

International Conference On Applied Economics (ICOAE) 2012

## Oil and the Political Economy of State Capitalism

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### Abstract

The on-going debate over the increasing role of state in the economy has roots in economic theories. The concept of state gains a rejection out of the philosophies of natural harmony, as in the civil disobedience (Henry David Thoreau, 1849). Recently there emerged an antagonism between the state and markets given the fact that in the political economy of neo-liberal framework states make use of markets for political gains while markets tries to accumulate at the cost of well-being. The frequenting financial crises, reducing supply of vital natural resources and the inability of markets to arbitrate demand and supplies envisage a greater role for the states in both industrialized and less developed countries. In the case of oil, the failure of private oil companies to balance between the national interests and profits lead to the nationalization of oil resources. Further the politicization of oil resources led to nationalization of oil companies in much of the west-Asian producer countries. Simultaneously the recipient nations of oil too found it imperative to establish public sector oil companies to meet the strategic requirements as well as to stabilize domestic markets. Market imperfections and the scope of differential and scarcity rent make it risky for states to leave oil resources to markets. Oil therefore becomes the most powerful source of state capitalism for its potential spill over into other resource based sectors in an expansionary framework. The dominating state role in oil and other industrial sectors however is expected to face growth constrains in the long run.

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*Key Words:* State; Capitalism; Market; Oil; Politics

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## 1. Introduction

Inability to moderate the frequenting global financial crises, high debts and economic leadership constraints in the advanced industrial countries, political crisis in the European integration and consolidation of the Euro-Zone, the political stabilization constraints in the middle east and the northern Africa and the economic development tensions in many of the lower middle income and poor countries out of the economic liberalization together hints at the viability constraints of a market capitalist system in the future. What policies and reform agenda need to be prioritized for the settling of the global economy as well as the regional and national economies seeks answers for the capitalist mode of economic governance to answer. What should therefore be the core debate on the future of market capitalism? Will it sustain or should it be replaced with an alternative? There remain questions on the evolving nature of state capitalism for its scope and options in the decades ahead. Industrialization and sector-wise economic policies makes major indicators for the directions of the capitalism evolving in the world.

With the demise of cold war and the crumbling of the socialist block, everyone took it for granted that the world is heading towards a full-fledged capitalist growth path with a heavier role for the private capitalists and markets. However, it has not been happening on the other hand. The states resisted easing of its powers to markets and thereby evolved strategies by which an entrepreneurial class has emerged with state patronage paving way for state capitalism- a system in which the state plays the lead role of an economic actor and uses markets for political gains. It is generally observed that this rise in State Capitalism has introduced large scale inefficiencies into the market and injected populist politics in to the economic decision making process. Ian Bremmer (2009) observed that during the cold war the decisions taken by the managers of the Soviet and Chinese command economies had little impact on western markets. But now the state officials of Abu Dhabi, Ankara, Beijing, Brasilia, Mexico, Moscow and New Delhi make economic decisions, strategic investments, regulation and state ownerships, which cut across all market places. The new champions of free market, trade and international capitalism has to prove their ideological base as well as the reasons for the failure to establish market capitalism.

Historically, the private capital faced its competition from the natural alternative- the state capital. This element of state competition however, has been hidden in the race for national economic growth. For instance, the role of state capitalism was visible in Germany way back in 1870s and in the rise of Japan in the 1950s. State Capitalism can also claim its creative role in the World's most successful big economies. Over the past 30 years, Chinese GDP has been gaining at an average rate of 9.5 percent annually and its international trade by 18 percent in volumes (The economist Jan, 12, 2012). Further the state capital is on its forward march with state companies makes up to 80 percent of the value of stock markets in China, 62 percent in Russia, and 38 percent in Brazil. At the same time it is accounted for about one third of the emerging world's foreign direct investments between 2003 and 2010.

Having said that, will state capital emerge as the dominant player in the new world order replacing the markets? In this context, it is perhaps true that the legacy of Adam Smith continue as a double edged sword – *laissez faire* on the one side and social welfare on the other. The role of the visible and invisible hands (State and markets respectively) have been debated and experimented during the liberal phases of global economic and social growth. The classical theory believed that the economy is self regulating and is always capable of achieving the natural level of GDP growth or output as far as prices, wages and interest rates are flexible. The special importance of labor and its increasing productivity in Marx's scheme of reasoning led to a trend in capital accumulation. He observed that the rising organic composition of capital apart from competition as the driving force in the market reality, the production and accumulation of surplus value finds its two fold character of capital production, exchange and use value. Exploitation of natural resources and its use patterns in a framework of rent seeking has been identified as one of the areas of concern for the state from a welfare maximization angle and hence the state enterprises have been the catalyst for the exploration and marketing of such resources. In this context it will be worthwhile to have a review of the perspectives of

state and its importance in the world. This paper at an analytical level attempts an investigation into the dynamics of oil industry in expanding the state capitalist initiatives and draw inferences for its scope, scale and directions.

