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II. The oil hoax

A careful investigation into the current so-called oil crisis reveals a pattern of political and economic manipulations by the same financial interests that rigged the 1974 oil hoax. British Petroleum and Royal Dutch Shell, along with their five U.S. multinational allies which comprise the Seven Sisters, have, since the Dec. 26 shutdown of Iranian oil exports, been manipulating the international oil markets to create an artificial shortage and upward pricing spiral.

There is no oil shortage. According to production statistics from the Organization of Petroleum Exporting Countries (OPEC) for January 1979, *the cartel more than made up for the 4 to 5 million barrel a day shortfall of Iranian oil exports,* a fact not reported by the U.S. press. Oil industry sources indicate that U.S. Energy Secretary James Schlesinger was personally responsible for pressuring the U.S. majors to share the nearly 2 million a day loss which the Iranian shutdown caused British Petroleum and Shell, thus *doubling* the cutback of oil imports to this country.

Under pressure from Schlesinger, the U.S. companies implemented the International Energy Agency sharing agreements when the official global shortfall of oil supplies did not necessitate such a sharing arrangement. First getting the U.S. oil companies to cut back their supplies to dealers by twice as much, Schlesinger then called them up to tell them it was their patriotic duty to cap their oil wells.

The pricing factor

As documented by the *Petroleum Intelligence Weekly* and the head of the International Energy Agency, British Petroleum and Shell, the North Sea oil producers, are the culprits behind the pricing spiral. They are carrying out large-scale speculation on the open (across the counter) oil markets.

A number of the more militant oil producing nations within OPEC responded as per London's profile and began to impose premiums (surcharges) on the price of their crude in order to undercut the "Western speculators." This led to a decision by OPEC last month to allow each member nation to impose premiums on particularly high grades of crude in keeping with the international market price. The decision by OPEC to allow *market forces* to determine the future price of high demand crude amounts to letting the British Petroleum and Royal Dutch Shell set prices through their continued speculative apparatus.

This means that the price of gasoline, heating oil, and other petroleum products using high demand, low sulphur crude may soon go through the ceiling. Half of U.S. imports of oil are in the category of high demand low sulphur.

To date, Libya, Nigeria, and Algeria have attached up to a $4.00 premium on the $14.54 official OPEC price. These three countries reached a joint decision to impose such an enormous price hike following a closed door meeting with their largest non-OPEC competitor of light crude, the British North Sea producers. *Effectively, through sohpisticated manipulation, London is responsible for driving up the price of the 4 million barrels a day of high demand crude which U.S refineries use to make gasoline.*

Based on the most recent 9 percent price rise by OPEC, Schlesinger and Company are preparing to deregulate the price of domestically produced oil to a level of $16.00 This, in combination with a continued upward trend in OPEC prices, will drive many of the smaller U.S. refiners out of business. The initial impact of the artificially created domestic shortage in January plus the open market prices for crude of over $20.00 a barrel threatened many small firms and resulted in across the board announcements of cutbacks in refining output by the majors.

Plenty of oil

Current estimates indicate that the OPEC producers alone have a sustainable producing capacity of nearly 40 million barrels a day (mbd). At present the cartel is exporting about 30 mbd. At the last OPEC meeting, March 26, Iran announced that it would increase its production from the present 3 mbd to over 4 mbd, an encouraging signal that Iran may soon become OPEC's second largest exporter again.

A number of the OPEC producers have made it clear that they oppose drastic price hikes, most importantly, Iraq and Saudi Arabia. But the same economic warriors in London and Washington that have been driving up oil prices are working with Israel to provoke an Arab oil producers retaliation through further price increases and production cutbacks. If U.S. Mideast policy does not change its present course, it is highly probable that OPEC may again take such initiatives before the end of 1979 which could make the 1974 crisis look mild by comparison.

