H-Net Reviews in the Humanities & Social Sciences

David M. Wight. *Oil Money: Middle East Petrodollars and the Transformation of the US Empire, 1967-1988.* The United States in the World Series. Ithaca: Cornell University Press, 2021. Illustrations, charts. xii + 347 pp. $49.95, cloth, ISBN 978-1-5017-1572-3.

Reviewed by Michael R. Adamson (Independent Scholar)

Published on H-Environment (May, 2022)

Commissioned by Daniella McCahey (Texas Tech University)

By 1973, the hegemonic status of the United States in the international political economy (IPE) had eroded with the collapse, in 1971, of the Bretton Woods regime, the collective international currency exchange system anchored by the US dollar and gold, the ascendancy of the Japanese and Western European economies, the retreat from Vietnam, and a "stagflating" domestic economy beset by high unemployment and inflation. Further, US control of foreign sources of oil had decreased, even as its reliance on oil imports had increased markedly. In 1973, the United States produced 22 percent of global output, down from half in 1950 and more than 70 percent in 1925. Moreover, it held only 6 percent of the world's proved crude oil reserves. In contrast, Middle East-North African (MENA) countries accounted for 41 percent of global output and two-thirds of proved reserves. In the late 1960s, the United States had become a net importer of petroleum, as domestic production lagged consumption propelled by reliance on, and increasing demand for, private modes of transportation. In 1973, crude oil imports accounted for 36 percent of US consumption, up from 9 percent in 1954. A precipitous rise in the price of oil, reflecting an inability to maintain access to cheap foreign sources of petroleum, would deliver a severe blow to a weakened US economy.

The response of the Organization of the Petroleum Exporting Countries (OPEC), organized in 1960, to US support of Israel in the wake of the coordinated attack of Egypt and Syria on October 6, 1973, delivered such a blow. OPEC's ability to control global prices and production was limited until the United States became reliant on imports from its members to close the gap between domestic consumption and production. In 1971, Libya and Iran negotiated increases in the posted prices for its oil and larger shares of the profits from its sale with the multinational oil companies (MNOCs) that had controlled their industries from their inception. The success of the so-called Tehran and Tripoli agreements catalyzed efforts of these and other OPEC members to wrest control of their oil industries from the MNOCs. Over the next two years, Libya took controlling interests in the MNOCs that operated its fields, Iraq secured operational control over its national oil company, Iraq nationalized the Iraq Petroleum Company, and Saudi Arabia negotiated an agreement that provided for a 25 percent participating interest in Aramco and eventual control of the company.

Through such transactions, the equity interest of the MNOCs in OPEC production would fall from 94 percent in 1970 to about 12 percent in 1981. Now, in October 1973, the Arab members of OPEC unilaterally raised the price of oil 70 percent and imposed an embargo against the United States and other countries. By December, the spot market price of a barrel of crude oil was four times higher than it was on the eve of the Arab-Israeli War. The jump in oil prices helped to push US inflation above 10 percent in 1974, with knock-on adverse impacts on the polity and society.

In rich and engaging detail, David M. Wight elaborates how US officials in the Nixon, Ford, Carter, and Reagan administrations scrambled to adapt to the end of their ability to impose low prices on compliant client states in the MENA region. In doing so, he taps “a wealth of new sources, particularly from declassified governmental records and popular Arab, Iranian, and US media” (p. 4). In 2000, I reviewed David E. Spiro’s book, ***The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets*** (1999), in the pages of ***Business History Review***. Using quantitative data, personal interviews, congressional testimony and other public statements, and a limited number of declassified Federal Reserve Bank and US Treasury memoranda, Spiro demonstrated that US officials interceded bilaterally with Saudi officials in particular to direct “petrodollars” accumulated from crude oil sales into US securities and to maintain the price of oil in dollars. In no way did the United States act as IPE theory predicted. Spiro reported that little documentation on his subject was available to scholars when he conducted his research, though, for instance, the papers of Treasury Secretary William E. Simon were available, as Spiro provided a link to the finding aid created in 1995 in a footnote. I suggested that our understanding of the topic would benefit from additional research into archival sources. Wight uses Simon’s papers and many other archival collections to construct a narrative that adds to our understanding of how US officials conducted relations with their MENA counterparts across four administrations.

