

Recycling OPEC Oil Revenues and Resurrecting the Dollar, and the U.S. International Payments Position in American Foreign Policy, 1970–1975

Simone Selva

Throughout the 1960s, U.S. governments, first and foremost the John Kennedy administration, worked to restore a deteriorating U.S. international balance of payments through a set of measures based on combined intervention in both the current and the capital



Petrodollars were the vital critical financial link that connected the OPEC oil-producing countries, American banks, and the LDCs.

account positions.¹ On one side, Washington intervened on the current account position both to reduce liabilities and to improve assets by means of cutting overseas military expenses and increasing U.S. military and civilian exports, respectively. On the other side, throughout the decade U.S. governments passed a number of laws aimed at discouraging U.S. banks from propping up capital exports. The failure of such measures to forestall capital flight, combined with a staggering rise in the scale of overseas investments of U.S. corporations through either direct or portfolio investments during the 1960s, as well as the rise of U.S. public expenditures in connection with the Vietnam War, set conditions for a weakening dollar in the foreign exchange markets that fundamentally contributed to undermine the dollar's convertibility into gold.

Making matters worse, the combined appearance of oil price hikes from around 1967 to the Teheran conference of 1971, when the Organization of Petroleum Exporting Countries (OPEC) increased taxes on foreign oil corporations that produced oil compounds on their soils, expanded the share of dollar-denominated

Simone Selva is an assistant professor of economic history at the University of Naples L'Orientale and a visiting scholar at University College London, Institute of Advanced Study.

¹ An economy's current account is the balance between export and import of commodities and merchandise, whereas the capital account pertains to a country's capital inflows and outflows.

international transactions in world trade markets.² Such developments, together with continued depreciation of the dollar in exchange markets caused by continued capital flows from low-yielding reserves in the United States into high-yielding European reserves and short-term Eurocurrency markets added to a U.S. balance of payments deficit that ran unchecked throughout the late 1960s. Furthermore, the combined overlap between the 1967 closure of the Suez Canal and the devaluation of the British pound that same year contributed to increasing the share of dollar-denominated international transactions in world trade markets. These trends expanded the dollar's share in the total world money supply and put the dollar's convertibility continually under more pressure.³ In fact, insofar as the U.S. dollar was the reference currency in international transactions for oil, increasing oil prices bolstered the share of dollar assets in world currency markets. Finally, a longstanding French readiness to pursue a run on U.S. gold reserves⁴ contributed to undermine the dollar's convertibility into gold. At the turn-of-the-1960s, this tangle of developments prompted U.S. economic policymakers to search for measures other than interventions on the current and capital accounts to restore confidence in the dollar. It was at that critical juncture that U.S. monetary elites turned their attention to the financial resources that, from the second half of the 1960s, increasingly accrued to the oil producers united under OPEC as a means of resurrecting the United States' external equilibrium and halting the depreciation of the U.S. dollar. This article traces the shift from traditional means of resurrecting the dollar and the U.S. balance of payments germane to the 1960s to a new strategy that sought full involvement of the oil-producing countries.

² OPEC was founded by Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela at the Baghdad Conference on September 10–14, 1960; since its foundation the aim was to coordinate production and price policies among its member countries and to confront international oil markets then dominated by the leading Western oil companies, the so-called “seven sisters.” The overall objective that underpinned the foundation of OPEC, which took place in the context of decolonization, was to protect and claim the oil resources of developing nations from their former colonizers through tighter concession and tax policies on the multinational oil producers that extracted on their soils. Over the decades, new oil producing states joined the Organization: among others, Lybia (1962), United Arab Emirates (1967), Algeria (1969), Nigeria (1971), and Ecuador (1973). The most recent study on OPEC is Giuliano Garavini, *The Rise and Fall of OPEC in the Twentieth Century* (Oxford-New York: Oxford University Press, 2019).

³ An expansion of the dollar's share in world money supply weakened the dollar in the exchange markets, contributed to devalue U.S. currency, and set conditions to inflate dollar-denominated transactions in world trade.

⁴ J. M. Schafelbuehl, “Gold as a Diplomatic Tool: How the Threat of Gold Purchases Worked as Leverage in International Monetary Relations 1960–68,” in Sandra Bott, ed., *The Global Gold Market and the International Monetary System from the Late 19th Century to the Present* (London: Palgrave, 2013), 160–66.

In so doing, it tackles the development of economic relations between the United States and OPEC as they revolved around the reflowing in the international economy of dollar-denominated oil revenues—the so-called petrodollars that accrued to the OPEC oil producers increasingly after the outbreak of the first oil crisis. Like several earlier works on the reflowing of the OPEC assets, mostly published by political scientists or economists, this article establishes a linkage between the growing share of dollar-denominated oil revenues in the total world money supply, and the OPEC countries' increased investments in short-term Eurodollar and other Eurocurrency markets. Furthermore, this article links this tangle of developments to the problem of the LDCs' (Least Developed Countries)⁵ international payments position—their financial stability and ability to finance investments-related imports and to repay loans. However, unlike previous studies, this work is specifically aimed at placing the debate on the reflowing of OPEC financial assets in the context of changing U.S. foreign monetary and financial policies aimed to restructure the world economic hegemony of the U.S. dollar. Consequently, this article links the United States' two-fold approach to the growth and expansion of the Eurodollar markets, to the ascendancy of OPEC countries on the world financial scale, and to the failure of U.S. policies to resurrect the dollar over the course of the 1960s. Furthermore, insofar as the reflowing of OPEC financial assets paved the way for the involvement of private investment and commercial banks, previously published works have intensively researched the role of European banks in the process.⁶ Unlike these studies, this article explores the role of U.S. banks as part of U.S. foreign financial and monetary policies. Finally, this discussion helps advance historical knowledge of these themes as it pulls together the role of new institutional actors such as OPEC, western institutions such as the IMF, and the involvement of private banks: the few studies that have appeared so far on the subject keep all of these actors separate from one another.

This article first briefly outlines a deep-seated U.S. tendency, since the very beginning of the 1970s, to make the financial resources of the OPEC countries finance U.S. exports to the Middle East region through the intermediary role of American banks that at the time began branching out in the region: that approach aimed at getting the OPEC countries involved in propping up the U.S. current account position. Thereafter, it explores the intertwining between the increased financial wealth of the OPEC oil-

⁵ The Least Developed Countries (LDCs) were either oil-producing or non-oil-producing developing countries, mostly Middle Eastern or Latin American nations. This article mostly refers to the non-oil-producing developing countries.

⁶ See for instance, Carlo E. Altamura, *European Banks and the Rise of International Finance: The Post-Bretton Woods Era* (Abington-New York: Routledge, 2017).

producing countries and developments in the international capital markets from the beginning of the decade through the first oil shock at the start of the first oil crisis in 1973.⁷ The upward-trending interest rates in Eurodollar markets prompted the oil producers to increase their financial placements with such short-term, unregulated money markets. Thereafter, this analysis focuses on the U.S. strategy to reduce the balance of payments deficit and to restore stability in international trade through the recycling of OPEC funds into international financial arrangements set up under the aegis of the International Monetary Fund (IMF), geared to favor longer-term investments. That plan sought to promote U.S. exports to the oil producers and to correct the non-oil LDCs' external economic disequilibrium.

