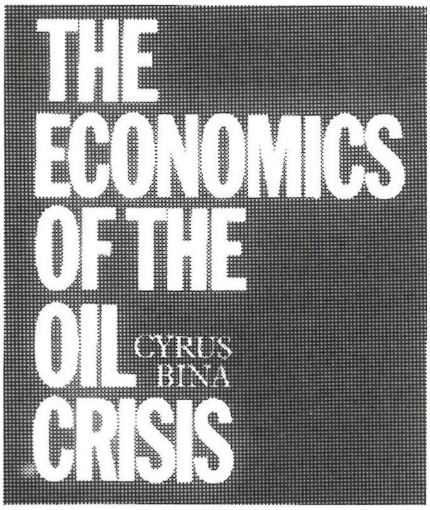
BOOK REVIEW



Cyrus Bina, *The Economics of the Oil Crisis. Theories of Oil Crisis, Oil Rent, and Internationalziation of Capital in the Oil Industry.* Merlin Press, London 1986, 146 pp;
David Hawdon (ed), *The Changing Structure of the World Oil Industry,* Croom Helm, London 1985, 112 pp.

The Economics of the Oil Crisis provides us with a mostly provocative analysis of the origin of the 1973—74 upheaval in the oil markets. Bina dismisses the prevailing theories of the oil crisis as 'subjective' and 'speculative', mainly dealing with the *effects* of the oil crisis without explaining the *cause* of it. Working in a Marxian context he develops an alternative theory which leads to the forceful conclusion that, contrary to conventional wisdom, the increase in the oil royalties of the Middle East was *not the cause* but the consequence of the oil crisis. Bina's main hypothesis is that "the cause of the oil crisis of 1973—74 is the increase in the regulating capital costs associated with the aged oil fields located in the lower 48 states of the United States" (p viii).

In the first part of the book the author gives a critical examination of the prevailing theories of the oil crisis and he makes an historical overview of the Middle East petroleum production. Although — as Bina himself rightly notes — there are as many theories about the oil crisis as there are theorists, it seems legitimate to divide these into three main categories: 'traditional theories', 'dependency theories' and 'conspiracy theories'.

The 'traditionalists' give primacy to the law of supply/demand conditions, mostly refer to the conventional oligopolistic theory of the firm, and hold on to the 'cartel' view of OPEC. In his critical assessment Bina concludes that the theorists of this category fail to penetrate beyond the appearance of the facts (i e descriptions of supply/demand, OPEC's price determination, and United States' dependence on foreign oil) and, therefore, "they more or less describe the situation without understanding its underlying cause" (p 16).

In his critique of the 'dependency' theories Bina does not show mercifulness either. His most fundamental reproach concerns the eclectic character of the theorists who see the 1973—74 oil crisis as the most concrete and dramatic manifestation of the phenomenon of Third World economic nationalism. "They made a double mistake of emphasizing the idea of *absolute monopoly* and price determination without considering a theory of value formation in the oil industry" (p 17).

The 'conspiracy' view of the oil crisis — holding that the international oil companies and OPEC acted in collaboration with the US government to drive up the oil prices — is completely rejected too. (The US government in this view used the oil crisis as a mercantilist weapon *vis-à-vis* Western Europe and Japan). This kind of theory is strongly subjective and is mistaking a phenomenal form for its essence. All theories mentioned suffer from the unpardonable handicap of viewing the oil crisis as a *voluntary* act rather than an objective social and economic process.

In the second part of the book Bina tries to establish a theoretical framework for the analysis of the oil industry in general, focusing on the US oil region which has become the least productive area of the world (and, thus, the regulating market value for the entire international oil market). The author deals with several indispensable theoretical notions: successively the role of raw materials in the production of value, the concept of (oil) rent, and Marx's theory of competition. The reader not familiar with Marxist discourse may sometimes find it hard to understand the author's argumentation which is mostly succinct.

After the (less indispensable) presentation of econometric models of long-run United States oil prices, Bina arrives at his final chapter in which an alternative theory of the oil crisis (as an 'antithesis of the existing thought') is brought forward. The gist of the argument is that the unprecendented increase in the production costs of oil from the old US oil fields led to the need for restructuring capital and, ultimately, induced the *'oil crisis'.* This hypothesis is built upon the phenomenon (stressed by the author) of organic integration of oil production at the global level, and, therefore, the necessity of price unification since 1970.

Bina's book certainly presents an original view of the early nineteen-seventies' turmoil in the oil market. His summary of standard theories is up to the mark, although one wonders why the writings of Mohssen Massarrat (who is one of the few 'oil theorists' working within a strictly Marxian paradigm) are not mentioned of (except for one critical remark on page 117).