## **2. Global Financial crises and state Capitalism in DCs**

The decade of 1970s marked a turning point in the global economy which witnessed turbulent situations prompted by fluctuating oil prices, causing spikes in the rate of inflation. Given that the 'Keynesian' policy model adopted in the Developed Countries (DCs) particularly in USA relied almost exclusively on the use of fiscal and monetary policy to alter total spending in the economy (and not on more micro-oriented industrial policies), the government had only two choices- either to stimulate spending to sustain growth at the expense of inflation or restrict spending to stop inflation at the cost of rising unemployment and slower growth. In the wake of the first oil shock (1973), it chose the latter course, which caused the unemployment rate to rise from 4.9% in 1973 to 8.5% in 1975. Inflation declined from 1975 through 1977, but then rose again near the decade's end with the second oil price increase (1979). Slower growth, higher inflation, rising unemployment, falling profits and stock prices created growing discontent among the economic stakeholders. Meanwhile, social unrest was stirred by racial conflict over integration, the anti-Vietnam-war movement, the women's movement, pro-choice struggles, student radicalism and a youth rebellion. These developments led to a political alliance between resurgent right-wing economic forces and the rapidly increasing ranks of cultural conservatives. As a result, business and other conservative forces saw a dramatic increase in their ability to raise money to elect friendly politicians, create grass-roots pressure on all political parties and spend money on an expanding right-wing ideological infrastructure of think tanks and university influence. They also used their control of the media to interpret economic and political events for the public through a conservative prism.

Coates (2012) argued that the neo-liberal interpretation has mistook the causes of the financial crisis and resulting world recession, and in so doing it has captured the foreground of the current policy debate. The initial return to Keynesianism, which steadied the world economy in the wake of the crisis, was short-lived. Further—largely in response to the financial markets' increasingly negative attitude towards high levels of sovereign debt—there was a sharp change in policy tack, from stimulus to austerity. However, as is frequently the case with markets, the negativity had self-fulfilling consequences. It translated into higher borrowing costs, which in turn made debt increasingly burdensome, further fuelling the markets' nervousness and feeding the vicious speculative cycle. The neo-liberal, or 'New Treasury', view was given priority to the reduction of fiscal deficits as the route to recovery. This, it is argued, soothes the sensitive bond markets and keeps the cost of borrowing down, encouraging private productive investment whilst cutting back on such unproductive public sector spending as transport, education and health. The Keynesian versus neo-liberal policy debate continued as global growth slows and export markets are increasingly hard to find. However, there are other voices in the debate, challenging what has increasingly become the political and economic status quo. Society responds to the effects of austerity. Since austerity, by its very nature, involves a sharp contraction in public spending and services, its effects are inevitably felt first by those who depend on those services— especially if the austerity package is not balanced by significant redress to the growth of income inequality. The view of the UK Chancellor of the Exchequer, George Osborne, on austerity is that 'we are all in this together'. This is manifestly untrue (Kitson et al., 2011). Whilst the causes of the 2011 riots that swept across many cities in the UK have been hotly debated, the contributory role of the austerity program is frequently questioned (Apps, 2011). Yet from officialdom and the mainstream media, there is a general denial that the civil unrest is in any way part of a response to the worsening social and economic conditions experienced by a growing segment of the population (Abbas and Croft, 2011). Rather, those taking part have been dismissed as the 'federal underclass' by Ken Clarke, the Secretary of State for Justice in the current Coalition government (Clarke, 2011).

In his 2011 Hicks lecture, Prof. Angus Deaton analyzed the welfare effects of the financial crises since 2008, particularly for the American people. The unemployment rate of the American economy has risen from 4.8 percent in 2008 to 10.6 percent in January 2010, causing a 4.7 percent drop in disposable personal incomes. Simultaneously the desperate right wing coalition composed of rich households, large corporations and conservative political parties advocated for the elimination of deficits through severe reduction in all government welfare spending which either supports the poor and middle class or the critical social sectors like education and health. Almost similar austerity measures were adopted by the EU governments as well. In essence, the adoption of austerity programs across the world has evolved a situation where the economies started sinking in deeper recessions or depressions raising serious doubts about the scope of austerity in overcoming economic crises.