— Judith Wyer

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The effect of Schlesinger's oil hoax

If Energy Secretary James Schlesinger succeeds in pushing U.S. oil prices up, he will provoke an explosive inflationary spiral that will, by conservative estimates add 10 percent a year to the already existing 7 to 10 percent inflation levels built in by the last round of oil price increases.

This latest round in the pricing spiral will be achieved by Schlesinger through decontrol of the price of domestically produced light unrefined petroleum to the OPEC level of $16.00. As in 1973-74, this oil price hike will act as a tax on U.S. industry and on the surplus needed for investment in capital formation and upgrading the labor force. Its effects will ripple throughout every sector of the U.S. economy.

As measured by an econometric model developed by the economics staff of the *Executive Intelligence Review* — using the 1973-74 oil price hike and adjusting for inflation and current production levels — Schlesinger's oil hoax will push unemployment up from 6.5 million to 12 million and industrial production down by an immediate 10-12 percent.

The 1973-74 model

The striking parallels between the present and 1973-74 necessitate an examination of what happened then to understand what Schlesinger has in store for today.

In the summer of 1973, the U.S. economy was, at first glance, in relatively decent shape. In fact, the economy was in a heated period of activity, which, although not entirely productive, was producing a large volume. Industry was building large inventories for the market. By 1974, the volume of inventories registered $285 billion and the ratio of inventory to sales was at a high of 1.53.

The fourfold increase in the price of OPEC oil resulting from the October Middle East war put the brakes on the U.S. economy. The total cost to America for domestic and imported oil shot from $26.3 billion in 1973 to $53.9 billion in 1974, a leap of more than 100 percent. The $27.6 billion increase in U.S. oil costs, although only 2 percent of the GNP for 1974, constituted nearly half of U.S. corporate profits and shoved the real rate of economic surplus sharply into the negative. This critical ratio, expressed as a ratio of social surplus (s') to constant capital (c) and variable capital (v) was negative 0.763.

January oil production figures show no shortage

In January, although Iranian production reached its nadir, net oil output of the non-communist nations — including both OPEC countries and non-OPEC countries — rose over January 1978. Figures compiled by Platt's Oilgram News show that most producers increased their output in January, more than compensating for the Iranian shortfall. Since January 1978 is regarded as a low production month, we also looked at oil production figures for the OPEC countries for January 1977, a more normal month, and for the entire year 1977, a more normal production year. These figures, too, show that January 1979 production by the OPEC countries as a whole, despite the Iranian cutoff, was comparable to the output in 1977.

	Jan 1979[1]	Jan 1978[1]	% chng[1]
OPEC producers (millions of barrels per day)			
Saudi Arabia*	9.5	7.6	+25
Iran	.4	5.3	−92
Iraq*	3.1	2.1	+48
Kuwait	2.4	1.5	+53
United Arab Emirates	1.8	1.7	+ 6
Algeria*	1.2	1.2	—
Libya*	2.1	1.8	+15
Nigeria	2.4	1.6	+50
Indonesia*	1.6	1.7	− 6
Venezuela	2.3	1.7	+29
Other OPEC**	1.6	1.2	+33
OPEC Total***	28.5	27.6	+ 3
Non-OPEC Producers			
United States	8.7	8.3	+ 4
Canada	1.5	1.2	+17
Mexico	1.4	1.1	+26
United Kingdom	1.5	.9	+65
Norway	.36	.39	8
Other Non-OPEC*	4.1	3.9	+ 6
Non-OPEC Total***	17.5	15.9	+10
Total, non-communist nations***	45.9	43.5	+6

*Includes estimates
**Includes estimates and all Neutral zone production
***Totals may not add due to rounding
[1]Source: Platt's Oilgram News, March 19, 1979

The oil price increase choked off the margin of social surplus and industries began liquidating their huge inventories. The U.S. economy went into head-long collapse, as vast stretches of the industrial heartland of the United States shut down and the unemployment lines wound around the blocks. The Commerce Department's industrial production index fell 8.9 percent from 1974 to 1975. At the same time, in 1975, the number of unemployed nearly doubled to 7.8 million, representing 8.5 percent of the workforce and consumer prices skyrocketed at 11.0 percent for the year.