The expediency of this book is quite obvious as one, almost daily, remains confronted with stereotype 'explanations' of the 'oil crisis'. In conclusion, it would be of interest to be informed of Bina's thoughts — embroidering on his theoretical arguments developed in this book — about this and last year's developments in the international oil market.

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At an international energy conference held at the University of Surrey (March 1984) the opportunity was taken to ask the distinguished participants for their opinion on the future course of crude oil prices in 12 months' time, respectively five years' time. Taking notice of the results one or two years later one is flabbergasted: no one believed that prices would fall below 25 USD a barrel within a year and hardly anyone could imagine that this would be the case within five years' time!

The outcome of this questionnaire (included in *The Changing Structure of the World Oil Industry)* is not representative of the contributions to the book edited by David Hawdon. It is rather an indication of the inherently speculative nature of these sort of 'snap' judgements. Most contributions, mainly dealing with past and present developments in the international oil industry, are very informative and of satisfactory quality.

Of the two 'inside' views, Lord Kearton, formerly head of the British National Oil Corporation, and Richard G Reid, President of Esso Europe, the Lord's contribution is by far the most interesting. Using the motto of "plus ca change, plus c'est la meme chose", he tends to stress elements of continuity in the oil industry, among other things: the biggest multinational oil companies of the last fifty years are still the giants nowadays, and their remarkable resilience and adaptability to changed circumstances in the 1970s.

The most detailed and cogently argued contribution comes from Paul Stevens (who is developing into one of the outstanding representatives of a new generation of 'oil gurus'). He argues that after the weakening or disappearance of (horizontal and vertical) integration, the international oil industry was no longer able to keep oil prices above marginal costs as was the case throughout the post-1945 period (despite the existence of significant excess production capacity). Stevens emphasizes the gradual evolution of this development by pointing out that not until the Iranian crisis of 1978—79 did the situation change dramatically: "The international oil industry emerged from the crisis with the old structure in tatters" (p 33). The whole format of contracts changed from long-term preferential contracts to short-term contracts and spot sales. As another contributor pointedly brings to the fore:

> "In the heat of the crisis, under (OPEC) government fiat, prices were changed, volumes were cut back and so forth. And at the end of it all (. . .) buyers felt that there was nothing to be gained in maintaining a long-term contract in the future. It made you pay more when the market was weak and did not protect you when the market was strong" (Ian Seymour, p 76).

Jack Hartshorn's paper deals with the role of government oil traders against the background of a greatly enlarged arm's length crude market. Today, probably more than 85 per cent of the crude moving in inter-regional trade is sold at arm's length, indicating the significance of the spot market, which until the late seventies was of minor importance (p 61). Differences in motives and, in particular, in marketing opportunities are explained, thereby stressing the fact that OPEC government traders do seem more averse to instability in the crude price than private traders (as last year's events indeed have proved to be the case). It stands to reason that the increasing popularity of trade in 'paper barrels' (i e the futures market) is not conducive to a more stable oil market.

Downstream developments are analyzed by Ian Seymour and Edith Penrose. The former treats the subject by assessing the costs and benefits to OPEC countries of diversifying downstream into refining and retail distribution. This leads him to a rather pessimistic conclusion, which, however, might not be fully corroborated as *Kuwait Petroleum Corporation* (KPC) and *Petróleos de Venezuela* (PDVSA) appear to indicate. Nonetheless, Seymour's remarks in this regard must be taken to heart.

Penrose asks herself whether the changes in downstream markets and activities are — as is usually held — really attributable exclusively to the reduction of integration with the upstream sector. She gives a carefully balanced answer:

> "This change in structure was a necessary condition for the emergence of the market as it in fact appeared; it was by no means a sufficient one. (. . .) (There were) other considerations than the mere change in administrative structure" (p 84).

The book also contains a summary of a panel discussion in which some participants managed to strike an interesting note. With regard to the much discussed socio-political stability in the Gulf area (in particular the 'threat of Islamic fundamentalism'), Walid Khadduri makes a useful observation stating that Islamic fundamentalism is only one force in the area. The communal conflict (i e the problem of a non-homogeneous population) is much worse and much more difficult to contain:

> "Further problems are caused by the Arab-Israeli War and the inability of the US to do anything really while trying to maintain superiority" (p 98).

This is one of the few times that an explicitly political viewpoint comes to the fore in a book dominated by (certainly qualified) economists.

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