Prof. J. Crotty (2012) has established three main points on the scope and options of austerity. One, the current austerity war has historical roots and the costs of depression led to powerful political movements in the US and EU demanding an end to the uncontrolled capitalism that had caused much devastation and its replacement with new economic systems designed to meet the needs of the people. The western models of economic development evolved from these movements have variants of social democracy, democratic capitalism, regulated capitalism or a mixed economy approach. Two, the current government debt crisis is the outcome of right wing economic policies and which deteriorated economic performance and generated large budget deficits. Rising deficit creates pressure on financial markets as well as it translates potentially for the governments to act. Cut in spending on productive investments which in turn shrink the social safety net. Third, the slow growth and radical regulation of financial market goes in a vicious cycle which fails to attack the root cause of deficit crises and end up in resurgence.

The fundamental question raised therefore is do austerity work in a recession situation. If no how does it avoid the burden of fiscal deficit from the future generations? The neo-liberal view is that government deficits are damaging given the fact that they impose fiscal burden on the future generations. At the same time, if governments borrow to finance the deficits, it will end up in crowding out of private investments and accelerate the interest rate which further retards the scope of investment. King et.al, 2012 observe that austerity is less effective if one view it from a historical perspective. Further the depression can be caused out of the austerity measures itself. Evidences have been that over the last 50 years in the US, fiscal expansion has repeatedly resulted in higher economic growth especially during the recessions (Taylor, et.al, 2012). The opponents of austerity argued that fiscal retrenchment only will deepen and extend the recession. Accordingly, the efforts to reduce the deficit should be postponed until the recovery is fully under way because it is only then that such efforts can succeed. This happens because the multiplier effects of additional government spending works when the economy is operating below the capacity. All these arguments and observations lead to the reasoning that the role of state is significant in managing the economy and balancing the markets and economic actors in a framework of growth driven development.

### **3. State and Capitalism in the LDCs**

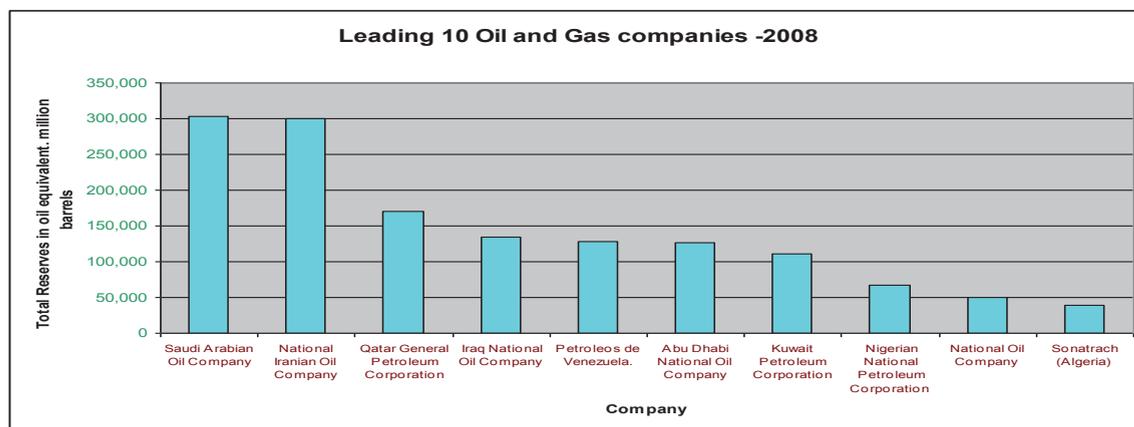
The Less Developed Countries (LDCs) viewed state capitalism mainly from the Marxian ideological framework. There have however, been theoretical bases and operational paradoxes in the way Marxian perspectives were viewed. If the Marxian approach looked for abolition of state (as an institution) in the long run, majority of the organizations have been vigorously advocated the need for enhanced state role in establishing a classless society and governance. The Marxian perception of the state and its role emerged essentially from the materialistic basis of 'relative scarcity'. This is a situation in which the productivity of labor enables a group of people to produce a surplus. When productivity reaches such a stage, the society divides into different classes and this division in turn gives rise to the state. Hence, the state is a product of the society at a certain stage of development. The state often is controlled by the economically dominant class. The highest form of state is the democratic republic in which the capitalist class exercises the powers

indirectly. The task of the working class therefore in the proletarian revolution is to seize power and to rise itself to the position of ruling class<sup>1</sup>. Once the task of equality is achieved, the state is envisaged to wither.

