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The Petrodollar – The US-Saudi Deal that Ruined the World

King Salman, Presidents Trump and el-Sisi inaugurate the Global Center for Combating Extremism by touching an illuminated globe of the Earth. Image Wikipedia.

"I'm going to Saudi Arabia. I made a deal with Saudi Arabia. I'd usually go to the U.K. first. Last time I went to Saudi Arabia they put up $450 billion. I said well, this time they've gotten richer, we've all gotten older so I said I'll go if you pay $1 trillion to American companies, meaning the purchase over a four-year period of $ 1 trillion and they've agreed to do that. So, I'm going to be going there. I have a great relationship with them, and they've been very nice but they're going to be spending a lot of money to American companies for buying military equipment and a lot of other things." – President Donald Trump, 7th March 2025.

What is the true importance of the US-Saudi relationship in the global economy? It's based on the two things that make the economy go round – money and oil.

The United States–Saudi “petrodollar” arrangement has underpinned American economic and military power for nearly five decades. In essence, oil exports from Saudi Arabia (and later OPEC broadly) have been priced in U.S. dollars since the 1974, ensuring a constant global demand for the dollar and U.S. Treasury assets. This monetary system forms the hidden backbone of a web of consequences – from U.S. imperialism and geopolitical maneuvering to environmental degradation and extreme wealth accumulation. Today, roughly 80% of global oil transactions are still conducted in USD, illustrating the petrodollar system’s enduring influence. Below, we analyze the historical origins of the petrodollar, explain how this monetary system became a root cause linking finance to geopolitics and ecological crisis, and discuss proposed alternatives like Modern Monetary Theory (MMT) that could break the cycle.

Background

In the aftermath of World War II, the Bretton Woods system (1944) established the U.S. dollar as the world’s anchor currency, pegged to gold, which cemented U.S. economic dominance. However, by 1971 the U.S. faced mounting trade deficits and dwindling gold reserves, as countries sought to trade USD for gold they didn’t have, US President Nixon ended dollar convertibility to gold – a move that threatened the dollar’s supremacy. The solution emerged via oil: in 1974, one year after the oil crisis, Washington and Riyadh struck a pivotal deal (kept secret until 2016) that ensured Saudi oil would be priced exclusively in dollars. In return, the U.S. provided military protection and lucrative arms sales to Saudi Arabia, and Saudi leaders would recycle their oil revenues into U.S. Treasuries and American investments. This U.S.–Saudi arrangement laid the foundation of the petrodollar system, firmly tying the world’s most traded commodity (oil) to the American currency.

The timing was crucial. The 1973 oil embargo had quadrupled oil prices from about $3 to $12 a barrel, sparking a global energy crisis. The U.S. sought to tame this “oil weapon” by binding oil exports to the dollar – thereby turning petrodollars into a pillar of U.S. financial might. By the late 1970s, most OPEC producers followed suit in trading oil for USD, and surplus petrodollars were funnelled into Western banks and U.S. debt. This recycling of oil revenues back into American markets propped up U.S. budget deficits and helped finance Cold War expenditures. In effect, oil-exporting nations accepted dollars (often investing them in the US) in exchange for security guarantees and access to American goods and technology. The long-term implications were profound: the dollar became the default currency for global oil trade, bolstering its reserve currency status and enabling the U.S. to maintain economic and military pre-eminence "almost as a matter of course". This petrodollar order has remained largely intact through the present, anchoring U.S. dominance in the world economy.

2. The Monetary System as the Root Cause

The petrodollar system entrenched the U.S. dollar's global monetary hegemony, allowing the United States to exert outsized influence without the typical constraints faced by other nations. Because countries worldwide need dollars to buy oil, they hold vast USD reserves and invest in U.S. assets (like Treasury bonds), which funds U.S. deficits and keeps American interest rates lower than they otherwise would be. In practical terms, this means the U.S. can run the printing presses – or more accurately, expand money supply – to finance government spending (military, infrastructure, etc.) without triggering hyperinflation, as the excess dollars are absorbed abroad to settle trade and reserve needs. This unique privilege, often dubbed "exorbitant privilege," roots many subsequent geopolitical and economic dynamics.