Finally, the article investigates the ways in which the OPEC countries reacted to this U.S. strategy to urge the oil producers to shift from short-term, inflation-sensitive placements in the Eurocurrency markets to long-term investments. Both historians and social scientists have so far argued that the investments of the oil producers' oil revenues in foreign markets, the so-called petrodollars, by and large were channeled to finance either the U.S. foreign debt and stock markets, or short-term assets. Neither historians nor economists have focused specifically on the topic of petrodollars from the viewpoint of U.S. foreign economic and financial relations with the oil producers.⁸ Therefore, there is a fundamental

⁷ The two oil crises of the 1970s, which followed a series of turn-of-the-1960s increases in the OPEC countries' profit-sharing with the multinational companies that operated on their soils, erupted in 1973 and in 1979. Within the framework of the 1973 Yom Kippur war between Egypt and Israel and the continued decline of the U.S. currency in foreign exchange markets, the value of Arab investments abroad and their earnings from oil sales declined. Through a series of oil production cuts, OPEC decided to quadruple the price of crude oil, which rose from \$3 a barrel in 1973 and peaked at \$12 a barrel in 1974. The production cut was a means of retaliation against western support for Israel and against the weakening dollar's value. Furthermore, the Arab member states of OPEC opted to enforce an embargo against oil export to the United States, Western Europe, and Japan in the pursuit of the same policy of retaliation. The combined oil price hikes and embargo triggered a major recession and inflation across the western world in 1974–1975. Though in 1974 the embargo was lifted, inflation did not scale down. The second major oil crisis of the 1970s took place against the backdrop of the Iranian Revolution of 1979 and followed a prolonged decline of the U.S. currency in foreign exchange markets that reduced the export earnings and the value of dollar-denominated international investments of the oil-producing countries. As a result of the strikes in the Iranian oil fields, from fall 1978 through early 1979, world oil production dropped by 4 to 5 percent, notwithstanding that other world oil producers increased their production levels. As a result of this, the price of crude rose from \$13 per barrel in mid-1979 to \$34 per barrel in mid-1980. Thereafter, the price of oil witnessed an upward trend as a result of the outbreak of the Iran-Iraq war all through the 1980s. For further insights and data on the oil crises of the 1970s, see Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Simon and Schuster, 1990).

⁸ Gary Burn, *The Re-Emergence of Global Finance* (New York: Palgrave MacMillan, 2006); David E. Spero, *The Hidden Hand of American Hegemony. Petrodollar Recycling and International Markets* (Ithaca-London: Cornell University Press, 1999); Susan Strange, *Casino Capitalism* (Manchester: Manchester University Press, 1987).



OPEC emerged from the 1970s as a new source of liquidity for international financial investments capable of exerting an influence on the world banking system.

lack of analysis in establishing a linkage between declining U.S. foreign economic assistance to the LDCs, the growth of the OPEC member states' investments in the Eurocurrency markets, and increased dependence of the non-oil LDCs on either western commercial banks involved in reflowing the OPEC oil revenues, or on direct assistance from the oil producers themselves. Based on this article's reconstruction, the main development was that countries such as Saudi Arabia, Kuwait, and Iran refrained from channeling their financial surpluses through institutional arrangements managed under U.S. leadership. In so doing, the U.S. recycling mechanism can be seen as a test case to assess the course of bilateral economic relations between each of these countries and the United States in the period 1970–1975. This analysis suggests that the OPEC nations went their own way to provide financial assistance directly to the non-oil LDCs. OPEC's success in sidetracking the U.S. recycling policy sheds light on the extent to which the rise of the so-called energy finance of oil producers was decisive in increasing the bargaining power of the OPEC countries against the United States and in propping up their role in the international economic arena in the 1970s.

The Eurocurrency Markets and the OPEC Surplus Oil Revenues

It is easy to detect a historical correlation between the increase in the OPEC countries' oil revenues and the rise in U.S. exports to them. The increase in the posted price of oil and taxes paid by international corporations for drilling and refining activities carried out on the OPEC countries' soils, registered since the very beginning of the 1970s, had by 1973 triggered a sweeping increase in

the oil revenues of the OPEC members. It increased further the year after, thus contributing to make the surpluses of the OPEC countries in the aggregate reach an all-time peak by 1974 (see Table 1).⁹

Table 1 U.S. dollars/billions–Bank of England data

	Surplus on current account	Cash surplus	Oil revenue	Investment income
1974	60.9	57.0	89.8	4.0
1975	32.6	35.7	96.8	7.1
1976	36.6	33.2	113.2	7.8

Source: World Bank Group Archive

During the same period, U.S. exports to the Middle East rose accordingly. By 1973 U.S. sales of merchandise, consumer goods, and investment goods to the Near East Arab countries and to Iran totaled \$2 billion, up about 50 percent from the 1972 figures, with Iran and Saudi Arabia leading the way as the two largest markets. In light of these noticeable developments, by the time the first oil crisis had flared up, the U.S. National Association of Manufacturers had noticed this trend in international trade.¹⁰ Indeed, since the beginning of the decade, Washington turned attention to the development of the oil-producing countries' domestic economies to encourage those countries to invest their oil revenues in promoting domestic investments. Reinvesting OPEC financial assets in the oil-producing economies would support the U.S. balance of payments on the current account through a prompt promotion of U.S. exports to the OPEC member states.

In particular, at the beginning of the decade, U.S. authorities favored the involvement of U.S. investment banks in the local capital markets of Iran and

⁹ "OPEC Surpluses and the Disequilibrium in International Payments," 4 A (N. A. Rockefeller Personal), A-Activities, b. 162, fold. 1805, Record Group 3 (hereinafter RG3), Rockefeller Family Archive (hereinafter RFA), Rockefeller Archive Center, Tarrytown, NY (hereinafter RAC); "The Financial Consequences of Rising Trend in Petroleum Prices for Developing Countries 1970–1985," December 4, 1973, pp. 17–18, Volume 1, IBRD Commodities and Export Projections Division, Memos and Reports, 1973 through 1974, Records of Sir Denis Rickett, Oil and Energy, Records of General Vice Presidents and Managing Directors, World Bank Group Archive, Washington, DC (hereinafter WBGA).

¹⁰ "The Near East Markets. A Report to the US Business," prepared by BIC Near East Study Group, p. 4, May 17, 1974, Executive Secretariat's Subject File 1953–1974, b. 309, fold. Commerce Action Group on the Near East, Office of the Secretary, General Records of the Department of Commerce, Record Group (RG) 40 (hereinafter RG40), National Archives and Records Administration, Archives II, College Park, Maryland (hereinafter NARA).

