

**IBN HALDUN UNIVERSITY
SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF POLITICAL SCIENCE AND
INTERNATIONAL RELATIONS**

MASTER THESIS

**THE SYMBIOTIC RELATIONSHIP BETWEEN
AMERICAN OIL AND BANKING OLIGOPOLIES IN
THE POST-WAR PERIOD**

MUHAMMET ENES DÖNMEZ

**THESIS SUPERVISOR
PROF. ERIK RINGMAR**

ISTANBUL, 2021

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APPROVAL PAGE

This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Arts in Political Science and International Relations.

Thesis Jury Members

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This is to confirm that this thesis complies with all the standards set by the School of Graduate Studies of Ibn Haldun University.

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I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.

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ÖZ

SAVAŞ SONRASI DÖNEMDE AMERİKAN PETROL VE BANKACILIK OLİGOPOLLERİ ARASINDAKİ SİMBİYOTİK İLİŞKİ

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Savaş sonrası dönemde Amerikan petrol ve bankacılık oligopolleri arasında simbiyotik bir ilişki bulunmaktadır. Bu simbiyotik ilişkiden dolayı bu iki oligopolün çıkarları ve takip ettikleri politikalar ortak veya ilişkilidir. Ancak bu ilişki literatürde yeterli ilgiyi görmemiştir. Bu çalışma bu simbiyotik ilişkinin kökenlerini, savaş sonrası dönemde bu iki oligopolün çıkarlarının ve takip ettikleri politikaların neden ortak olduğunu, 1970'lerin dolar, petrol ve petrodolar krizlerini inceleyerek keşfetmeyi amaçlamaktadır.

İki oligopolün arasındaki simbiyotik ilişkinin bu iki oligopolün belirli krizler ve meydan okumalar karşısında ortak çıkarlara ve politikalara sahip olmasını gerektireceği hipotezini test etmek için, nitel bir araştırma yürütülmüş ve bu amaçla birincil ve ikincil kaynaklardan faydalanılmıştır. Birincil kaynak olarak Amerikan hükümetinin petrol ve bankacılık oligopollerine dair raporları, soruşturmaları ve kongre komite oturumlarına dair resmi kayıtlardan yararlanılmıştır. Çalışmanın bulguları Amerikan petrol ve bankacılık oligopollerinin güçlü bir simbiyotik ilişkiye sahip olduğunu ve bu ilişkinin savaş sonrası dönemde, özellikle 1970'lerin dolar, petrol ve petrodolar krizlerinde önemli rol oynadığını göstermektedir.

Dolayısıyla bu sonuçlar Amerikan petrol ve bankacılık oligopollerinin sahip oldukları simbiyotik ilişkiden dolayı birbirilerini beslediklerini, ortak çıkarlarına ulaşmak için

kendi ülkelerinin ve insanların aleyhine de olsa ortak politikalar izlediklerini ve gerektiğinde küresel boyutta krizler çıkartmaktan dahi çekinmediklerini ortaya koymuştur.

Anahtar Kelimeler: Petrol Karteli, Banka Karteli, 1971 Dolar Krizi, 1973 Petrol Krizi, Petrodolar Döngüsü



ABSTRACT

THE SYMBIOTIC RELATIONSHIP BETWEEN AMERICAN OIL AND BANKING OLIGOPOLIES IN THE POST-WAR PERIOD

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In the post-war period, there is a symbiotic relationship between American oil and banking oligopolies. Because of this symbiotic relationship, the interests of these two oligopolies and the policies they pursued were common or associated. However, this relationship has not received enough attention in the literature. This study aims to discover the origins of this symbiotic relationship, why the interests of these two oligopolies and the policies they pursued were common in the post-war period, by examining the dollar, oil and petrodollar crises of the 1970s.

To test the hypothesis that the symbiotic relationship between the two oligopolies would require these two oligopolies to have common interests and policies in the face of certain crises and challenges, a qualitative research was conducted and for this purpose, primary and secondary sources were used. The primary source was the official records of the American government's reports, investigations and congressional committee sessions on oil and banking oligopolies. The results of the study showed that American oil and banking oligopolies had a strong symbiotic relationship and this relationship played an important role in the post-war period, especially in the dollar, oil and petrodollar crises of the 1970s.

Therefore, these results revealed that American oil and banking oligopolies fed each other due to their symbiotic relationship, pursued common policies even if they were

against their own countries and people in order to reach their common interests, and did not hesitate to cause even global crises when necessary.

Keywords: Oil Oligopoly, Banking Oligopoly, 1971 Dollar Crisis, 1973 Oil Crisis, Petrodollar Recycling



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Muhammet Enes DÖNMEZ

KOCAELI, 2021



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CHAPTER I

FOUNDATIONS & CRISIS OF THE ORDER OF DOLLAR AND OIL: 1945-71

INTRODUCTION

It would not be an overstatement to claim that the symbiotic relationship between American oil and banking oligopolies in the post-war period gave direction to the American and even the world economy. Despite this fact, the post-war story of this symbiotic relationship has received far less attention than it deserves. However, there is a lot of works in the literature on the economic hegemony of America after the Second World War. One of the biggest shares in this hegemony belongs to oil and banking oligopolies.

Five of the largest oil companies in America were among the world's largest oil companies known as the Seven Sisters and were an oligopoly with full control over the world oil market. On the other hand, the largest American banks experienced a merger wave in the 1950s and 1960s, and a few controlled more than three quarters of the capital markets, that is another oligopoly. As revealed by the federal investigations of the time, there was a symbiotic relationship between the two oligopolies due to their share ownership, interlocking directorships, and the influence of certain interest groups on the two oligopolies.

Thus, this thesis investigates whether these American oil and banking oligopolies, due to the symbiotic relationship between them, had common interests in the post-war period and followed common policies in the face of crises and challenges.

In the Chapter I, we will analyze the Bretton Woods agreement and the Marshall Plan as the two basic frameworks of the economic order established after the Second World

War, and we will examine the place of the dollar and oil in this order as the two main components. Then, we will analyze the rise of oil and banking oligopolies and the ways in which the symbiotic relationship between the two oligopolies was established. At the end of the chapter, we will evaluate the profitability crisis faced by the two oligopolies, capital controls and credit squeeze, and the common and / or associated policies they pursued against these problems and the Eurodollar markets they had resorted to.

In the Chapter II, we will research how the two oligopolies managed to lift the gold standard under Bretton Woods through capital speculations. We will also analyze how the banking oligopoly has expanded its operations and transaction volumes through the Eurodollar market, and how the oil oligopoly has succeeded to raise oil prices by not resisting the Libyan government's demands.

In the Chapter III, we will investigate how the oil oligopoly abused the Arab-Israeli War and its deep ties with the Arabs, thereby causing oil prices to increase fourfold compared to two years ago. On the other hand, we will examine how the rising oil prices caused the petrodollar crisis by increasing the incomes of oil producing countries significantly and how the banking oligopoly turned this crisis in their favor through petrodollar recycling. Finally, we will briefly evaluate how the oil oligopoly has become the world's largest companies thanks to huge profits, and how the banking oligopoly has achieved great freedom by opening the way for the financialization of the world economy while increasing their profits.

1.1. Rise of The Oligopolistic Partnership of Banks and Oil Companies

Rockefeller dynasty's Standard Oil Trust was dissolved with the antitrust trial in 1911. Even after the dissolving, it had come forth that Rockefellers had been holding shares 20.2 per cent of Standard Oil of New Jersey (later Exxon); 16.3 per cent of Standard Oil of New York (later Mobil); 11.3 per cent of Standard Oil of California (later Chevron) and 12.3 per cent of Standard Oil of Indiana (later Amoco, only operated in the U.S., not in the Middle East) (Auzanneau, Reynolds, & Heinberg, 2018, chapter 13). Also, these four majors owned 32.2 per cent of U.S. domestic oil reserves, 30.8

per cent of U.S. refineries and 26.3 per cent of retail gasoline sales in the United States (Blair, 1976, p. 148).

Investigations toward major American banks had begun with the problem of interlocking directorates in 1914. Major banks such as J. P. Morgan and First National Bank held over 70 directorships of more than 40 largest companies in the country. By 1946, the largest ten oil companies were connected to each other through three large banks like Chase National Bank (Report on Interlocking Directorates, 1951, p. 377; Blair, 1976, p. 142-44;) In 1972, these interlocked directorates increasingly remained. Five American majors of seven sisters were interlocked with one another. Besides, directorates of the major thirteen oil companies had been meeting in the governing body of the eight largest banks. (p. 144-46).

By 1973, Federal Trade Commission investigation against the petroleum industry showed that only twenty largest oil companies in the U.S. had been controlling almost 94% of known oil reserves in the U.S. and largest eight held 64% of these reserves and 37.2% was held by the largest four. Major eight collectively had 55% of retail sales and 58.1% of refining (Blair, 1976, p. 129-30).

As John M. Blair explained, who was chief economist of the Federal Trade Commission and headed many investigations towards oil companies, a few specific interest groups owned enough shares of oil companies to control these companies, i.e. Rockefellers had at least 12% of all stocks that was higher than the level in literature which is between 5%-10%. Additionally, there were connections through interlocked directorates; for instance, directors of Chase Manhattan Bank were also directors of Exxon and Standard Indiana, and also directors of Chemical Bank had been meeting with the directors of Exxon and Mobil in the board (Blair, 1976, p. 150).

On the other hand, there was a huge wave of bank mergers in the 1950s. Those mergers gave birth to Chase Manhattan Bank, The National City Bank of New York as the second-largest bank in the country in the 1950s, Chemical Bank New York Trust Co. as third largest in New York and Morgan Guaranty Trust Co. as fifth largest in New York in 1959 and Manufacturers Hanover Trust as third largest in New York and fourth in the world. Further, an antitrust case by the Department of Justice in 1961

showed that 75% of all bank deposits were accumulated in the five largest banks in New York, and the same five banks held 77% of all commercial credits (de Cecco, 1976, p. 385-6).

Congressman Wright Patman and his committee published a report in 1968 showing that the largest 49 banks held at least 5 per cent of common stocks of the largest 147 corporations in the country in 1967, and these banks had over 760 interlocked directorates with the largest 286 companies. The report stated that the banking system could be acknowledged as the only power of the economy when the capital they supplied to companies were considered. The Securities and Exchange Commission (SEC) published another report in 1971 showing that 10 per cent or more shares of 17 companies which had at least one billion-dollar equity values, were held by three or fewer banks (Kotz, 1979, p. 408)

Between 1967-1969, Rockefeller controlled Chase Manhattan Bank had been controlling 16 companies in the top 200 companies list also Morgan Guaranty Trust and Bankers Trust aggregately held control of 12 companies in the list (p. 411). As mentioned above, when a bank holds 5%-10% of a large company's shares, it is more rational and profitable to control the company (p. 412-13). Thus, by the 1960s, major American banks and oil companies had emerged as oligopolistic partnerships which were owned and controlled by a few specific interest groups. As David Rockefeller said in his memoirs after the 1940s, oil would had been at the center of profitability of Chase Manhattan Bank (Rockefeller, 2011, chapter 19).

As a matter of fact, international economic order had been founded upon the American dollar as the reserve currency and oil as the fuel of the order in harmony with these oligopolistic partnerships. The United States constructed its' monetary framework through Gold Standard at Bretton Woods and its' energy framework through Marshall Plan.

1.2. Gold Standard and Rise of The Dollar

During the interwar period, U.S. has managed countries' money and cash needs through New York capital markets with its' relatively better economic conditions since the world's liquidity supply were insufficient. At the end of the war, U.S. held 75% of world's gold reserves. Other countries were already willing to accumulate dollars to reach this huge gold supply; thus, dollar had become a reserve currency before an official settlement (Cohen, 1977, p. 95).

In Bretton Woods Conference, one-ounce gold was equalized to \$35, and other countries' currencies were pegged to the American dollar in certain values. It was also called as "gold convertibility" that states could give dollars which they held to U.S. and demand gold in equal value. Since exchange rates were fixed, other states had to supply money and control their balance of payments with caution. However, the U.S. preferred the "benign neglect" policy that neglects balance of payments deficits to respond to the world's increasing liquidity needs (Cohen, 1977, p. 96).

The U.S. had demanded from European countries to devalue their currencies. Thus, their exports to the U.S. would had increased, and the U.S. could build international trade with its' superior purchasing power and a strong balance of payments. The U.S. had expected Western economies would develop in export-based (de Cecco & Fitoussi, 1987, 185-6). The 1950s and 1960s were the material expansion phase of capitalism, also known as 'Golden Age of Capitalism' (Arrighi, 2010, p. 306-7). As Bowles said, Bretton Woods order was completely in favor of American business (Bowles, Gordon, & Weisskopf, 1984, p. 6)

U.S.' trade surplus has remained in the post-war period, too, and the large part of these trade surpluses was derived through Marshall Plan. However, these surpluses would had been limited by dollar shortage abroad and decreased continuously between 1951-71 (Block, 1977, p. 144). Although the U.S. had faced with balance of payments deficits even in the late 50s, American monetary authorities did not prefer to change existing parity, rather they hoped lender countries which enabling them to make deficits would continue to accumulate dollars (de Cecco & Fitoussi, 1987, 186). Thereby, the dollar had been certainly both essential trade and reserve currency.

1.3. Marshall Plan and Rise of The Oil

If one pillar of the U.S.' economic hegemony was the dollar, the other pillar would be oil. As of 1947, dollar shortages had become a vital problem for other countries to buy American products. So, if Europeans could not find new tools for financing these purchases, U.S. export had to be declined (Block, 1977, p. 82-3; Painter, 1984, p. 360).

Before the war, Europe's energy needs were provided by coal more than 90%, and they did not have access to Eastern Europe's oil because of the Communist threat. For the reconstruction of Western Europe and its' economy, a vast amount of energy was required. U.S. administration and oil companies could provide the energy West needed (Painter, 1984, p. 361). This was an opportunity for the U.S. government, American banks and oil companies to make European industries oil-based rather than coal-based. Thus, if Europeans demand imported oil from the U.S. oil companies, they would have to hold dollars to pay oil price (p. 361). Marshall Plan was used for this purpose.

On the contrary Bretton Woods, capitalist bankers and oilmen's role in the proposal of the Marshall Plan was remarkable. In late 1946, the Council of Foreign Relations (CFR), -an influential think tank funded by famous capitalists such as Rockefellers- hosted a study group on "Reconstruction of Western Europe" that was renamed as "Marshall Plan" between 1947-1948. Lawyer Charles M. Spofford led the study group and David Rockefeller participated in the study as secretary. CFR's annual report of 1948 had stated that the study group had revealed the importance of the aid for the reconstruction of Western Europe even before George Marshall's proposal in 1947, and members of the group had maintained contact with government authorities (Shoup & Minter, 1977, p. 35).

On the other hand, prominent capitalists and CFR circles founded an ad-hoc "Citizens Committee for the Marshall Plan to Aid European Recovery" (CCMP) in late 1947. CCMP was also funded by big names like John D. Rockefeller, but also small business made contributions. CCMP organized advertisements, radio programs and paid for speaker bureaus to affect public opinion about the benefits of the Marshall Plan (Machado, 2007, p. 18-9).

U.S.-based oil companies supplied oil to Western Europe through Marshall Plan. Oil had composed over 10% of all commodities and over 20% of total expenditures as part of Marshall Plan. Besides, oil had been only 10 per cent of Europeans' energy basket in 1945 and it rose to 25% in 1950. 56 per cent of oil which U.S. oil companies supplied to Europe was financed within the Economic Cooperation Administration (ECA) of Marshall Plan by 1951 and as ECA president Paul Hoffman said, Europeans had become regular customers due to dollars provided by ECA (Painter, 1984, p. 362-3; Machado, 2007, p. 122-3).

While other commodities under Marshall Plan were coming from United States, oil came from Middle East. Middle East oil was 17 per cent of U.S. crude oil import in 1948, it increased 30 per cent next year. In 1948, there was discussions on pricing of imported oil between Europeans and major oil companies because market prices of Gulf crude were between \$1-1.75 per barrel, however major oil companies had been selling over \$2 per barrel to Europe. Oil expert of ECA Walter Levy, who was sent from Socony oil company to advice ECA, requested from Paul Hoffman to not question companies' price policies (Painter, 1984, p.363-7; Mitchell, 2011, p. 30). Europeans were expected to obey the companies.

As oil prices lower, Western economies relieved about dollar shortage problem. Marshall Plan countries demanded also that their refinery capacities to be developed. So, it could support to diminish dollar shortage, since they could use cheaper crude oil rather than expensive refined products. American oil companies made contributions to only expand and repair their own refineries in Europe. However, Walter Levy and oil circles in ECA objected to support oil industry in Europe, because it could damage to major American oil companies' interests (Painter, 1984, p. 372-3).

Thereby, the U.S. financed Western economies to build roads and buy vehicles from the U.S. through Marshall Plan to make them dependent on oil which was the center of American hegemony (Keohane, 1984, p. 140), and on American major oil companies (Mitchell, 2011, p. 29-30).

Bretton Woods arrangement and Marshall Plan provided advantages to the U.S., major American banks, and oil companies as it did to Western economies since Europeans

had stable monetary order, free-market for their products and access to stable priced oil even though American oil companies had sold them with higher prices (Keohane, 1984, p. 139). However, this prosperity has not last long. The U.S. faced with a profitability crisis at the end of 1950s.

1.4. Capital Controls and Profitability Crisis of Capitalists

American based transnational companies owed their golden age and high profits to direct investments in abroad in post-war period, yet by 1957, long term capital outflows of privates from U.S. started to erode U.S. balance of payments stemmed from liabilities Bretton Woods' gold standard charged (Block, 1977, p. 155).

Oil companies' investments abroad composed over 70% of all foreign investments of privates (Painter, 1984, p. 374) and they were the most profitable investments. Oil companies made \$3.1 billion investment in abroad between 1950-64. The profits from these investments were \$15.2 billion. This \$12.1 billion net return was more than three times of return of all foreign investments in other sectors. Although 60 per cent of U.S. total foreign investments were made to Western world in 1970, \$16.5 billion net return of all return accounting \$21.9 billion came from Middle East and Latin America between 1965-71 (Block, 1977, p. 153).

In addition to these enormous foreign investments, generous aids to Europe through Marshall Plan and military expenditures in Vietnam War had made a breach in U.S. payment deficits. Furthermore, by 1958, U.S. trade had started to decline, as Western Germany and Japan increased competitiveness in international trade (Block, 1977, p. 175). Already, U.S.' liabilities to foreigners were almost over its' gold stocks. This had intensified concerns of foreign dollar holders about dollar's convertibility into the gold in the future. The U.S., now, had faced with Robert Triffin's famous dilemma that either U.S. diminishes its' deficits and it would lead to liquidity shortage in the world or U.S. continues to have deficits and it would face with the confidence problem as its' gold reserve drains (Hearings, 1959, p. 175-9; Cohen, 1977, p. 99).

In 1961, David Rockefeller, Chase Manhattan Bank's president, advocated foreign aids, which promotes payment deficits. He argued that if possible, capital controls

should not be implemented, but it was acceptable if there is no other choice. He also defended high interest rates by accommodating conservative economic philosophy. (Hawley, 1987, p. 36-7). Indeed, it was not inconsistent or confusing that he defended capital controls as one of the most famous capitalists, as long as high interest rates remain. That is because, for American capitalists, profits of their foreign investments which they could reinvest to expand their operations abroad, had become more important than the capital they flew from United States (Block, 1977, p. 153).

On the other hand, Rockefeller said that the gold standard could be abandoned if necessary for the balance of payments of the nation in a letter that he sent to Congress in 1963 (Hearings, 1963, p. 438). Nevertheless, capital controls could not seriously worry big capitalists such as Rockefeller, at least until the late 1960s.

While Europe and Japan were expecting the U.S. to diminish its' deficits, Americans expected them to revalue their currencies to solve the imbalance of payments between the U.S. and others. The U.S. was reluctant to take a step, because gold standard was hindering America's flexibility on changing exchange rates especially for its' own deficits (Cohen, 1977, p. 102). The U.S. had no intention to restrict its' hegemonic power by decreasing its' military expenditures all over the world, in any case (Helleiner, 1996, p. 87).

Eventually, the Kennedy administration had to enforce capital controls on privates to decrease deficits by preventing capital outflows from the country. It started with the Interest Equalization Tax (IET) created by two bankers of administration, Douglas Dillion and Robert Rosa, in 1963 (Helleiner, 1996, p. 85). IET imposed an additional excise tax on local privates holding foreign securities. The aim was to discourage Americans from foreign financial investments by offsetting higher interest rates with that of abroad through taxes on interest receipts (R. B. M., 1969, p. 140; Hudson, 2003, p. 294).

President Valéry Giscard of France had complained during IMF meetings in 1963 that the U.S. deficits had been exporting inflation to Europe, which led to instability for Europe's financial system. However, U.S. did not worry as long as the rest of the world continue to hold dollars and not demand to convert them to gold (Hudson, 2003, p.

295). The U.S. preferred to neglect the problem and postponed it to the later of expected victory in Vietnam, and it found enough designing a voluntary capital control program in 1965 (Helleiner, 1996, p. 86).