More broadly, the modern money creation process itself is a key structural driver. In most advanced economies, money is created predominantly by private banks issuing loans, not by governments minting cash. About 97% of money in circulation is created by commercial banks when they extend credit (e.g. granting loans), whereas only ~3% is physical cash from central banks. Debt-based money comes with a built-in growth imperative: banks lend money into existence with an obligation to be repaid with interest, meaning total debt continually exceeds the money available to repay it. New loans must constantly be created so borrowers can obtain the funds needed to pay interest on yesterday's loans. If this expansion falters, the result is a contraction – loan defaults, bankruptcies, and recession – since under our interest-bearing system "an expanding amount of loans are needed to keep the system running smoothly" and avoid a cascading collapse.

Jem Bendell , author of Breaking Together, refers to this phenomenon as the "Monetary Growth Imperative," wherein the economy "must expand whether society wishes it to or not" just to service the debt overhead. In other words, continual GDP growth is structurally required to sustain the monetary system.

This dynamic has fostered a financialized economy where speculation often outranks production. With easy credit and abundant petrodollars sloshing through global markets, capital tends to chase quick returns via financial instruments rather than long-term productive investment. Private banks, seeking secure profits, create money disproportionately for assets like real estate and stocks (fuelling price bubbles) instead of lending to manufacturing or local businesses. As a result, we see huge asset bubbles that benefit the mega-rich but relatively underfunded productive sectors. The monetary system's incentives thus tilt toward Wall Street over Main Street – leveraging debt to amplify wealth for those at the top. Additionally, the constant need to avoid contraction pressures governments to prioritize policies that stimulate growth (often measured as rising GDP) above all else, sometimes at the expense of social or environmental considerations. In sum, the petrodollar-reinforced debt-money system creates self-perpetuating cycles: the U.S. can flood the world with dollars to sustain its dominance, and globally the pursuit of dollar profits drives speculative finance and a growth-at-all-costs mentality. This underlies many downstream effects from military interventionism to ecological overshoot.

3. Imperialism and Geopolitics

Control over the international monetary system, anchored by the petrodollar, has directly enabled U.S. imperial reach and the expansion of its military–industrial complex. Since foreign governments must hold dollars, they effectively help finance U.S. deficit spending – including the Pentagon's budget – by purchasing U.S. treasuries. This recycling of petrodollars allowed America to run "guns and butter" policies (funding warfare and domestic programs simultaneously) without bankrupting itself. Petrodollar inflows have explicitly financed U.S. weapons exports and military aid, especially in the Middle East. For instance, petrodollar-rich Gulf states like Saudi Arabia have spent hundreds of billions on American arms over the years, funnelling their oil proceeds back into U.S. defence contractors. This symbiosis solidified a regional security architecture with the U.S. as the guarantor – protecting friendly oil monarchies in exchange for their loyalty to the dollar system.

The U.S. has likewise used its monetary and military might to suppress challenges to this order. During the Cold War, pan-Arabist and socialist-leaning movements in the Middle East – which aimed to unite Arab states or pursue independent economic policies – were seen as threats to U.S. "vital economic interests" (i.e. access to oil on U.S. terms. The Eisenhower Doctrine (1957) explicitly targeted Egypt's Gamal Abdel Nasser and other Arab nationalists, seeking to fracture Arab unity and keep pro-Western regimes in power. This strategy "sowed divisions within Arab ranks, triggering a fierce Arab Cold War" and undermined any concerted effort by oil-producing nations to chart an autonomous course. Later, when individual leaders attempted to bypass the petrodollar system, they often met harsh reprisals. Notably, Iraq's Saddam Hussein switched to selling oil in euros in 2000, and Libya's Muammar Gaddafi proposed a gold-backed African currency – moves that preceded U.S.-led military interventions that removed them from power, summed up in the infamous video of

Hillary Clinton reacting to Gaddafi's killing "We came, we saw, he died". While many factors were at play in those conflicts, the message was clear: the U.S. would not tolerate challenges to dollar dominance in oil markets.