Saudi Arabia to promote domestic development policies in oil-supplying capital surplus countries.¹¹ The Department of State made a strong case for promoting the creation of mixed banks in Kuwait and Saudi Arabia to stimulate U.S. trade and investments with these two countries: these banks were co-funded by either of the two oil-producing states and by the United States. For a number of years, Kuwait and Saudi Arabia had maintained official balances in the United States. Moreover, since the 1960s both countries had set up investment institutions such as the Kuwait Investment Company to raise private capital for placements in the U.S. real estate markets and in the New York Stock Exchange.¹² Then, within the framework of the pre-oil shock rise in profits of the oil-producing countries, the eagerness to promote U.S. export credit financing led the Department of State to suggest the opening of local branches of American banks. These new branches would stimulate American export of instrumental goods such as machinery and technology and enhance industrial modernization across Middle Eastern economies. U.S. diplomacy encouraged the American banks to open local branches not only in Iran, Saudi Arabia, and Kuwait, where the only active bank in 1972 was Merrill Lynch, but also in smaller capital-surplus oil states like Abu Dhabi, Bahrain, and Qatar.¹³ This early activism of U.S. diplomacy was a twofold way to prop up the balance of payments and the U.S. dollar on both the current and the capital account position: an upsurge of U.S. exports to dollar-holding countries would contrast against a growth of dollar-denominated share in the world's money supply. In addition, these policies were intended to increase the foreign profits of U.S. corporations and to promote the repatriation of such profits, seen as a means of propping up the U.S. capital account position. Such export promoting policy led to the establishment of bilateral technical cooperation commissions between Washington and each leading Middle Eastern OPEC member state since 1974.¹⁴

By the time the first oil shock erupted in the first half of 1974, this Washington policy to make the OPEC financial resources finance U.S. exports and broad-

¹¹ The economic and historical literature on the petrodollar cycle of the 1970s has by and large focused attention on this side of the recycling process of oil revenues and profits. See, for instance, M.A. El-Gamal and A. Jaffe, *Oil, Dollar, Debt and Crises, The Global Curse of Black Gold* (New York: Cambridge University Press, 2010), 29.

¹² Central Files, b. 107333, Archive of the Federal Reserve Bank of New York, New York City (hereinafter FRBNYA).

¹³ "American Economic Opportunities in Arab Oil States," 1973, b. 7, fold. PG and AP Econ-PET-Petroleum General, Department of State, Office of Arabian Peninsula Affairs, Records Relating to Saudi Arabia 1955–1974, Bureau of Near Eastern and South Asian Affairs, General Records of the Department of State, RG59 (hereinafter RG59), NARA.

¹⁴ On this story, see for instance RFA, RAC.

based modernization in the Middle East was well set. However, since the OPEC revenues peaked as a result of the quadrupling of oil prices, U.S. governments and the Federal Reserve System increasingly turned to consider OPEC energy finance as a useful instrument to prop up a deteriorating U.S. capital account position. According to Washington, the OPEC oil revenues reinvested in the Eurodollar and other Eurocurrency markets could be useful in reducing the deficit on the U.S. balance of payments on the capital account because they could become a source of funding to replace the U.S. foreign economic assistance to the non-oil LDCs. In fact, the OPEC oil-producing countries showed their propensity to invest a substantial share of their oil revenues not only in the national financial markets of New York and London, in interbank deposits, or in the oil consumer countries' financial outlets.¹⁵ They also massively invested into the least-regulated European money markets. This investment path began before the fourfold oil price rise: most capital-surplus countries started investing in short-term, highly liquid placements at the end of the 1960s.¹⁶ For instance, in 1970 the two most important Saudi Arabian national banks made heavy placements with the Eurodollar markets. The Eurodollar markets were financial assets denominated in currencies other than the resident currencies and traded by local or foreign banks that had developed since the late 1950s, when dollar-holding Soviet banks began placing such holdings with the London financial markets.¹⁷ During the following decades, nonresident financial assets denominated in currencies other than the U.S. dollar (Swiss and French francs, Deutsch marks, etc.) and placed with countries other than that of the currency of denomination, developed: for this reason, the economic literature dubbed those nonresident assets Eurocurrency markets. These markets were free from national regulations on banking such as interest rate ceiling or reserve requirements. The international banks that traded these nonresident assets took advantage of such special credit conditions to borrow more cheaply than regulated banking and to lend at very competitive loan rates to borrowers. This explains why the Eurocurrency markets became very competitive financial assets in the

¹⁵ Meeting between James Callaghan, Secretary of State for Foreign Commonwealth Affairs and Dr. Henry Kissinger, U.S. Secretary of State, 1974, Secretary of State Discussions with Dr. Kissinger in New York, "Recycling the Financial Surpluses of Oil Producers," September 24, 1974, FCO 82/466, The National Archives, Kew, Richmond (hereinafter TNA)

¹⁶ Statement by Fred H. Klopstock (International Research Department, Federal Reserve Bank of New York) before the Subcommittee on International Exchange and Payments of the Joint Economic Committee, June 22, 1971, Subject Files of the Office of International Monetary Affairs, 1968–1978, b. 3, fold. Eurodollars, Office of the Assistant Secretary for International Affairs (hereinafter OASIA), General Records of the Department of the Treasury, RG56 (hereinafter RG56), NARA.

¹⁷ C. Schenk, "The Origins of the Eurodollar Market in London: 1955–1963," in *Explorations in Economic History* 35, no. 2: 221–38.

international economy.¹⁸ At first sight, the preference of most OPEC surplus countries to place their oil revenues with the Eurocurrency markets was a clear hindrance to the Nixon administration's strategy to promote U.S. exports to the region through the OPEC oil revenues. In fact, instead of financing imports from the United States, the OPEC member states exported capital to London and other nonresident markets. Washington viewed the placements with the Euro-market as an obstacle to the struggle to resurrect the U.S. balance of payments and the dollar.¹⁹ Furthermore, the oil producers financed their development assistance programs to the non-oil LDCs by placing their assets with the Eurocurrency markets, which in turn were to reflow such funds to the non-oil LDCs.

The State Department was aware of the OPEC countries' preference to place their oil revenues with the Eurodollar markets rather than fuel U.S. export and investments in the Middle East, which resulted in deterioration of the U.S. balance of payments and a dollar downturn in foreign exchange markets (see Tables 2 and 3).²⁰ The Department of State adjusted to make Arab capital, American commercial banks, and U.S. manufacturers build up a virtual circuit between the investments of the OPEC countries in the Eurocurrency markets and new ways to finance development assistance programs in the non-oil-producing LDCs.²¹

This policy took place during the historic ascendancy of the oil producers beginning shortly after the first oil price hike in 1974. Soon after OPEC's quadrupling of oil prices, a meteoric expansion was recorded in the capital surplus of oil producers: at year-end 1974 the OPEC nations accumulated an estimated \$60 billion in revenues in excess of their payments for imports of goods and services.²² This rapid ascendancy of the OPEC countries on the world financial stage took place against the framework of continued flows of dollars from the United States to the Eurocurrency markets. Prior to 1974, continued dollar outflows from long-term

¹⁸ Memorandum of Conversation Cedric Grant (First National City Bank Jidda Branch)—Roger B. Merrick (U.S. Embassy), January 17, 1970, b. 5, fold. Saudi Arabia Economic FN Finance-General 1970, Office of Arabian Peninsula Affairs, Records Relating to Saudi Arabia 1955–1974, Bureau of Near Eastern and South Asian Affairs, RG59, NARA.

¹⁹ “Notes on Recycling,” July 9, 1974. fold. OPEC, Federal Reserve Bank of New York, Central Files, FRBNYA.

²⁰ Department of Commerce, *Survey of Current Business* 53, no. 12 (1973), 41.

