NIXON'S FOLLY
THE WHITE HOUSE AND THE 1970S OIL PRICE CRISIS

As a result of the Organization of Petroleum Exporting Countries (OPEC) oil embargo and decision to institute dramatic production cuts that quadrupled the price of oil, the United States plunged into a national energy crisis in the 1970s. By examining internal correspondence and meeting records from the Ford Memoranda of Conversations, Amin Mirzadegan '17 argues that despite their rhetoric claiming otherwise, President Richard Nixon, President Gerald Ford, and Secretary of State Henry Kissinger prioritized maintaining positive relations with Iran over attempting to curtail the spiraling price of oil. Ultimately, this choice played a key role in the fall of the Shah's government and Saudi Arabia's supersession of Iran as the United States' crucial ally in the Middle East.

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Written for "Energy in American History"
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Edited by Simon Horn, Maxwell Ulin, and Graham Ambrose

"I will do everything I can to hold down the price of foreign oil. The American people cannot afford to pay such prices, and I can assure you that we will not have to pay them."[1] President Richard Nixon's address from the White House about the national energy crisis on January 19, 1974 called upon millions of Americans to have faith in their president's efforts to curtail the skyrocketing price of oil and end its ravaging of the American consumer's wallet. Just a few weeks earlier on October 20, 1973, the Organization of Petroleum Exporting Countries (OPEC) had declared an oil embargo on America and much of the Western world while also instating massive production cuts that quadrupled the price of oil by 1974.[2] Nixon's efforts to hold down oil prices were ultimately futile: by the time he left office in August 1974, prices were still 215 percent above the pre-embargo level, even though the embargo ended in March 1974.[3] Oil prices continued to increase from 1974 to 1978, rising by 18 percent during President Gerald Ford's time in office.[4] There were, of course, limits on the extent to which the president could control foreign oil prices. But did Nixon and Ford do everything in their power to attempt to lower prices? This paper will argue that Nixon's claim that he would do anything he could to decrease oil prices was disingenuous and that he did not in fact consider lowering oil prices an immediate strategic objective. Internal correspondence and meeting records from the Ford Memoranda of Conversations show that the White House carefully weighed the value of pressuring Iran to lower oil prices against the benefits of maintaining strong relations with Iran for the sake of fighting communism in the Middle East.

Nixon and Ford, along with Secretary of State Henry Kissinger, possessed the power to exert pressure on the Shah and fight the oil price increases from 1974 to 1976. Yet both administrations abstained due to political calculus: to them, the value of maintaining positive relations with the Shah of Iran outweighed the adverse economic effects of higher oil prices. These men believed that a short-term increase in oil price was a necessary tradeoff for a stable Middle East, and that future increases in global oil production would bring prices back down to normal levels.[5] In the Cold War atmosphere of the 1970s, achieving geopolitical aims was of primary importance to Nixon, Kissinger, and Ford; dealing with short-term oil supply problems and domestic economic suffering came second. Ironically, and inadvertently, this strategic choice caused the demise of the Shah's government, a severe souring of American-Iranian relations, and Saudi Arabia's supplanting of Iran as America's main strategic ally in the Middle East.

PRESIDENT NIXON

Nixon's relationship with Shah Reza Pahlavi of Iran had its origins in the 1950s, when Nixon was Dwight D. Eisenhower's vice president; however, his strategic partnership with the Shah began in earnest in 1969. On July 26, 1969, in the middle of an international tour, President Nixon made a fateful speech at a stopover in Guam. Nixon's proclamation, which would come to be known as the Nixon Doctrine, stated, "We shall furnish military and economic assistance when requested in accordance with our treaty commitments. But we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defense."[6] The Doctrine was initially aimed toward satisfying Nixon's 1968 campaign promise of an honorable withdrawal from Vietnam via the "Vietnamization of the Vietnam War." But a consequence of Nixon's promise to "furnish military and economic assistance when requested" was an explosion in the amount military aid provided to US allies in the Persian Gulf, primarily Iran and Saudi Arabia.[7] Simultaneously, Britain's withdrawal from the Persian Gulf in 1971 created a power vacuum that the Shah, with financial and military backing from America, eagerly filled.[8]

The Shah had grand visions for his country. As his coffers filled with oil revenues in the 1970s, he embarked on Iran's Fifth Development Plan (1973-77), Iran's version of China's "Great Leap Forward" that increased public and private sector investment from $36.8 billion to $69.6 billion and increased Iran's military spending from $844 million in 1970 to $9.4 billion in 1977.[9] Nixon gave the Shah unlimited access to America's arsenal, and the Shah eagerly spent his country's petrodollars on American military equipment.[10]