Despite measures for capital outflows taken between 1960 and 1964, capital exports had exceeded the U.S. trade surplus, and as a result, the balance of payments deficits remained. The decline accelerated as net foreign investments increased, while the trade balance declined. These indicators showed that American manufacturers would lose their competitiveness and investment funds (Brenner, 2006, p. 123). German and Japanese manufacturers caught up to Americans in many industries with their new and low-cost products, and they were invading the markets where Americans controlled before. The U.S. producers were confronted with a reduction of more than 40 percent in the rate of net gains on their capital stocks. Americans had no choice but to suppress the costs of wages increasing and prices of products below the costs. This period beginning mid-1960s and increasing the early 1970s of decline in profits and the increase in costs was named “profitability crisis” (Arrighi, 2011, p. 26).

During the “profitability crisis,” U.S. struggled with increasing inflation, unemployment and continuing capital outflows. Between the mid-1960s until 1980, inflation in the U.S. climbed from 2% to 5% in 1970, to 10% after the oil crisis in 1973 and to 14% in 1980 (Bowles, Gordon, & Weisskopf, 1984, p. 21-2). Unemployment increased rapidly from 3% in 1965 to 4% in 1971, then to 8% after the oil crisis in 1974 (p. 22-3). Even though production workers’ hourly earnings after-tax increased throughout the 1960s with the possible effects of increasing inflation, it also declined after the 1970s. Besides, growth rates of hourly incomes were 2.9% in the 1950s, it dropped to 2% in the 1960s and declined significantly to 0.6% between oil crisis of 1973 and 1979.

The most important reason for this was another decline in the growth rates of productivity in the late 1960s. The decline in productivity was seen in each sector in the country except the manufacturing sector since there were huge capital investments into manufacturing during Vietnam War (p. 29-30). When a small-scale downturn occurred in post-war, profits always had recovered themselves; however, it could not rehabilitate unprofitableness in recessions after 1966. After-tax profits were lower than

over 30% in 1972 compared to it had been 1965, and it was even lower in 1977 compared to 1972 (p. 31).

According to Samuel Bowles (1984), the essence of the profitability crisis was the difficulties the U.S. companies faced (p. 64). First of all, the U.S. benefitted from the dollar glut it supplied into the world's liquidity. The dollar glut caused a foreign direct investment boom in the post-war period. The growth rate of the foreign investments was twofold of the growth rate of the U.S. GDP. The returns of these investments were profitable for the U.S. capitalists as excessive demand was maintained. Another advantage of American capitalists was privileged access to energy and raw materials (Bowles, Gordon, & Weisskopf, 1984, p. 68).

Furthermore, the U.S. had reconstructed the economies of Western Europe and Japan after the war, but thus, it would have created its' potential rivals in international trade. Especially strengthening German and Japanese producers through foreign aids like Marshall Plan would have become the most prominent challenge for the U.S. domestic producers and markets (p. 79-80). Also, excessive production during Vietnam War had caused to increasing demand to import and slowed down export that was resulted in pushing up inflation (Block, 1977, p. 183), and higher inflation was resulted with again higher demand for imports (Hawley, 1987, p. 87).

Thus, major U.S. companies, especially oil companies and major American banks, had to find a solution to increase their profits and access to capital and funds required by getting rid of capital controls contributing to the decline in their profits (Hawley, 1987, p. 43). First, major American banks sought ways to escape capital controls and expand their operations. They would have done this at the expense of deepening the crisis in America, and later they would have been followed by their partners, major oil companies.

Consequently, as Samuel Huntington said in the Report of the Trilateral Commission founded by David Rockefeller, President Truman could control the country with the support of a few Wall Street bankers and lawyers. However, after the mid-1960s, this was not possible since there were lots of power sources in society (Bowles, Gordon,

& Weisskopf, 1984, p. 62), and these oligopolistic powers' moves were only profit-oriented and were at the expense of the U.S. and Americans.

1.5. Emergence of Eurodollar and American Banks In 1960s

Eurodollars had emerged as a solution against restrictions on London banks to lend sterling to foreigners during the sterling crisis in 1957. London banks started to attract dollar deposits to lend them to foreigners, so they offered higher interest rates than U.S. banks could offer because interests American banks could pay to short-term foreign deposits had been limited by ceilings imposed by Federal Reserve through Regulation Q (de Cecco & Fitoussi, 1987, p. 186-7).

Even after restrictions lifted in the U.K., London banks sustained their profitable Eurodollar operations (Helleiner, 1996, p. 84) because huge amounts of dollars were held by foreigners provided by U.S. deficits (Block, 1977, p. 162). Then, U.S. monetary authorities realized that Eurodollars were convincing foreign privates and central banks to continue to hold dollars and do not convert them into gold in American reserves, which was about drained as expressed by Secretary of Treasury Dillion in congressional hearings in 1960, thus, U.S. considered Eurodollars as useful incentive for foreigners to finance U.S. payment deficits (de Cecco & Fitoussi, 1987, p. 187; Helleiner, 96, p. 100).

First guests of Eurodollar markets consisted of major transnational companies like oil companies and foreign central banks (de Cecco & Fitoussi, 1987, p. 187). Other clients of Eurodollar markets were the third world, and communist countries that had to accumulate dollars to able to trade with Western countries, hesitating to deposit their dollars into U.S. banks in fear of their accounts could be frozen (Arrighi, 2010, p. 310; Arrighi, 2011, p. 28).

Although London bankers designed Eurodollars, major banks of New York had quickly adopted it to use against capital controls and banking regulations in their own country. First time since the end of the war, capital and funds were flowing from the U.S. to Europe to attract higher interest rates offered by Eurodollar markets. After the merger wave of banks, major New York banks' main purpose was to attract deposits

that were inclined to shift to U.S. securities promising higher payments. These largest banks were also competing with each other for funds in a “oligopolistic” way. Now, they had to attract funds moving to Eurodollar markets (de Cecco, 1976, p. 390).

Kennedy administration supported American banks to compete with U.S. securities and Eurodollar markets by raising interest rates, and besides, it allowed to Certificate of Deposits, a new financial invention of First National City Bank. The most remarkable move was “Operation Twist” presenting separate interest rates for the short-term and long-term. Long-term interest rates were kept lower to encourage investment in the country, while short-term were raised to encourage foreigners to continue holding dollars. That was another way to finance U.S. deficits, not reduce them (Helleiner, 1996, p. 85). Thus, American banks gave loans to foreigners who were not provided loans by their own countries due to the credit squeeze (de Cecco, 1976, p. 392).

Americans expected foreign borrowers to hold dollar with short-term debts by implementing Operation Twist; however, they were reluctant on foreigners to be long-term indebted with the investment intents. The main concern here was to prevent capital outflows such as it is in capital controls. However, no measures imposed neither on American banks to be restricted opening new branches abroad, nor on American companies to be prevented from investing abroad (de Cecco, 1976, p. 393).

By the mid-1960s, American banks had become finance center as lenders of the world. However, American authorities interpreted these loans as destructive for the balance of payments (Helleiner, 1996, p. 85). The administration introduced the Voluntary Foreign Credit Restraint Program restraining American banks from lending to non-Americans right after the exacerbation of the Vietnam War and payment problem (Bergendahl, 1985, p. 4; Helleiner, 1996, p. 86). That was followed by new measures imposed through Regulation Q on interest payments resulting in the flow of funds from CDs of banks to Treasury bills. When American banks’ great amount of funds were drained, they had to open up new branches abroad to able to remain to supply required capital for major transnational companies like oil companies and, most importantly, to able to by-pass current credit squeeze and ones in the future (de Cecco, 1976, p. 397). Thus, by 1966, major American banks began to join into Eurodollar markets (p. 398).

1.6. Origins of Petrodollars

American commercial banks had followed American transnational companies which investing Europe by opening branches there in the post-war (Hawley, 1987, p. 4). These commercial banks had realized that it would be very profitable to accommodate Eurodollar deposits since they would not be subjected to any liabilities such as minimum reserve requirements by Federal Reserve. Moreover, major American banks joining into Eurodollar markets had a significant competitive advantage compared to other banks in offering solutions for the capital needs of transnational companies, especially major oil companies, during a credit squeeze (de Cecco & Fitoussi, 1987, p. 187).

While major American banks had already used the Eurodollar market to provide capital needs to the major oil companies that are their partners, it has become vital to provide these large companies with sufficient credit so they could overcome the credit crunch (de Cecco, 1976, p. 398). On the other hand, as Giovanni Arrighi explained, depositing revenues into the Eurodollar market was so reasonable for transnational American companies like oil companies because of profitability crisis which reinvesting of capital was not profitable in the U.S. than in other countries, for instance in the Middle East (Arrighi, 2007, p. 157). Meanwhile, all the largest banks were eager to compete for these funds (de Cecco & Fitoussi, 1987, p. 188). This symbiotic relationship between the two oligopolies of oil companies and banks unified their interests.

It was not just that meeting the capital needs of oil companies by banks that brought together banking and oil. Also, central banks of oil producing countries have become customers of the newly growing Eurodollar markets after the mid-1960s. Thus, after London and European capitals, Eurodollar markets expanded through locations such as Cayman Islands, Hong Kong, Singapore. There was no coincidence that these offshore money markets were centralized in Kuwait, Bahrain and Caracas to canalize petrodollars of OPEC countries (Bergendahl, 1985, p. 6) or that these places were former British colonies (de Cecco & Fitoussi, 1987, p. 188-9).

Thereby, while petrodollars had been so essential for major American banks in the Eurodollar markets via major oil companies and oil producing countries, Eurodollar markets were so indispensable for oil companies to either “park” their dollars in as profitable investment during profitability crisis or to achieve capital required as loans during credit squeeze, as well. So, the symbiotic relationship between oil and banking oligopolies became stronger.

1.7. Capital Speculations In The Early 1960s

Contrary to general belief, U.S. did not prefer to restrict American banks’ offshore operations in Eurodollar markets, although they could have. Furthermore, Eurodollar markets had emerged with the support of American policymakers (Helleiner, 1996, p. 82). However, the financial depression of the early 1970s, too, emerged in these markets (de Cecco, 1976, p. 398).

Capital speculations under Bretton Woods Agreement gained momentum with speculative attacks against sterling by using arbitrage which benefitting differentials between exchange rates. These transactions could be made with dollars deposited in especially Eurodollar markets to be withdrawn later in other currencies expected for a gain (de Cecco & Fitoussi, 1987, p. 193). As we mentioned above, central banks of many countries had been using Eurodollar markets in order to compensate possible losses by the devaluation of dollars they held through international trade (p. 189).

Besides, large amounts of dollars in the hands of the central banks and companies of many countries could flow from one place to another at the slightest interest rate changes. It led to the U.S.’s interventions to inflation through interest rates lost their efficiency since it did not affect the quantity of money in the market anymore (de Cecco, 1976, p. 398). It meant, now, there would be more volatile interest rates and capital flows with speculations.

Thereby major American banks -there were also some small and medium-scaled banks- had escaped through Eurodollar markets from Federal Reserve regulations like Regulation Q, which limiting the size of credit that banks could create (Hawley, 1987, p. 113). Meanwhile, capital outflows by American privates’ foreign investments from

the U.S. had been increasingly continuing. Foreigners increasing dollar holdings exchanged these dollars for other currencies with central banks of their own countries. As long as foreigners kept holding dollars and the U.S. suppressed other countries not to demand gold in exchange for these dollars, it has seemed like everything was fine (Hudson, 2003, p. 296).

However, America's financial liabilities to other countries exceeded its' gold reserves by 1964. According to a study by Yale professor Robert Triffin on the American foreign investment position in 1966, if foreign private individuals and central banks chose to hold gold instead of dollars, U.S. would not be able to finance foreign investments and aids such as the Marshall Plan (Triffin, 1966, p. 13). U.S. had become net borrower of Europe with \$5.6 billion as result of Americans' \$7.1 billion long-term debt over Europeans' \$12.7 billion short-term demands. At the end of the 1965, foreign central banks' dollar reserves composed almost 70 percent of these demands. When it comes to the balance of foreign direct investments, the U.S. received \$7 billion direct investment from the rest of the world, while American privates made foreign direct investment over \$47 billion (p. 10-11).

Thus, fear of depleting American golds accelerated speculations by private individuals and other central banks (Helleiner, 1996, p. 84-5). These speculations would had brought the end of the gold standard of Bretton Woods, as bankers and oil companies who are partners each other had hoped.

1.8. Crisis of The Dollar

By 1967, none of the measures for capital control could avoid growing capital outflows and balance of payments deficit which was the worst since the 1960s (R. B. M., 1969, p. 141), and at the same year, the pound was devalued with the impact of Six Days War between Arabs and Israel undermining of Suez trade and increasing oil prices (Eichengreen, 2011, p. 57). After the pound's devaluation, a new wave of speculation against the dollar began in the European gold markets, where a huge amount of gold was bought. Then gold pool countries had to sell their golds to offset the \$35-dollar price (Block, 1977, p. 193). Capital outflows had amounted to over \$3.5 billion at the end of the year (R. B. M., 1969, p. 142), and also, foreign investments went up from

\$500 million to \$1 billion with the concern of further restrictions (Hawley, 1987, p. 87).

In early 1967, oligopolistic capitalists of banks and oil companies began to express their intentions and expectations. Senator Javits narrated the stresses of Chase Manhattan Bank and Bank of America as members of the oligopoly on the importance of the dollar as a global financial reserve currency (Congress Record, 1967, p. 8977). For banks, while U.S. assets were mostly direct investments abroad and long term loans, its' liabilities were short term dollar deposits and investments by foreigners in the country that means U.S. had had the intermediary role in the international finance, and even if gold reserves of the U.S. drained, the banks declared that U.S. would sustain its' financial power through the dollar which is superior to the gold as a currency paying interest (p. 9677).

Eugene Birnbaum, chief economist of the Standard Oil of New Jersey -after he completed his mission, he became the vice president of Chase Manhattan, which is co-partner of the oligopolies- wrote his famous article, "Changing the United States Commitment to Gold," calling the U.S. to abolish the gold standard (Block, 1977, p. 196). Birnbaum offered "the current-account convertibility," which remove the physical restrictions on the gold stock in the existing system (Birnbaum, 1967, p. 3). As his boss David Rockefeller said similarly two years later, the current account convertibility would alter the dollar's position; however, it would not remove the position of gold. The gold would continue to be convertible to any currencies, and the U.S. would remain to have to finance its' payment deficits, but thereby, the heavy burden U.S. undertook alone would be distributed more equally on other countries (p. 15-6). This alternative method would be feasible because, in any case, other countries would prefer holding dollars since its' value was backed by U.S. economic power (p. 5).

President Johnson enforced mandatory foreign investment controls and restrictions on lending to non-Americans on the privates in order to, at least, keep under control growth of payment deficits. However, these measures did not succeed. Also, it was forcing private capitalists to shoulder the burden of the balance of payment deficit, and

the result was that trade surplus in 1968 could not exceed that of 1967 (R. B. M., 1969, p. 142-3).

The American government imposed additional tariff taxes on imports to offset its' deficits and announced that it removed the gold pool, which meant the U.S. could not afford to pay gold at \$35, and one-ounce gold was revalued to \$38 (Block, 1977, p. 203; Hudson, 1993, p. 307). Thus, other countries could not demand the U.S. to convert their dollars to gold anymore like whenever they did earlier. Now, central banks of other countries had to absorb dollars that speculators wanted to sell to preserve their currencies from extreme revaluations or devaluations (Block, 1977, p. 194).

Meanwhile, OPEC countries demanded additional royalties and taxes from major oil companies in order to protect their purchasing power. (Hudson, 2003, p. 307) From 1965 to 1968, until the removal of the gold pool, U.S. government debt increased from \$31 billion to \$344 billion, resulting in the U.S. became the most indebted country (p. 310-2).

In 1968, senior officials of major American banks started to express their unrest about these controls. Vice president of Rockefeller's Chase Manhattan Bank, William Buckley, said the controls could help in the short term; however, they would miss the gist of the problem (Hawley, 1987, p. 98). Another top-ranking banker, Walter Wriston, president of the First National City Bank of New York -later, he became the president of Citibank-, emphasized that the controls imposed for improving payment deficits would not work. His main concern was that the philosophy of international liberalism would be harmed by the expansion of these controls all around the world (p. 100).

U.S. monetary authorities implemented a stricter credit squeeze in 1969 in the wake of failures of capital controls and excess money supply printed to finance the Vietnam War. American banks tended to lend to Eurodollar markets as Federal Reserve lowered interest rates. On the other hand, they were encouraged to borrow from Eurodollar markets as Federal Reserve increased the rates. Interest rates rose as America tightened lending to prevent capital outflows, and American banks borrowed capital from their

overseas branches. The liabilities of American banks to their overseas branches were less than \$2 billion in 1967 and \$13 billion in 1969 (de Cecco & Fitoussi, 1987, p. 190). Furthermore, liquidity in central banks diminished from \$15.6 billion to \$11.9 billion between 1967-1969, while that of privates increased from \$15.7 billion to \$28.2 billion in the same period (Hawley, 1987, p. 119). All these Federal Reserve policies did not correct the U.S. payment deficits, and they also undermined the gains of the private sector.

On the other hand, the rise of the rates in the U.S. triggered hikes of interest rates in other countries, and thus, the credit squeeze of the U.S. spread to those countries. This period was called “interest rates wars,” and rapid changes in interest rates enlarged Eurodollar markets by increasing dollar supply (p. 116). Thus, the American finance circle was the only gainer since they increased their transaction volumes in Eurodollar markets (de Cecco & Fitoussi, 1987, p. 191).

Appealing to Eurodollar markets was inevitable for American privates to finance foreign direct investments when capital controls began in 1968 and proceeded until late 1969. It had fundamental consequences on international finance. First of all, capital controls encouraged foreign dollar holdings that enhanced Eurodollar markets which the great majority of users were transnational American companies. As a second result, this made the capital sources of those companies more international (Hawley, 1987, p. 106). However, its’ consequences on the American economy were worrisome. Between 1960-1969, while interest rates had increased four times from 2.25% to 9%, inflation had jumped nine times from 0.7% to 6.2% with the impact of inevitable payment deficits and the profitability crisis.

Results of credit squeeze imposed by the American authorities to cease capital outflows were to doubled unemployment from 3.6% in 1969 to 6.2% in 1970. That was for the sake of less costed money and lower inflation. Interest rates dropped from 9% in 1969 to 5% in 1970 and inflation from 6.2% in 1969 to 5.6% in 1970. Besides, the government enforced some tax reductions and reliefs on the ceilings of Regulation Q. Also, Regulation M was rearranged in order to discourage American banks from borrowing from their foreign branches. Thus, the government tried to prevent these

banks from escaping credit squeeze using Eurodollar markets (de Cecco & Fitoussi, 1987, p. 191-2).

David Rockefeller had already written an article called “Money and Gold in a World of Turmoil” in October 1969. He argued that capital outflows were inescapable through capital controls that could only be compensated by trade surplus and returns from foreign investments. He also offered an alternative monetary system as Eugene Birnbaum had suggested two years ago, -his employee from Standard Oil of New Jersey and later, from Chase Manhattan Bank. There would be no similar gold standard in this system as it had been, and SDRs (Special Drawing Rights), which was called “paper gold,” would be produced as IMF discussed in those days. So, binding liabilities of the U.S. would be lifted to a large extent (Rockefeller, 1969, p. 317).

Thus, David Rockefeller had a desire gold standard to be abandoned, such as his employees and other top-ranking bankers from the banking oligopoly. For instance, vice president of First National City Bank of New York, G. A. Costanzo, made similar arguments on capital controls. Until two years ago, First National City Bank was chaired by James Stillman Rockefeller, David Rockefeller’s cousin. James Stillman Rockefeller had been elected president and then chairman in 1959, serving until 1967. Costanzo suggested ending all of the controls. He argued that Americans had to resort to Eurodollar markets for short-term borrowing or capital investments because of the controls, which had been increasing the demand for dollars abroad. So, if there were no capital controls, there would be no that much capital outflows (Hawley, 1987, p. 102).

Consequently, the Nixon administration enforced reflationist policies through tax incentives, lower interest rates and more money supply. However, Germany preferred to follow the opposite direction by increasing interest rates. It added a new dimension to capital speculations in the Eurodollar markets since while the U.S. was implementing easy money policies, Germany did tight money policies. Now, funds were flowing from the U.S. to Eurodollar markets. Also, an outflow began from the American dollar to the Deutschemark. (de Cecco & Fitoussi, 1987, p. 192).

By early 1970, easy money policies of the U.S. seemed to work that liabilities of American banks to their foreign branches had dropped from \$14.3 billion to \$10.5 billion. Federal Reserve suspended Regulation Q's ceilings, limiting the interest that American banks could pay to short-term deposits and American banks focused on attracting fewer cost deposits from Americans. Within five months, Eurodollar holdings of foreigners in the American banks reduced more than \$10 billion (Hudson, 2003, p. 322-3), and these banks compensated for the decrease with the \$10 billions increase in certificates of deposits by attracting Americans' deposits (Strange, 1972, p. 198-9).