In ***Organizing the World’s Money: Political Economy of International Relations*** (1977), Benjamin J. Cohen argued that the US government faced myriad challenges at home and abroad during the 1970s, often with little understanding of their nature. In Wight’s absorbing narrative, US officials display such lack of understanding in spades. For instance, Treasury Secretary Simon, who, as a senior partner with Salomon Brothers, represented the revolving door between Wall Street and Washington, grounded his policy deliberations in neoliberalism. For instance, without any empirical evidence to support the belief, Simon averred in July 1974 that Egypt under Anwar Sadat was poised to free its economy from the shackles of socialist control imposed by Gamal Abdel Nasser, his predecessor. With cooperation from Washington, Simon was certain that Sadat “would move even faster in the direction of liberalization” (p. 85). Liberalization of the private sector would in turn attract foreign direct investment (FDI). When the Sadat regime failed to reform its markets, Simon called for incentivizing it by channeling Saudi petrodollars into viable projects identified by US analysts. (As Wight demonstrates, reliance on MENA allies for foreign aid provision constituted a feature of the turn in US regional relations at this time.) Egypt would spend the aid it did receive—mostly dispensed from Washington, in the end—on arms and consumer goods to placate its swelling number of citizens enduring an underperforming economy. Meanwhile, the FDI Simon hoped for failed to materialize.

Of the many blind spots, blunders, false starts, and missteps that Wight deliciously relates, none was more consequential for US foreign relations than Washington’s reliance on Mohammad Reza Shah Pahlavi’s Iran to protect its interests. Well before the first oil shock in 1973, President Richard Nixon baked the path to the second in 1979 into US regional policy, declaring that “Iran was a key country in the area" and that "our relations with the Shah must be carefully nurtured and strengthened" (p. 46). In the ensuing years, Washington secured the shah's cooperation mostly by selling his regime some twenty billion dollars in arms, which it paid for with the dollars it earned from selling crude oil at ever higher prices. Washington's predictable support for moderates following the overthrow of the shah provided more evidence of the ad hoc, unimaginative, and reactive nature of US relations with MENA regimes once the MNOCs ceded control of their oil industries.

By 1980, it was clear that the United States would never recover the hegemonic status in the IPE that it enjoyed from 1945 to 1973. In that year, the gross domestic product (GDP) of the European Economic Community (now the European Union) achieved its highest gap to date over that of the United States, collectively exceeding US GDP by 16 percent. At home, an economy underperforming in terms of growth continued to suffer from high unemployment and inflation, which was peaking at 12.4 percent in the wake of the second oil shock that had propelled the price of a barrel of crude oil to thirty-four dollars. Industrial sectors at the commanding heights of the economy continued to hemorrhage jobs. In automobiles, for instance, workers had suffered the consequences of bad management that had rendered their companies increasingly unable to compete with fuel-efficient imports from Japan and West Germany. Now Chrysler was on the verge of bankruptcy. At the same time, the US economy was even more dependent on foreign oil than it was a decade earlier. Four successive administrations had maintained controls on the domestic price of oil established by President Nixon in 1971 as part of a general program of wage and price controls. In combination with other factors, such as an utter failure to reverse decades of transportation policy favoring gasoline- and diesel-driven vehicles over public transit, demand for the crude oil that served as feedstock for these refined products had continued to grow. Efforts to balance increased demand for fuel through increased domestic production and shifts to other energy sources had faltered or had proved to be dead on arrival. Now, to quash the inflation to which oil prices were contributing, the US Federal Reserve Bank was instituting a high interest rate policy that would produce the sharpest domestic recession since the Great Depression and burden debtor developing nations with higher payments, which would precipitate an international crisis that would threaten to topple the US banking sector. Throughout the 1970s, the condition of the domestic economy was an important factor in Washington's pivot toward cooperation in its relations with the MENA region.