U.S. alliances in the region further reflect petrodollar geopolitics. Israel's role as a key American ally (and military foothold) in the Middle East has been heavily financed by U.S. dollars – the U.S. currently has provided Israel with over $250bn since 1959, with unprecedented military-aid being sent to Israel since the beginning of the genocide in Gaza, in excess of more than $20bn. This support, partly enabled by America's fiscal freedom under the petrodollar system, ensures Israel's qualitative military edge and U.S. influence over the region's political trajectory. Conversely, oil-rich countries that resist U.S. hegemony (Iran, Venezuela) have been isolated via sanctions that leverage the dollar's centrality in global finance. More recently, the U.S. has been able to commit extraordinary sums to distant conflicts – for example, Congress approved $175 billion+ in aid to Ukraine since 2022 – with relatively little immediate economic fallout at home. This level of expenditure (unthinkable for most countries) is buoyed by the dollar's reserve status and the Federal Reserve's capacity to create money that the world will absorb. In short, the petrodollar-backed monetary order acts as a force multiplier for U.S. imperial strategy: it finances a global network of hundreds of overseas bases and proxy engagements, and it gives Washington a powerful economic weapon (control of dollar-based transactions) to reward allies and punish adversaries. The result is a geopolitical landscape where U.S. military supremacy and currency supremacy reinforce each other, often at the expense of smaller nations' sovereignty.

In fact, it is the debt-based monetary system that has trapped many developing nations in a cycle of borrowing and export dependency, often enforced by international financial institutions and trade agreements. Under the current system, countries in the Global South are pressured to extract and export commodities (oil, minerals, cash crops) to earn the foreign currency needed to service debts and pay for imports – effectively subsidizing affluent lifestyles elsewhere at the cost of local ecosystems. Indeed, our "debt-based monetary system" creates a built-in incentive for "world export warfare", where nations must compete for export markets to try to obtain debt-free income. This wealth transfer occurs through different mechanisms, primarily debt and price differentials in international trade resulting in unequal exchange, which, according to a 2022 paper from Hickel et al, between 1990-2015 alone, resulted in a wealth drain from the South totaling $242 trillion, equivalent to a quarter of Northern GDP.

4. Environmental and Economic Consequences

This debt-fuelled, growth-obsessed petrodollar system has also driven environmental destruction and locked in a fossil-fuel-dependent global economy. The arrangement implicitly incentivizes high oil consumption: oil exporting nations earn dollars and invest in growth, while oil-importing countries need growth to afford expanding energy imports. Consequently, the world's energy and economic structures have been slow to change. As of 2022, about 80% of global primary energy still comes from fossil fuels, a statistic tied to the petrodollar era's legacy. There is a well-documented 1:1 coupling between global GDP and global energy use, particularly fossil fuel use . In effect, economic growth has meant burning more oil, gas, and coal, leading to rising carbon emissions. Under the current system, if we "don't keep the global economy growing by at least 3% per year, it plunges into crisis," doubling the economy's size every ~20 years. This exponential growth mandate collides with the reality of a finite planet. It translates into ever-expanding extraction of natural resources and ever-expanding waste (greenhouse gases, pollution), because efficiency improvements alone have not stopped total resource use from climbing, due to Jevon's paradox and the growth-paradigm.

Critically, the monetary growth imperative undermines efforts to transition to sustainability. As Bendell observes, our debt-based monetary system "does not allow a steady-state economy" – it literally "prevents effective climate change mitigation…without monetary reform" Governments are pressured to maximize short-term GDP (to service debts and maintain employment), often prioritizing elite accumulation through inflating asset prices, destructive economic expansion and consumerism over conservation. The petrodollar system reinforces this by promoting fossil-fuelled development; countries that grow faster (with high energy use) accumulate more dollars, while those that try to curb fossil fuels risk economic stagnation under current metrics. Meanwhile, oil-rich states have had little incentive to diversify away from hydrocarbons as long as oil revenue secures their geopolitical standing. The result is a vicious cycle: debt drives growth, growth drives fossil fuel combustion, and fossil fuels exacerbate climate change and ecological harm. As one commentator put it, "American empire is inextricably linked with fossil fuels, and to mitigate climate change, it must come to an end". In other words, genuine environmental solutions require confronting the political-economic system that maintains fossil dominance.