The source of the Shah's newfound wealth was the skyrocketing of oil prices, which started in November 1973 with the OPEC oil embargo and production cuts. On November 25, 1973, the Arab countries of OPEC placed an embargo on the United States and other Western countries in retaliation for their support of Israel during the Yom Kippur War. Unlike the rest of the Arab oil producers, Iran did not participate in the embargo. However, the Shah pushed the most aggressively for the price increase, lifting the posted price of crude oil from $4.30 to over $10.[11] The sudden hike in oil prices ravaged the American economy in early 1974. America's Gross National Product (GNP) plummeted by six percent between 1973 and 1975, and unemployment doubled to nine percent.[12] Although these adverse economic effects alarmed the Nixon administration, Nixon himself had developed an intimate strategic and personal relationship with the Shah. As a result, Nixon did not balk at the skyrocketing oil prices even though his personal ally represented the driving force behind OPEC's biggest price increases. Thus, Nixon's effort to reduce oil prices consisted of writing a letter to the Shah halfheartedly asking for some moderation with regard to the oil price increases. In *The Prize*, historian Daniel Yergin refers to this letter as "a very strong private letter to the Shah," but Yergin fails to address that the appeal was nothing more than a letter, a mere statement on a piece of paper.[13] When the Shah rebuffed Nixon with a "brief and unforgiving" response, Nixon essentially folded and continued to sell increasing numbers of armaments to the Shah. If Nixon were serious about lowering prices, he had incredible leverage at his disposal: America was the Shah's main military arms supplier, and the US could have cut military supplies just as easily as Iran had hiked oil prices.

Nixon undoubtedly recognized the detrimental effect of high oil prices on the American and global economies: inflation in America reached 11 percent in 1974.[14] Yet he nonetheless refused to exert pressure on the Shah because of Iran's importance to his administration's Cold War grand strategy. Cheap oil was important for America's economic prosperity, but not as critical as keeping Iran as a strong ally and bulwark against Communism in the turbulent Middle East of the 1970s. Instead, Nixon made public proclamations about the necessity of conservation and how he was attempting to pressure the Middle Eastern oil producers to reduce prices. In a November 25, 1973 address to the nation, the President preached conservation and touted his "Project Independence," an energy conservation and development plan. "Tonight I ask all of you to join together in moving toward that goal," Nixon implored, "with the spirit of discipline, self-restraint, and unity which is the cornerstone of our great and good country."[15] Nixon shrouded his lack of action with patriotic rhetoric and appeals to "discipline" and "self-restraint." Ironically, while Nixon preached to his citizens and called upon them to make personal sacrifices, he failed to communicate that he was scarcely applying pressure on the Shah at all, and that in 1974 the United States was still selling $8.4 billion in military supplies and services to Iran.[16]

Nixon's exchange with Iranian Foreign Minister Ardeshir Zahedi in 1970 revealed an even deeper divide between Nixon's public statements and his private actions regarding oil prices and the Shah. On May 14, 1970, Nixon hosted a meeting at the White House for foreign ministers of the Central Treaty Organization, an alliance of anti-communist countries in Asia. At the end of the meeting, Nixon called Zahedi over to a small room off the Oval Office, and he requested that Zahedi relay a message to the Shah: "Tell the Shah you can push [us] as much as you want [on oil prices],"[17] The Shah would never forget this implicit blessing. Nixon had given him the confidence to aggressively pursue higher prices in the coming years.

SECRETARY OF STATE KISSINGER

Secretary of State Kissinger was Nixon's closest adviser during his presidency, and Nixon became even more dependent on Kissinger to guide foreign policy as he became mired in the Watergate scandal in early 1974. Steven Bosworth, director of the State Department's Office of Fuels and Energy, said in 1974 during the Watergate scandal that "'there was no real decision-making apparatus in Washington – other than Henry Kissinger.'"[18] Although Kissinger's formal title was Secretary of State, he also became heavily involved in formulating American energy policy during the embargo and proceeding years. His unique brand of *realpolitik* as a Cold War strategy calculated that Iran was a better long-term ally than Saudi Arabia.