According to Wight, the US government successfully addressed its deteriorating position in the IPE by "accommodating the rising power and ambitions of its oil-rich MENA allies and utilizing their enhanced wealth for shared ends, thereby transitioning to a new system of cooperative empire" (p. 5). One reason Wight can reach this conclusion is that he extends his timeline through the two terms of the Reagan administration. As George Herbert Walker Bush prepared to assume the presidency, the United States enjoyed a far more favorable position within the IPE than it did when the former Hollywood actor took office. Following the 1981–82 recession, the US economy enjoyed its longest, if not most robust, peacetime expansion to date. It was becoming more energy efficient too as the administration removed the restrictions on domestic oil prices. The US position in the IPE also benefited from a collapse in global oil prices in 1986, even if it harmed the US oil industry domestically and devastated the "oil patch" states of Louisiana, Oklahoma, and Texas. By this time, MENA production accounted for less than 20 percent of global output. Further, Washington was able to leverage its position vis-à-vis its regional counterparts during the protracted 1981–88 war between Iraq and Iran, two major oil-producing nations.

Jimmy Carter neatly distilled US foreign policy transformation in response to losing control of MENA petroleum deposits in his October 6, 1976, presidential debate with Gerald Ford: the United States became "the arms merchant of the whole world" (p. 170). It secured the cooperation of Iran, Israel, Egypt, Saudi Arabia, and smaller Arab regimes by vetting and approving the sale of weapons and training supplied by private corporations. Defense contractors replaced automobile manufacturers as the shining examples of American capitalism. To repurpose the testimony of Charles E. Wilson, the General Motors president, at his confirmation hearing in 1953 held to consider his nomination to become President Eisenhower's secretary of Defense, what was good for the United States was good for Lockheed, and vice versa. The reliance on private actors to achieve public ends enabled Washington to avoid spending taxpayer dollars on foreign assistance programs in a period of rising deficits and weak economic performance as well.

The emphasis on arms sales to secure the cooperation of authoritarian, oil-producing regimes laid bare the fictions that US foreign policy was ever about democracy, human rights, liberation, or nation-building. Already by the end of the period of Wight's analysis, policy was reverting to form as Washington was poised to deploy intervention to secure US interests. The Carter administration sowed the seeds of renewed direct regional confrontation with the establishment of the Rapid Deployment Joint Task Force in response to the Iranian revolution and the seizure of the US embassy, which the Reagan administration converted to the US Central Command. This increase in regional military capability complemented the general military buildup of the Reagan years. US invasions of Iraq in 1991 and 2003 and of Afghanistan in 2001 followed from this recommitment to use direct intervention to secure US interests. For all the transformation in US relations with the MENA region prompted by shifts in the configuration of power that Wight elaborates, the projection of US power and the character of US foreign relations remained much the same after 1988 as it did before 1973.

Two pair of bookends illustrate the fact that continuity rather than transformation continues to characterize US foreign relations. Almost three decades after the Johnson administration fabricated a Gulf of Tonkin "incident" to obtain authorization to escalate US intervention in Vietnam, National Security Adviser Condoleezza Rice deceived the American people and US Secretary of State Colin Powell lied before the United Nations Security Council about Saddam Hussein's supposed weapons of mass destruction as pretexts to attack Iraq. The nature of intervention, laying waste to urban and rural areas and indiscriminately killing untold numbers of civilians, is bookended by President Nixon bombing more people to death in Cambodia and Laos than the United States lost in military deaths in World War II, on the one hand, and two decades of relentless drone and missile attacks on the people of Afghanistan in the guise of fighting terrorism, on the other. A century ago, in the context of debate over ratification of the Treaty of Versailles and the League of Nations, Senator William E. Borah distilled the projection of US power as the use of "force to destroy force, conflict to prevent conflict, militarism to destroy militarism, and war to prevent war."[1] Little to nothing changed in the ensuing years.

To be sure, the sale or provision of American-made weaponry has remained a vital component of US foreign policy. Wight's findings may be generalized: US policymakers have relied and will rely heavily on this tool in cases where the configuration of power is not to Washington's decisive advantage. Indeed, the publication of ***Oil Money*** is timely. It helps us understand why the Biden administration is leading with military weapon provision to intervene in Russia's war with Ukraine.

Note

[1]. Borah quoted in Justus D. Doenecke, "William Appleman Williams and the Anti-Interven-

tionist Tradition," *Diplomatic History* 25 (Spring 2001): 286.

If there is additional discussion of this review, you may access it through the network, at https://networks.h-net.org/h-environment

Citation: Michael R. Adamson. Review of Wight, David M. *Oil Money: Middle East Petrodollars and the Transformation of the US Empire, 1967-1988.* H-Environment, H-Net Reviews. May, 2022.

URL: https://www.h-net.org/reviews/showrev.php?id=57478