The petrodollar link also explains the slow global response to climate change. U.S. policymakers (and other major oil stakeholders) have often been reluctant to fully embrace decarbonization, not only due to oil industry lobbying but because a shift away from oil threatens the basis of the dollar-centric order. A world less dependent on oil could erode the automatic demand for USD, undermining U.S. financial power. Indeed, analysts note that if renewable energy and electrification significantly reduce oil trade in the coming decades, it "could eventually lead to a reduction in petrodollar flows" and weaken the dollar's global standing. Thus the climate crisis and the petrodollar system are intertwined challenges. The very same debt-growth engine that boosted GDP (and elite wealth) in the 20th century is now pushing the planet toward ecological breakdown, by making perpetual expansion the condition for economic stability. Breaking this cycle is essential not only for environmental reasons but to free economies from what Jason Hickel calls "the logic of endless growth" that defies planetary limits.

5. Alternative Solutions and MMT

Addressing these deeply interlinked issues requires rethinking the monetary system itself. A range of economists and scholars have proposed solutions to remove the growth imperative and make finance serve people and planet rather than the elite few. One approach is to shift from privately controlled, debt-based money creation to democratically managed money that can be directed toward public purposes. Instead of relying on commercial banks to create money (and channel it into speculation or property bubbles), the state could create and spend new money directly into the real economy, funding useful projects like renewable energy, public infrastructure, healthcare, and education. Such a system of sovereign money (sometimes called "green quantitative easing" or public banking) would inject liquidity where it's needed for social and environmental goals, rather than inflating huge asset bubbles that only benefit the mega-rich. The money supply could grow or contract in a controlled way to meet societal needs, without the destructive necessity of ever-increasing debt. Notably, the proposal is not for the government to print limitless cash, but to replace interest-bearing bank loans with debt-free public spending as the primary way new money enters circulation. This idea harkens back to thinkers like Samir Amin, who advocated "delinking" developing economies from the dictates of Western finance in order to pursue self-determined development. By reclaiming monetary sovereignty – whether through nationalizing credit creation or regional alternatives to the dollar system – countries could invest in long-term prosperity and sustainability without being trapped by dollar-denominated debt and growth-at-any-cost policies.

Modern Monetary Theory (MMT) offers another lens for solutions, especially for advanced economies like the U.S. and those with their own currencies. MMT economists (e.g. Stephanie Kelton , Fadhel Kaboub فاضل قابوب) argue that a sovereign government cannot "run out of money" in its own fiat currency the way a household or business can. As

Kelton puts it, for a country that issues its own currency, there is never a danger of debt spiralling out of control, because it can always create money to service its obligations. The real limits are not financial but resource-based – inflation will only arise if government spending pushes total demand beyond the economy's productive capacity (labour, materials, technology). This perspective suggests that scarce funding is not the barrier to tackling issues like poverty, infrastructure, or climate change; what's needed is political will and careful management of real resources. For example, using an MMT framework, the U.S. or any currency issuing country could finance a Green New Deal – mass investments in clean energy, transit, and green jobs – by issuing currency, without needing to tax or borrow first, as long as idle resources (unemployed labour, etc.) are put to work. Far from causing runaway inflation, such spending would increase productive output and sustainability, and any inflationary pressure can be managed via taxation or other tools. Importantly, MMT also highlights that monetarily sovereign governments don't need petrodollar recycling or foreign loans to fund themselves; their spending is constrained by what's available to buy in their own currency, not by foreign exchange. This undercuts the rationale for maintaining structures like the petrodollar – if the U.S. can afford to invest in renewable energy and social programs without Saudi petrodollar recycling, it might reduce the strategic obsession with oil-based dollar supremacy.