Despite all of these losses of American banks in the Eurodollar deposits, Eurodollar markets continued to expand by exchange rate speculations. As Germans increased interest rates over Americans, borrowing from Eurodollar markets became less profitable for Americans; but for Germans and other Europeans, borrowing from Eurodollar markets and converting them into their own currencies was profitable since the relative value of the dollar had been decreasing (de Cecco & Fitoussi, 1987, p. 192). So, German companies gained over \$4 billion from these speculations in Eurodollar markets in 1970 (McKenzie, 1976, p. 106). On the other hand, Germany's central bank had added to its' reserves \$9.6 billions in the 1969 and \$3 billions in the 1970, thus its' reserves achieved \$16.7 billion (Hudson, 2003, p. 334).

These escapes from the dollar were accompanied by a deterioration in the balance of payments, and the main reason was to keep interest rates low to increase investment in the homeland (Strange, 1972, p. 199). U.S. had no chance but to force Europeans and Japanese to enforce voluntary tariffs on their exports to the U.S. for the purpose of slowing down the deterioration in its' deficits. Also, President Nixon told the textile industry that he would allow the decision the Congress could take to put quotas on imports (Hudson, 2003, p. 329). Other European central banks responded to American arrogance by converting more than \$420 million into gold (Hudson, 2003, p. 334), and this was followed by the series of speculations that took place between the Federal Reserve and the German central bank Bundesbank throughout 1971. These speculations would had brought the end of Bretton Woods.

1.9. Profitability Crisis of Oil Companies

In the post-war era, the fates of the major oil companies and American banks seem to have crossed at all turning points and occasions like emerging of oligopolistic partnership with banks, experiencing profitability crisis, resisting oil import quotas within the context of capital controls, escaping from credit squeeze through Eurodollar markets and as most importantly, seeking a way to increase profits at the expense of America and Americans.

The literature about the role of major oil companies in the oil price hikes and oil crisis during the 1970s includes views blaming oil companies for either being an accomplice of OPEC or to accepting increases in oil prices without resisting or accommodating tacitly and willingly, and according to some, the companies were weak and choiceless in front of the oil producing countries' demands. In any case, observers admitted that the energy shortage seemed clear enough to be convinced that it was orchestrated (Bini, Garavini, & Romero, 2016, p. 120).

These views are wide-range and unclear because, as Robert Keohane explained, oil regimes and arrangements were not institutionalized like monetary regimes and arrangements, i.e., Bretton Woods, and also, they were structured mainly between oil companies and states rather than among states (Keohane, 1984, p. 185). That is why we will observe how oil companies created their oligopoly and turned every crises into an opportunity.

The oligopoly of oil companies called "Seven Sisters" was unrivaled and stayed at the peak of its' power until the 1950s. Oil companies had achieved this power by *not* developing the oil industry. Professor Timothy Mitchell explains this phenome in his book "Carbon Democracy." Oil pipelines were introduced first in Pennsylvania in the 1860s, and the primary purpose was to bypass sabotage attempts of teamsters who had been transported barrels of oil with horses (Yergin, 1991, p. 33; Mitchell, 2011, p. 36). Thus, oil companies obtained the ability to sabotage and interrupt pipelines. This ability provided oil companies to protect their oligopoly by preventing the development of the oil industry and eliminating potential rival producers that could threaten their profits and market shares (Mitchell, 2011, p. 8).

During the 1940s, U.S. had been producing 70% of the world's oil and determining the prices as the largest exporter. When domestic producers suppressed, U.S. limited the production to increase prices. By 1947, U.S. lost its' net exporter position and transnational oil companies emerged as only suppliers. American majors were both main producers and importers in the country and they knew they would face with import quotas if they exceed oil imports (Adelman, 1995, p. 42-7). American government provided tax deductions for major oil companies operating abroad upon U.S. State Department's suggestion and oil companies' taxes were reduced in exchange for taxes demanded by producing governments. John McCloy, a Rockefeller-associated statesman, emphasized that the government planned these tax deductions to provide oil companies free access to oil fields in other countries (p. 50-1).

Between the 1950s and 1960s, the ability of sabotage passed from major oil companies to the Arab governments in time (Mitchell, 2011, p. 145). For instance, the Mosaddegh government in Iran in 1953 and the Iraq government after Abdel Karim Qassim's coup in 1958 had strived to seize its' oil production from oil companies (Bini, Garavini, & Romero, 2016, p. 69). In November 1960, Qassim was killed with a coup, after a few CIA attempts to assassinate him in early 1960. James Akins, an American diplomat, known as "Mr. Oil," had gone back to Baghdad from Kuwait after the incident, and he said in a PBS interview¹ that they were pleased since many communists were killed (Mitchell, 2011, p. 149-150).

Thus, the period had begun that oil prices would constantly decrease from \$1.90 to \$1.25 per barrel until 1970. Until 1960, despite the decline in prices, the oil industry was in a golden age regarding increasing income as oil companies increased the oil output proportionally to increasing demand (Bini, Garavini, & Romero, 2016, p. 91-2). The reason was that the only way for oil producing governments to increase their incomes was to force the companies to increase the production. Moreover, 60 cents of a barrel oil priced \$1.80 was going to host governments, \$1.20 of that went to oil companies in 1950. As new companies entered the market from the mid-1950s, oil

¹ PBS, 'An Interview with James Akins'
<https://www.pbs.org/wgbh/pages/frontline/shows/saddam/interviews/akins.html>, (accessed 12 April 2021)

prices and profits started to decline (Adelman, Griffin, 1982, p. 4-5). As Libyan Petroleum Minister Fuad Kabazi said, they preferred independent (not among majors) oil companies since Libya desiring to discover oil rapidly (White & Sampson, 1991, p. 247). Thus, major oil companies experienced a “profitability crisis” like other nonfinancial companies did. The crisis oil companies faced had specific reasons and specific remedies.

Oil consuming countries had a concern about oil supply shortages since Suez Canal was closed in 1957, and after the incident, they had become consented to higher oil prices (Adelman, 1972, p. 95). On the other hand, oil producing Arab countries were uneasy with that taxes they collected had been declining. After companies like Exxon and BP reduced posted prices that decreased the governments’ incomes, OPEC was formed by oil producing governments in 1960 (Mitchell, 2011, p. 54).

OPEC countries had noticed huge incomes they could achieve. It is because, in the market, costs were too low but prices were too high, for instance, some European countries had been paying almost \$30 per barrel. Also, throughout 1960s, OPEC countries’ debts had increased, and their balance of payments turned into negative, that had surplus before (Adelman, 1995, p. 52). Thus, income tax was changed to an excise tax by OPEC in 1960 in order to guard itself against price declines (p. 63), and each government in OPEC demanded companies to produce more to able to increase taxes they could gain (p. 57).

Another mechanism OPEC used to increase its’ incomes was to change the current price policy. Earlier, OPEC had been using price and income tax, which changed according to oil companies’ incomes. So, as oil prices decreased, governments’ taxes were declining as well. Therefore, OPEC developed a “tax reference price” that would not change with prices and determined a fixed tax that companies could calculate (Adelman, Griffin, & Teece, 1982, p. 7).

If we look at the situation of the major oil companies in the 1960s, the Seven Sisters had been controlling over 70% of the world’s oil production, including even some communist areas. Despite the profitability crisis of the 1960s, it might have said that profits of the oil companies were still high compared to many other industries (White

& Sampson, 1991, p. 219). However, until the end of the decade, gains of oil companies operating in the Middle East declined from \$1.7 billion in 1963 to \$1.6 billion in 1969 with a minor decline, and this was able to be achieved only with doubling production occurred with demand boom by developed economies (Adelman, Griffin, & Teece, 1982, p. 6). So, while oil companies' net profits decreased by 24%, their payments to OPEC governments increased 15%, which composes 70% of all profits (Bini, Garavini, & Romero, 2016, p. 93).

Oil companies and prices experienced fundamental transformation in Libya rather than the Middle East, where companies' impact is highest because there was no limitation for oil companies' excess production in Libya. Also, the Libyan government had accommodated minor independent oil companies apart from the Seven Sisters. However, these independents' market share was too small compared to the majors, so independents were affected most by the decline in prices (Adelman, 1995, p. 70).

Nevertheless, major oil companies' oligopoly started to be threatened as independents increased their market shares by offering much lower prices to cling in the market. Besides, major oil companies could have had to decrease their Middle East production to compensate excess output in Libya, and in such a case, they could be faced with the risk of losing their privileges in the region (Blair, 1976, p. 207).

The major oil companies dominating the American domestic market faced challenges like their branches abroad. While independent oil companies were undermining the majors' profits abroad, "private branders" posed a threat to them in the domestic market (Blair, 1976, p. 241). The domestic oil cartel, composed of the Seven Sisters and a few others, had strengthened their oligopoly through their absolute control of the pipelines and transportation. Oil pipelines were very critical for market shares of oil companies because after crude oil was drilled from the wellhead, it was directed to the main trunk line station, which transfers the oil to the refinery through the larger pipeline. The problem here was that most of these pipelines were owned by major companies (p. 243-4).

According to Federal Trade Commission's Staff Report in 1973, because of the complexity of organization of oil transportation process, independent companies had

been facing discrimination by majors when independents wanted to find a place for their relatively small amount of supply in the transportation process. So, independents had to organize their supply in accordance with the demands of the majors (FTC Staff Report, 1973, p. 23-4). Moreover, independent refineries in the U.S. could supply very little amount of their crude oil, and eight major companies provided 29% of their need until 1970. However, as the report indicated, these major firms would not sell crude to independents anymore irrespective to any price (p. 8-10). Thus, both independent oil companies and private branders would have lost their gains after the 1973 oil crisis when majors declined to supply them.

Furthermore, oil companies also had been controlling a significant amount of the alternative sources in domestic energy sources. Oil companies controlled over 40% of all uranium reserves in America. Up to 20 oil companies produced 75% of America's natural gas until the late 1960s. The oligopoly of oil companies increased prices of alternative energy sources artificially to above regular market prices to keep oil prices higher. For instance, when companies demanded to increase natural gas prices, the Federal Power Commission rejected them, then companies used their "sabotage" weapon by cutting supply (Mitchell, 2014, p. 179).

At the end of the 1960s, U.S. domestic oil production had achieved its' limits. Mandatory Oil Import Program in force since 1959 protecting domestic oil producers from cheaper imported oil, i.e., Middle Eastern oil, had almost drained American discovered oil resources. In such a shortage situation, cheaper Middle Eastern oil could be imported, but higher cost American oil producers would have been excluded from the market as domestic oil prices would decline from \$3 per barrel to \$2 per barrel. Also, majors had been buying crude oil from independents to be refined, and if majors imported oil from the Middle East where they were also operating instead of buying from independents, independents would have to reduce either output or prices (Parra, 2004, p. 43).

There was a fear of oil shortage in the U.S. while there was plenty of oil in the Middle East at the end of the 1960s. All oil companies projected an average 25-million-barrel increase in world oil demand until 1980. An article published by the famous Petroleum Press Service in 1969 predicted that oil consumption would be doubled by 1980 and

the industry must discover new reserves. Although newly discovered Alaska and North Sea oil could answer partly to the need, a large part of the demand would have to be provided from Middle East (Parra, 2004, p. 115).

It is important to mention here, important also for the following sections, the special relations between Kissinger and the Rockefeller family; Henry Kissinger took charge of the Council of Foreign Relations, dominated by the Rockefeller family, after he graduated from Harvard in 1955. David Rockefeller noticed genius Kissinger and suggested to his elder brother Nelson Rockefeller to study with him on a foreign policy project having an influence on U.S. foreign policymakers later. Then, Kissinger accompanied Nelson Rockefeller in his three candidacies as a personal adviser until Nixon was elected president in 1968 (Auzanneau, Reynolds, & Heinberg, 2018, chapter 14).

Henry Kissinger sent a letter in 1969 to president Nixon informing that Rockefeller group's including John McCloy and John Jamieson, chief executive of Exxon, request to meet with the president. Rockefeller group had been demanding Nixon to intervene conflicts in the Middle East. Otherwise, they could lose their oil concessions and significant oil reserves to radical Arabs, and so U.S. relations with Arab countries could be break. Furthermore, they reminded oil companies' promotions to balance of payments of America (Energy Crisis, 1969, p. 68).

Thereby, major oil companies facing with profitability crisis, threats coming from new rivals, and the possibility of energy shortage comprehended that they needed to new markets and, in addition, to higher prices since these new markets had intense competition because of higher costed oil. Accessing the American domestic market was the main aim of major oil companies. However, majors' access to the market was restricted by Mandatory Oil Import Quotas imposed in 1959 to protect the higher costed domestic industry and prevent capital outflow through oil import (Mitchell, 2014, p. 170).

On the other hand, U.S. started to get involved in conflicts in the Middle East as Rockefeller demanded from President Nixon, but the administration preferred doing it through intense arm sales. Increasing arms sales to the Middle East, especially to Iran,

led to pressure on oil companies to increase production since governments would need more income to pay those arms. Thus, the decline in oil prices accelerated, and oil companies started demanding to abandon the Bretton Woods system, which enforced import quotas in the United States. Consequently, after Birnbaum's report who is from Standard Oil, U.S. loosened restrictions on oil imports to fight against inflation by decreasing oil prices in the domestic market in 1970 (p. 171).

1.10. Discussion

In the post-war period, major oil companies and major American banks emerged as two oligopolies. Oil oligopoly consisted of seven major oil companies named the Seven Sisters. While the Seven Sisters were dominating the American domestic oil industry and foreign oil through oil fields, pipelines, refineries and concessions. A large part of the oligopoly was controlled by a monopoly, i.e., Rockefeller's Standard Oil heritage.

Simultaneously, the American banking oligopoly was born due to the vast merger wave of the largest American banks in the 1950s and 1960s. While banking oligopoly was managing more than three-quarters of all credits and funds, a few of the oligopoly possessed at least 10% shares of almost 20 companies worth one billion dollars. Thus, banking oligopoly did not control just the finance sector. It also controlled a significant part of the real economy through non-financial companies.

The destiny of the two oligopolies unified early post-war when the American dollar was chosen as the reserve currency of international trade and finance with the Bretton Woods order. At the same time, U.S. constituted its' global economic hegemony with foreign aids through Marshall Plan. Oil formed the most vital element of the plan and became a means to make other countries depended on oil and major oil companies, thus on the dollar.

The partnership of two oligopolies was created through joint ownerships and interlocking directorates. As the government investigations showed, while major banks were connected to each other through common directorates, banking oligopoly was connected to oil oligopoly through the same directorates, which were efficient in

the administration of oil companies. A significant essential connection composing partnership between two oligopolies was the fact that certain few interest groups owned prominent members of two oligopolies. Besides, major banks held a significant number of shares of the largest companies which oil companies were at first rank.

Since certain few interest groups owned and controlled two oligopolies, interests of oil and banking oligopolies and policies they pursued have unified in the face of the same crisis and challenges. Two oligopolies did not hesitate to pursue policies for their interests even if they conflicted with the interests of countries and people, especially the U.S. and Americans.

In the post-war period, American capitalists captured many foreign industries and companies abroad by increasing U.S. balance of payment deficits. Since other nations' imports from the U.S. did not offset these deficits, deficits continued to rise (Hudson, 2003, p. 328). That is because the U.S. eventually lost its' competitiveness in international trade. While the U.S. had been controlling 30% of the international trade in the world in 1951, it declined to 18% in 1971 (Bowles, Gordon, & Weisskopf, 1984, p. 32). However, Bretton Woods's fixed exchange rate structure forced other countries' central banks to accumulate dollars to interfere volatility in exchange rates if required, thus financing U.S payment deficits. After capital speculations against the dollar, which brought Bretton Woods to an end, American deficits achieved \$29.8 billion in 1971 while it was only \$9.8 billion in 1970 (Cohen, 1977, p. 104).

In the 1960s profitability crisis was the product of the American government and companies' various policies. First of all, U.S. supported the reconstruction of Western and Japan economies and making them the greatest economic rivals of American producers. However, the main factor deepening profitability crisis was hegemonic crisis of U.S. which failed in third world (Arrighi, 2011, p. 27). U.S.-backed coups aiming to access Middle East oil and present it major oil companies and companies' unfair concessions and policies in the third world was one of the crucial dynamics triggering this hegemonic crisis there (Bowles, Gordon, & Weisskopf, 1984, p. 82).

The government hoped only that cooperation with banks would help to get over the negative impacts of outflows. U.S. government's policies promoting the economy

would have led to more capital outflows in any case, and thus, the profitability crisis would have deepened. However, American banks escaped banking regulations through Eurodollar markets, and the government ignored them with the intention of continuation of holding dollars by foreigners (de Cecco, 1976, p. 391) despite this accelerated capital outflows.

Regulation Q was imposed on the American banking system for a long period, and the banks resorted to Eurodollar markets to draw cheaper funds for developing their operations at home. Nine of the major American banks dominated a large part of Eurodollar markets (Gindin & Panitch, 2012, p. 118). U.S. capital controls aiming to prevent payment deficits led overseas branches of major American banks used Eurodollar markets to attract funds of transnational companies like the Seven Sisters. On the other hand, when the American government applied “credit squeeze” to prevent capital outflows, American banks provided credits to transnational companies including oil companies which had been facing with another profitability crisis with declining oil prices.

Thus, oil and banking oligopolies were challenged by the same profitability crisis, capital controls and credit squeeze. While both of them objected explicitly to capital controls and credit squeeze, they got over these challenges in cooperation by resorting to Eurodollar markets even at the expense of leading to increase the deficit of U.S. and so deepen profitability crisis. As a result, the Eurodollar market size expanded enormously, almost 30% annually throughout the 1970s (Bergendahl, 1985, p. 5).

In the late 1960s, members of the two oligopolies repeatedly demanded the abolishment of Bretton Woods agreements. For oil companies, the structure of the Bretton Woods restricted free import, including oil, to prevent increasing deficits. Also, the higher costed domestic oil industry had been being protected with mandatory oil import quotas since 1959. Thereby, oil companies facing declining prices and profits and fear of shortage sought new investments and discoveries. However, they needed higher oil prices for new discoveries and abolishing import quotas to penetrate the American markets with their Middle East oil.

On the other hand, before the U.S. deficit crisis intensified and decreasing gold reserve of U.S. suppressed on the dollar, American banks seemed like they were not against capital controls if the controls were necessary for the interests of the country, because the capital controls had been an opportunity for American banks to expand their transaction volumes and operations abroad through Eurodollar market. Thus, they presented themselves as patriots. However, when the government imposed a stricter credit squeeze at the end of the 1960s, American banks were discouraged from to resort Eurodollar markets to escape from the credit squeeze. Therefore, they objected to capital controls, the gold standard, and so Bretton Woods covering the first two.

Here, it would be reasonable to say that two oligopolies pursue common policies since they had common decision-makers through interlocking directorates, and they had joint ownerships, thereby pursuing common policies would strengthen the possibility to achieve the interest, while pursuing contradicted policies would harm the interests of at least one of the sides. In this case, the Bretton Woods arrangement could not be sustained anymore, and it had been presenting an obstacle for two oligopolies to expand their operations and increase profits.

Capital speculations against started after the devaluation of sterling and the U.S. announcement removing gold convertibility in 1967. Billions of dollars were sold, and these dollars had to be absorbed by other central banks. After the credit squeeze, one more wave of capital speculation happened, but this time, the direction of the capital flow was from dollar to Deutsch mark offering higher interest rates. However, the consequences of the interest rates wars were diverted to Europeans and Japans, and other companies and central banks (de Cecco, 1976, p. 398). So, the U.S. and American companies were affected relatively less.

President Johnson had sought deflationist policies because of excess expenditures during Vietnam War, and higher interest rate policies had made the balance of payment worst through capital outflows. However, with Kissinger and Connally, President Nixon preferred to increase the money supply by decreasing the dollar's value with the support of the free market. Finally, his administration abolished Bretton Woods unilaterally, and other countries even could not resist or respond to it (Strange & Watson, 1997, p. 6).

If we examine the oil oligopoly, oil companies have been pleased with lower oil prices 1950s and even until the mid-1960s as long as production increased in accordance with increasing demand (Parra, 2004, p. 141). The period of lower prices started after the mid-1950s, and the decline in oil prices maintained decreasingly until 1971 (Danielsen, 1976, p. 409).

On the other hand, American domestic oil production began to decline after it reached its' peak despite the full capacity production in 1970. The first response was that oil import quotas were relieved. While 2.2 million barrels per day were being imported in 1967, it rose to 6 million barrels per day in 1973. Thus, the share of the oil imported in the total consumption increased to 19% from 36% in the same period (Yergin, 1991, p. 567).

There were new oil field discoveries in the North Sea and North Slope of Alaska in 1968. Middle East oil was \$1.30 per barrel, and transporting it to the West was still cheap even with transportation costs. Under these circumstances, discovering and drilling efforts of oil companies in these areas seemed vain and unprofitable when deep and cold Alaska and North Sea fields with stormy waters were to be considered. However, it was very reasonable for oil companies to expect price increases in the short term. Expectations stemmed from the predictions of those days about the great demand boom in the near future, repeated complaints of producing governments about their incomes not increasing significantly (Parra, 2004, p. 142) and fear of energy shortages.