²¹ “Oil producing governments’ external investment of surplus revenue,” January 15, 1975, b. 1, Briefing Paper, Chronological Files of the Office of Financial Resources and Energy Finance 1974–1977, OASIA, RG56, NARA.

²² Briefing paper for Secretary Shultz, “Oil producing governments’ external investment of surplus revenue,” January 15, 1975, b. 1, Chronological Files of the Office of Financial Resources and Energy Finance 1974–1977, OASIA, RG56, NARA.

financial assets to short-term financial instruments pushed forward the decade-long structural weakening of the dollar (see Table 2) and undermined further the value of U.S. currency in foreign exchange markets.

Table 2 Foreign Exchange Rates—Averages Based on Daily Non-buying Rates for Cable Transfers in New York City
Rates in U.S. Cents per Units of Foreign Currency

Country	Monetary unit	November 1973	October 1973	September 1973	November 1972	December 1971
Belgium	Franc	2.58817	2.73283	2.70892	2.26851	2.19862
France	Franc	22.6865	23.7181	23.4663	19.8392	18.5494
Germany	D. Mark	38.7640	41.4281	41.2458	31.2154	30.5928
Japan	Yen	0.359410	0.375467	0.376679	0.332235	0.312490
Switzerland	Franc	31.6040	33.0190	33.1458	26.3465	25.6147
United Kingdom	Pound	238.6985	242.9186	241.8279	235.1530	252.6641

Source: Federal Reserve Statistical Release, 1972, 1973

By the second half of 1973, it was clear that the U.S. balance of payments policies failed to meet their target. In particular, net liquidity balance and net liquid private capital flows, and net non-liquid short-term private capital flows continued to plummet, while the balance on current account and long-term capital did not recover from its recent falloff (See Table 3).

Against this backdrop, by 1973 40 percent of total OPEC surpluses had been placed in the Euro-banking markets, including UK and other European banks, and a substantial number of offshore banks.²³ The meteoric ascendancy of the Arab capital-surplus countries added to the dollar's downward trend. Amid such dollar-weakening international financial transformations, Washington opted to reshape the agenda of its foreign economic relations. It aimed to devise different means to curb depreciation of the U.S. dollar and reverse the final crumbling of a faltering system of international payments. By that time, the highest-ranking U.S. monetary and financial officials in the U.S. government, in Congress, and at the Federal Reserve Bank of New York, engaged in lengthy discussions about

²³ S. Lea, *Higher Oil Prices: Worldwide Financial Implications* (Washington, DC: British-North American Committee, 1975), Exhibit 6; Bank of England, *Quarterly Bulletin*, June and September 1975.

Table 3 U.S. Overall Balances on International Transactions in Millions of U.S. Dollars

	Long-term private capital flows, net	Balance on current account and long-term capital	Non liquid short-term private capital flows, net	Net liquidity balance	Net balance on merchandizes, excluding military grants	Military transactions direct expenditures
1967	-2,932	-3,304	-522	-4,683	3,800	-4,378
1968	1,191	-1,935	231	-1,611	635	-4,535
1969	-70	-3,637	-640	-6,081	607	-4,856
1970	-1,429	-3,778	-482	-3,851	2,159	-4,855
1971	-4,381	-10,559	-2,347	-21,965	-2,722	-4,819
1972	-98	-11,235	-1,541	-13,856	-6,986	-4,759
1973	62	-1,026	-4,276	-7,606	471	-4,620
1974-1st quarter	506	1,795	-3,966	-1,053	-74	-1,166
1974-2nd quarter	-973	-2,479	-5,429	-6,222	1,631	-1,319
1974-3rd quarter	-1,998	-3,581	-1,668	-4,466	-2,557	-1,257

Source: Records Relating to International Financial Institutions, 1962–1981, b. 6, fold. International Monetary 1978, Office of the Deputy to the Assistant Secretary for International Affairs, Office of the Assistant Secretary for International Affairs (OASIA), General Records of the Department of the Treasury, RG56, NARA.

the interconnectedness between short-term capital markets, particularly the Eurocurrency markets, and the reshuffling of productive investments.²⁴ This point helps us understand the Ford administration's support for the creation of supranational financial arrangements established under the aegis of the IMF and to be funded by OPEC. As soon as Western leaders realized the scale of OPEC's financial resources in spring 1974, a much-discussed issue within the

²⁴ "Statement by the Honorable Fred Bergsten before the Subcommittee on Commerce, Consumers and Monetary Affairs, Committee on Government Operations, House of Representatives," July 18, 1979, b. 114512, fold. Rosenthal Sub-Committee, Rosemary Lazenby-Mr. Kubarych's Files, FRBNYA.



The Federal Reserve System struggled to establish a linkage between the oil-crisis induced international capital flows and the rise of nonresident Eurodollars since the 1960s.

U.S. government was the substantial shift in financial resources from industrial economies traditionally inclined to private consumption to oil-producing countries apt to make speculative investments.²⁵ This shift might have potential macroeconomic effects on the ratio of capital supply to aggregate demand in the international economy.²⁶ Alternately, as the oil producers began engulfing short-term Eurodollar markets, such a shift placed against a new backdrop

the issue of non-oil LDCs' external stability owing to the decrease in world money supply for productive investments and debt restructuring that the booming investments of the oil producers in short-term assets and their ascendancy on world financial stage entailed. Therefore, Washington began considering the non-oil LDCs as a pivot to restructuring a more stable international trade and payments system. To understand that shift, we must explore the entanglements between OPEC countries, U.S. banks, U.S. monetary authorities, and the IMF on the recycling of the oil-producing countries' oil revenues prior to the Carter administration.

Attempts to Reflow OPEC Assets: American-led International Financial Arrangements and the Reaction of the Oil Producers, 1974–1975

In the three years after the first oil crisis of 1973 the United States made plans for establishing varying institutional financial arrangements aimed to channel

²⁵ See Matthias Schmeltzer, *The Hegemony of Growth. The OECD and the Making of the Economic Growth Paradigm* (Cambridge-New York: Cambridge University Press, 2016), 313–28.

²⁶ Note by the Secretariat "The macro-economic impact of higher energy prices over the medium term," December 2, 1974. b. 15, fold. EPC/WP-2 Documents 1973 (cont.) 1 of 2, OECD, Working Party II of the Economic Policy Committee, Records Relating to OECD Monetary Committees and Working Groups 1961–1974, Office of the Deputy Assistant Secretary for International Monetary and Investment Affairs, OASIA, RG56, NARA.

the OPEC countries' oil revenues to non-oil LDCs under the umbrella of Bretton Woods institutions.²⁷ These plans aimed to offer continued support to the non-oil LDCs through a set of financial arrangements established under the aegis of the IMF, first and foremost the so-called "oil facility," without further straining the U.S. capital account position. Such credit programs co-existed with OPEC placements with the Eurocurrency markets and with OPEC direct lending to poor-creditworthy non-oil LDCs.