Cooper (1983) analyzed the most dramatic development in the social structures of the third world society in the post world war II and observed the expanding role of the state. While the extent and precise form of the state's involvement in economic, political and social activities has varied from place to place, the trend towards a more important role for the state has been seen as pervasive and the basic pattern in which this role has expanded seems to have been repeated in nation after nation. Therefore state capitalism has been generalized as a form of economic and political organization in the developing world. Academics and theoreticians thereby identified a number of characteristics of state capitalism at the empirical and descriptive levels. First of all, it is generally accepted that the origin of state capitalism lies in the weak peripheral economics with weak national bourgeoisies and disorganized popular class. Secondly state capitalism involves a nationalistic reorientation of economic resources through moderate agrarian reforms, nationalization of basic industries, centralization of finances and an expansion of social services. Thirdly, there exists a state centered interest group which is grounded in this reorientation and which attempts to dominate society through bureaucratic means. Fourthly, the societies remain capitalistic, despite the expanding role of state and fifthly, state capitalism fails to transform the society in its fundamental structure and is quiet unstable.

Given the characteristics of state capitalism in a political-economy framework, Bremmer (2009) identified four major actors in the state capitalism for its origin and evolution in the contemporary world viz, National Oil Corporations, State Owned Enterprises, Privately owned National industry champions and the Sovereign Wealth Funds. For instance, the national oil companies (NOCs) holds the largest share of the global oil industry<sup>2</sup>. Further, the largest oil companies (measured by their reserves) are owned by the national governments. Perhaps oil (natural resources) has become a main source of expanding the state capitalism, particularly after the two major oil shocks (1973 and 1979) which has changed much of the political-economy linkages and equations in the contemporary world capitalist system. It is therefore essential here to have an understanding of the oil industry and its evolutionary phases and the instances it led to the expansion of state capitalism.

Fig.1. Leading 10 Oil Companies in the World.



Source. Energy Information Administration, 2008

#### 4. Differential rent seeking and Oil Shocks

The Oil industry has lived through a successful regime of rent seeking till the early 1970s<sup>3</sup>. The

discovery of Middle East oil reserves perhaps opened the avenue for surplus profit in a differential rent seeking ambience. R.D.Wise (1999) analyzed the sequence of differential rent towards which the growth process was oriented during the first phase of oil exploration in the region, the way in which the major oil companies joined and stimulated the sector as well as the main contradictions faced by the monopoly capital. The pattern of differential rent seeking in oil industry was brought by the powerful group of international oil companies (IOCs) popularly known as the 'seven sisters'<sup>4</sup>. Before the first oil shock of 1973, these companies controlled 85 percent of the world's petroleum reserves. The power of these oil companies in terms of refining patents, transportation and distribution of oil products, helped them to grow in a differential rent regime. These companies faced fierce competition from one another for the slice of the global oil markets as well as to gain control over the exploration of new oil reserves.

The confrontation between the private capitalists in the oil sector turned in to price wars eventually. After the First World War, this direct confrontation between the industry players ceased and a cooperative strategy evolved. This perhaps was the golden age of the big oil companies (through a cartel). The private capital in the oil sector agreed to go on a consensus for common benefits and to maximize oil revenues. Accordingly three agreements were signed among the industry players to reach the potential returns from oil resources. First, the Red-Line agreement (1928) which tied the companies not to carry out independent operations within the area of approximately corresponding to that of the former Ottoman Empire, the richest oil fields of the world. Secondly the Achnacarry agreement signed two weeks after the earlier (Red-Line) envisaged stabilizing the share of each in the world oil markets. Thirdly, the Gulf Plus system was set (1934) for fixing the prices of crude following the set principles.

