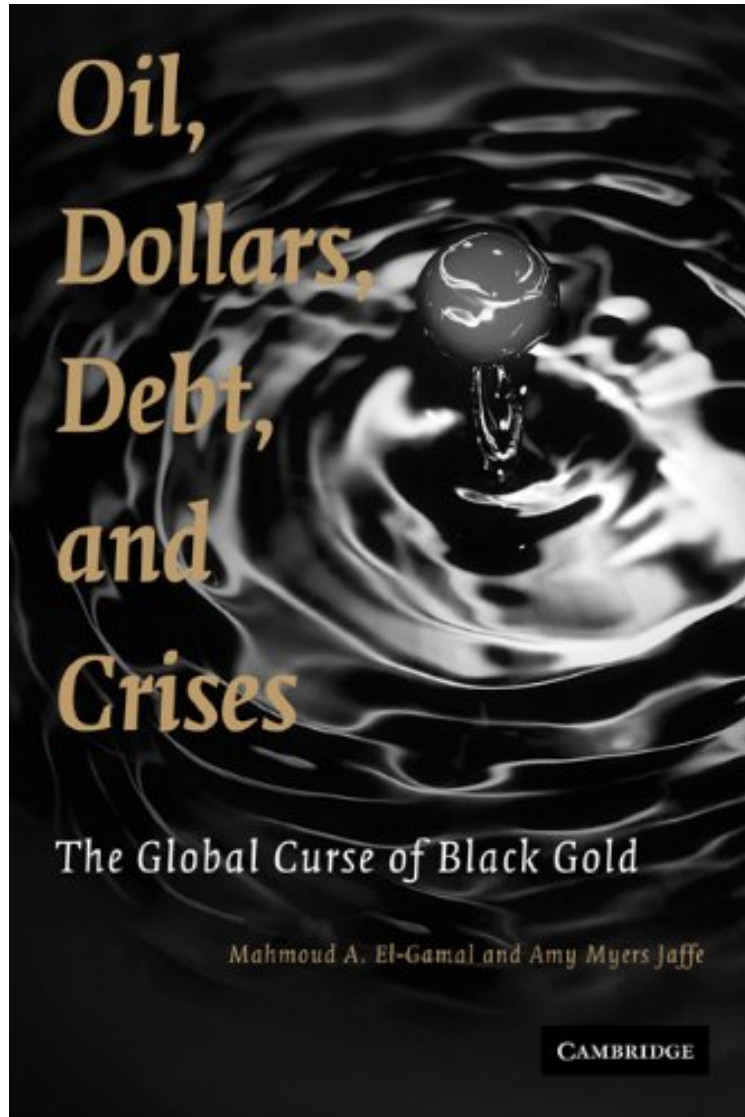


Oil, Dollars, Debt, and Crises: The Global Curse of Black Gold

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before purchasing it in order to gage whether or not it would be worth my time, and all praised Oil, Dollars, Debt, and Crises: The Global Curse of Black Gold:

7 of 7 people found the following review helpful. Good overview of the Middle East and global financeBy Kirk H SowellThe authors of "Oil, Dollars, Debt, and Crises: The Global Curse of Black Gold" (ODDC) set out a modest goal with this book, and I think they hit it. "Very little that we have reviewed in this book will come as a surprise to the informed reader," the authors begin the conclusion, continuing that "energy prices, the regulation of financial markets and institutions, and international relations as they pertain to Middle East geopolitics are so closely intertwined" that