Leading voices have emerged to champion these ideas. Economist Fadhel Kaboub, for instance, emphasizes that developing nations can use MMT principles to achieve monetary sovereignty and resilience, rather than depending on IMF loans or dollar reserves. He points to strategies such as building domestic food and energy systems to reduce import dependence and denominating debts in local currency, so that Global South countries can escape the trap of dollar-denominated debt that forces austerity. Jason Hickel, from a "degrowth" and global justice perspective, likewise calls for moving beyond GDP growth as the measure of success and financing a fair economic transformation (especially in the Global South) through public-led investment and technology transfer. Dr. Steve Keen and David Graeber have both called for modern debt-jubilees, to liberate ourselves from this unpayable debt cycle that has dictated and limited human societies for millennia. Their work suggests cancelling odious debts, taxing or expropriating the excess wealth of elites, and redirecting resources toward climate mitigation, adaptation, and human wellbeing – all of which would be easier under a redesigned monetary regime that isn't predicated on private profit. Even scholars of collapse like Jem Bendell argue that monetary reform is central to any hope of mitigating climate catastrophe; as he bluntly states, without altering how money is created and allocated, societies “will be prevented from effective climate change mitigation” and from adapting to coming disruptions. In summary, these alternative paradigms (sovereign money, MMT, degrowth) converge on a key point: freeing the economy from the tyranny of the petrodollar and debt-driven growth would enable humanity to prioritize ecological stability and equitable development. By reclaiming the monetary commons for public good, we could break the cycle of imperial warfare, environmental exploitation, and elite enrichment that the current system produces.

Conclusion

The U.S.–Saudi petrodollar deal of the 1970s created a self-reinforcing cycle that has shaped global politics, economics, and the environment in far-reaching ways. It tethered the world’s monetary order to fossil fuels and U.S. military might, allowing American elites to amass wealth and power under the guise of “maintaining liquidity” for global trade. The consequences – imperial interventions, entrenched petro-states, financial crises, and climate change – are not isolated problems but different facets of a singular system. Understanding the monetary root cause clarifies why efforts to address issues like endless wars or carbon emissions often hit a wall: the prevailing system is built to expand itself, not to prioritize peace or planetary limits. However, as we have seen, this system is not immutable. History is now at an inflection point where the petrodollar’s dominance is being quietly challenged. China, Russia, and other nations are experimenting with oil trade in other currencies, and U.S. financial sanctions on rivals have spurred talk of de-dollarization. At the same time, the imperative of climate action is pushing the world toward renewable energy, which in the long run will weaken the oil-dollar nexus. These trends suggest that the petrodollar system’s grip may loosen in the coming years.

Yet simply replacing the U.S. dollar with another currency for oil trade would not automatically dissolve the deeper problems – it might just shift the locus of power. The more fundamental change advocated by the thinkers cited above is to redesign how money works and what it serves. By moving to a post-petrodollar era of cooperative monetary policy, debt-free public investment, and truly sustainable economics, it becomes possible to address the interconnected crises at their source. That means breaking the feedback loop of oil, dollars, and weapons, and instead using monetary tools to foster global justice and ecological balance. In conclusion, the petrodollar deal was not just a quirky historical pact – it has been the linchpin of an entire world-system of U.S. hegemony, elite enrichment, and fossil-fuelled growth that turbocharged the ‘great acceleration’ that has pushed the global economy far outside what our planet can sustainably support. Recognizing that the monetary system lies at the root of imperialism and environmental breakdown is the first step toward imagining new systems that prioritize peace, shared prosperity, and a liveable planet. The challenges are immense, but so are the possibilities if money creation and resource allocation are reclaimed for the common good. The downfall of the petrodollar need not be a crisis; it could be an opportunity to chart a different course for both the global economy and Earth's future.

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