From that point, the oil price increase, along with raw material price increases, built a 7 to 10 percent permanent level of inflation into the economy. Part of the inflation affecting the United States today arises from the 1973-74 oil price rise.

Replaying that crash again

This time, despite the failure of the Iran turmoil to produce an actual oil shortage, Energy Secretary Schlesinger is hell-bent to repeat the oil price increases of 1973-74—adding the shutdown of other energy sources, such as nuclear.

During this year, the increase of the U.S. oil bill be $52.5 billion, which is nearly twice the $27.3 billion size of the 1973-74 price increase. But, the effects will be worse, since the economy today is not twice as large as it was in 1973-74.

This latest oil price increase is premised on the assumption that imported OPEC oil will rise from its $12.70 benchmark price to $16.00 — with an additional shipping and insurance cost — and that domestic oil, because of decontrol, will float from its average composite price of $9.50 to the $16.00 per barrel OPEC price.

Consider what this $52.5 billion represents as a tax on the economy. This figure is larger than all the real industrial profits of the U.S. when these profits are deflated and corrected for capital replacement costs.

Not only will the oil price increase wipe out industrial profits, but the real rate of surplus, as measured by the econometric model, will take a dive (see graph). If the model did not assume constant levels of productivity, the fall would be much worse.

The $52 billion leap in oil prices represents an increase of nearly 70 percent, hence a 10 percent increase in the Consumer Price Index (correlating a 7 percent oil price increase to adding 1 percent to the CPI).

This will include developments such as paying $1.00 per gallon for gasoline.

— *Richard Freeman*

III. Transportation sabotage

The current Teamster strike is the direct result of provocations by the Carter Administration: Chairman of the Council on Wage and Price Stability (COWPS) Alfred Kahn, Energy Secretary James Schlesinger, and National Security Council chief Zbigniew Brzezinski.

By turning the selective action taken by 300,000 Teamsters into a national lockout, Kahn, Schlesinger and their coterie hope to necessitate federal government response to the national shutdown of the trucking industry. The paralysis of the U.S. economy would then allow the Administration to neatly use the war-economy crisis management mechanisms of the Federal Emergency Preparedness Agency (FEPA) and the Federal Emergency Management Agency (FEMA).

Weeks before Teamsters Master Freight agreement expired, Kahn's council made no bones of its intent to provoke a strike that would damage the credibility of the International Brotherhood of Teamsters. Said a spokesman of COWPS regarding the Teamster negotiations: "I can tell you that whatever happens, this office and Mr. Kahn are not going to give in and say that a 12, 11, 10 percent a year wage increase would be okay... We have a commitment to hold the line and we have chosen the Teamster contract as our test... Sure there are other contracts that have pierced the guidelines... the Teamsters are our main enemy right now."

Frank Fitzsimmons's April 1 announcement of the strike which singled out the Carter Administration and the COWPS' meddling was on target. Trucking industry sources reported the next day that an agreement with wage increases in excess of 7 percent had indeed been in hand until Schlesinger and Kahn stepped in and sabotaged it. Kahn reportedly forced the industry's negotiators to adopt a tougher stance and at the same time refused to allow any increased costs incurred through providing an improved cost of living escalator to be passed along.

Not coincidentally, government spokesmen have revealed that Kahn is fully coordinating his action with Schlesinger, the Energy Department and the NSC. In turn, Kahn and his collaborators are alerting crisis managers with the DOE and NSC on the pattern of transportation strikes developing as a result of the 7 percent guidelines (see below).

There is strong evidence that Schlesinger, Kahn, and Brzezinski deliberately contrived to mesh the Teamster's strike with the energy austerity derived in part from the incident at Three Mile Island.