they have to be viewed together. These statements are certainly true, and ODDC, intended as a guide to basic issues more than an answer to specific questions or an argument for anything, hits its target. I've deducted one star for mistakes related to regional politics, but neither author is a regional specialist and that isn't the core of the book. The authors make no grand argument aside from the point about intercorrelation, but lots of smaller arguments on specific issues, and in some cases they simply raise a topic, present the views of various experts on it, and then move on. That the oil boom of the 1970s helped contribute to the Latin American debt crisis of the 1980s is well known; ODDC makes the further argument the oil resurgence in the 2003-2008 period helped fuel the bubble economy in the UAE, the white elephant "economic cities" of Saudi Arabia, and the Islamic finance fad. And of course the U.S. Fed is part of the problem - Greenspan's easy money policies weakened the dollar, thus contributing to artificially high oil prices, and this in turn fueled an oil boom that circled back into the real economy through the global project finance equivalent of the subprime mortgage industry. ODDC covers virtually every angle but sometimes makes them so superficially as to not be helpful. For example, where the authors discuss the "Return of the 'Oil Weapon' Possibility" on page 160, they mention that Venezuela and Iran have rhetorically threatened to cut off oil supplies for political reasons, but just throw the possibility out there without noting that Iran's economy would collapse, and its government be overthrown, if Tehran ever tried that. The book's title doesn't mention the Middle East and this book is as much a global finance and oil book as anything, but much of it is about the Middle East. Chapters two, three and four are essentially about regional geopolitics and economics. The authors are not regional specialists, though, and it shows. One page 65-66: "...Al-Qa'ida - "the base" or "the launching pad," established in 1988 to support the Afghani Mujahedeen in their fight the Soviet Union, with the full blessings of the United States and Saudi Arabia." Two mistakes here - first, they repeat the myth that the U.S. supported Osama bin Laden in the 1980s. Actually, the U.S. gave money and weapons to Pakistani intelligence, which supported some radical Afghan groups which later allied themselves with AQ, but the US barely understood this at the time, and never supported AQ. Second, AQ was NOT founded to fight the Soviet Union - it was founded as that war was winding down by the "Arab Afghans," always marginal to the anti-Soviet war, who were looking to expand into global jihad. The authors cite as a source Steve Coll's "Ghost Wars," but they didn't read it very carefully. Coll states categorically on page 87 that there is no evidence the U.S. ever supported AQ; in fact CIA wasn't even aware of Bin Laden for most of the war. Another whopper appears on page 90: "After the 1979 revolution, Iran's Islamist government backed Iraqi Shia that opposed the rule of Saddam Hussein and was linked to a plot to seize the Grand Mosque in Makkah." Whoa - this is what the Saudis and the Carter Administration mistakenly believed at the time. It has long been clear that Juhayman Otaybi's takeover of the Mecca Mosque was a purely internal revolt by Wahhabi-influenced opponents of Saudi modernization. Read Yaroslav Trofimov's "The Siege of Mecca" for example. There are some other regional judgments which are debatable, although not so clearly wrong in terms of basic facts. Without taking up more space on this review than justified for a peripheral topic, I suggest skipping the regional politics segments on pp. 38-40 and 68-70. For example, the claim on page 70 that what they label "sociopolitical groups that adopt an Islamist program" become militant movements due to lack of democracy is certainly contrary to the history of the most important one, the Muslim Brotherhood, and its offshoot, Hamas. The argument is at least possible for Algeria's Islamic Salvation Front, but even there I doubt it. In the authors' area of specialization, though, ODDC is on firmer ground, and probably worth reading for a more integrated understanding of Middle East political economy and the global financial system. 1 of 9 people found the following review helpful. hasty research, unproven conclusions, better books out there. By msm I didn't like this book at all. The book was poorly written for the following reasons: 1) The argument wasn't linear or methodical. There was lots of jumping around and what felt like rambling. 2) The positing, without support, of easily-disproven sub-conclusions. 3) Incorrect definitions of terms. For example, the 1990s tech bubble was not a financial bubble. 4) A lot of discussion was trite. For example, at some point in the future, stocks will be lower than they are now. 5) Flawed logic, sometimes due to # 1-4, but also for different things. 2 of 2 people found the following review helpful. Disappointing and vapid. By James R. Maclean The factual shortcomings of this book have been noted elsewhere, such as the claim that the United States "fully supported" the creation of al-Qaida to fight the USSR (p.66-see note 1 below). The book's use of sources is not convincing: for example (p.117), the authors mention that Britons disapproved of the Bretton Woods Agreement because it virtually restored the gold standard (2). But to support this, the authors cite a work published in 1932! Needless to say, that work--a polemical pamphlet--reveals nothing about what most Britons thought even in 1932, let alone in 1944.. Arguments about economics are dismal. On p.5, they refer to the dollar price of gold as a measure of its "real value." This is just a bizarre ideological position (there is a chart showing the ratio of the price of oil to that of gold since 1973, which makes this point obvious-note 3). On p.13, they mention that a "shift to pricing exports in Euros would insulate [oil exporting countries of the Middle East] from effects of dollar depreciation." Two points here: the euro can also depreciate, and no, pricing in euros won't insulate oil from the effects of the US dollar losing value against other currencies since objective reality would be the same: US-pegged economies would continue to represent a large share of world demand for oil. If the euro, US\$1.4651 on the date of publication of this book, were to soar to \$2.93/euro shortly afterward, then the fact that oil was priced in euros would merely mean that the price of oil--US\$72.64 that particular day--would now be US\$145.28 instead, or that EZ consumers would buy a larger share of