As early as fall 1974 the largest U.S. commercial banks, deeply involved in the Eurocurrency markets, began viewing the recycling of OPEC deposits into short-term Eurocurrency assets as an experiment close to termination. The string of banking failures that shattered U.S. national banks like Franklin National Bank, as well as European giants such as Herstatt from fall 1973 through 1975, and the issue of the banks' exposure to non-oil-producing LDCs borrowers, pushed American bankers to call for terminating such a flow of funds.²⁸ After the collapse of the Herstatt and Franklin banks, the third and fourth quarters of 1974 showed a decline in international lending by U.S. banks and Eurocurrency credits.²⁹ In early 1975, Rimmer de Vries, a high-ranking Western banker, repeated that "banks were no longer willing or able to provide anywhere near the portion of the financing required by oil-importing countries that they did earlier in the year."³⁰ Moreover, American bankers argued that such reflowing patterns drove down further the value of the dollar in exchange markets and warned against the destabilizing inflationary effects of growing capital flows into short-term assets. Such widespread worries represented the first cause for a shift in policy of U.S. monetary authorities toward the OPEC countries—to leverage their financial

²⁷ The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), widely known as the World Bank, were established at the Bretton Woods Conference of July 1944, where delegates from more than 40 countries met to plan the reorganization of the international system after the end of WWII. The two sister institutions were established to recast international economic cooperation and to resurrect war-shattered economies. The literature on the Bretton Woods conference is abundant. Among the most recent studies on it, see Giles Scott-Smith and J Simon Rofe, eds., *Global Perspectives on the Bretton Woods Conference and the Post-War World Order* (London: Palgrave MacMillan, 2017).

²⁸ "Problems faced by banks," September 4, 1974, b. 2, fold. F, Part 4 of 4, 1974–1978, Records Related to OPEC Financial Affairs, 1974–1979, Office of the General Counsel. Assistant General Counsel, RG56, NARA.

²⁹ Department of the Treasury, Office of Statistical Reports, "Outlook for International Lending by Banks in 1975," March 24, 1975, p. 11, b. 2, fold. G Part 1 of 3 1974–1975, Records Related to OPEC Financial Affairs 1974–1979, Office of the General Counsel. Assistant General Counsel, RG56, NARA; see also Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, vol. 61, no. 1 (1975).

³⁰ Morgan Guaranty Trust Company, *World Financial Markets*, January 21, 1975, 5.

might as the pivot to establish a new balance of payments deficit financing policy. That redirection would involve the crucial issue of supporting the non-oil LDCs while easing the impact of American development assistance to the non-oil LDCs on the U.S. balance of payments. This shift came about through attempts by Washington elites to lock the investment patterns by the OPEC nations into multilateral financial arrangements. All arrangements were to be established under the aegis of existing institutions like the IMF.

We can trace the U.S. commitment to get the IMF involved back to spring 1974. As the Department of the Treasury pointed out in early March, over the next few years the OPEC capital-surplus countries were expected to provide a substantial amount of non-interest-bearing economic assistance to the non-oil LDCs. According to the Ford administration, to “many of the poorer LDCs who do not have access to the world capital markets” such financing was meaningful only on highly concessionary terms.³¹ On the other hand, such assistance, they believed, should be channeled through institutional arrangements set up under U.S. leadership. By the time President Gerald Ford left the White House, the OPEC nations had steadfastly shown their unwillingness to channel their resources under U.S. guidance.

From 1974 to 1976, the United States and its western allies became fully committed to the reflow of OPEC financial assets. As early as January 1974, the advanced industrial economies began debating how to shift the investment patterns of the OPEC nations towards long-term investments better placed to uphold the terms of trade of the non-oil LDCs.

Since its inception, this debate prompted the creation of investment outlets established within soon-institutionalized multilateral financing schemes. As early as February 1974, the IMF and some leading multilateral regional banks such as the Inter-American Bank “agreed in principle to a joint approach of our institutions to OPEC countries with view of exploring possibilities of utilizing existing financial institutions as intermediaries for channeling excess OPEC resources into development financing.”³²

³¹ “The Energy Crisis and the LDCs: The Problem,” undated, Council on International Economic Policy C-1974, Department of the Treasury, b. 3, fold. GPS. Records of Secretary of the Treasury George P. Shultz, 1971–1974, RG56, NARA; *idem.*, “US Policy Towards Financing Proposals to Assist LDCs to Meet Oil and Other Import Requirements,” March 1974.

³² A. Labidi President AFDEV to Witteveen, February 6, 1974. A. Labidi President AFDEV to Witteveen, February 6, 1974, b. 71, fold. 1, Medai Subject Files, Middle Eastern Department Fonds (hereinafter Medai), International Monetary Fund Archive, Washington, DC (hereinafter IMFA).

The first and best-known financial arrangement was the so-called IMF oil facility. In early 1974, the IMF's Committee on Reform of the International Monetary System and Related Issues, the so-called Committee of Twenty (C-20), gathered in Rome to discuss the pressing need for closer international cooperation in connection with the oil crisis.³³ The IMF first proposed creation of the oil facility, and the Committee approved it.³⁴ The oil facility was conceived as a financial fund, related to balance of payments deficits caused by the rise in oil import costs on which all deficit countries might draw to cover those deficits. Based on early accounts, OPEC apparently appeared inclined to cooperate with Washington in shaping the recycling process.³⁵ The first proposal, elaborated by IMF Managing Director Johannes Witteveen in January of 1974, aimed to provide temporary and limited assistance for developed and less-developed countries facing difficult financial prospects due to the oil price rise. In February, on behalf of the U.S. government, Paul Volcker told Witteveen that the United States' main reservation about the proposal was that it did not meet the need of hard-pressed LDCs with limited debt service capacity for highly concessional assistance.³⁶ In so doing, he exhibited Washington's constant concern for the implications of the increases in oil prices on the LDCs and their full participation in the existing system of international trade and payments. It was only with Witteveen's trip to the Middle East in April 1974 that the IMF convincingly began struggling to attract the OPEC nations' financial assets into long-term financing schemes. Such arrangements had the primary objective of offsetting the effects of the oil crisis on the LDCs' current account deficit. In turn, this was essential to sustain the non-oil LDCs' import of manufactured goods from the industrial nations and their export of commodities to Western Europe.

In the pursuit of these two objectives, Witteveen broadened his institutional bonds with the Middle Eastern OPEC producers. Prior to his visit to the Middle East, during bilateral meetings with high-ranking officials of the IMF, several capital surplus oil-producing countries, including Kuwait, the United Arab Emirates

³³ The IMF to the Governor of Bank Markazi and Governor of the IMF for Iran, January 30, 1974. Middle Eastern Department Fonds, Medai Subject Files, b. 71, fold. 1, IMFA,

³⁴ H. E. Scharrer, "The Heritage of the Committee of Twenty," *Intereconomics* 9, no. 7 (1974): 198.

³⁵ See, for instance, T. Cutler, "Recycling Petrodollars to the Third World: a Critique of the IMF Oil Facility," *World Affairs* 139, no. 3 (Winter 1976-77): 188-205; J. H. Street, "Latin American Adjustments to the OPEC Crisis and the World Recession," *Social Science Quarterly* 59, no. 1 (1978): 60-76.

³⁶ A. D. Crockett, Memorandum for Files, "New Oil Facility," February 14, 1974, Chronological Files, b. 1, Witteveen Papers, OMD files, IMFA. See also, Under Secretary Volcker, "Briefing Material. International Monetary Reform," April 10, 1974, b. 1, fold. ADB Annual Meeting Monetary Reform, April 1974, Briefing Books, 1971-1980, Office of the Deputy Assistant Secretary for International Monetary Affairs, OASIA, RG56, NARA.