There were already higher prices for the American oil market, which were the results of mandatory oil import quotas and higher oil costs, so the price hikes had to emerge elsewhere. Moreover, the world's oil sources had been intensified in the Middle East, so there was a need for price increases to incent new discoveries in other areas (p. 143). Thereby, all of these reasons made increasing prices both acceptable and expectable for oil companies, governments, and even consumers, which concerned energy shortages.

Throughout 1970, oil companies and the oil industry repeatedly emphasized how much world's oil demand would increase in the near future, and they published many

predictions about how much the industry needed to higher oil prices (Parra, 2004, p. 116). Thus, they strengthened the fear of the upcoming energy shortage world would face, so consuming countries could have accepted price increases more easily. The first move to increase oil prices came from Libya where had been producing almost one-fourth of all Western oil (White & Sampson, 1991, p. 245).



CHAPTER II

UNPREVENTED OIL PRICE INCREASES & LIBERTY FOR THE DOLLAR: 1971-73

2.1. Libya: The Center of The Oil Price Explosion

In King Idris' period, oil companies seemed like the ruling was not threatening them, although the King was not pleased about declining prices and so incomes. Majors restricted the output of the oil when they needed to offset total supply to adjust the prices. However, the independents had no chance but to produce total capacity since they had no more alternative fields to offset the production cuts in another field. As oil minister Kabazi said, they preferred to distribute Libyan oil fields among independents instead of giving all fields major oil companies. The independents had no much interest outside Libya (MNC Report, 1975, p. 98). The independents produced over half of the Libyan oil, while their share in all OPEC (Organization of Petroleum Exporting Countries) was only 15 percent (Blair, 1976, p. 212).

The decline in oil prices accelerated as the independents produced excessively. However, the majors had been producing in the Middle East fields twenty times more than in Libya, and it was unclear for them how long more they could cut the production in the Middle East to offset excess output in Libya. The majors' interests in the Middle East were much more than in Libya, but they could not leave their concessions in Libya to the independents; if they did, their oligopoly would be under threat (Blair, 1976, p. 215).

The American majors of Seven Sisters, in early 1970, owned almost half of reserves in the United States, while they controlled approximately 40% of the production. Also, 80% of all main pipelines in the U.S. were possessed by them (FTC Staff Report, 1973, p. 13-22). When American domestic oil production achieved its' limits with 10 million barrels per day, more than the aggregate output of Iran, Saudi Arabia, and Venezuela, five American Sisters did not worry about it since they managed the world's half of

the all oil production through their concessions (Auzanneau, Reynolds, & Heinberg, 2018, Chapter 13).

Even though oil import quotas were relieved in 1969, the majors did not prefer to import more quality and low-sulfur Libyan oil to America. During the investigation towards multinational oil companies, M. A. Wright, vice-president of Exxon, was asked why the majors sold more quality and low-sulfur Libyan oil to Europeans, while low quality and high-sulfur, which is harmful to the environment, were going to American consumers. Wright said that it was a business decision; if Americans had accepted to pay higher prices, they would have sold to Americans, as well. So, they had preferred the European market where prices were higher (Governmental Intervention, 1969, p. 799-800).

Also, when Wright was asked whether they increased oil prices, which had been declining in Europe, for instance, in the American domestic market, he had confessed their companies were oligopoly by saying that the U.S. and abroad were separate worlds, and conditions of the competition that would erode the prices existed abroad, however, not in America (Blair, 1976, p. 214).

2.2. Colonel Qaddafi Enters The Game

Everything was going to change in Libya and the world's oil industry after young Colonel Qaddafi's coup in 1969. The new prime minister of the new administration of Qaddafi was graduated from the U.S., and he had worked for Exxon as a lawyer (White & Sampson, 1991, p. 248; Adelman, 1995, p. 71), and so the first job of the Qaddafi government was to talk with Exxon and Oxy which is one of the independents in Libya about the prices and conditions of workers, and demanded 40 cents increase for the price of a barrel (Blair, 1976, p. 221).

James Akins, an oil diplomat of the department of the American government, also known as "Mr. Oil," was sympathizing with Qaddafi since he thought Qaddafi was a "fanatic anti-communist" (Akins, 1973, p. 470). He defended that Libyans' demand for the price increase was "reasonable," and then he started efforts to convince the major oil companies that these demands should be accepted (MNC Part 5, 1975, p. 3-

4). That is because independents had tax-advantageous over majors; while the independents were paying taxes accordingly to the market price, the majors had been forced to pay higher taxes from the posted price policy. However, the major oil companies could use these demands as an opportunity to offset the price inequality (White & Sampson, 1991, p. 247); if the price of Libyan crude is equalized to that of other places, their oligopoly would not be challenged by an unwelcome guest, i.e., the independents.

Qaddafi attacked first to the Oxy in the mid-1970, an independent company, not to Exxon, just like the majors could have wished for. Then, he demanded to cut off the excess production of the Oxy since it was completely dependent on the Libyan oil. The main excuse of the Libyan government was the conservation of the oil fields from excess production of the Oxy (Blair, 1976, p. 222). Armand Hammer, Oxy president, called out Ken Jamieson's help, chief executive of Exxon. Otherwise, Oxy could not remain to stand, but Jamieson rejected Hammer's request of a price close to the cost. Consequently, Oxy agreed on the increase of 30 cents in oil price and the tax. When demand was directed to well-experienced Shell, it resisted for a while, but its' production was stopped at the end of the 1970 (White & Sampson, 1991, p. 249-51). However, all companies in Libya, including Exxon, BP, Chevron, and Texaco, were forced to accept the 30 cents increase until mid-October (Parra, 2004, p. 124).

2.3. The Declaration of The Oligopoly of The Companies

Other countries like Iran, Iraq, and Algeria started to demand higher prices with the "leapfrog" effect which the demands spread from a government to another. Thus, in December 1970, OPEC countries met in Caracas and clearly stated that they were determined to take their oil back. Thereby, the oil companies consulted John McCloy to resolve how they would respond to the demands of OPEC. McCloy was the legal adviser of the companies and the lawyer of the Rockefeller's Chase Manhattan Bank, so he was the legal face of the oligopolies. John McCloy suggested the companies to act in concert and bargain collectively as a cartel against OPEC, which was born as a cartel (Danielsen, 1976, p. 412), while the independents defended to bargain with each governments one by one. Thus, McCloy had openly offered the companies to be a

cartel, despite the fact that they already were (Blair, 1976, p. 223; White & Sampson, 1991, p. 251-3).

Consequently, in January 1971, representatives of all oil companies, including the independents, set up a committee group to meet the action plan against OPEC. The group met in John McCloy's office in New York. The group also included James Akins, "Mr. Oil" from the State Department, and another expert from the Department's Antitrust Division (White & Sampson, 1991, p. 255). The antitrust laws would block the joint action of the companies. So, McCloy exercised his influence in the government and sent a letter to the Department that requested immunity from the antitrust laws known as "Antitrust Exemption." He was warranted by the expert from the antitrust division in the group that Justice Department's nonaction against the companies (Blair, 1976, p. 224, White & Sampson, 1991, p. 257). The reason the Department provided an exemption was to prevent Qaddafi from attacking single weak companies to make a profit. However, the assembling of the companies in this way could be considered a compromise to OPEC that the companies declared they were open to bargaining with OPEC (Oppenheim, 1976, p. 25).

As a result, the companies began works to develop concerted policy. Firstly, all companies made a secret oligopoly agreement that any company would not deal with the Libyan government without the consent of another company. Another action of the companies was to sign the "Safety Net Agreement" that if the Libyan government cut one company's production, others had to provide oil to the company as much as the cut. The independents demanded Safety Net Agreement as a guaranty for themselves.

2.4. The Oligopoly Appoints A Diplomat

On the same day with these agreements, McCloy and the representatives of the companies visited the Secretary of State. McCloy recommended the Secretary to get involved in the issue, the next day he asked the Secretary to appoint a diplomat to meet with the Middle East countries on the price increases. The Secretary assigned Jack Irwin as a diplomat to the Middle East.

According to Irwin's testimony in the investigations, Irwin defined his "original" mission as to emphasize to the Middle East countries that the U.S. concerns about oil production cuts (MNC Part 5, 1975, p. 147-8) because there were no definite objections against higher oil prices in the Nixon administration. For instance, before his Middle East visits, Undersecretary Irwin clearly expressed the State Department's only expectation was "stability" and "durability," and also President Nixon emphasized they did not want to hurt anybody (Adelman, 1995, p. 80). Thus, anybody did not talk about keeping the oil prices low (Oppenheim, 1976, p. 28).

Even, Peter Flanigan, Nixon's assistant, had been supporting the higher oil prices since it would provide U.S. competitive advantageous in international trade against Europeans and Japanese because of their higher dependence on imported oil than Americans; thus the additional costs could be passed through the consumers, i.e., Europeans and Japanese (Energy Crisis, 1969, p. 131). The name Irwin had been, in fact, recommended by the companies as a diplomat to the Department, as well (White & Sampson, 1991, p. 257).

In one of the meetings of Iran Shah with Irwin, Shah frankly stated that the joint action of the companies was a plot against OPEC, and in such a case, oil companies would be faced with a cut of oil supply. The American ambassador MacArthur suggested companies abandon the concerted moves. Shah's threat was considered as serious, and then the Libyan government expressed its' discontent that Libya was considered equal with other producing countries despite Libya's more quality oil, so it opposed the concordant action. Thus, the companies had to change joint approach into negotiations, which is "separate but necessarily connected" (Blair, 1976, p. 225-6).

2.5. The London Policy Group

At the same time, another committee group, called "London Policy Group," was organized in London. They made their meetings in the building of BP, while the group in New York made the meetings in the building of Exxon. There were all American and British majors and also independents in the meetings (White & Sampson, 1991, p. 261-2).

The London Policy Group, too, discussed whether the companies should negotiate with Libya and Middle East countries collectively or not. George Schuler, the representative of Bunker Hunt, supported a collective approach like BP, one of the majors, since BP and Bunker Hunt had a large concession in Libya. In his testimony in the investigations, Schuler said he was requested to connect via telephone to the meeting of the group in New York to express his ideas. He defined the committee in New York as a group solving the problems “too big for the London Policy Group” (Blair, 1976, p. 63).

Meanwhile, Akins had gone to London informing the companies about Irwin’s mission. Akins tried to convince the independents with the plan which belonged to the major companies, if they could agree with the Gulf countries, it would make easier to make Libyans accept similar terms. However, the independents were not convinced by this plan since they already were not trusting the majors, and they told Akins that their essential purpose was to survive in the market, but they believed that the majors could undermine their interests at any moment (Energy Crisis, 1969, p. 204).

2.6. Teheran and Tripoli Agreements: 1971

Consequently, the Libyan government’s demands for higher oil prices spread to other countries (Adelman, 1972, p. 77). After the “separated but necessarily connected” meetings between oil companies and the oil-producing countries, Teheran and Tripoli agreements were signed respectively in February and April in 1971. Gulf producers acquired a 30 cents increase in the posted price with Teheran Agreement; however, Libya would have demanded more with Tripoli Agreement after two months (Blair, 1976, p. 226). On the other hand, in Tripoli Agreement, the companies agreed with Libya for a five-year term, and they accepted 90 cents increase per barrel and an additional 5 cent annual increase in the posted price (Parra, 2004, p. 133).

According to Morris Adelman, Economy Professor of M.I.T., the companies had instantly accepted these agreements since they already needed additional revenues to make their investments profitable. The year 1971 had been the best in profits since 1963 (Adelman, 1972, p. 77). It was stressed in the Congress discussions that oil price increase with the Teheran Agreement was an incredible opportunity for the oil industry

(General Tax Reform, 1973, p. 1477). The industry, indeed, was expecting the price hikes by OPEC, because OECD countries met as closed to the press in Paris at the beginning of 1971, and spokesman of the OECD had remarked that there was not any discussion on the arrangements against possible oil shortage (Foreign Policy Energy Crisis, 1972, p. 412). This attitude could be considered another concession by OPEC side that would henceforth increase its' demands toward higher oil prices (Adelman, 1972, p. 81).

The demands of the producing governments were justified after the abolishment of the Bretton Woods in August 1971 that was concluded that devaluation of the dollar and inflation rose, producing governments' dollar-denominated incomes eroded (Adelman, 1972, p. 82). Thus, the new demands to increase prices became inevitable, and OPEC desired larger shares from the oil production with "participation" (Oppenheim, 1976, p. 28). The participation was briefly to make the governments part-owners of their oil. Before, the right of use belonged to the companies, and the companies paid just taxes or profit share. Now, with participation, the right of use would switch partly to the governments. The participation was planned as an alternative to nationalization by Sheikh Yamani, Saudi Minister of Petroleum (Parra, 2004, p. 155) because he was against the governments' interventions into the market, and it would lead to dragging down of prices in favor of the consumers (Adelman, 1972, p. 88).

In September 1971, the Libyan government requested the independents 51% participation and additional production cutbacks. The government demanded the same participation from Exxon and Mobil. In December, BP and Shell were nationalized because of the Libyans' fear of the British (Blair, 1976, 229). According to the Chief Executive of Exxon, the new demands were against the Teheran and Tripoli Agreements. However, the oligopoly would had solved the problem with higher prices and higher taxes, as it did before (Adelman, 1972, p. 83).

As Adelman named, "the genie had been once out of the bottle," and OPEC had discovered potent weapon of the threatening against the consuming countries. OPEC knew well that the oil companies would cooperate, and the consuming governments would not resist (Adelman, 1972, p. 85-6).

2.7. Earning Money By Scaring

The consuming countries quickly absorbed these price increases and threats for energy shortage because the oil companies and the industry had continued preparing the minds of the consumers for higher oil prices through their public campaign. After the price rises in Teheran and Tripoli, PPS, one of the most credible magazines in the industry, stated defending higher oil prices. For the magazine, despite the price increases, oil was still a cheap energy source. The magazine's statements were considered an invitation to OPEC for increasing oil prices (Parra, 2004, p. 116). The companies had plans to expand their production capacities in the Middle East and America, i.e., shale gas production in the Colorado and alternative energy sources in Canada, as well (p. 117-8).

A report by Rockefeller's Chase Manhattan Bank on the oil industry was discussed during a congressional session. The report was prepared in 1971 and published in December 1972. The bank's report stated that the oil industry had to find one *trillion* dollars to meet the world oil needs by 1985 and added, the whole of this amount of money could not be borrowed from the capital markets (Excess Profits Tax, 1974, p. 768). A new similar report, again from the Chase Manhattan Bank, announced six months before the OPEC crisis that the oil companies had to invest at least one *million* dollars in the short-term to provide required oil by 1985.² Moreover, American Petroleum Institute, lobbying for the oligopoly, started a million-dollar advertising campaign to accustom Americans for an "energy shortage" (Oppenheim, 1976, p. 29). Thus, the companies would have succeeded in gaining more income they needed for expansion by keeping the concerns on energy shortage fresh, so, by scaring the world.

In the congress hearings, someone could not hide his astonishment for the existence of government authority, i.e., James Akins, who suggested to Arabs that they should cut the oil production (Congress Hearings, 1972, p. 417). Same Akins had been saying that oil reserves would decrease and alternative energy sources should be developed

² The New York Times, 'Chase Sees Funding In Oil Falling Short'
<https://www.nytimes.com/1973/03/30/archives/chase-sees-funding-in-oil-falling-short.html>,
(accessed 30 April 2021)

(Oppenheim, 1976, p. 30). Prominent witnesses of those days could not desist themselves from confessing the mutual relation between the major companies and the producing governments. If the companies tried to struggle against the governments as single, they would be destroyed, but as a cartel, the companies increased their revenues through tax rises (Adelman, 1972, p. 79).

Dr. Nadim Pachachi, OPEC Secretary-General, said there was no actual dispute between OPEC countries and the oil oligopoly. While president of Shell, Sir David Barran, identified the relationship between the companies and the producing countries as a “marriage”; Sir Eric Drake, head of BP, named the companies as “tax collecting agencies” of the producing governments (Small Business and Energy Crisis, 1974, p. 156). It was discussable, of course, collecting tax from the own country in the name of the other country’s government.

2.8. Hunger Amidst Plenty

“The world energy crisis is a fiction,” wrote Professor Adelman in 1972, “but the belief in the fiction is a fact” (Adelman, 1972, p. 73). Despite all predictions and publications by the companies and the industry for “possible” energy shortage in the future, there had not been a considerable increase in the consumption. The increase in the consumption in 1970 over 1969 was not as much as even average between 1960-1970. The 1971 increase in consumption over 1970 was almost half of the decade average. In the meantime, the oil companies and the U.S. Interior Department’s Office of Oil and Gas were proceeding their projections that oil demand would increase 80% until 1980 (Parra, 2004, p. 117).

There was a worldwide excess oil production relying on increasing prices. The industry faced some losses because of the decline in consumption when they made investments that had no return of investments. It would be expected, in a competitive market, that excess supply would pull the prices down. However, the oil prices were continuing to increase. It was clear proof of the existence of the oligopolistic market (Adelman, 1972, p. 72).

2.9. Oil Import Quotas In The America

In the 1970s, independent refineries in the U.S. had expected some reliefs on the oil import quotas. For instance, when independents demanded an increase in import quotas at 300-500 thousand barrels per day, President Nixon authorized a relief (Blair, 1976, p. 253). The oil oligopoly in the American domestic market had imposed a price squeeze by deliberately restricting supply to these independent refineries. The price squeeze led to price increases in the spot market. To narrow the difference between the prices of the majors and the independents, the majors should not have increased the prices. The majors preferred not to supply oil to suppress the independents (p. 254-5). As a result of the price squeeze, the price difference between the majors and the independents approached 2 cents.

Moreover, in addition to the independents, the private branders entered the American domestic market as rivals to the major gasoline sellers. Although the market share of the eight majors decreased from 67% in 1969 to 55% in 1972, the majors regained their shares in the market with 63% by imposing price squeeze through denial of supply in 1973 (Blair, 1976, p. 257).

2.10. Sheikh Yamani's Favour For United States

Throughout 1972, Arab countries continued to threaten consuming Westerns with oil shortages (Akins, 1973, p. 467). The companies accepted the terms of the equity participation in principle in early 1972; Sheikh Yamani had not been expecting that was so easily (Penrose, 1974, p. 39). The sellers' market seemed emerging, which was the buyers' market earlier. It means that the influence of the producing governments on the market and prices had existed, now (Adelman, 1995, p. 103).

In June 1972, Arabs had invited James Akins as an observer to their Petroleum Congress of Arab League (Oppenheim, 1976, p. 31-2). Akins considered price increases in oil as inevitable and required occasion. He stated that oil prices were too low and should be increased since finding and developing new sources of energy were too costly (Auzanneau, Reynolds, & Heinberg, 2018, chapter 19). Akins concerned about an upcoming worldwide energy gap since Middle East governments could not

find enough capital for the production. These concerns were groundless because the capital expenses of oil companies for production was \$725 million between 1970-1971, while incomes of Arab countries were \$10.8 billion, which is fifteen times higher than oil companies (Adelman, 1995, p. 102).

In the same month, the Iraq government forced Iraq Petroleum Company's Kirkuk production to be nationalized (Penrose, 1974, p. 39) because IPC was resisting to produce as much as the Iraq government demanded (Adelman, Griffin, & Teece, 1982, p. 39). The American majors feared losing their concessions, like their British sisters in Iraq. When the oil companies asked Henry Kissinger to take place in the relations with the governments, he had told Ken Jamieson, president of Exxon, that it would be better if he did not involve the oil issue (Bini, Garavini, & Romero, 2016, p. 55).

However, Sheikh Yamani lent a helping hand to Americans. Yamani went to Washington to offer a privilege for Saudi oil in the American market and guarantee for Americans' flow of the oil (Adelman, 1995, p. 102). Then, the companies reached an agreement with Saudis to give 25% participation, achieving incrementally 51% by 1980 (Akins, 1973, p. 476). Thus, the oil companies made Saudis partly their partner in exchange for the oil supply guarantee, which had already been excess until the end of 1972 (Adelman 1995, p. 95).

2.11. James Akins: The Author of The Story of Energy Crisis

By 1973, world oil consumption started to increase compared to the previous year, as the excess oil output decreased in the Middle East. Also, Libya produced half of the amount that the majors expected from Libya; thus, Libya's pricing policy increased the demand for the Gulf oil. The expectations for higher oil prices and taxes triggered consumers to buy excessively from the current lower price, and the increasing demand triggered the new price increases.

So indeed, prices and profits were dazzling; for instance, Aramco could had compensated the money, which was enough to triple its' production capacity, within only 16 months (Adelman, 1995, p. 97-9). However, Sheikh Yamani was still complaining that the price increases benefited only the oil companies since they were

collecting the profits at the first stage, which is the stage of production (Oppenheim, 1976, p. 35).