output than American consumers. On p.19, the authors claim that a large depreciation of the US dollar would lead to a recession in the short term; the experience of other countries, such as Germany's de facto depreciation on adopting the euro, is one of immense increase in prosperity (4). There's lots of valid reasons to ignore basic economics, but at least acknowledge you're doing so. A deeper problem is that the authors are chained to a view of the world in which nation-states are cohesive actors. "The USA" or other countries do not want, think, say, or do, anything; this makes as much sense as a serious discussion of the religious affinities of trees. It makes a bit more sense to talk of institutions like the IMF or the Federal Reserve System "wanting" or "doing" something, or the role of ideologies, or individual leaders. Even as a quick-n-dirty shortcut, this is a bad idea because one cannot check it. How do the authors know "the USA" enjoyed goodwill in the Middle East, especially after it was delinked from gold in 1971" (p.12-note 5)? Efforts by the authors to infer what motivates the populations of entire regions are markedly free of anything resembling evidence. On p.68, for instance, having just outlined 'Usama bin Laden's allegations that the USA was exploiting the Middle East by buying oil at below peak rates, the authors claim that "the general nature of his grievance was widely shared by large segments of Middle East populations, Muslims and Christians (the Egyptian-Orthodox Pope still forbids Christians from visiting Jerusalem under Israeli control)..." Think about this for a minute: how general is "general"? So general as to include any basis of disapproval between the Arab world and the USA whatever, even to the extent of US support for Israel, which is actually something else entirely. Even then, "widely shared" and "large segments" are weasel words par excellence. By the way, to prepare this review I checked past and current results of surveys conducted by Pew Research on world perceptions of the USA. Search for "America's Image in the World: Findings from the Pew Global Attitudes Project" and a date for preferred years. Any of these reports are far more detailed and explicit than the contents of the book--despite the fact that the book revisits the subject many times. In summary, the authors were not sufficiently confident of their readers' interest and prior knowledge to discuss the subjects raised in any advanced way; but they were not interested in explaining any of the technical issues, such as changes in financial and credit markets, or different markets for crude (West Texas Intermediate, Dubai/Oman, or Brent Blend). Their analysis of countries consistently ignores divisions of opinion, interests, technical constraints, and urgent needs felt by the different divisions within those countries. They aren't determined to deceive their readers with polemics, but they have no idea what sort of book they intended to write, and they produced something that is not up to the challenge of explaining either oil, dollars, debt, or crises--of any sort.

NOTES(1) Steve Coll, *Ghost Wars*, Penguin Press (2004), p.255. Or see my review of Bruce Riedel's *What We Won: America's Secret War in Afghanistan, 1979-89*, Brookings Press (2014). The CIA had extremely limited access to members of the mujahidden and accepted this after 1979 as a natural result of its extreme unpopularity in the Muslim world.(2) The Bretton Woods Agreement (July 1944) provided for a fixed dollar price of gold (\$35/oz), and fixed exchange rates for other currencies to the USD; changes in these rates would require a formal agreement from the IMF. This is called a "gold exchange standard," and was intended to preserve some flexibility of monetary policy for member states. If El-Gamal Jaffe are talking about the differences of position between US negotiator Harry Dexter White and British negotiator John Maynard Keynes, then these differences were far more complex and definitely worth discussing--given the subject of the book. Sadly, none is given.(3) My opinion is that, after the price of gold was allowed to rise past \$35, it was thereafter a random piece of trivia; and the price of oil was thereafter mostly random, although far from trivial. And indeed, the ratio of the two oscillates wildly. If my opinion is wrong, there should be some discernable pattern. The authors don't describe any.(4) One assumption made by the authors is that "the USA wants" an expensive dollar because it enables energy imports, and allows the country to borrow in its own currency. This was an "advantage" awarded to Greece when it adopted the euro (1 Jan 2002), which at the time of this book's publication (Dec 2009) had a substantial premium against the USD in purchasing power parities. Needless to say, remotely technical considerations such as purchasing power parities never come up in this book. More realistically, some parties benefit from this, and other parties do not. Americans who are concerned about their jobs will want a cheap dollar, since this makes them competitive as workers. Taxpayers will also favor a cheap dollar, since this reduces unemployment (lowers claims on the government) and increases the share of Americans who pay taxes (so the deficit shrinks even if tax rates remain the same). Americans whose income comes mainly from investments will tend to favor a higher dollar, since they can then buy more assets in other countries. This is a gross oversimplification, but it's still more nuanced than what appears in ODDC.(5) The full sentence is: "The dominance of the U.S. Dollar as the global reserve currency, especially after it was delinked from gold in 1971, was built on two pillars. The first was international political and economic goodwill acquired over the first half of the twentieth century, as European colonialism came to an end, and the second was the absence of viable alternatives to the Dollar." The authors can accuse me of twisting their words, since they said the goodwill was from 1900-1950. But they are clearly emphasizing trends taking place at least 21 years later, since there's only one reason required to explain USD "hegemony" before 1971: before then, the USD was a direct substitute for physical gold.