The Gulf Plus pricing, based on the Ricardian labor theory of value assumed that differences arise in the individual cost price of primary products as a result of the differential properties of its natural conditions of production. The sector however, observed the relevance of Marxian Surplus Value. The vertical integration of the industry enabled the IOCs to generate surplus profits. The emphasis (Marxian) was on transforming surplus profits into ground rent<sup>5</sup>. The owner country's ignorance of the real production costs of crude oil helped the companies to continue with the surplus profits and to avoid the transformation of this profit into ground rent. The big oil corporations expanded all the resources available to them and conceal the cost price and production cost of crude. Similarly the vertical structure of the industry was favorable to transfer the surplus profits generated at the primary phase to the other phases of the production process (Wise 1999). It is established in his context that though the Marxian Surplus Value is identified in the farm economies, it applies in the case of oil and other natural resources as well<sup>6</sup>. It is hence to draw that the trend in nationalizing oil was prompted by the private players.

## **5. Evolution of state capitalism in Oil**

Financial crises and market imperfections, lack of effective coping mechanisms to avert the negative economic and social impacts prompted many governments to increase its stake in the economy. For instance the global financial crisis of 2008 encouraged countries to increase the stake in private corporations or regulating the economy and its industries. Given this trend it is to believe that state capitalism began to take shape after the 1973 oil shock, when the members of the Organization of the Petroleum Exporting Countries (OPEC) agreed to cut output levels in protest against the Yom Kippur war<sup>7</sup>. Almost overnight, the world's most important commodity was converted into a geopolitical weapon, giving the governments of oil-producing countries unprecedented international clout. As a political tool, OPEC's production cuts served as embargoes against specific countries like the United States and the Netherlands. As an economic phenomenon, the oil crisis reversed the pattern of capital flows, in which the oil-consuming states bought ever-larger volumes of cheap oil and in turn sold goods to the oil-producing countries at inflationary prices. The OPEC member countries viewed this crisis as an end to the political and economic inaction of the owner countries and put an end to the colonial relations in oil fields (Bremmer, 2009). The oil crisis showed oil producers that through unified action, they could both control levels of production and capture a much larger

share of the revenues generated by the major Western oil companies. This process proved easier in cases in which national governments could use domestic companies to extract and refine their own oil. This led to the creation of national oil companies (NOCs) with greater government control (Saudi Aramco, for example, was not fully nationalized until 1980) and eventually eclipsed their privately held Western counterparts. The oil crisis gave birth to the modern national oil corporation, a model that has since become widespread and has been applied to the natural gas sector as well. The second oil shock confirmed the need to hold the vital resources in safe hands.

In many of the developing countries oil remains as one of the drivers of growth, but the economic sectors continue to be critical in managing the economy. Accordingly, the second wave of state capitalism got a boost during the 1980s, driven by the rise of governments with state-centric values and traditions. At the same time, the collapse of governments that relied on centrally planned economies for growth caused a surge in global demand for entrepreneurial opportunity and liberalized trade. That trend, in turn, sparked rapid growth and industrialization in several developing countries during the 1990s. Brazil, China, India, Mexico, Russia, and Turkey, along with countries in Southeast Asia are few instances in this respect. The developing world never had full view that privately owned production systems can foster prosperity and they always doubted the efficiency of private systems in the development space. This has been so mainly due to the mixed system of economies they followed which never supported either fully.

The third phase of state capitalism started with the low levels of development delivery in the economic reform phase (neo-liberal) of less developed countries. The economic liberalization in the post cold war phase was viewed with skepticism by many. The major cause of worry was the likely inequality in distribution of income and wealth among the social stakeholders and the resultant social imbalance accordingly. The influence of left political ideologies and the state role in development being very strong among the social players, the pressure exerted on national governments to oversee growth with a human face was very high. Accordingly in many sensitive sectors, the reforms saw a gradualist approach. The private capitalists too were in a sort of hurry to reap the benefits of the liberalized economic systems, which provided the desired room for antagonist views on private capitalist's potential to deliver development. Hence, the political and economic development in the late 1950s and 60s turned against the international oil companies (IOCs). The owner states of Oil started initiatives to reduce the monopoly of IOCs in oil and started the process of nationalization of oil (as a natural owner of resources). The recipients of oil from oil producing countries started establishing national corporations to domestically explore, import, process and distribute the oil products internally for meeting its strategic needs.