As managing director of the IMF, Johannes Witteveen strove to establish international financial arrangements under the aegis of the IMF to channel OPEC's financial wealth to stabilize the external payments position of the non-oil LDCs after the first oil crisis.

(UAE), and Libya, had reacted positively to the prospect of financing the IMF but insisted on both the commercial attractiveness of lending to the Fund and their aspiration to gain greater voting power in the Fund. The government and the central bank of Iran showed their propensity to finance the facility, exhibiting a more pro-Western position, compared to other OPEC nations.³⁷ During his visit to the Middle East, Witteveen reached important agreements but

also faced a number of disappointments involving other key oil-producing nations. During the visit, he settled agreements with Saudi Arabia for the equivalent of a Special Drawing Rights (SDRs) loan of SDR 1 billion at 7 percent, and for smaller amounts with Kuwait, Libya, and the United Arab Emirates.³⁸ The claim on the Fund would be expressed in SDRs valued in terms of a basket of currencies. Such an arrangement was thought both to protect lenders from further downswings that might occur in the value of the dollar, and to prevent the financing of the IMF oil facility from expanding the dollar share in world money supply.³⁹ Indeed, the birth of the oil facility was laborious both due to skepticism by Volcker and because key lenders such as Kuwait took a hard stance during the negotiations. Irrespective of the amount agreed upon with Witteveen, over the course of bilateral meetings with the IMF the government of Kuwait and the governor of the Kuwaiti central bank opposed large-scale lending. Furthermore, in 1974 the Kuwaiti prime minister called on the Fund to get assurances that there would be satisfactory investment outlets when lending countries came to be repaid.

³⁷ Memorandum for the Files, "Managing Director's Trip to Middle East," March 12, 1974, b. 1, A.D. Crockett, Chronological Files, Witteveen Papers, OMD Files, IMFA; *idem.*, A.D. Crockett, Memorandum for the Files, "Managing Director's Conversation with Mr. Yeganeh," February 26, 1974.

³⁸ The Special Drawing Rights were a sort of currency of the IMF. On this, see C. Wilkie, *The Special Drawing Rights: The First International Money* (Oxford: Oxford University Press, 2012).

³⁹ "Statement by Managing Director on Visit to Member Countries in North Africa and the Middle East at Executive Board Meeting 74/37," April 22, 1974, b. 6, fold. Oil, Subject Files of the Office of International Monetary Affairs, 1968–1978, OASIA, RG56, NARA; A.D. Crockett, Memorandum for Files, "Saudi Arabia: Conversations with authorities," April 19, 1974, b. 1, fold. 2, Chronological Files, Witteveen Papers, OMD Files, IMFA.

In opposing large-scale lending, the Kuwaiti minister of finance and oil stated that Kuwait was already extending a lot of bilateral assistance and was making its surplus available to the world economy through a substantial level of foreign investments.⁴⁰ Therefore, the creation of multilateral arrangements to channel the financial assets accruing to the oil-producing countries to the LDCs through a substantial shift in their investment patterns from short-term Eurocurrency lending to long-term investments was tenuous on multiple occasions.

In addition to the oil facility, as early as January 1974, the IMF fine-tuned the creation of an Extended Fund facility. It would provide resources with extended maturity and in larger amounts for countries suffering from serious payments imbalances. Repayments could be made in three years following a four-year grace period: a maturity structure that was clearly premised over longer-term lending on the part of the OPEC countries.⁴¹ The project was successful, and the IMF could secure financial resources for the following years from the Saudi Arabian Monetary Agency (SAMA), the central bank of the Kingdom of Saudi Arabia,⁴² and the main repositories of the country's oil revenues.⁴³ Consistent with this approach, during the following three years the Fund managed to set up a number of financial arrangements to provide the LDCs with long-term lending. This was the case with the Supplementary financing facility, discussed in 1977 and opposed by some private investment bankers, who identified in it an obstacle to their investments. The Supplementary facility, finally funded by Libya, Saudi Arabia, and Kuwait, was thought by the Fund to "provide exactly the sort of longer-term scope for adjustment that is desired" for the LDCs.⁴⁴

Despite these arrangements, most oil-producing countries showed their recalcitrance to locking their money into institutional arrangements under U.S.

⁴⁰ A. D. Crockett, Memorandum for Files, "Conversation with Authorities," April 24, 1974, b.1, fold. 2, Chronological Files, Witteveen Papers, OMD Files, IMFA.

⁴¹ "Proposed Lending Institutions," April 1974, b. 3, fold. GPS. Council on International Economic Policy C-1974, Department of the Treasury, Records of Secretary of the Treasury George Shultz, 1971–1974, RG56, NARA.

⁴² On the central bank of Saudi Arabia, see Ahmed Banafe-Rory Macleod, *The Saudi Arabian Monetary Agency, 1952–2016: Central Bank of Oil* (London: Palgrave, 2017).

⁴³ See documentation in Records Related to OPEC Financial Affairs, 1974–1979, b. 3, Office of the General Counsel. Assistant General Counsel, RG56, NARA.

⁴⁴ IMF Memorandum for Files, "Managing Director's Visit to Various Bankers in New York," August 24, 1977. b. 2, fold. 15, Chronological Files, Witteveen Papers, OMD Files, IMFA. Regarding the negotiations between the Fund and the Arab oil producing countries, see b. 87, fold. 6, Medai Subject File, Medai, IMFA.

leadership and made efforts to invest long-term through investments in Western equity and security markets. However, to some extent they trusted the recycling mechanism built up under the aegis of the IMF. This was, for instance, the case of the Fund's second oil facility set up in 1975 or the approach that underpinned the Iranian proposals to channel the OPEC nations' oil revenues within the framework of multilateral schemes involving both OPEC and the Organization for Economic Cooperation and Development (OECD).⁴⁵ As for the second oil facility, the case of Saudi Arabia is exemplary: early on in the negotiations the Saudis saw no objections to lending to the IMF oil facility throughout 1975. At the same time, they firmly opposed some proposals put forward by the United States and the OECD to fund a sort of safety net for the industrialized oil-importing countries in support for their purchasing power in the international commodity markets.⁴⁶ Kuwait, since late winter 1974, showed its inclination to provide the non-oil-producing LDCs with bilateral assistance.⁴⁷

Indeed, owing to large investments in short-term Euro-money assets that drove the OPEC countries' investment strategies throughout the second and third quarters of 1974,⁴⁸ these early moves to institutionalize the reflowing of their assets contributed little to the recycling process. The linkage between the OPEC countries' capital surplus and the largest U.S. banks that traded on the Eurocurrency markets was the pivot of the recycling process. At the same time, as discussed here, the process of institutionalization met opposition by a number of key oil producers that contributed to its failure.