Kissinger's logic was manifold. Primarily, Iran had consistently opposed using oil as a weapon to force America's hand in the Israeli-Palestinian conflict, which Kissinger believed showed restraint and sophisticated geopolitical understanding. In contrast, Saudi Arabia heavily depended on oil as a means of placing pressure on the US to reduce its support for Israel. The fact that Saudi Arabia was willing to leverage oil against the United States convinced Kissinger that Saudi Arabia was not willing to work with America on national security issues. He thought of Saudi Arabia as little more than a sparsely populated country that happened to have large oil reserves; it was not a nation suited for a major/important role on the world stage like Iran. Even before the embargo in May 1973, Kissinger stated to Deputy Secretary of Defense Bill Clements, "We wouldn't give a damn about Saudi Arabia if it didn't have most of the oil in the region."[19]

Finding the Shah a keen political thinker, Kissinger also enjoyed being able to strategize with the Shah and appreciated hearing the Shah's perspective on Middle Eastern affairs. In his diary, Asadollah Alam, the Shah's closest adviser and Minister of the Imperial Court, recounted how Henry Kissinger "was full of praise for [the Shah], saying how much he wished President Ford could emulate his example."[20] Kissinger calculated that high oil prices for a few years would be an acceptable price to pay for appeasing a strong leader and close ally like the Shah.

In addition to his personal admiration for the Shah, Kissinger also valued the Shah as an important deterrent to Soviet aggression in the Middle East. During a meeting with Defense Secretary James Schlesinger at the Pentagon on August 9, 1973, Kissinger expressed concern that he would not have any idea what to do if the Soviets were to attack Iran. Suggesting a potential preventative measure, Schlesinger responded, "In Iran, for example, if we were to fly in some F-Ills, we convey a message."[21] Schlesinger understood Iran's strategic significance, and he was willing to put the US Air Force through a risky operation to protect Iran from Soviet aggression. Kissinger responded that they needed tangible military plans to protect their "main asset" in the Middle East.

While Kissinger was making such plans to defend Iran and the Shah, he was also making contingency plans with the Shah to invade Saudi Arabia and capture its vast oil fields if a crisis occurred between Iran and Saudi Arabia.[22] The Saudis seemed aware that Kissinger was plotting against them; in an August 1975 letter from former US Ambassador to Saudi Arabia James Akins to then Treasury Secretary William Simon, Akins wrote, "Zaki Yamani has told me he is convinced we are now working closely with the Shah and that in the next Mideast war the Shah will be sent across the Gulf to occupy the Arab oil fields."[23] Akins relayed the Saudi Arabian Oil Minister Yamani's concern with Kissinger's bias against Saudi Arabia. Thus, while Kissinger's personal relationship with the Shah was flourishing, the America-Saudi Arabia relationship was deteriorating.

In the sphere of geopolitical value, Kissinger unabashedly favored the Shah over

Saudi Arabia. But even in terms of energy policy, Kissinger seemed to support the Shah despite his more aggressive price policies. According to Daniel Yergin, “By far the most aggressive and outspoken country [in terms of increasing oil prices] was Iran.”[24] While Iran argued for $11.65 as the new posted price per barrel at the December 1973 OPEC meeting in Tehran, Saudi Arabia pushed for the lowest price within OPEC, at $8 per barrel.[25] Since the Shah was the primary oil price hawk and Saudi Arabia was the dove, it would make sense that even somebody as smitten with the Shah as Kissinger might set aside personal biases and support Saudi Arabia’s efforts to increase oil production and decrease prices. However, Kissinger’s conversations with White House officials proved that his preference for and support of the Shah extended into resistance toward decreasing oil prices, which runs counter to the Nixon and Ford administrations’ claims that they were working to decrease prices.

In a November 1974 conversation between Kissinger and Treasury Secretary Simon, Simon questioned the Shah’s arithmetic calculations regarding a potential price increase, but Kissinger was quick to come to the Shah’s defense:

> Simon: The Shah’s addition was wrong.
> Kissinger: In foreign policy the Shah is the only one we can count on. He’s offered to buy C-5’s to keep our production lines open; he’s offered to let us refuel in a Mideast war. I think the Saudis use him as an excuse. Within two years we will be awash with oil.
> Simon: I couldn’t agree more. When the North Sea, the North Slope and Mexico come in, that will do it.[26]

Kissinger and Simon’s comments reveal their belief that the high oil prices were a temporary aberration caused by unnaturally tight demand from 1973-74. The North Sea and the North Slope were notoriously difficult drilling operations that were not financially feasible until prices increased, and Kissinger and Simon believed these fields would fill the gap in supply and US dependence on OPEC would diminish within two years. Their confidence that there was plenty of oil and it was simply a matter of time before other projects began producing and drove the oil price down again stands in stark contrast to the “limits of growth” theory published in 1972,[27] which essentially affirmed M. King Hubbert’s Peak Oil theory.[28] It seems that White House officials had a radically different view about the global oil supply compared to the general public,[29] perhaps explaining why Nixon and Kissinger were not as concerned with the temporary oil supply crunch.