On April 17, 1973, James Akins, “Mr. Oil,” wrote an article named “The Oil Crisis: This Time the Wolf Is Here” for the *Foreign Affairs*, the magazine of Rockefeller-affiliated Council on Foreign Relations (CFR). He warned for the upcoming oil shortage, world oil consumption would increase more than expected, and this would push up the prices from \$3 to \$5 or even to \$7 per barrel in the Middle East (Penrose, 1974, p. 39). If the U.S. lost one of the concessions in the Middle East countries, it would mean a “shortage.” However, if the losses were in more than one country, it would mean a world energy crisis accompanied by a panic (Akins, 1973, p. 469).

Thanks to James Akins’s influence on the administration, on April 18, the day after the article, President Nixon suspended all import quotas imposed in 1959 and gradually relieved since 1969. President Nixon had ordered the first significant increase of the oil import quotas in December 1971, after he abandoned the Bretton Woods (Auzanneau, Reynolds, & Heinberg, 2018, chapter 19). Furthermore, as Henry Kissinger mentioned, President Nixon requested a study on the significance of energy policies on foreign security concerns of the United States. Thereby, Akins was given work to ask an executive of Aramco to suggest Yamani paying particular attention to Nixon’s chief adviser, who would be sent to Saudi trip soon (Adelman, 1995, p. 103).

Consequently, *The Wall Street Journal* speculated that name James Akins was seen fit to the position of Saudi Ambassador. Many oil experts, for instance, Dr. Pedro van Meurs, oil expert of the Canadian government, considered the appointment as a cue for OPEC to increase prices. Thus, James Akins was appointed as Saudi Arabia ambassador, pleasing Saudis (Adelman, 1995, p. 107), then he started works promising Saudis everything they wanted, i.e., opportunities for downstream investments, without constituting a formal relation (Oppenheim, 1976, p. 35).

However, in August, Sheikh Yamani announced they would not recognize the Teheran Agreement anymore, and they would increase taxes literally too much next time. Also, until September 1973, the prices proceeded to escalate because some companies were concerned about losing their concessions to the “participation” oil of the governments.

These companies, i.e., independents, had to resort to the governments to get a price from their participation oil. So, in this period, several governments used their participation rights to sell the oil them at \$2.50 per barrel. These concerns also increased the stockpiling of oil. With the participation, the supplier had changed partly from the companies to the governments for buyers. Finally, although Yamani rejected one more time the complete nationalization to prevent the governments' interventions into the market prices, many companies stocked more oil, which accelerated the price increases as Saudis increased their threats until the October crisis (Adelman, 1995, p. 107-9).

2.12. The End of The Bretton Woods

In the mid-1970, the Bretton Woods agreement was already in moribund as short-term dollars escaped from the U.S. through capital speculations, as the U.S. increased interest rates, and Europeans and Japanese decreased. Thus, U.S. policies, including increasing deficits, excess money supply, and "benign neglect," had come to an end. These policies could not prevent the U.S. from profitability crisis or from achieving the limits of its' productive competitiveness (Arrighi, 2007, p. 104-7).

Since early 1971, many countries, including Germany and Netherlands, had floated their currencies. Many others had revalued their money without any direct interference of the United States, just because of increasing dollar inflows to their borders. Economists of the Nixon administration interpreted the developments as a success of the dollar against other currencies since other currencies' revaluation would had helped American exports. The rest of the world had to choose either accepting more dollar inflow and continue holding dollars or rejecting these dollars and accept to revalue their currencies (Hudson, 2003, 336-7).

Despite the decisions taken in G10 meetings in 1971, the majority of the central banks of the member countries in G10 were concerning Eurodollar markets' negative impact on their economies (Braun, Krampf, & Murau, 2020, p. 10), and they reached an agreement restricting their placements into the Eurodollar markets (Helleiner, 1996, p. 104); however, dollar and exchange operations increased in Eurodollar markets. Also,

other countries, except Group of Ten, were reluctant to leave profitable Eurodollar markets (Cohen, 1977, p. 140).

As a result, these operations and capital speculations had forced the Nixon administration to abolish the gold standard of the Bretton Woods on August 15, 1971 (Arrighi, 2010, p. 310). Thus, the world monetary order had switched from the gold standard to a “pure dollar standard” (p. 318). Since the gold convertibility was suspended, there was no problem left for the U.S. economy and its’ financial hegemony (Hudson, 2003, p. 341).

The U.S. suppressed other countries to revalue their currencies, while the American dollar remained fixed to gold at \$35 an ounce. The U.S. convinced the countries by lifting import taxes as a concession for them (Block, 1977, p. 197). As John Connally, Treasury Secretary of the Nixon administration had said rest of the world: “The dollar is our currency, but your problem” (Arrighi, 2007, p. 200). So indeed, European economies got into a recession in the autumn of 1971, declining the manufacturing in whole Europe (Hudson, 2003, p. 345).

In December 1971, Western economies and the U.S. met in the Group of Ten to decide to adjust exchange rates again, and they reached to Smithsonian Agreement. The U.S. accepted to revalue gold price from \$35 to \$38, while devalued the dollar 8.5 per cent, on the other hand, other countries agreed to revalue their currencies one more time over 10 per cent. In addition, Europeans convinced the U.S. to maintain the controls of capital outflows (Helleiner, 1996, p. 104). However, other governments had not been pleased with the agreement; hence, British sterling returned to floating within six months. Also, the American dollar would had devalued again, and gold revalued to \$42, as well, in February 1973 (Cohen, 1977, p. 109-10).

By 1972, Valery Giscard, Secretary Treasury of France, stated their unrest on U.S. “neglecting” capital outflows which came from its’ borders. Three months later, United Kingdom announced its’ suspension of the Smithsonian Agreement by letting the pound to float (McKenzie, 1976, p. 114). Meanwhile, U.S. increasing deficits accompanied by tripled trade deficits with \$6.9 billion and led to a new wave of capital outflows at the amount of \$8.5 billion that would deplete half of the U.S. gold reserves

if the gold standard had remained. World liquidity had doubled since 1969, as the U.S. pumped dollars by having huge deficits.

The U.S. had lowered interest rates for ease money policies, even when Citibank wanted to raise its lending rates, Federal Reserve had rejected. Of course, it also provoked new capital outflows towards higher interest rates abroad. In the first quarter of 1973, U.S. balance of payment deficits achieved the total level of 1972. Thus, there was no possibility under these circumstances for the continuation of the Smithsonian Agreement, which struggling to sustain the de facto Bretton Woods order (Hudson, 2003, p. 358; Brenner, 2006, p. 128).

U.S. monetary authorities had been expecting to persuade Westerns and Japanese to surrender their insistence on capital controls. Liberal American statesmen advocated that more liberalized international finance would enable more stable international economic relations and increase the wealth of the rest of the world (Helleiner, 1996, p. 105-6). U.S. and Western economies gathered once again, more crowded this time, in the Committee of Twenty at September 1972, with the intent of establishing steady international monetary arrangement. There were many challenges, including rising inflation and worldwide energy shortage concerns (Cohen, 1977, p. 110-1).

Even though the continuity of the capital controls was a red line for both Europeans and Japanese, the Nixon administration's position was clear; the U.S. was against capital controls altogether (Helleiner, 1996, p. 106). This position was officially reported by the "Economic Report of the President" presented to Congress at the beginning of 1973. The report explicitly suggested that capital controls, in any case, should not be used to either enhance the balance of payments or restrain volatility in the exchange rate of the dollar (Nixon, 1973, p. 128). Consequently, the U.S. administration would had achieved its' objective mentioned in the Economic Report with the floating of the exchange rates of all countries in early 1973, which was the starting point of the "casino capitalism" (Strange & Watson, 1997, p. 4-5).

2.13. Discussion

Nixon administration's attitude was named again as "benign neglect," as implemented during the post-war period for increasing payment deficits. Thus, U.S. did not take action, i.e., devaluing the dollar, and it expected other countries to do whatever it takes. The "benign neglect" attitude had shifted the pressure to the rest of the world that revaluation of other currencies rather than the devaluation of the dollar (Hawley, 1987, p. 94-7).

After end of the Bretton Woods arrangement, the U.S. had acquired partial immunity from the profitability crisis with the devaluation of the dollar against other currencies revalued, increasing its competitiveness in the international trade (Arrighi, 2011, p. 26). The profitability crisis remained to be a challenge as real wages increased, shrinking the return of investments of the companies (Arrighi, 201a, p. 314-5). U.S. exports, for instance, was composing over 30% of the world trade, while its' share decreased 18% in 1971 (Bowles, Gordon, & Weisskopf, 1984, p. 80). It also burdened additional cost of living on Americans, as the value of the dollar kept decreasing (Hudson, 2003, p. 353).

On the other hand, Europeans and Japanese were dependent on oil three times more than the United States. The U.S. had could partly produce its' own oil with the domestic capacity, while others had no such a chance. The U.S. had not to limit its' oil import anymore with the end of the Bretton Woods. So, U.S. attracted foreign oil by increasing oil import from 2.1 million barrels per day in the 1960s to 6.9 million after the lifting quotas. Thereby, it acquired another pressure element on the trade of Europeans and Japanese (Arrighi, 2010, p. 319).

Another benefit of the removal of the gold standard for the U.S. was that the U.S. did not have to struggle to control the capital outflows and restraining the balance of payment deficits. As we see in the next chapter, the petrodollar crisis would had made the process easier since dollars were going to return to the home through petrodollar cycling (Block, 1977, p. 199). Moreover, U.S. had ensured without any effort that other countries had to accumulate dollars by absorbing them through their central banks

because otherwise, they had to sell those dollars at the expense of the revaluation of the currencies against the dollar (Strange, 1972, p. 205).

Although the central banks of the Group of Ten countries agreed to limit their reserves in the Eurodollar markets, Euro currency markets volume reached \$70 billion (\$60 billion as Eurodollar), composing one-third of all foreign exchanges until 1977 as the oil crisis increased petrodollars. Thus, Eurodollar markets supported the world to sustain holding dollars and increase world liquidity (Hawley, 1987, p. 130).

When the first wave of speculations started through capital inflows from the Eurodollar markets into the U.S. between 1969-70, these inflows hindered the government's attempts for a "credit squeeze" aiming to limit American banks borrowing from the Eurodollar markets where low cost credit was offered. However, when the direction of the speculations reversed towards outside of the U.S. with capital outflows which American banks aiming to lend with higher interest rates between 1970-71, Federal Reserve had to prevent capital outflows once again (Helleiner, 1996, p. 118).

However, increasing world liquidity with the U.S. easy money policies accompanied by doubled oil prices caused the enormous growth in the offshore Eurodollar markets. As dollar outflows increased with Eurodollar markets and foreign investments, depreciation of the dollar value continued; as the dollar devalued, OPEC would have used the devaluations as a reason to increase oil prices once more, together with other industrial raw materials exporting. Thus, transnational companies had profited from the monetary crisis of America via speculative transactions in the Eurodollar markets (Arrighi, 2011, p. 29).

If we examine the developments of the oil oligopoly between 1971-1973, American oil companies had benefited from the higher oil prices provided by Mandatory Oil Import Quotas since 1959. However, America's oil import achieved over 20%, as quotas were relieved gradually until the early 1970s (Keohane, 1984, p. 172). On the other hand, the four major oil companies operating in the U.S. domestic market pushed from the market out the independent refineries and private branders selling gasoline by imposing a price squeeze through denial of oil supply. Thus, the majors'

profitability ratio would had achieved 17% in 1973 and 20% in 1974 (Blair, 1976, p. 314).

In Libya, the interests of the majors and the new Libyan government had overlapped. The majors were uncomfortable with the excess production of the independents, while the new government was annoyed, so-called, again with the excess production damaging the oil fields of Libya. While Libya had been profiting from the production volume before, the new government focused on the earning from the oil per barrel. This aim was in favor of the majors since the independents had no alternative but to sell oil by pulling down the prices through excess production (Blair, 1976, p. 233). Thus, for both the Libyan government and the majors, oil output should have been cut for oil price hikes. That is because if the oil production in Libya were at the level Exxon projected, there would be an oversupply in the amount of that oil prices had to be decreased to able to sell that amount of oil (p. 234).

After Tehran and Tripoli agreements, the producing governments increased their revenues through tax raises and acquired the “participation”, which means they owned the right to use their oil. Furthermore, they made additional increases to compensate their losses because of the dollar’s devaluation (Oppenheim, 1976, p. 33). On the other hand, the five American majors’ net profits rose 12% despite the less than 7% increase in production in the first half of 1971. Sir David Barran, head of Shell, said the extra costs of this expensive oil was paid by the consumers of countries (Oppenheim, 1976, p. 29; Parra, 2004, p. 144-6). Thus, consumer prices increased 50%-100%, while the oil companies enjoyed 12% profits (Bini, Garavini, & Romero, 2016, p. 108).

Thus, if the U.S. government could offer actual resistance against OPEC, the prices would not increase that much; however, the government had no intention to do so, as well. For instance, Akins and Irwin, U.S. diplomats associated with the oligopoly, had stated only their concerns on the upcoming oil shortage, but they had not made any reference to their opposition to higher oil prices; thereby, they showed their hands (Oppenheim, 1976, p. 26-7). Actually, a report of the National Petroleum Council stated that the government’s current policies were promoting to increase the U.S.’ dependence on the imported oil, i.e., from the Middle East and North Africa (National Petroleum Council, 1971, p. 1).

The abolition of Bretton Woods would have been the turning point for U.S. and oil oligopoly. As Timothy Mitchell explained, U.S. could not use production capacity to rule the market prices anymore when the oil oligopoly cut the supply in the Middle East because the U.S. had to produce at full capacity offsetting the deficit in the Middle East. That caused oil companies and OPEC jointly raising the prices (Thompson, 2017, p. 95). As oil imports increased with the reliefs on the oil import quotas from the end of the 1960s and until 1973, the U.S. balance of payments became worse (p. 94). Thus, as payment deficits achieved the levels which could not be recovered, the abolishment of Bretton Woods became indispensable (Adelman, 1972, p. 93). So, it was no coincidence that the decision of the abrogation of Bretton Woods followed that U.S. oil production achieved its' peak in 1970.

OPEC countries could not have succeeded in the price increases without the help of the oil oligopoly. When any cartel demands to control the price, it has to control the supply, and the oil companies were controlling a significant amount of the production. On the other hand, when OPEC wanted to increase the posted prices by raising the taxes, only the oil companies could have done it by passing additional costs through the consumers. If the producing governments produced their oil without the companies, there would not be high taxes in addition to the costs, and as costs decreased with the development of the industry, the prices would always go down (Adelman, 1972, p. 87).

Moreover, both U.S. and the oil oligopoly had great interests, especially in the OPEC oil. That is why the oil companies paved the way for OPEC, and U.S. winked at OPEC and even induced them through its' diplomats associated with the oligopoly. On the other hand, U.S. was still a large domestic producer, and if the price of OPEC oil is higher enough -close to the expensive American oil, then there would be a calmer and more stable world market (Adelman, 1972, p. 89).

As a result, the oligopoly of American banks and oil companies had achieved their demands in 1971. The Bretton Woods were abolished as the oligopolies demanded explicitly before. Two oligopolies had pursued the policies bringing the U.S. to abolish Bretton Woods. Oil oligopoly imposed price squeezes through denial of the supply to both the independents and the private branders in the domestic and foreign oil markets.

As the companies squeezed the foreign markets, U.S. domestic market needed more imported oil. Also, as the companies imposed the same policies within the domestic market, the independent refineries and the private branders were not supplied oil by the majors, and they had to demand again imported oil to survive. With the increasing imported oil, payment deficits worsened, so Bretton Woods' abolishment became inevitable.

Furthermore, oil companies cooperated with the OPEC cartel to increase the oil prices instead of resisting it. U.S. government, too, did not show any opposition against higher oil prices. Because, the oil companies were already within a profitability crisis like all other sectors and had to overcome this crisis, they should have found alternative oil sources to expand their operations, and to do so; they needed higher oil prices to make these costly efforts profitable.

Also, the oligopoly was willing to enter the American domestic market with their imported oil, but the import quotas should have been lifted for this desire. Thereby, U.S. administrations supported these efforts by omitting the cooperation between the companies and OPEC to increase the prices in the Eastern Hemisphere. Also, the government lifted the import quotas after the abolition of Bretton Woods. The oligopoly had ensured this by charging high-rank statesmen like James Akins and Jack Irwin.

On the other hand, the American banking oligopoly had demanded the abolishment of Bretton Woods since they were restricted by Federal Reserve in terms of the lending foreigners and attracting deposits with the purpose of preventing capital outflows. Thus, major American banks resorted to Eurodollar markets in which they expanded their operations worldwide. American banking oligopoly preferred borrowing with fewer costs from Eurodollar markets, as Federal Reserve hiked interest rates. However, they preferred lending to Eurodollar markets, as interest rates were lowered in the country.

As a consequence of expanding Eurodollar transactions, capital outflows from the U.S. enormously increased. Also, waves of exchange rates speculations accompanied by these transactions that dramatized the U.S. balance of payment deficit problem. The

increasing payment deficits of the U.S. intensified the pressure on the American dollar and forced other countries to either float or revalue their currencies, as the amount of dollar they had to absorb achieved its' limit.

All possible monetary policies other countries could choose were in favor of the U.S. in any case. Other countries had to either absorb more dollar flowing them through capital speculation of the transnational companies like oil companies or refusing to absorb these dollars at the expense of the revaluation of their currencies, which would benefit U.S. international export. So, the U.S. government had followed the benign neglect policy and abrogated Bretton Woods.

Thus, U.S. had not to concern financing its' deficits or restricting its' increasing imports and capital outflows anymore. Of course, the dollar and American banking oligopoly would had achieved a liberty from the restrictions. However, the international monetary system remained like a crippled with its' fixed exchange rates. Therefore, the American banking oligopoly, this time, hoped an absolute liberty for the dollar. At first, the fixed exchange rates would had floated, and the hope for absolute liberty of the dollar would had been realized by the oil crisis of the oil oligopoly.

CHAPTER III

CREATED OIL CRISIS & PETRODOLLAR RECYCLING: AFTER 1973

3.1. Fixed Exchange Rates Want Floating

After the cancellation of Bretton Woods, international financial order could not abandon fixed exchange rates regime of Bretton Woods. However, central banks and monetary authorities of other countries had to give up in the face of great amount of capital inflows they could have not absorbed without either floating or revaluating their currencies. Thus, all countries would had let Eurodollar markets to determine exchange rates (Arrighi, 2010, p. 310).

Even early 1973, The Economic Report of President Nixon, which was prepared for Congress, had suggested that the government should establish financial arrangements for other countries to invest including U.S. common stocks, government securities for foreigners to finance U.S. increasing official debts. It was also offered that these arrangements should be offered to oil producing countries which increased oil revenues significantly after the price increases (Economic Report of the Nixon, 1973, p. 170).

By February 1973, a Congressman warned American dollar could be devalued second time after December 1971, thus he gave clue speculators and companies and they began to sell dollars. In month the February, German central bank had to absorb over \$5 billion which was sold by speculators. These speculations, so increasing payment deficits, had been serving to close U.S. budget deficits through foreign dollar owners, since they were investing increasing dollar holdings U.S. government securities at amount billion dollars (Hudson, 2003, p. 356-60).

U.S. and other great economies met to produce a solution for the plenty of dollar abroad in March 1973. Americans had promised sustaining capital controls as long as

its' payment deficits improved, but it did otherwise. Thus, U.S. liberated capital controls altogether and convinced OPEC and some other countries to not buy transnational American companies operating in their countries.³ In those days, many newspapers found the oil companies and Arab sheikhs responsible from the increasing liquidity worldwide (Hudson, 2003, p. 366).

Countries maintained to express their support for capital controls in the IMF meetings, and these views found reciprocity by even high ranks monetary authorities like Paul Volcker. U.S. Congress announced that the new international monetary order should not offer any obligation for capital controls on the countries, and countries should not use these controls to adjust their exchange rates that would harm free international trade and capital flows. However, the result was the victory of the U.S. that succeeded adding the article committing more liberal monetary system into IMF agreement. As Treasury Secretary of the U.K. confessed, international financial order would not be changed without approval of the U.S., when its' and its' the major banks' central role in the world finance were considered (Helleiner, 1996, p. 107-10).

George Shultz, American Secretary Treasury, defended automatic mechanism which exchange rates would be determined by the free market. On the other hand, German monetary authorities who facing with great dollar inflows forcing Deutsch Mark to be revalued, noticed that increasing oil prices would enhance the world liquidity soon, and this would trigger inflation and volatility in exchange rates. Consequently, Germans had to side with U.S. position, since they had no alternative but to allow speculative capital inflows (Bini, Garavini, & Romero, 2016, p. 175-7).

3.2. Background of The “So Called” Oil Crisis

At the end of the 1973, the oil oligopoly had excluded the independent companies from the Libya market and the private branders were disabled in the American market through the denials of supply of the majors. U.S. had drained first its' own oil sources

³ The New York Times, 'U.S. and 13 Others Adopt Measures On Dollar Crisis'
<https://www.nytimes.com/1973/03/17/archives/usand13others-adopt-measures-on-dollar-crisis-plans-are-designed-to.html> (Accessed 30 April 2021)

with full capacity production because of the import quotas, and so, it could not offer a solution upcoming challenges (Blair, 1976, p. 261).

