’s control. Fossil fuel exports from the Gulf are increasingly oriented towards East Asia, so consumption there is the origin of a large proportion of petrodollar revenues. China in particular has major incentives to reduce its reliance on these imports. Dependence on Gulf oil and gas places Beijing in a position of strategic vulnerability given that the Middle East has historically been dominated by the United States and its allies. China’s big shift to renewables, if paralleled by similar changes across East Asia, could drastically reduce the pool of petrodollars available for recycling, to Britain or anywhere else. Bad news for Britain’s arms dealers and for Britain’s balance of payments, albeit better news for the planet.

Even those still clinging to a view of British neoliberalism as the pinnacle of sensible economics and British militarism as a benign force for good in the world, will be forced to contend with these changing realities. The inescapable process of constructing a new political economy that is both zero carbon and petrodollar-free. That means reducing the current account deficit to negate the effect of a sharp reduction or loss of petrodollar investment, and dismantling a petrodollar-dependent arms industry whose key enabling role in the horrors of Yemen should seal its fate in any event.

Research by Campaign Against Arms Trade indicates the potential for a recalibration of our high-technology manufacturing base away from weapons production and towards the urgently required development of renewables. A significant reduction in domestic military procurement and an elimination of subsidies to the arms industry would save billions that could be reinvested in the development of a green industrial base. For example, many current arms industry jobs could be transferred over to renewable energy generation (particularly marine and wind) and the related supply chains, given the broad overlap in both the skills involved and the geographical areas affected.

To the extent that these shifts, and the wider green industrial strategy in which they must be embedded, will result in the production of exportable technologies, this could:

• Provide a boost to visible exports;
• Narrow the current account deficit;
• Reduce the UK’s dependence on foreign capital inflows just as the petrodollar supply begins to dry up.

The dogmatic commitment to the neoliberal economic model and to a foreign policy with a strong military component has resulted in a vacuum of thinking on these urgent and unavoidable issues. Much more focused research and detailed policy development on the shift from weapons to renewables production will therefore be required in the immediate future.

A policy of ‘arms to renewables’ could have serious, positive implications for British foreign policy, potentially bringing the militaristic post-imperial hangover to a long overdue conclusion. The dramatic diminishing – perhaps eventually the end – of the arms industry could herald a shift of focus from military power projection to multilateral diplomacy. Instead of fuelling instability, conflict and the conditions that produce terrorism from both state and non-state actors, Britain would be producing the technologies that equip us to meet the single greatest security threat humanity has ever faced. In doing so, it could shift its own domestic economy away from financial services and towards a new high-technology export industry based on secure and skilled employment.

Meanwhile, in the fossil fuel heartlands of the Middle East, the drying up of petrodollar wealth and the potential consequent loss of great power protection would severely undermine the stability of some of the most severe dictatorships in the region. The weakening of these forces of counter-revolution and repressive violence would dramatically enhance the prospects for those millions across the Arab-majority world who came onto the streets in 2011 demanding ‘bread, freedom, social justice’, and who, as recent events in North Africa demonstrate, are still very much prepared to fight for those basic rights. The end of the petrodollar could be a positive opportunity not only for Britain, but for the peoples of a region that have long suffered at the hands of British power and its local and international allies. A petrodollar-free future can and must be on its way, and that future could be a bright one. But the process of adaptation has to begin now.

References
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