## **6. Political Economy of National Oil Corporations: the case of ONGC India**

From a political economy perspective, the origin and growth of Oil and Natural Gas Corporation (ONGC) hints at the state capitalist evolution in the Indian hydro carbon industry. In India, after independence remained powerful socialistic overtones and it was generally believed that growth and justice could hardly be achieved through non-socialistic means and accordingly the role of state in enterprises have been given a higher emphasis. The post colonial sovereign state also followed a foreign policy based on non-alignment and accordingly it was more of socialistic than capitalist - as a proverbial calf sucking two cows. Land and natural resources were the main sources of growth and development for a higher population base. It was natural therefore for the national government to declare state ownership of oil and other vital natural resources. This was justified on ground that most private investments in the oil sector would come from foreign sources which is likely to support the economic and political way forward of the country. However, a small portion in the ruling regime and outside believed that the private sector could more effectively exploit India's oil and other natural resources. The industrial policy of 1948 considered oil in the industry category and therefore the argument was to set up a petroleum sector in the country (Kaul, 1991). The private operators had led the quest for oil in India - began in 1860s with the explorations in Assam (in the north-

eastern part of British India). The Assam railways and trading company limited (AR&T) has made the first commercial oil discovery in Digboi (1889)<sup>8</sup>.

At the time of independence, India consumed 55000 barrels of oil a day with a domestic contribution of 600 barrels. The main source of oil was the Persian Gulf and Sumatra. The purchasing price of oil was determined by the oil marketing companies (OMCs). With the nationalization of Iranian Oil Company (1951), the oil supply from Anglo-Iranian oil company (AIOC) has come to a halt and the situation forced for the approval of establishing foreign owned refineries in India. Over the course of time, the drive towards national oil industry has become strong given the feeling that the country will not be able to depend on the contracts signed with the foreign companies for the supply of oil. From a political angle the crisis erupted in Brazil (1954) which led to the suicide of president (G.Vargas) complaining that the efforts to liberate the people of Brazil had been hampered by foreign interests added fuel to the fire<sup>8</sup>. Further in 1954 Palestine had joined the South East Asian Treaty Organization (SEATO) which caused serious concern in India's defense systems arising out of the oil supply disruptions<sup>9</sup>. These developments forced the government to think of strategic ways in the oil industry and accordingly the cabinet (1955) approved for the setting up of the Oil and Natural Gas Directorate (ONGD) under the ministry of natural resources. Later in the same year it was declared that the public sector will dominate the exploration and production of oil and have monopoly over setting up of new refineries.

The importance of minerals and oils thereby gained priority in the government programs and policies in a planned format. In the third five year plan significant allocations (Rs.5000 million) were made and it was assumed that India will become self sufficient in oil by 1965-67. Private investments were supported given the need of development aid from west and the higher costs of production internally. In a compromise approach again, the government invited international contractors to work in collaboration with ONGC. The China-India war in 1962 made India's development support more essential and the government invited independent international oil companies (IOCs) to invest and operate in India. During the 1971 war with Pakistan, the western oil companies could not supply oil sufficiently to the Indian defense establishments (T.Madan, 2007). This followed the first international oil shock (1973-74) in which the foreign oil producers maintained oil supplies to friendly states and India could not find a place in that list. This led to an imbalanced oil import bill of around US \$ 5 billion and the inflation touching to very high levels (of around 25 percent).

Coincidentally the ONGC has made its first off-shore discovery at the Bombay high. This raised the Indian oil output to 10 MT in 1977 and it was approximately around 40 percent of the domestic requirements. This prompted the government to suspend the operations of few private oil players in India. Esso, Burmah Shell and Caltex are the few instances in this context. The government of India in the meantime, has constituted an oil coordination committee as well as established an administered pricing policy. The second international oil shock (1979) prompted for more nationalization of oil sector even at the cost of a GDP shrink. India's imports of crude oil and other petroleum products from 1970 to 1987 show a rising trend with the total outflow of foreign exchange for its deleterious development implications.

The Gulf crisis (war of 1990-91) had its negative impacts on the Indian economy in terms of remittances (particularly causing slow down in Kerala economy)<sup>10</sup> and the high petroleum prices for oil to burden the national economy. The oil prices have gone above US\$ 40 a barrel and the domestic inflation has reached 13 percent. India's balance of payments has gone into deficit arising out of the rising oil import bills. This perhaps prompted the government to open up the energy sector for private investments and in the process, ONGC has become a corporation (1993). Subsequently, the government has introduced new exploration licensing policy (NELP) towards encouraging greater private sector participation in the oil sector. Though the disinvestment program went in a big way, the government had taken a stand that it will not reduce the stake in major oil companies below 51 percent. Despite all combinations of stake holding planned by the government, the holding of stake by government in the ONGC currently stands at 74.11 percent and 8.3 percent by the foreign institutional investors while institutional investors hold less than 2 percent<sup>11</sup>.