Also, Saudi Arabia and Sheikh Yamani had acquired more than they desired, the participation and also the "buy-back oil", which the oil companies accepted to buy from the governments from a certain price. Thus, now, the interest of OPEC cartel and oil companies' cartel unified (White & Sampson, 1991, p. 280).

Therefore, Aramco officials had started to lobbying efforts that they were persuading American foreign policy makers on they should not upset Saudis about Israel aggressions, after the King Faisal's increasing concerns on Israel (MNC Part 7, 1974, p. 524). According to the investigations towards multinational companies, President Nixon decided to spend a special opening ceremony with John Connell, vice president of Bechtel which is transnational construction company operation in Saudi Arabia, and Treasury Secretary George Shultz who later became the president of Bechtel. Aramco authorities gave a paper expressing their concerns about energy and Middle East, and they had expected Connell to give the paper President (MNC Part 7, 1974, p. 534).

In May, Aramco and other shareholder like Exxon and Mobil started to shape public opinion aligning with their interests. Mobil, first time, published the company's views on the U.S. foreign policy choices on the Middle East in the New York Times. It commented that U.S. should not allow to any impairment of the relation with Arabs. Also, Standard Oil was suggesting vice president of Aramco that they should take positive steps improving relations with Saudis and exhibit these steps to the Saudi government. Even, Sheikh Yamani had congratulated Junger, president of Aramco, and said that King demanded himself to write a complimentary letter for these positive steps (Emerson, 1985, p. 32-3).

In July, Otto Miller, former chairman of Chevron (California Standard before) wrote a letter to all shareholders of the company, and he demanded that all shareholders must work with the press to strengthen the U.S. cooperation with Saudis for improving their relations with Arabs (MNC Part 4, 1974, p. 510-1). Even, Yamani requested McQuinn, from Standard Oil, to publish the letter in a famous magazine in the London. Aramco authorities were relaxed with a special telegram by vice-president of Aramco to J.J.

Johnson, another vice-president in the New York, that informing that all of these efforts pleased Yamani and King Faisal (Emerson, 1985, p. 34-5).

On the other hand, the oil oligopoly had donated almost \$3 million for Nixon presidential campaign, and Gulf Oil had given a special gift him as \$100.000. Also, Rockefeller family had donated \$268.000 to President Nixon in addition to the individual donations of executives of the oligopoly, such as Jamieson, Garvin, Otto Miller (White & Sampson, 1991, p. 243). Thus, the oligopoly should had acquired strong influence on the Nixon administration through these lobbying efforts and great donations.

It would later had been understood what the oil companies were preparing for. Walter Levy, adviser of the oil oligopoly, had talked with Henry Kissinger in August, two months before the oil crisis. Kissinger said the profits of oil companies from the imported oil had never been as high as it is today, and the companies would agree all price increases as long as they would pass these costs through consumers (Energy Crisis, 1969, p. 503-4). Two days later, Kissinger said Governor Love, Director of Energy Policy Office, that oil companies were politically irresponsible and idiots, since they were interested only with profits and accessing the oil and so accepting any price increases (p. 510). Henry Kissinger was going to be appointed as Foreign Secretary only two weeks before the Arab-Israel war (Parra, 2004, p. 198).

In September, Foreign Secretary Kissinger said that an upcoming oil crisis was unavoidable the result of the excess demand which was over the current oil supply (Adelman, 1995, p. 99). Besides, Iran government had recaptured its' own oil from the companies, and offered them just harsh sales contracts for crude oil (Penrose, 1974, p. 38), thus, the energy crisis discourse had been increasingly remaining.

3.3. Created Oil Crisis

In 5 October, Sheikh Yamani went to New York to sign with the princes of Qatar, Kuwait etc., the participation agreement that sharing the 25% of the production with the governments (Auzanneau, Reynolds, & Heinberg, 2018, Chapter 19). The next day, Egypt and Syria attacked Israel and started Yom Kippur War. In 8 October, OPEC

and the oil companies met to bargain the oil prices in Vienna (Blair, 1976, p. 261). Inflation was at record levels and all raw materials which Western imported had become more expensive, and also dollar devaluation had decreased Arabs revenues dramatically. The conflict had occurred right after the negotiations between the companies and Arabs. As Yamani had said Antony Sampson later, Yamani had not wanted to mingle the price negotiations with the Israel War, however, wanted to keep the companies near their side (White & Sampson, 1991, p. 293-4).

In October 12, the oil companies demanded John McCloy to take their letter warning the President Nixon that if the U.S. supports Israel against the Arab countries, they would face with struggle these moderate Arabs. Then, Arab oil producing countries sent a letter to Washington that if the U.S. does not cut the support for Israel, there would be an embargo. However, President Nixon announced his commitment to Israel, in fact, he could not act reversely because of the majority of the Senate, two to one, voted for supporting Israel. Meanwhile, OPEC countries met in the Kuwait in the October 16 and increased unilaterally the \$3 oil price, which was determined with Tehran Agreement, to \$5.12 per barrel. Thus, while oil prices were only \$1.80 per barrel in 1970, it increased to \$2.59 in 1972 and almost tripled in the 1973 (Blair, 1976, p. 264).

Also, the next day, they came together and declared that they would cut 5% of the oil output immediately and they would keep doing same amount cut off every month until the Israel forces withdraw from the Arab lands. Both cutoffs, price increases and embargo, were just coincidence, because the embargo was created for the only Arab-Israel War. Ali Atiga, OPEC secretary, had insisted that the embargo's aim was not to increase price a little more. However, the embargo itself, would had become the most useful method for OPEC and oil companies. In October 20, after Saudi officials returned from the U.S., Saudis announced 10% addition cutoff and total embargo towards the U.S. and Netherlands (White & Sampson, 1991, p. 295-6).

In October 21, Saudis, interestingly, had become the most extreme country against the U.S. within only two weeks despite cheery relations improved, and all economic and political efforts of Americans in favor of Saudis until the crisis. So, Saudis increased the cut to 20%. Saudis demanded Aramco to cancel all oil shipping including to U.S.

navy. Aramco executive Jungers was warning American authorities that these developments would be finalized with the nationalization of the companies (White & Sampson, 1991, p. 297). The embargo even covered the Sixth Fleet of the U.S. navy which was responsible from the protection of some countries imposing embargo against the U.S.; however, oil companies could have realized this cutoff through a signal warning the navy to provide its' oil needs from another source (Yergin, 1991, p. 613).

New Saudi Ambassador James Akins got involved the problem as a one of the most influential mediators in the triangle of the U.S. government, the oil oligopoly and Arabs. Akins warned Aramco with a message and he instructed Aramco to request bigwigs of the oligopoly in the U.S. to persuade their connections in the government on that the embargo would not be removed, as long as the U.S. does not please its' Arab interlocutors (White & Sampson, 1991, p. 298-9). Meanwhile, Saudis demanded the detailed information about the oil supplied by the Aramco to the U.S. navy. Exxon consulted the navy to release the information and after the approval, Saudis cut the all supply to the U.S. ships. An American official even had asked BP that whether they could supply oil the U.S. navy. So, the loyalty of the oil oligopoly had already started to be discussed (Cutoff Part 8, 1974, p. 939-40).

After five days from the embargo decision, in October 25, Mr. Jungers, Aramco president, was taken credit from a significant Saudi authority because of the Aramco officials' great efforts to convince the U.S. administration for more moderate attitude to the Arabs. When Mr. Jungers complained the Saudi authority on that the embargo would not be good for the company's business, the Saudi authority had eased Mr. Junger by saying that they would be awarded soon. In the investigations in which these conversations emerged, when a Senator asked the witness Mr. McQuinn, a Standard Oil official, whether had the president of Aramco intimate relations with Saudi officials, Mr. McQuinn had answered: "Yes." (MNC Part 7, 1974, p. 416).

Thus, the oil oligopoly had gotten a position which they had to prove their loyalty to their country and people, not to the profits awarded by Arab countries, and they faced with the dilemma of attempting to change the U.S. foreign policy in the middle of war (White & Sampson, 1991, p. 297). In the investigations, Mr. McQuinn of Aramco had

confessed that their main concern was to sustain their control over the crude oil, not to encourage Saudis for price increases. In other words, the oligopoly had been demanding favorable prices enabling them to protect privileged rights (MNC Part 7, 1974, p. 426-7).

In November of the 1973, President Nixon announced the Project Independence aiming the self-sufficient America in the energy, however, the U.S. was going to be more dependent to the Arab oil just one year later (White & Sampson, 1991, p. 323). Gas station had started to hang out of a sign saying “Sorry, no gas” and in some others people had to wait on a line to fuel up their cars (p. 311). On the other hand, the oil oligopoly had been enjoying the record profits the increasing oil prices. Gulf’s profits increased 91% for the third quarter of the 1973, while Exxon’s profits rose 80%, also Exxon broke a record of all times for any company with its’ profits at amount \$2.5 billion in the 1973.⁴ When Mr. Jamieson, chairman of Exxon, was asked the ethicalness of these record profits, when the country and all Americans were suffering from the oil shortage. Mr. Jamieson answered: “I am not embarrassed.”⁵

However, the embargo and oil price increases after the Arab-Israel War was called inaccurately “OPEC Embargo”, which is a misattribution. It is because the price increase decision taken by OPEC in the October 16 was the result of the long negotiations between the oil companies and the OPEC. On the other hand, the embargo decision in the next day was not taken by the OPEC, it was a reaction of a group of Arab states to the support of the U.S. and Netherlands to Israel fighting with Arabs (Mitchell, 2011, p. 184-5). Some observers even argued that the long lines in the gas stations were the consequence of Nixon administration’s faulty energy policies tackling oil shortage, such as price controls, not because of the OPEC (Bini, Garavini, & Romero, 2016, p. 118). Consequently, Saudis ended the embargo at short notice in the December 4, and they canceled the additional 5% cut off (Adelman, 1995, p. 115).

4 The New York Times, ‘Profits At Exxon Soar 80 Per Cent’
<https://www.nytimes.com/1973/10/20/archives/profits-at-exxon-soar-80-per-cent-rises-in-demand-and-prices-cited.html> (Accessed 2 May 2021)

5 The New York Times, ‘Chief ‘Not Embarrassed’’
<https://www.nytimes.com/1974/01/24/archives/chief-not-embarrassed-exxons-profits-show-gain-of-59-for-year-and.html> (Accessed 2 May 2021)

3.4. Petrodollar Crisis

As early as four months before oil prices increases and the embargo, Treasury Secretary George Shultz had surprised bankers at an international conference in Paris by indicating that huge oil revenues of the oil producing countries and questioning on how they would put those money on the international trade and markets. He had been thinking that financial institutions could play an intermediary role between oil producers and consumers (Bini, Garavini, & Romero, 2016, p. 174). American officials had started voicing that attracting capital of oil sheiks to the country would be beneficial for the United States. James Akins brought forward that Americans and Saudis could invest to each other. Also, Henry Kissinger emphasized there was not any reason for the cooperation between two countries (Oppenheim, 1976, p. 36-8).

As a result of OPEC cutoffs and the embargo of a few Arab countries, prices of the Middle East oil achieved \$11 per barrel in Teheran meeting at the end of the 1973 (Blair, 1976, p. 262) thus, the oil prices had almost quadrupled in the beginning of the 1974 (Penrose, 1974, p. 40). Revenues of OPEC had risen rapidly from \$15 billion in the 1972 to \$25 billion in the 1973, \$95 billion the 1974 and \$98 billion in the 1975. There had not been such a wealth transfer in the world (Hurewitz & Cohen, 1977, p. 195). Also, oil producing countries' reserves achieved to \$55 billion which is one quarter of the world reserves (p. 200).

Massive oil revenues led to reallocation of the dollar liquidity among countries in favor of oil producing countries which did not have economic capacity to utilize these revenues within their countries. On the other hand, oil consuming countries had to have enough cash paying their oil buying. So, many countries would had faced with the balance of payment problems (de Cecco & Fitoussi, 1987, p. 193). In 1974, besides the revenues, producing countries' surpluses was \$60 billion. Accumulation of enormous amount of liquidity in the hands of few country could damage stability of the international monetary system (Hurewitz & Cohen, 1977, p. 197-201).

In 1970s, the world economy had been still struggling with the profitability crisis and increasing inflation accompanied with the increasing oil costs. Impacts of the OPEC price increases were 6% lower growth rate, 11% increase in the inflation rate, 10%

increase in the unemployment rate and 6% decline in the productivity growth rates (Bowles, Gordon, & Weisskopf, 1984, p. 37). On the other hand, the capital speculations incrementally were continuing in the Eurodollar markets, and the transaction volume was multiply increasing with the excess demands of the transnational companies to liquidity, developing and less developed countries to protect themselves from instability in the exchange rates. These demands also triggered the worldwide inflation (Arrighi, 2011, p. 30).

3.5. Floating Rates: Absolute Liberty of The Dollar

Meanwhile, in the beginning of the 1974, the mentality of countries was adjusted still to the fixed exchange rate regime (Cohen, 1977, p. 115) and the countries had begun concerning on that whether increasing world liquidity which triggered by the energy crisis and increasing oil prices could endanger the stability of the international economy (p. 130).

In January 1974, capital controls were removed as de facto. The capital controls starting in the 1968 until 1974 was helpful to slow down deterioration in the U.S payment deficits. However, the oil crisis and increasing in oil prices had led to an incredible capital outflows with the purpose of paying higher oil receipts (Block, 1977, p. 158). Also, after the collapse of the Smithsonian Agreement in the March 1973, the U.S. showed its' determination that it would go on without concerning capital movements, increasing deficits and volatility of the exchange rates (Brenner, 2006, p. 165).

Switching to the floating rates had facilitated the U.S. to lifting capital controls, because the U.S. had gotten rid of the pressures caused by capital flows on the volatility of dollar, as well, in addition to that its' freedom of neglecting payment deficits, gained with abolition of Bretton Woods (Block, 1977, p. 199). Thus, the U.S. was given the chance to exploit the world sources without any restrictions on its' capital flows or value of the dollar. The only thing to be done by the U.S. was to export its' money to the world (Arrighi, 2011, p. 31) and enjoyed the benefits of less valued dollar in its' competitiveness in the international trade (Arrighi, 2010, p. 318).

In the March issue of the State Department's Bulletin, Henry Kissinger mentioned the need for a mechanism distributing increasing oil revenues in the international finance (State, 1974, p. 205) and if the countries did not cooperate, he said, the world would get into a crisis similar to 1930s (p. 202). Treasury Secretary Schultz added floating exchange rates would work better for such a mechanism and new investments (State, 1974, p. 255).

3.6. Petrodollar Recycling

In January 1974, U.S. had vetoed some proposals on that revenues of the oil producing countries could be recycled through the IMF since these attempts would undermine international finance markets' roles which could successfully fulfil this duty in a liberal basis (Helleiner, 1996, p. 111). However, the U.S. was persistent on this mission should be realized through free markets. Thereby, the recycling mission of oil revenues of the producing countries had belonged to private banks. The great task for banks, here, was to transform these short-term deposits to medium and long-term credits (Cohen, 1977, p. 138-9).

Even though OPEC countries invested their petrodollar to various financial instruments after the 1975, they preferred the short-term bank deposits at the beginning of the process (Cohen, 1977, p. 136). As David Rockefeller, head of Chase Manhattan Bank, wrote in his memoirs, the most of astronomical revenues of the OPEC were preferred to be invested into largest American banks as Certificate of Deposits or the U.S. securities. Chase's close relations with Saudi Arabian Monetary Agency and Iranian central bank had provided the banking oligopoly free access to Arabs' petrodollars. For Rockefeller, Eurodollar markets were very useful to bypass Federal Reserve regulations, and also these markets were critical in preventing collapse of capital markets in the mid-1970s (Rockefeller, 2011, Chapter 20).

However, increasing oil incomes had brought some risks with it. For instance, if some oil revenues were withdrawn from a bank, the bank got into a difficulty in finding enough deposits it could transform to loans. Hence, some banks, for instance, Franklin and Herstatt Bank were going to bankrupt in the 1974. Another risk was that borrowers

could not pay debts which had been transformed from oil revenues deposits of the producing countries (Bergendahl, 1985, p. 17-8).

David Rockefeller was one of the rare prominent bankers who warned about potential risks of the recycling of enormous amount of the petrodollars by the American banks, according to Washington Post in the April. Rockefeller had been worrying whether borrowers, i.e., oil consuming countries, could pay their oil receipts and also producing countries could find enough instruments to deposit their petrodollars (Petrodollar Crisis, 1974, p. 210). He repeated his worries in the next month. According to Rockefeller, bank could not continue recycling indefinitely, banks would achieve their prudent credit limits, huge revenues of OPEC would not maintain forever and the recycling mechanism could not be used by some less developed countries.⁶ He also added that the commercial banks were not well equipped for this job.⁷

A day after Rockefeller statements in the New York Times, Saudi Arabia and the U.S. signed an agreement called “Milestone Pact” by Secretary Kissinger and Prince Fahd Ibn Abdel Aziz. Despite there was no word oil in the agreement, observers were like minded on that Saudis were encouraged to invest their petrodollars into American financial markets, especially the government securities prepared for them. However, the main purpose of the agreement, apparently, was to improve economic and military relations between two countries.⁸

American banking oligopoly had shown itself in the process, too. Morgan Guaranty, one of the largest American banks, had been controlling huge amount of Saudi assets and the bank had a representative in the administration of monetary agency of Saudi Arabia. The bank declared that Eurodollar markets volume enlarged from \$105 billion in the 1972 to \$150 billion in the 1973 and to \$160 billion in the 1974, because the

6 The New York Times, ‘Burden of Oil Money Worries Bankers’

<https://www.nytimes.com/1974/06/07/archives/burden-of-oil-money-worries-bankers-oilmoney-flow-worries-bankers.html> (Accessed 3 May 2021)

7 The New York Times, ‘Oil-Cash Recycling Plans Vary’

<https://www.nytimes.com/1974/06/07/archives/oilcash-recycling-plans-vary-discussions-planned-monetary.html> (Accessed 3 May 2021)

8 The New York Times, ‘“Milestone” Pact Is Signed by U.S. And Saudi Arabia’

<https://www.nytimes.com/1974/06/09/archives/milestone-pact-is-signed-by-us-and-saudi-arabia-acclaimed-by.html> (Accessed 3 May 2021)

countries struggling with the payment and trade deficits had to resort the financial markets to find the credit they needed (Stork, 1974, p. 15-6; Thompson, 2017, p. 95).

In the October 1974, Secretary of Treasury William Simon said private banks were sufficiently successful in the mission recycling petrodollars, his Undersecretary Jack Bennet shared similar arguments in the IMF meetings. Bennet, the former executive of Exxon, rejected IMF proposal to facilitate petrodollar recycling, and he expressed he believed that American financial institutions would accomplish this mission (Stork, 1974, p. 17). Secretary Simon, at the same time, launched Federal Energy Administration and led the institution. Simon was called as the President's Energy Czar⁹ and he was like a symbol of the cooperation between finance and oil.

Thus, the control of balance of payments had shifted from the countries and IMF to private capital markets. That is because, Bretton Woods order enforced a country giving balance deficits to devalue its' currency, however, after the abolition of Bretton Woods and fixed exchange rate regime, the currencies would had been shaped by the international capital transactions among the financial institutions (Spiro, 1999, p. 21-2).

3.7. The Recycling Alerts

An U.S. government report had stated that if OPEC revenues were recycled through free financial institutions, the U.S. would had been most beneficiary country because of its' financial capacity (Helleiner, 1996, p. 114). Even in the June of the 1974, an official from the Treasury Department had already complained that the liquidity of smaller banks in the market started to dry and Federal Reserve got alarmed on the possible bankruptcy of those banks. These fears were expressed by another Treasury official, Arthur Burns, saying that was not clear whether private institutions could accomplish the recycling mission (Spiro, 1999, p. 2). Consequently, after the oil crisis, two largest banks, Franklin National and Herstatt had bankrupted, also seven more banks which were small and medium-sized went bankrupt. Before Herstatt bankrupted, it had \$65 billion transaction size. It meant that the banks could not

⁹ Time, 'Energy: Nixon's Decisive New Energy Czar'
<http://content.time.com/time/subscriber/article/0,33009,908276,00.html> (Accessed 8 May 2021)

distribute “the recycled dollars” to other banks needed short-term loans (Spiro, 1999, p. 32-3).

David Rockefeller, too, had concern on that least developed countries (LDCs) borrowed from the banks which could easily achieve prudent credit limits, because there was no guaranty for LDCs whether they could discharge their debts (Spiro, 1999, p. 41). For instance, Chase Manhattan had lent large part of its’ credits to developed and OPEC countries, while almost one third of all credits was given to less developed and developing countries, however, these small countries, such as Mexico and Brazil could not able to pay their debts and so declared moratorium. Even Italy had faced with great payment deficits and got difficulty to pay its’ oil receipts. At a lunch, head of Central Bank of Italy, had requested \$250 million emergency credit from Rockefeller. Nevertheless, Rockefeller had been thinking, a potential financial crisis was prevented thanks to Chase and other largest banks (Rockefeller, 2011, Chapter 20).