By early summer 1974, U.S. commercial banks began suffering from the effects of bank failures that started in fall 1973, which brought to a critical point the banks' capability to channel OPEC's oil revenues. Against this backdrop, the international debate about the setting up of institutional recycling arrangements

⁴⁵ The OECD is an intergovernmental organization that gathers both European and non-European nations. It was founded in the late 1940s with the name Organization for European Economic Cooperation (OEEC) to help manage postwar American economic assistance to Europe launched under the aegis of the Marshall Plan. In 1961 it was renamed OECD. Since its creation, it has served the purpose of promoting transatlantic cooperation, international economic integration, and world trade according to the principles of market economy.

⁴⁶ On Saudi Arabia, see Managing Director's Meeting with Chancellor Healey on December 16, 1974, b. 1, fold. 4, Chronological Files, Witteveen Papers, OMD Files, IMFA.

⁴⁷ "The IMF representative in Kuwait to IMF," Washington, DC, telegram, February 2, 1974, b. 71, fold. 1, Medai Subject Files, Medai, IMFA.

⁴⁸ R. Mills, Board Presentation, March 31, 1975, b. 3, fold. O 1975–1978, Records Related to OPEC Financial Affairs, 1974–79, Assistant General Counsel, Office of the General Counsel, RG56, NARA.

and a better coordination between the maturity of investments and needs of the LDCs intensified. In June, British Prime Minister Harold Wilson and U.S. Vice President Nelson Rockefeller agreed on favoring the Arab oil producers interested in long-term investments. In early July 1974, over the course of bilateral U.S.–UK meetings, the London government suggested that a big multilateral facility be established to issue bonds and certificates with high-yielding interest rates to the Middle Eastern oil producers.⁴⁹

Secretary of State Henry Kissinger told the British prime minister that he strongly supported a multilateral approach to coordinate the pumping of OPEC's capital surplus into the transnational capital supply to support the current account deficit of the non-oil LDCs.⁵⁰ By late summer, this turn to stem the shift in the investment patterns of the oil-producing countries to long-term financial instruments coincided with a wide-ranging awareness about the growing reluctance of private capital markets.⁵¹ In fact, American commercial bankers relentlessly repeated their unwillingness to bear the cost of recycling even as the Federal Reserve Bank of New York pressed them to adopt a much more strict lending policy.⁵²

During a late September meeting with Kissinger, UK Secretary of State for Foreign and Commonwealth Affairs James Callaghan made his case for setting up some functioning multilateral arrangements to replace the recycling of OPEC resources through the intermediation of Western private capital markets: "I did not think it is satisfactory in the long-term that Arab funds should flow into London and, more particularly, into America, . . . I thought that there must be some intermediary organization sufficiently attractive to the producers, which would bear the main responsibility of recycling funds."⁵³

⁴⁹ Record of Conversation between the Foreign and Commonwealth Secretary and Dr. Henry Kissinger at the Foreign and Commonwealth Office, July 8, 1974, Visits of Dr. Henry Kissinger US Secretary of State, to UK, March 28, May 14 and July 8, fold. 3, FCO 82/442, TNA.

⁵⁰ Record of a Conversation between the Prime Minister and the United States Secretary of State, Dr. Henry Kissinger, at 10 Downing Street on July 8, 1974, FCO 82/442, TNA.

⁵¹ Department of the Treasury, "Problems faced by banks," September 4, 1974, b. 2, fold. F Part 4 of 4 1974–78, Records Related to OPEC Financial Affairs, 1974–79, Office of the General Counsel. Assistant General Counsel, OASIA, RG56, NARA.

⁵² D. Keyser to T. Willet, Memorandum "Recycling Petrodollars: Aspects of Financial Market Behavior," September 23, 1974, b. 1, fold. G Part 2 of 3 1974–1975, Records Related to OPEC Financial Affairs, 1974–1979, Office of the General Counsel. Assistant General Counsel, OASIA, RG56, NARA.

⁵³ The Secretary of State for Foreign and Commonwealth Affairs in New York to the UK Prime Minister, the UK Ministers for Energy and the Treasury, fold. Meeting between James Callaghan, Secretary of State for Foreign and Commonwealth Affairs, and Dr. H. Kissinger, U.S. Secretary of State, New York, September 24, 1974, FCO 82/446, TNA.

Meanwhile, at the highest U.S. diplomatic level the debate about the institutionalization of OPEC's foreign exchange surpluses and their investments in long-term financial instruments developed further. Within the Ford administration, and particularly among members of the U.S. National Advisory Council on International Monetary and Financial Problems, there was an intense dispute over the issue of borrowings by the IBRD from the OPEC countries. Did those borrowings increase the influence of OPEC on the Bank's decisions on loans, or were such borrowings by the Bank a way to persuade the poorest oil-producing countries to commit to offset arrangements as a condition for receiving these loans?⁵⁴ The IMF took a step further: in its wide-ranging contacts with the highest U.S. policymakers, Witteveen stressed that each of the Fund's financial facilities was to reach the twin target of creating a shift in the investment patterns of the OPEC countries and preventing private capital markets from taking the lead in channeling the oil revenues. The managing director made his stance clear in September to U.S. Secretary of the Treasury William Simon: his proposal for a second oil facility funded by the Fund's members placed the bulk of the default risk of borrowers on the IMF's largest shareholders and gave the oil producers an attractive, guaranteed asset. In so doing, the scheme allowed the oil producers to bypass the risks inherent in dealing with the private market and tended "to short-circuit the private market's role in recycling."⁵⁵

In light of these mounting pressures to induce the OPEC nations to shift their investments to less liquid, long-term assets, the United States made a case for institutionalizing the reflowing of the oil revenues. Speaking in Chicago in mid-November 1974, Kissinger proposed to set up a new financial mechanism in association with the OECD to provide standby financial support to any participating country in trouble. He also made a case for setting up a Special Trust Fund managed by the IMF to help developing countries that needed financing on concessionary terms. Kissinger called on Western partners' monetary authorities to establish a common law and guaranty facility to redistribute up to \$25 billion in 1975. Kissinger thought about a mechanism for recycling, at commercial interest rates, funds flowing back to the industrial world from the oil producers. In arguing for the creation of such a fund, Kissinger made a case for protecting the

⁵⁴ National Advisory Council Alternates Meeting Minutes, Meeting 75-1, January 16, 1975, b. 1, fold. Meeting n. 75-1 Through Meeting n. 75-8, NAC Alternates Minutes and Agenda, National Advisory Council on International Monetary and Financial Policies (NAC), RG56, NARA.

⁵⁵ File 1974, "General Comment on Healey Proposal for Witteveen Mark II," November 14, 1974, b. 1, fold. TEFPP: Office of Financial Policy Coordination. Permanent Chron., Chronological Files of the Office of Financial Resources and Energy Finance, 1974-1977, OASIA, RG56, NARA.

stability of the international financial system, the creditworthiness of participating governments, the purchasing power and terms of trade of the non-oil-producing LDCs and, last but not least, for complementing the role of private capital markets with a multilateral scheme.⁵⁶ The theme of promoting the viability of the non-oil LDCs in order to stabilize the international economy was at the core of Kissinger's speech to the United Nations in spring 1975. Prior to that occasion, in the winter of 1974 the creation of a mutual financial support fund among the major industrial countries and a trust fund for the LDCs was discussed in the G-10 machinery, with the United States preferring the establishment of such a new fund over the extension of existing IMF facilities.⁵⁷

Conclusion

It is widely accepted among historians of international relations that the 1970s generated the historical origins of the end of the Cold War that materialized with the collapse of the Berlin Wall in 1989. This periodization rests on the idea that the appearance of a multipolar world populated by a number of new political actors shaped the decade of the 1970s and set conditions for the end of the postwar world order. In the economic sphere, this perspective has focused attention on the two energy crises of the 1970s as the seminal events that reshaped the international economic order and led to terminating the economic confrontation between the Western and Eastern blocs. Accordingly, those transformations occurred suddenly during the 1970s in combination with the outbreak of the first oil price hike in 1973 and developed further over the course of that decade.