With the state patronage and the industry leadership, the ONGC started its expansion by holding stakes in other oil and natural gas companies in the public sector. For instance, it owned 71.62 percent stakes in Mangalore Refinery and Petrochemicals (MRPL) Ltd. It has 12.5 percent stake in petronet LNG Ltd which owns and operates the liquefied natural gas (LNG). Further, it has 23 percent stake in petronet Mangalore-Hassan-Bangalore pipeline. The ONGC Tripura power company is another Joint venture (JV) of ONGC with 20 percent stake. Also it has a 21.3 percent stake in Pawan Hans Helicopters Ltd which provides the helicopter services to its offshore facilities.

From an expansion angle, the corporation has 23 percent equity stakes along with the Gujarat industrial development corporation (26 percent) is developing a multi-project Special Economic Zone (SEZ) at Dahej in costal Gujarat through an SPV-Dahej special economic zone ltd. This SEZ has now been declared as petroleum, chemical and petrochemical investment region by the government of India and operational since 2009. The other project and business initiatives of the corporation include the c2-c3-c4 extraction plant at Dahej. The partnership for growth includes an ONGC led consortium for sourcing LNG from Iran, MOU with M/s Sistema, Russia for exploring gas assets in Russia and other third world countries, MOU with ENARSA, an NOC of Argentina for E&P ventures, MOU with Bharat Petroleum Corporation Ltd, MOU with GAIL India Ltd, MOU with FMC Technologies Ltd Singapre are few in this regard. Further the Corporation has extended its domains in information technology, disaster recovery systems, health, safety, environment and clean development.

## 7. Concluding Discussion

The role of state in the economy is historically relevant as a source of growth and stability. This is from the point of view of fostering development and justice to the people. There remains an antagonism between the state and the markets and often the states are destined to create well-functioning markets by providing legal frameworks, standards, physical infrastructure as well as an entrepreneur of last resort. Early economists were acutely aware that the national markets did not occur spontaneously, and they used modern ideas like synergies, increasing returns, and innovation theory when argued for the right kind of policies. The states are further been classified in the context of controls as renaissance state and the natural state. The starting point for renaissance economics and the modern state was out of an awareness of the sub-optimality of the present situation of mankind – steeped in the ignorance and poverty of the middle ages. All the industrialized states have passed through an obligatory passage point through a common weal. The common weal arises out of the synergies stemming from the sharing of fixed costs – resulting either from specialized tools or from specialized knowledge. The natural states perhaps miss the element of this common weal. In fact considerable tensions have been created in today's world by the fact that any systemic efforts in the economy- and consequently to the state-are external to the core of ruling economic theory. The experience of the presently industrialized countries indicate that the need for state intervention is stronger, the poorer the country (Reinert, 1999). Given the above the oil nationalization has been viewed from the point of view of the market's inability to balance between growth and development. From a policy perspective there are views that the state oil corporations are not likely to maintain the industry growth as well as innovations for newer reserves, which can have negative long run implications.

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## Notes

1. see Michel Kalecki (1964)
2. The other 40 major oil companies in the world are in the government sector
3. Till the first oil shock of 1973 the private oil companies enjoyed the differential rent seeking for profit maximization in the oil industry.
4. The seven Oil companies that formed a consortium and dominated the petroleum industry from 1940s till early 1970s are Standard Oil of New Jersey (ESSO). Standard Oil of New York-currently exxonmobil, Standard Oil of California (SOCAL), Gulf Oil, Texaco- currently Chevron, Royal Dutch Shell and Anglo Persian Oil Company –currently BP
5. see the Marxian literature
6. Differential ground rent and absolute ground rent are concepts used by Karl Marx
7. The Yom Kippur War started with a surprise Arab attack on Israel on Saturday 6th October 1973.
8. The Brazilian economy has witnessed booms and busts. Its attempt at development was hampered by high inflations and big foreign debts. Much of the arable land was controlled by handful of wealthy families while the movements of landless rural workers were demanding land re-distribution.
9. Madan.T, 2007 indicates the anecdotal evidence to suggest that this name came from the phrase shouted at workers, Dig Boy, Dig?
10. There is about 3 million keralites work in the gulf region. The state has the highest per capita GDP of around Rs.75000.
11. In 2004, the government sold 10 percent of the corporation netting more than Rs. 2 billion.