Similar concerns were shared by CIA publishing a report named “Problems with Growing Arab Wealth” in July. Analysts of CIA had been warning authorities the possibility that OPEC petrodollars in the Eurodollar markets were about to achieve the prudent expansion limits (Federal Response to OPEC, 1981, p. 863). These concerns remained fresh throughout in the mid-1970s. Some banks would had had to reject petrodollars since they exceeded their recycling capacity in October.¹⁰ In the end of the 1974, American banks had a lot of works to do, it meant also a lot of business.¹¹ As long as the recycling of these petrodollars maintained, it seemed there was not a problem. However, nobody was sure how long Arabs could sustain the process (Emerson, 1985, p. 46).

10 The New York Times, ‘Big International Banks, Under Strain, Reject Petrodollar Deposits’
<https://www.nytimes.com/1974/10/30/archives/big-international-banks-under-strain-reject-petrodollar-deposits.html> (Accessed 4 May 2021)

11 The New York Times, ‘A Lot of Work, But a Lot of Business, Too’
<https://www.nytimes.com/1974/12/15/archives/the-strain-on-the-banks-of-the-world-a-lot-of-work-but-a-lot-of.html> (Accessed 4 May 2021)

3.8. Saudis Pay The Price For Petrodollars

In July, vice president of Federal Reserve of the New York, stated that they did not want the petrodollars move as short-term loans in the capital markets and then leave the markets by causing turbulence among the banks. Thus, American monetary authorities did not just want to attract those petrodollars, they also wanted them to lock within the country. Both American and banking authorities concerned that many banks were about to achieve prudent credit limits since the recycling mechanism was not a natural process, and any flaw could occur on either the borrowers or depositors' side in the process. The solution for the banks was the U.S. to claim responsibility on the recycling as financial mediator, thus newly appointed Secretary Treasury William Simon knew what he would do when he makes the Saudi Arabia visit¹² in the July (Spiro, 1999, p. 36-7).

Therefore, Simon negotiated an agreement with Saudis that the U.S. would offer military aid and protection in exchange for Saudis' promise for buying the U.S. governments securities (Thompson, 2017, p. 96). In meantime, Jack F. Bennet, top executive of Standard Oil of Jersey in 1955-1971, had become, first, responsible from the U.S. international monetary affairs, and then appointed as Undersecretary of the Treasury in the midst of the petrodollar cycling mission in the May 1974. After Bennet accomplished his mission, he would had returned to Exxon as chief financial official (Auzanneau, Reynolds, & Heinberg, 2018, Chapter 20).

As a result of four months negotiations, Jack Bennet and the governor of Saudi Arabia Monetary Agency (SAMA) achieved an agreement that as Ambassador James Akins informed Henry Kissinger with a telegram saying that "SAMA agrees to purchase Treasury issues". Also, he added the "surprise decision [of Saudis] to require sales of oil only in dollars".¹³ Thus, the U.S. had ensured the conservation of both the banking oligopoly and the recycling of petrodollars.

12 The New York Times, 'Simon Has Meeting With Saudi King On Investing in U.S.' <https://www.nytimes.com/1974/07/21/archives/simon-has-meeting-with-saudi-king-on-investing-in-us-zaki-foresees.html> (Accessed 4 May 2021)

13 The U.S. National Archives, 'Sama Agrees To Purchase Treasury Issues' <https://aad.archives.gov/aad/createpdf?rid=270129&dt=2474&dl=1345> (Accessed 4 May 2021)

3.9. Petrodollars Recycle & Early Financialization of The Economy

American banking oligopoly had already increased their operations in the worldwide and the transaction volumes through Eurodollar markets. The oil crisis and after it, bouncing prices gave the oligopoly an opportunity to become vital financial mediator among the oil consuming and producing countries and transnational oil companies, since the oligopoly brought together countries borrowing money to pay their oil needs and countries lending their oil revenues.

The former Treasury official William Cates wrote an article arguing that the U.S. trade deficits, which increased with higher oil prices, had been compensated by cash flow through OPEC petrodollars. Thus, he said, the U.S. had been trying to adapt the structural transformation in the international economy moving from the trading to banking (Stork, 1974, p. 17).

While the role of banks were just to capital transfers and exchange between currencies before the mission of petrodollar recycling; however, now, the banks had acquired new roles through Eurodollar markets and the oil crisis in the international economy, and they started to transform petrodollars into many different financial instruments like securities, bonds and estates (Bergendahl, 1985, p. 22). Also, the amount of credits countries needed to finance their deficits were usually medium-term and too risky for a single bank to enter into the lending obligation. Thus, banks developed the syndicated medium-term credits. In this system, many banks came together to lend jointly to a single borrower, and they had distributed the great risk of lending medium-term and great amount loans (p. 7).

Another financial instrument emerging with the higher oil prices was the oil futures markets. The oil future markets were not indeed a real oil markets since there was not actual oil in the market, however, it was the half of the all oil trade. They were just oil contracts which could be bought and sold, that is why they were called as “paper barrels” (Strange & Watson, 1997, p. 16-8).

However, the impact of recycling on financialization was much deeper. As Rockefeller explained, Chase and other banks continued recycling petrodollars until the 1980s and

they were criticized since they lent to the countries instead of the companies, when many less developed and developing countries could not pay their debts and declared moratorium. This process had made even many countries dependent to the banking oligopoly, however, Rockefeller said, “We had no alternative if petrodollars were to be recycled” (Rockefeller, 2011, p. Chapter 20).

Thus, the oil crisis had forced the financial institutions, i.e., American banks to undertake a semi-public role for recycling the oil revenues of the producing countries (Braun, Krampf, & Murau, 2020, p. 14). Thereby, it meant that real economy and finance world had interpenetrated. However, petrodollar recycling mission of the banks had proved a need for more comprehensive regulations and instruments for the banks and the banking system (Block, 1977, p. 210).

3.10. Reign of The High Oil Prices

After the oil crisis, world had entered the 1970s with new price rises. One of the energy officials of OECD had said that if he was minister instead of Yamani, he would increase prices 100% one more time, when the official saw that companies did not show any reaction for two price raises in the 1970s (Oppenheim, 1976, p. 40). Since the 1970s when the price increases happened, American authorities had started to accommodate higher oil prices (p. 24) and after the oil crisis the U.S. became completely committed to high oil prices to sustain its’ energy independence (p. 41-2).

Thus, Secretary Simon and President Ford did not intervene the negotiations about prices between oil companies and OPEC. Mr. Sawhill, the president of Federal Energy Department in the U.S., offered a price ceiling on how much these price increases could be passed through to Americans to protect its’ people and added that there was not any instruction coming from the government to the companies for lowering prices. Later, Mr. Sawhill was fired by the President Ford and he confessed that there were much more lobbyists from the oil companies than he predicted. After him, President charged for same position a former president of an oil company (Oppenheim, 1976, p. 43-4).

Henry Kissinger wrote a classified report named National Security Study Memorandum for the President in the December 1974. Kissinger clearly confessed there that the price increase since the 1972 sufficiently enabled them to develop required reserves. He also stated the government had been expecting adequate high prices to provide oil needed by the U.S. in the next 20-30 years (Kissinger, 1974, p. 41).

In the early 1975, Kissinger offered a plan putting a floor on oil price to encourage the domestic industry's investments. Even Europeans and Japanese concerned that whether the U.S. aimed to replace OPEC cartel with its' domestic oil cartel.¹⁴ On the other hand, the plan showed that Kissinger and the American administration had already acknowledged the fact of higher oil prices (Yergin 1991, p. 643) and so had been protecting the oil oligopoly (Auzanneau, Reynolds, & Heinberg, 2018, Chapter 20).

Also, Kissinger had been accused by James Akins with failing to pressure Iran Shah for lowering prices. As Iran had told Saudi, and then Saudis to Akins, Kissinger had told Arabs that the U.S. comprehended their desire for higher oil prices (Oppenheim, 1976, p. 44). In the September 1975, Sheikh Yamani said Treasury Secretary Simon that Arabs believed Americans were indeed not against higher oil prices. Akins shared the same conversation in an interview with the author Oppenheim (Oppenheim, 1976, p. 45-6).

Actually, James Akins was going to be fired because of such confessions about Kissinger's attitude to higher oil prices. Of course, there were other reasons; Akins had attempted many times to change the U.S. foreign policy in the favor of OPEC and so the oil companies. Also, he had misguided the administration on that if the U.S. did not meet with Arabs demands, Arabs would not relieve the cutoffs, however the exact opposite had happened (Adelman, 1995, p. 136-7).

14 The New York Times, 'Kissinger Oil Price Plan Finds Industry Skeptical'
<https://www.nytimes.com/1975/02/05/archives/kissinger-oil-price-plan-finds-industry-skeptical-industry-is-cool.html> (Accessed 8 May 2021)

Thereby, the State Department of the U.S., through James Akins, had accommodated higher oil prices after Tehran and Tripoli agreements (Parra, 2004, p. 140) and the government authorities maintained to believe that higher oil prices would ensure the energy independence of the America. In the early 1975, President Ford declared a new energy policy suggesting addition tariffs for per barrel of imported oil to encourage domestic production, but it was a contradictory since it incited OPEC to increase prices more. Sheikh Yamani, too, had mentioned this contradiction (White & Sampson, 1991, p. 358). However, according to a research by Federal Energy Agency in the 1976, the agency was still suggesting that if oil price would increase to \$16 per barrel, oil import of the U.S. would decline (Oppenheim, 1976, p. 48).

Thus, in the 1975, when Sheikh Yamani was asked that who would prefer price increases, he answered the oil companies would prefer in any case, even the governments would take over 100% participation of production of their own oil, companies would demand price increases since they became the main buyers (Blair, 1976, p. 281). On the other hand, the recycling of petrodollars would had become another reason for Americans to support higher oil prices, since higher oil prices would mean higher revenues for OPEC and so higher petrodollars needed to be recycled in the United States (Oppenheim, 1976, p. 51). It showed the reign of high oil prices began.

3.11. Accusations Against The Oil Oligopoly

Thus, the oil oligopoly had to accept playing the role that was to be a bridge between OPEC and consuming countries by negotiating with the OPEC in the name of their countries and passing through the higher oil prices of OPEC to the consumers of their own countries (White & Sampson, 1991, p. 305). So, the companies were accused with undermining the sovereignty of the consuming countries (Adelman, 1972, p. 71). Senator Jackson led these accusations in his investigations toward the oil oligopoly for their greedy profits and he said that American people wanted to know whether the oil crisis was an *excuse* or a *setup* to maintain their control on the market and prices. However, Jackson's investigation remained inconclusive (White & Sampson, 1991, p. 316-7).

Then, Senator Church launched more comprehensive investigation towards the Seven Sisters which were among the fifteen largest transnational companies in the world. Even though John McCloy, the most prominent person of the oligopoly in the government, objected to the investigation's accusations with a letter explaining that the U.S. had benefited most from the companies compared to other countries and the companies was not responsible from the oil crisis. Senator Church responded that roots of the crisis were originated from the absolute domination of the oil oligopoly on the market (White & Sampson, 1991, p. 320-1). Thus, Senator Church's report stated that the oil companies and OPEC had parallel interests, at the expense of consumers and their countries (p. 356).

As an antitrust official said, the oil companies had to decide which nationality they are. However, not only in the U.S., many antitrust investigations against the oil oligopoly were launched in many countries. Antitrust authorities of Japan where was one of the most affected country from the oil prices and the inflation which was triggered by the oil prices accused the oil companies with orchestrating for higher oil prices.¹⁵ Western Germany's antitrust office blamed the companies with acting as a cartel to benefit from the crisis. In addition, the European Committee had many reports prepared for the Seven Sisters cutting the oil supply to Europeans (White & Sampson, 1991, p. 328-30).

In the late 1975, Clifton Garvin, chairman of the board of Exxon was interviewed by Morton Mintz from Washington Post in a live broadcast. Mintz oppressed Garvin by asking that how the OPEC cartel could survive without the oil companies and why they cut the supply in the Saudi Arabia to the Europe. Because the Europe had already faced with a recession and now, they had to overcome another oil supply. However, Mr. Garvin said, by neglecting the problem, that Europe had a recession in its' industry so their demand for oil decreased and then they decided to cutoff the supply (Blair, 1976, p. 291-2).

15 The New York Times, 'Oilmen In Japan Face Price Trial'
<https://www.nytimes.com/1974/05/29/archives/oilmen-injapan-face-price-trial-government-indicts-industry.html> (Accessed 9 May 2021)

3.12. Record Profits of The Oil Companies

Consequently, the oil companies achieved amazing profit rates. For instance, in the domestic refining, profits of the companies rose from \$3 per barrel in the 1969 to \$8 per barrel in the 1974 (Blair, 1976, p. 301). On the other hand, the oil companies had always complained about their return of investments for the capital needs. For instance, Exxon's aim of return on investment was averagely 12% between 1953-68. This rate was an optimum to make new investments profitable. After the oil crisis, the companies stated their aim for return as at least 15% in the investigations, since new discoveries became risky and costly. However, their rates of returns would had achieved to averagely 19%, thanks to the oil crisis (p. 304-8).

Thus, Fortune magazine published the list of largest American companies in the 1975. The ranking of Exxon, was replaced with General Motors, the greatest company in the world, and also five Americans of the Seven Sisters were among the first seven largest companies (White & Sampson, 1991, p. 361).

3.13. The Profits Not Turning Into Investments

Despite their record profits, the oil oligopoly continued to call higher oil prices to expand their operations which made investments profitable (Oppenheim, 1975, p. 56-7). Chase Manhattan Bank published one more report on the oil industry's capital needs in the 1975. The report, this time, stated that oil industry would need \$2.2 *trillion* between 1970-1985 to sustain its' investments. To meet with this amount of capital, Chase advised that banks should be allowed to expand their operations and transaction volume, as can be expected from a bank. Also, Chase suggested that these investments would not be realized with current insufficient profits, as can be expected from a partner of the oil oligopoly (Capital Requirements, 1975, p. 38). However, the investment plans had not been realized especially in the U.S., as the companies had been projecting before the price raises. Among the alternative energy sources, oil was still the cheapest one (White & Sampson, 1991, p. 357).

Besides, despite the oil prices increases lead to an increase in the drilling rates (Nordhaus, Houthakker, & Sachs, 1980, 1980, p. 347), there was a plunge in the new

discoveries efforts (p. 351). On the other hand, increasing oil prices did not cause oil companies in the U.S. to invest oil refineries in the domestic market, as they always argued. For instance, vice-president of Exxon had said half of the new discoveries were in the OPEC regions (Oppenheim, 1976, p. 56). Thus, the oil companies continued to pursue their own interests in the Middle East rather than their own country.

3.14. Discussion

After the Bretton Woods, gold standard was abandoned but fixed exchange rates had remained. Despite the American dollar acquired a liberty and the U.S. had not to concern about increasing deficits anymore, the increasing government debts had to be financed. Thus, President Nixon and his economists suggested to create financial instruments for foreigners to finance the U.S. debts, especially OPEC which increased its' revenues with doubling in the oil prices with Tehran and Tripoli agreements. At the same time, these agreements were result of the devaluation of dollar that decreasing revenues of producing governments.

Also, the U.S. was following ease money policies by printing dollars and increasing world liquidity. Capital speculations continued increasingly with increasing liquidity and these speculations forced the exchange rates to float by causing pressure on currencies. Thus, American dollar was devalued as the U.S. desired, giving a superiority in the export. Also, the U.S. imposed the removing of capital controls altogether, even other countries did not want.

Meanwhile, the oil oligopoly was lobbying within the government to improve relations with Arabs, only five months before Arab-Israel War. Actually, these lobbying efforts were approved and supported by Arabs, as well. Kissinger had already said, just two months before the oil crisis, the oil companies was aiming only higher oil prices with these efforts meaning to alter the U.S. policies towards Arabs.

Arab-Israel War had begun, while the oil companies and the governments were negotiating oil prices. Inflation was so high and dollar was devalued once again in the early 1973, OPEC demanded increasing prices. Apart from the OPEC demand, a group of Arab countries announced an embargo against the U.S. and Netherlands, because of

their support to Israel. The authorities of oil companies, especially Aramco in Saudi Arabia, maintained their lobbying efforts upon Saudis' request, meanwhile, they enjoyed with higher oil prices increasing with higher posted prices (taxes) by the governments. Thus, the loyalty of oil companies to their country were discussed.

Producing governments collected the profit payments of the companies as tax, thereby, it was not indeed a cost. It is because that these profit payments were paid as foreign income taxes. So, as Dr. Penrose explained in the investigations, if the oil companies did not pay these taxes to Kuwait, they had to pay to the U.S government. Dr. Penrose had said also in the same session that there is a symbiotic relation between the oil companies and producing countries (Governmental Intervention, 1969, p. 174-5).

Also, the oil companies had been paying income taxes too little proportionally to their incomes. Senator Church, in an investigation session, had said an oil company executive that an average worker in the U.S. paid more taxes than them as proportionally, and the executive answered that it was equitable. Senator Church had commented that, in this context, there was not any regulation that would serve the interests of the American consumers (MNC Part 7, 1974, p. 207-10).

On the other hand, U.S. administrations made three essential mistakes in oil price increases. First one was the governments gave the oil oligopoly freedom in their policies and relations in the Middle East and also the government mobilized its' all bureaucracy to support the oligopoly when they needed. Second one was the administration immunized the oil companies from taxes which OPEC demanded from the companies as the royalties. And third one was "drain America first" policy that the U.S. consumed regardlessly its' domestic oil sources, partly because of its' import quotas between 1959-73 (Keohane, 1984, p. 141). Thus, the oil companies and the U.S. turned themselves into a target for price increases by OPEC, maybe, as Strange mentioned, the oil companies -and the government- deliberately encouraged OPEC to do so (Strange & Watson, 1997, p. 60).

As oil prices quadrupled in the 1974, oil producing countries gained enormous petrodollar revenues. Developed consuming countries needed enough cash to pay higher oil prices, and less developed producing countries needed to utilize these

petrodollar surpluses. So, an imbalance occurred among the balance of payments of countries. This imbalance was accompanied with capital speculations of transnational oil companies, banks and consuming countries that led switching to floating rates and these two phenomena promoted instability of international finance and economy.

American largest banks offered a solution that they would take the responsibility of playing role to be intermediary between oil producing and consuming countries by recycling petrodollars, in other words, petrodollars would be deposited into American banks and these banks would lend these deposits to consuming countries. As the amount of petrodollars which was needed to be recycled from the short-term deposits to medium-term loans increased, the American banks started to achieve their prudent credit limits because of the risk that short-term deposits could be withdrawn and medium-term loans could not be paid. Thus, the oil and banking oligopoly lobbied the government to involve to the process and share the burden of banks in the recycling. So, U.S. government and bigwigs of the oligopolies persuaded Saudis to deposit their petrodollars into the Treasury securities in exchange of military aid and safekeeping.

In an interview, Henry Kissinger was directly asked that whether the oil crisis had been orchestrated to increase oil prices and Kissinger was gotten very angry (Bulletin, 4 February 1974, p. 115). However, in another interview, Sheik Yamani was going to say that he was completely sure that Americans orchestrated the oil price increases, because, for Sheikh, the U.S. and American oil companies needed to much higher prices.¹⁶

For Strange, one little decision by Henry Kissinger, -if Kissinger had not rejected entirely the possibility of negotiation with Arab countries for oil prices- could change the story of the oil crisis and the revolution of financial markets, including that the world was dragged into a crisis with the credit boom of LDCs after the oil crisis and petrodollar recycling (Strange, 1998, p. 6-7). In fact, Kissinger had seen course of the events and learned wishes of the oil companies and OPEC in advance.

16 The Guardian, 'Saudi Dove in The Oil Slick'
<https://www.theguardian.com/business/2001/jan/14/globalrecession.oilandpetrol> (Accessed 10 May 2021)

As Mr. Sawhill said, administrator of the Federal Energy Department, the government had not any policy for reducing the oil prices (MNC Report, 1975, p. 155). For instance, Henry Kissinger could not get the point of economic nature of oil; despite he was maybe the most determinative person in the oil policies (Parra, 2004, p. 198). Kissinger said that the only way to pull the oil prices down was to great political war which might include threatening the security of Saudis and Iranians, and added that such a war would be very costly even to reduce oil prices. However, he had not even requested these countries to lower the oil prices (p. 202-3).

In the 1980, Treasury Secretary Simon was asked, in a CBS interview, that could the oil prices be reduced, if Kissinger had launched such a war. Simon answered that they could succeeded it, and that there were people favoring higher oil prices in the State Department. The presenter asked Simon that what he thought about Kissinger's policy. Because, Kissinger had wanted Iran to have enough money to buy the American weapons, however, only way Iran to find this money was to increase the oil prices. The presenter said that Kissinger knew it, too, well and they paid "hell of a price" for that. Simon confirmed, too, by saying that he warned him it was a redundant price they would pay, but, Henry [Kissinger] had "blown it" (Parra, 2004, p. 203-4).