This article contributes to this interpretation that from the perspective of international economic relations the first half of the 1970s was a watershed, with far-reaching historical changes. In the first instance, the history of U.S. policies to forestall the depreciation of the dollar in foreign exchange markets gives evidence to a set of structural transformations that began long before the beginning of the first oil price hike. As traced earlier, the prolonged weakening of the dollar prompted U.S. elites to devise new ways to confront a strand of events that since the second half of the 1960s put further pressure on U.S. currency. The British pound devaluation (1967), the closure of the Suez Canal (1967), and the unfettered

⁵⁶ "The Energy Crisis. An Address by US Secretary of State Henry Kissinger, at the University of Chicago," pp. 8–9, November 15, 1974, FCO 82/465, Energy Policy of USA (1974), TNA.

⁵⁷ P. Ramsbotham (UK Embassy in Washington), "United Kingdom-United States Relations: Monthly meeting of Permanent Secretaries," December 3, 1974, Monthly Meeting of UK Permanent Secretaries on Coordinating Relations between UK and USA chaired by Sir John Hunt, Secretary to the Cabinet (1974), FCO 82/436, TNA.

outflows of dollar-denominated financial assets from the United States to the Eurocurrency markets at the turn of the 1960s are the most important factors that led U.S. policymakers to turn attention to the OPEC countries' revenues to finance first U.S. exports and then the permanence of the LDCs in the international trade and payments system.

Second, researching the history of U.S. measures to revamp the hegemony of the American currency is an innovative perspective for making sense of Washington's actions to resist the meltdown of a U.S.-centered western international system that had lasted since the post-World War II reconstruction. Specifically, we can reconstruct the complex U.S. strategies to prevent the meltdown of the international trade and financial system based on the role of the U.S. dollar as both the reserve currency and the leading means of payments for international transactions. These investigations are essential for understanding the complex and slow transition from the postwar American-led world to a new multipolar order that came about in large part through a persistent struggle by Washington to reshape the world of the 1970s and to reaffirm the centrality of the American economy in the rapidly changing global trade and financial system.

Third, but not less important, this discussion has demonstrated that in its efforts to remake the hegemony of the dollar in the world economy the United States showed continued concern for and attention to a multiplicity of established and new actors in the emerging global economic arena. From the non-oil LDCs (historical partners of the Western world in both raw material exports and consumer goods imports) to the rapidly ascending OPEC oil producers, Washington's foreign financial and trade policies demonstrate an awareness of the vital and critical issues. U.S. policy makers attempted to lead the ongoing historical transformation through policies devised to repair the United States' international payment position.

On one side, U.S. policy makers understood that the appearance of new world-class economic players should be both recognized and managed. In this respect, the attempt to lock the recycling of the oil revenues of the OPEC oil producers into international financial arrangements established under U.S. guidance was straightforward. On the other side, policy makers placed great importance on letting the non-oil LDCs take advantage of the American attempt to reflow the Middle East countries' financial might into long-term investments. Washington was sensitive to the welfare of the non-oil LDCs, to avoid harming countries that had historically been recipients of U.S. foreign economic assistance. Resorting to OPEC finance to provide the non-oil LDCs with continued economic assistance at

a time of reduced U.S. official foreign economic assistance was the specific strategy that Washington devised to pursue balance of payments deficit restructuring policies without harming the non-oil LDCs. This priority should be linked to the U.S. awareness that reshaping the role of the dollar as the epicenter of the international economy could not be accomplished at the expense of countries such as the non-oil LDCs that were vital to the system of international trade and payments.

Finally, the early 1970s debate on how to link the rise of short-term, highly unregulated financial markets such as the Eurodollar and other Eurocurrency markets to a new world trade and payments system revolving around a renewed centrality of U.S. currency and the financial might of OPEC nations sheds light on Washington's perception that the new multipolar world was made not only of new state powers but also of new and increasingly influential world-scale financial actors.

This article has focused on a period, from 1970 to 1975, marked by the combined outbreak of the first oil shock, the development of short-term Eurocurrency markets, and global negotiations on the recycling of the OPEC oil revenues in either short-term or long-term investments. At the macroeconomic level, what distinguished this period was the combined rise of OPEC dollar-denominated revenues and international assets, a corresponding decline of the value of the dollar in exchange markets, and the beginning of an oil shock-induced recession across the advanced industrial economies. When the recession gained momentum in 1975, international demand for oil and oil compounds declined, and by mid-decade this helped restore the value of the dollar in exchange markets. However, from 1976–1977 to the outbreak of the second oil crisis, the United States showed continued incapability to defend the value of the dollar and its hegemonic position. Under the Carter administration this new macroeconomic framework jeopardized further the economic and financial diplomatic relations between Washington and the OPEC oil-producing countries long before the outbreak of the Iranian Revolution in 1979. Within this framework of growing economic tensions between the United States and the Middle East, the poor performance of institutionalized recycling policies under U.S. guidance and the attitude of the OPEC countries to refuse them, described in this article, reduced further cooperation between the United States and OPEC on reflowing the oil revenues to the non-oil LDCs. On one side, since 1976, with the establishment of the so-called OPEC Special Fund, the oil producers created a set of official arrangements to reflow their financial assets abroad; on the other side, under the Carter administration the western world increasingly relied on the IBRD and the IMF to

make investments in the Eurocurrency market to support its foreign economic policy. Similarly, in the second half of the decade, U.S. private commercial and investment banks became involved, either individually or through syndicated loans, in financing the foreign debt and balance of payments deficit of the non-oil LDCs, thus reversing their earlier recalcitrance to cooperate on U.S. government policies to defend the value of U.S. dollar. Such divergence and weak cooperation between the United States and OPEC on the best way to reflow dollar-denominated oil revenues in order to recast a market-oriented international trade and payments system continued, as just outlined, in the second half of the decade.

Therefore, the years analyzed in this article offer a first chapter in a decade-long history of failure of U.S. initiatives to reorganize a new and increasingly multipolar world around the pillar of the U.S. dollar. That U.S. strategy was based both on recognizing the appearance of new supranational institutional actors (OPEC) and new private players in the realm of finance (Eurodollar and other short-term financial markets), and on keeping old actors of the international system, such as the LDCs, in the loop of the world trade and payments system. The failure of such U.S. policies to make the new multipolar world revolve around the epicenter of the U.S. economy and currency began with the years explored in this article, continued during the second half of the decade, and had its epilogue with the Iranian Revolution, the outbreak of the second oil crisis, and the late 1979 decision by the U.S. Federal Reserve System to suddenly turn to high-interest rate and tight monetary policies to fight inflation and the declining competitive position of the American economy in world markets.

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