Oil, Dollars, Debt, and Crises studies the causes of the current oil and global financial crisis and shows how America's

and the world's growing dependence on oil has created a repeating pattern of banking, currency, and energy-price crises. Unlike other books on the current financial crisis, which have focused on U.S. indebtedness and American trade and economic policy, *Oil, Dollars, Debt, and Crises* shows the reader a more complex picture in which transfers of wealth to and from the Middle East result in a perfect storm of global asset and financial market bubbles, increased unrest, terrorism and geopolitical conflicts, and eventually rising costs for energy. Only by addressing long-term energy policy challenges in the West, economic development challenges in the Middle East, and the investment horizons of financial market players can policy makers ameliorate the forces that have been causing repeating global economic crises.

From the Foreword by James A. Baker III, Former U.S. Secretary of State "*Oil, Dollars, Debt, and Crises* is impressively prescient in highlighting the risks associated with major imbalances in the global financial system. The book moves well beyond economic analysis to assess other factors that shape production decisions by major energy exporters. Above all, the authors continually - and rightly - stress the global nature of the challenges confronting us. The authors give *Oil, Dollars, Debt, and Crises* a richness of analytic texture rare in books of its kind." "Praise for *Oil, Dollars, Debt, and Crises*" "A boldly original and provocative display of the mutual amplifications since the 1970s of a global energy price cycle, a global finance cycle, and geopolitical turmoil in the Middle East into a super cycle that is 'endogenous and self-perpetuating.'" Clement M. Henry, University of Texas at Austin "In today's geo-strategic environment, few threats are more perilous than the potential cutoff of energy supplies. Unfortunately, recent experience provides us little reason to be confident that market rationality will always win the day where petro-politics is concerned. El-Gamal and Jaffe offer a timely analysis of the potentially perilous interaction of oil insecurity, mounting U.S. debt, and Middle East geopolitical conflicts. They argue that the future stability of the dollar and financial markets remains very much tied to the fate of oil, a sobering reflection on a key challenge to U.S. foreign policy and international financial diplomacy. Scholars and statesmen alike should take note of the provocative analysis in *Oil, Dollars, Debt, and Crises*." Senator Richard Lugar, Ranking Minority Member, U.S. Senate Foreign Relations Committee "*Oil, Dollars, Debt, and Crises* is compelling reading, not simply because it clearly explains the global curse of 'black gold.' It also weaves together the interdependent relationships binding the inherently cyclical foundations of the petroleum sector with global currency dislocations, wealth transfer adjustments impacting emerging markets, radical income disruptions in countries that produce oil (and other commodities), and the domestic and international repercussions for geopolitics and global violence. No other study articulates so pointedly the core global issues that impact today's global political economy. It takes the combined talents and analyses of two leading scholars from the overlapping professions of economics, Middle East studies, and energy studies to be able to provide the general public, scholarly professionals and policymakers alike with this seminal, pioneering study of the issues at the heart of today's globalized world." Edward L. Morse, Managing Director at Louis Capital Markets, former Chief Energy Economist at Lehman Brothers and publisher of *Petroleum Intelligence Weekly* "El-Gamal and Jaffe have written a timely, provocative book that students and scholars in several fields will find useful.... Recommended." Choice

About the Author Mahmoud A. El-Gamal, Ph.D., is Chair of the Department of Economics and Professor of Economics and Statistics at Rice University in Houston, Texas, where he also holds the endowed Chair in Islamic Economics, Finance, and Management. Before joining Rice in 1998, he was an Associate Professor of Economics at the University of Wisconsin in Madison. He has also worked as an Assistant Professor of Economics at the University of Rochester and the California Institute of Technology. During 1995-6, he worked as an economist in the Middle East Department of the International Monetary Fund. During the second half of 2004, he served as scholar in residence on Islamic finance at the U.S. Department of Treasury. He has published extensively in the areas of econometrics, economic dynamics, financial economics, economics of the Middle East, and the economic analysis of Islamic law. His most recent book was *Islamic Finance: Law, Economics, and Practice* (Cambridge University Press, 2006). Amy Myers Jaffe is the Wallace S. Wilson Fellow for Energy Studies at the James A. Baker III Institute for Public Policy and Associate Director of the Rice University Energy Program. Her research focuses on oil geopolitics, strategic energy policy, and energy economics. She is coeditor of *Natural Gas and Geopolitics: From 1970 to 2040* (Cambridge University Press, 2005, with David G. Victor and Mark W. Hayes) and *Energy in the Caspian Region: Present and Future* (2002). She has published widely in academic journals and edited collections, including the keynote article 'Energy Security: Meeting the Growing Challenge of National Oil Companies' in the *Whitehead Journal of Diplomacy and International Relations* (Summer 2007) and 'The Persian Gulf and the Geopolitics of Oil' in *Survival* (Spring 2006). Ms Jaffe served as project director of the Council on Foreign Relations task force on strategic energy policy. She currently serves as a strategic advisor to the American Automobile Association on developing an AAA members' voice on U.S. energy policy debates.