After the oil crisis, the independents operating in Libya were largely forced to nationalized, other independent refineries and the private branders as gasoline sellers in the U.S. became jobless in time (Blair, 1976, p. 260). Also, OPEC countries gradually took over absolutely their oil. For instance, Kuwait gained 100% participation. Libya, Iraq and Qatar followed them. Saudi Arabia and Iran would take the possession of their oil until the end of the 1970s.

Nevertheless, the oil companies remained the most privileged customers of the producing countries. However, some even argued the oil companies became the minor partner of the oil oligopoly beside the OPEC (Garavini, 2019, p. 221). Abdullah Tariki, one of the founders of OPEC, supported strongly cooperation and joint initiatives with these partners, the oil companies (White & Sampson, 1991, p. 353). Thus, oil companies maintained to control the markets but they transformed to the main buyers from the main sellers (Adelman, Griffin, & Teece, 1982, p. 56).

Investments in the oil and gas except OPEC regions, like North Sea, became significant business, although it was late. Also, collapse of Soviet Union provided new areas of energy investments in the Eastern Europe (Parra, 2004, p. 213). Main development in the non-OPEC oil resources occurred just before the price increases; North Slope of Alaska in the 1968, North Sea in the 1971 and new discoveries in Mexico started in the 1972. Thus, the price increases which provided with the Tehran Agreement in the 1971 granted the development of these new areas and the supply from these regions increased 59% after the oil crisis (p. 249).

Non-OPEC production was around 17 million barrels per day in the 1970, while at OPEC it was around 24 million, and in the 1972 it had peaked at 31 million. OPEC remained over 30 million barrels until 1979, when non-OPEC remained below 20 million. Until 1985, after the Iranian revolution, the supply of OPEC fell steadily to 16 million, non-OPEC approached 27 million, and until the 1990's the supply of non-OPEC was more than OPEC (Parra, 2004, p. 258).

New offers for oil cutoffs in the 1975 had come from the oil oligopoly as president of Exxon and Sheikh Yamani were in agreement. If there were no the cutoffs, excess oil would accumulate in the market and this would probably lead to collapse of OPEC by decreasing the prices. However, such a situation never happened because of the relations between the companies and OPEC. Dr. Blair, the oil expert of Federal Trade Commission and involved the investigations, summarized this relation with "bilateral monopoly" which refers in the economics to the situation that a monopsonist which is one buyer buy from a monopoly which is one seller (Blair, 1976, p. 293).

Total oil production of world was 13.7 million barrel per day in the 1955, it increased to 45 million in the 1973 and 47.1 million in the 1978. Also, world total consumption was 14.6 million barrel per day in the 1955, 48.9 million in the 1973 and 50.3 million in the 1978. So, the oil consumption had been always slightly over the production but never been a fear of shortage like in the 1973. On the other hand, the predictions that oil consumption would double until the 1980 came out to be wrong. Consumption had increased 6.9% between 1955-73, while it increased only 0.5% between 1973-78 (Nordhaus, Houthakker, & Sachs, 1980, 1980, p. 343).

So, there was not any decline in the demand side, despite OPEC increased production 8% in the 1971, 7% in the 1972 and 15% in the 1973 (Parra, 2004, p. 134). Thus, oil shortage in the 1973 was not more than the reserves as much as the discourse of the “oil shortage” indicated. So, there was no indeed an oil shortage, it was just a fear of shortage which was spread by industry with rumors (Adelman, 1995, p. 110). As Sheikh Yamani said, there was indeed no embargo, it was just symbolic (p. 113). Because, any concession of the oil companies was not abandoned during the crisis (Parra, 2004, p. 135). Also, as a Senator said in the Congress, in the investigations, the Senator got angry and said that they have done nothing to prevent OPEC price increases and the excuse of oil companies for price increases was already ready, only responsible was just OPEC (Garavini, 2019, p. 231).

Thereby, there had never been a real embargo against the United States. As Professor Adelman said, Americans should have not blamed Arabs about the oil prices that indeed what Americans had done themselves, through sequence of failure policies (Adelman, 2004, p. 19). In an article written after his retirement, Henry Linden, director of the Gas Technology Institute, admitted that being involved in what once turned out to be an artificial energy crisis gave him a tremendous remorse (Linden, 1996, p. 32).

Thus, main purpose of the oil companies was to increase their profits for two special purposes; first one was to develop their refinery capacity decreasing their dependency for oil production, and second one was to generate new capital they needed for new investments and discoveries (Blair, 1976, p. 296). As Otto Miller, former president of board of Standard of California, answered in the investigations, when he was asked that if they were acting to achieve their interests in the higher oil prices and higher profits, Miller had confessed the fact by saying that they just tried to make their business “economical” (MNC Part 7, 1974, p. 454). By 1974, Western Europe and Japan had become dependent on Middle East oil at almost 70% (Blair, 1976, p. 29).

For international finance, switching to floating exchange rates brought new ground. With the floating exchange rates regime, speculators could not had threatened the U.S. with the capital speculations leading the devaluation in dollar. The devaluation of dollar against other currencies would had been only an advantage for the U.S. to

improve its' export. However, each downward change in the value of dollar, promoted the inflation within the United States. However, the fact that it triggered the inflation as addition to the advantage of this benign neglect policy made the benefits of this policy controversial.

On the other hand, floating exchange rates had created uncertainties for companies and businessmen in the international financial markets time to time, since constantly changing exchange rates could decline profits of their investments and they had to calculate their investments again and again (Block, 1977, p. 199-201). So, transnational companies resorted "leads and lags" referring acceleration or retardation of the payments and intercorporate transactions by companies to eliminate losses stemmed from exchange rates and capital controls. Thereby, capital controls of the early 1970s had shown their failures on the control of capital movements. According to Bundesbank, two-third of the great capital speculation in the February of the 1973, just before the second devaluation of the dollar, was the result of the transnational companies "leads and lags" operations (Helleiner, 1996, p. 193).

The transnational companies had benefitted from the financialization of the economy through Eurodollar markets and volatility in the exchange rates (Strange & Watson, 1997, p. 17). During the fixed exchange rates period, there was no worry for the companies about changes in exchange rates. But the transnational companies had to tackle with daily changes in the exchange rates to prevent profit losses stemmed from the changes. Even central bank's costs of protecting their currencies were less than the companies' costs of protecting themselves from changes in the exchange rates. Thus, the transnational companies protected themselves by investing in short-term speculative Eurodollar markets and became more "transnational" as they transacted in these *financial casinos* (Strange & Watson, 1997, p. 9-11).

Floating exchange rates regime changed also the role that central banks were sole reserve holders, since Eurodollar markets were used unofficially as reserve sources of countries, the total reserves were \$78 billion in 1969-1975 and \$225 billion in the 1978 (Hawley, 1987, p. 19). That is why while central banks were responsible from stabilizing of exchange rates of their currencies before; all currencies, now, were determined by the free market, i.e., Eurodollar market, which was at the mercy of the

banking oligopoly and speculators (p. 120). Thus, the control of monetary policies of the countries were in the hands of the capital and the banking oligopoly through the “so-called” *free* market.

The nature of banking changed also as more eager to higher interest rates, as a result of the inflation of the 1970s. It is because the banks could not operate in a profitable way, when the inflation rates were over the interest rates. Also, because of the banking regulations like Regulation Q, private investors had turned to the Treasury securities giving higher interest rates. Thus, there was nothing for the banks but to resort Eurodollar markets (Johnson & Kwak, 2010, p. 112) and the investment banks extended their portfolio of the financial instruments by starting to compete for commercial papers and bonds (p. 137).

Eurodollar markets had been a golden opportunity for both the U.S. government and the oligopolies. Eurodollar markets facilitated the U.S. persuasion efforts for foreigners and countries to holding dollar, because under the floating exchange rates, all countries felt themselves like they had to hold more dollar reserves to intervene floating rates if needed (Eichengreen, 2011, p. 63), so the dollar remained as global reserve currency.

For banking oligopoly, Eurodollar markets provided immunity from the Federal Reserve regulations and restrictions, and also, they could achieve advantageous of more profitable lending and less costed borrowing through these markets. On the other hand, transnational companies especially oil companies used their money in the Eurodollar markets for protecting themselves from the depreciations in dollar, and also, they resorted Eurodollar markets when they needed capital to escape credit squeeze imposed by Federal Reserve (de Cecco & Fitoussi, 1987, p. 195-6).

Only six months after exchange rates floating, oil prices had quadrupled. One of the main motives of oil price increases was the devaluation of dollar. Even it might be said that the dollar devaluation was a grace for OPEC and oil companies to raise the oil prices four times (Bordo, Eichengreen, & National Bureau of Economic Research, 1993, Paragraph 351). However, payment deficits of oil dependent countries became huge trouble with the enormous oil receipts that triggered expansion of world liquidity

through Eurodollar markets accompanied with Federal Reserve's loose monetary policies (Paragraph 608). It was obvious that international monetary order could not stay stable with this amount of liquidity held by the producing countries whose economies were not sufficiently developed (Cohen, 1977, p. 136).

So, recycling of petrodollars was proposed to dissolve this excess liquidity. The government economist Karin Lissakers prepared a report upon Senator Church's request for Subcommittee on Foreign Economic Policy about petrodollar recycling and its' consequences, named "International Debt, the Banks, and U.S. Foreign Policy". After the private banks started recycling OPEC revenues, the total assets of 21 American banks had achieved \$400 billion at the end of 1975, while IMF and European Economic Community had just \$21 billion. For instance, Citibank had almost \$65 billion as a single bank. So, private banks took over the lending role from the official financial institutions (Lissakers, Church, & Policy, 1977, p. 43).

Yet another one of the most significant result of the recycling of petrodollars was that states, central banks and other public institutions took the place of private companies as the most important customers of the private banks. In the international capital market, i.e., largely Eurodollar markets, governments and international organizations composed the 75% of the all market borrowing, while 25% of that was aggregate of private financial and non-financial institutions and corporations (Lissakers, Church, & Policy, 1977, p. 46). Thus, Eurodollar markets took the place of official monetary institutions like central banks and IMF and started playing the roles of these official institutions in creating world liquidity. So, private American banks captured also the control of international money supply from the states (Cohen, 1977, p. 140).

The very small part of the enormous dollar liquidity of the 1970s, i.e., petrodollars, went to real economy and trade, while most of them were invested and used in financial speculations in the Eurodollar markets. Already, the most significant impact of the oil crisis was to add a new dimension to international finance by creating billions of dollars petrodollar surpluses. The large portion of these surpluses were recycled through offshore Eurodollar markets. The great quantity of petrodollars became very profitable for speculations and so, this led to dramatic expansion in the world liquidity (Arrighi, 2007, p. 158).

In addition to above, Eurodollar markets promoted world money supply by also generating a great credit volume. Everything was good as long as the increasing money supply worked together with macroeconomic growth. However, the process deadlocked after the oil crisis, when the enormous wealth was transferred to OPEC countries whose economies were not well developed enough to spend the oil revenues. The process was resulted with extreme inflation and recession together, as producing countries could not find a way to spend these petrodollars. The problem was partly solved by petrodollar recycle giving the free market authority over the world monetary system, but it was at the expense of the state's sovereignty (Stopford, Strange, & Henley, 1991, p. 42-5).

Allocation of the recycled petrodollars among the producing and consuming countries had not happened fairly. For instance, Saudi Arabia as one of the greatest oil producers preferred the American banks, while the American banks recycled and lent these petrodollars largely least and less developed countries, thus, the problem of payment deficits imbalancedly spread among the countries. Even, some countries which indeed needed those oil revenues could not benefitted from recycled petrodollars (Hurewitz & Cohen, 1977, p. 200). While Saudis invested \$5 billions of \$26 billion oil revenues in American banks in the 1974, they increased investments to \$60 billion in 1976 and when it came to the 1979, Saudi Arabia was the largest holders of the American treasuries (Bronson, 2006, p. 126). On the other hand, the U.S. gained at least two times of its' payments for Saudi oil with Saudi investments it attracted through American banks (p. 128).

Thereby, oil price increases were concluded with economic or financial crisis for many consuming countries; however, it had been a blessing for the American banking oligopoly. The vast amount of OPEC revenues had shown up as a new and great source of fund, when the banks faced with a liquidity squeeze. At the same time, credit demands of the consuming countries emerged, when demands for credit in the world was at low levels. Thus, foreign operations of many American largest banks became more important in terms of profitability for the banks. For instance, 39% of Chase Manhattan's incomes were from the foreign operations, while it increased 78% in the 1976. In same period, Bank of America raised the rates from 24% to 40% and Citibank increased from 60% to 72% (Lissakers, Church, & Policy, 1977, p. 46-7).

It was significant in that these largest banks increased their profits that many OPEC countries chose Citibank and Chase Manhattan Bank from the banking oligopoly (Bergendahl, 1985, p. 20). This was because these banks had good relations with OPEC countries and especially Arabs through their connections and their huge sizes. However, some banks even could not overcome the mission of recycling petrodollars, while the largest banks increased their profits in this process, because of the higher risks (Bergendahl, 1985, p. 32-7).

Even, the banking oligopoly did not want annoy their Arab friends to not lose their good relations and profitable business. Therefore, they started to show letters of credit proving that a company had no relations with Israel in the 1975. For instance, despite Chase Manhattan Bank opened a branch in the Moscow, they hesitated to open in the Israel. David Rockefeller said that if they opened a branch there, they would lose everything they had with the Arabs (Emerson, 1985, p. 68).

CHAPTER IV

CONCLUSION

1. The primary purpose of the current study was to examine the reasons for the symbiotic relationship between the American oil and banking oligopolies in the post-war period. The second aim of this study was to investigate how this symbiotic partnership prepared the 1973 oil crisis and the dollar crisis of the 1970s. The third aim of the study was to scrutinize intentions and the decision-making processes of the capitalists, i.e., the oil companies and banks, as different from the states.
2. This study tested the hypothesis that the symbiotic relationship between oil and banking oligopolies requires two oligopolies to have common interests and policies in the face of the same crises and challenges.
3. In the study, I preferred qualitative research and used mainly qualitative data, while also benefited quantitative data. Since I tried to analyze interests, policies and intentions of the capital, i.e., banks and companies, I concentrated to collect primary sources like U.S. Government Reports, Investigations, Congressional Hearings and the statements of capitalists. I selected even secondary sources from the firsthand authors, for instance, Dr. Blair who was the expert of the Federal Trade Commission investigating against oil companies, Dr. Parra who was former Secretary-General of OPEC and Antony Sampson who was a researcher doing interviews with executives of oil companies.
4. So, this study has shown that four fundamental reasons for the symbiotic relationship between American oil and banking oligopolies. First one, economic hegemony of the U.S. was established upon Bretton Woods arrangement and Marshall Plan. The former made the American dollar international trade and reserve currency; thus, American banking oligopoly was ahead of the game in post-war period, and the latter made post-war economy dependent on oil and oil companies, so the structural foundation was established suitable for the symbiotic relationship.

5. The second reason, American banking oligopoly held enough shares of the largest transnational companies, like oil companies, and the share percentage they held was at the level which incents shareholders to control the companies, according to the literature. The third one was the interlocked directorates between the oil and banking oligopolies, as the Federal investigations revealed. Executives in the management of American banking and oil oligopolies were interlocked. Finally, the fourth, according to another investigation, specific family i.e., Rockefellers, held the control of the largest shares of five American oil companies from the Seven Sisters and largest American banks like Chase Manhattan and City Bank.

6. The symbiotic partnership of the American oil and banking oligopolies pursued common policies and/or had common interests in all major crises and challenges in the post-war period. As the findings of the Chapter I showed, the symbiotic partnership cooperated to overcome profitability crisis, capital controls and credit squeeze. Because of the Bretton Woods and gold standard, U.S. government imposed capital controls and credit squeeze on banks and transnational companies to prevent its' balance of payment deficits. Also, it imposed oil import quotas to protect higher costed domestic oil industry and prevent imported oil worsening payment deficits.

7. The oligopolies resorted Eurodollar markets to bypass capital controls and credit squeeze. The banking oligopoly expand its' freedom, operations and transaction size, and the oil oligopoly resorted these banks in the Eurodollar market to achieve credit and capital they needed. Also, the oligopolies demanded the abolishment of Bretton Woods and gold standard, in other words, they demanded the removing of capital controls and credit squeeze. The banking oligopoly demanded to have more freedom and profits like they had in the Eurodollar markets, and the oil oligopoly demanded to get rid of oil import quotas required by Bretton Woods, and also aimed higher oil prices to overcome declining profits, expand their operations abroad and enter the new markets like the United States.

8. As the Chapter II showed, the banking and oil oligopolies succeeded the abolishment of Bretton Woods and gold standard, upon their requests from the government and the help of their capital speculations in the Eurodollar markets. The U.S. shifted to "benign neglect" policy allowing capital flows; however, fixed

exchange rates remained until 1973. Thus, the banking oligopoly expanded operations in the Eurodollar markets, and capital speculations increased. On the other hand, the oil oligopoly succeeded that the government relieved oil import quotas. Also, Libya government demanded oil price increases because of the dollar devaluation after the abolishment of Bretton Woods. The oligopoly took the advantage of that by *not* resisting the price increases, so they compensated losses stemmed from the profitability crisis.

9. The findings of Chapter III showed that the oil oligopoly artificially created the 1973 oil crisis to increase profits in a cooperation with OPEC, and collaborated with the banking oligopoly to overcome petrodollar crisis by recycling petrodollars. Thus, the oil oligopoly became the globally largest companies with their enormous profits. Also, the banking oligopoly increased their profits by expanding their transactions worldwide. The most significant result of the oil and petrodollar crisis was to internationalize and financialize world economy by making countries the greatest customers of the banking oligopoly. The banking oligopoly took over the control of world money supply through expanding capital speculations, exchange transactions and increasing credit volume by giving loans to even the countries.

10. The results of this study indicate that there was a symbiotic relationship between the oil and banking oligopolies, and because of the symbiotic relationship, the oligopolies had common interests. Thus, the oligopolies pursued common policies; they resorted and strengthened Eurodollar markets to bypass credit squeeze and capital controls, incited capital speculations, demanded the abolition of Bretton Woods and the gold standard, encouraged higher oil prices and exploited the oil and petrodollar crises. The oligopolies also lobbied to influence and alter the government policies to achieve their profits even at the expense of many countries, including the U.S. and the people including Americans. They also manipulated the people and government through the people associated with them; they misled officials, they scared the public by publishing erroneous reports and preparing advertisements.

11. The existing literature have overrated role of states in the process, and read the process in the perspective of states. There are several separate studies in the literature on the role of companies, banks, and capital on certain events of the post-war period

and their influence on the policies of the state. However, there is scarcely any study that examines the cooperation of oil and banking oligopolies in major events in the post-war period such as the profitability crisis, capital controls, credit squeeze, the abolition of Bretton Woods and the gold standard, the oil and petrodollar crises, and the commonality of their interests and policies they pursue in the whole post-war period.

12. Therefore, this thesis has provided a deeper insight into the roles and cooperation of the oil and banking oligopolies in the significant phenomena of the post-war period such as the oil, dollar and petrodollar crises, by evaluating them from the perspective of capitalists, companies and banks. On the other hand, our thesis is limited by the lack of information on the roles and influences of the government and ultimate decision-makers in these phenomena. Another limitation was the difficulty in accessing reliable information about the attitudes of the capitalists of banks and oil companies since they claimed that they would do nothing against the interests of the country and people.

13. In fact, there is no conflict between the two perspectives here. Since companies and banks were vital for America's political and economic hegemony in the post-war period, American governments supported their interests. However, the point that makes our work different is that oligopolies tried and succeeded in persuading governments to adopt policies that suit their interests, even in some policies contrary to the interests of America and Americans.

14. The findings in this study provide a different reading for further research on the financialization of the world economy. As Susan Strange mentioned, there was a financialization process that started with the deepening of the U.S. payment deficits problem at the end of the 1960s and the oil crisis in the early 1970s, and this process generated itself with Eurodollar markets (Strange, 1998, p. 33). Also, the dollar's share as a global reserve currency achieved 80% in 1977 because of the plenty of dollars pumped by the U.S. and that OPEC countries preferred their petrodollars to invest in the dollar form (Eichengreen, 2011, p. 63). The trade of exchange rates was \$17.5 trillion which was 11 times of the real trade, it increased to \$35 trillion which was 20 times of the real trade in 1984 (Arrighi, 2010, p. 308). Thus, this study may offer an

insight into the relationship between the early financialization of the world economy and the policies of oligopolies.

15. The results of this study can also provide a perspective for further researches on the relation between oil and finance, or with a broader expression, the relationship between the source of energy and reserve currency. It is because the mechanism of petrodollar recycling has been influential until today in the status of the dollar as a global reserve currency and oil as the primary energy source of the world. Even, China has brought forward “petro-yuan” 44 years later after petrodollar recycling in 2018. Thereby, our study may provide a basis for prospective studies on the relationship between the primary energy source of the world and the global reserve currency.



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