This conversation also reveals numerous reasons why Kissinger valued maintaining a positive relationship with the Shah. For one, Iran’s massive military purchases kept American factories busy during an economic downturn. Additionally, the Shah offered to provide the US with military support in a crucial region of the world. Kissinger also criticized the Saudis directly after extolling the Shah, juxtaposing his opinions of the two countries and capturing his strong feelings about the two countries.

However, some officials within the White House did not share Kissinger's unquestioning loyalty to the Shah. In a May 1973 conversation between Kissinger and Deputy Secretary of State Bill Clements, Clements suggested that Kissinger was not giving due consideration to Saudi Arabia's strategic significance:

> Mr. Clements: This Shah-Saudi relationship is overplayed. [Saudi Arabian King] Faisal is looking for signals from the US He is worried that his direct communication with us is not as strong as Iran's. It's improving and he hopes in time it will be equally good. But he has serious misgivings about an Iranian battalion in Oman. These cables talking about how the Shah and Jordan could take over Saudi Arabia in case of a rebellion are bad business.
> Mr. Kissinger: Why is it bad business?
> Mr. Clements: We can get in an awful jam.
> Mr. Clements: We should be giving more attention to Saudi Arabia itself. There are many things we could do to strengthen its position. The Shah is telling everyone how unstable Saudi Arabia is. He's been forecasting doom for the last five years.[30]

Although Saudi Arabia's role in targeting America in the November 1973 embargo might have eventually soured Clements' view of Saudi Arabia, in May 1973 he nevertheless beseeched Kissinger to "strengthen its position" and pay more attention to the country. Clements also referred to Kissinger's contingency plans for Iran and Jordan to invade Saudi Arabia as "bad business," to which Kissinger responded, "Why is it bad business?" implying that he did not see shortcomings of disregarding Saudi Arabia's sovereignty.

Kissinger and Clements were not contriving a rivalry between Iran and Saudi Arabia just for contingency's sake—the animosity was very real. The fundamental difference between Iran and Saudi Arabia, aside from their Shiite and Sunni religious divide, was economic, primarily stemming from a difference in opinion over the pace of oil production. Producers like Saudi Arabia, Kuwait, and the United Arab Emirates were content to let their oil sit in the ground because they had much larger proven reserves than Iran and their economies could not absorb the petrodollars in the near-term. Iran, on the other hand, had built its entire 1970s budget plan on increasing oil prices to finance the Shah's rapid industrialization and arms purchases. The Shah knew that his proven reserves were significantly smaller than Saudi Arabia's, so he wanted to extract as much as he could while oil prices were high. Iran pushed for 10 to 20 percent annual oil price increases from 1974 until 1977, while Saudi Arabia preached moderation and often called for price freezes.[31]

Therefore, there was a fundamental conflict within OPEC: the Saudi Arabian camp wanted lower prices and slower, prolonged production, while the Shah and his allies within OPEC pushed for cutting production to increase prices.

Saudi Arabia had another motive for seeking lower prices: fear of Iran's rapid development and ascension. The high oil prices were strengthening Iran vis-à-vis Saudi Arabia: while the Shah was able to pour the petrodollars into Iran's economy and military, Saudi Arabia's smaller economy could not handle the influx of petrodollars. In effect, the Saudis were forced to invest the petrodollars in foreign countries and offshore accounts rather than in their own domestic economy.[32] In a conversation with President Nixon in July 1974, Treasury Secretary Simon brought up this fundamental difference in the two countries' production philosophies::

> Simon: In discussions with other Ministers I said Saudi Arabia has probably 150 years of production left, whereas Iran has only 15 years. Maybe Iran will build its industry and then when the oil runs out, they can take you and get the oil back.[33]

Simon cautioned the Saudi Arabian ministers that Iran would develop at such a breakneck pace that even when they ran out of oil, they would simply seize Saudi oil fields because they would be industrially and militarily superior. This was not the only instance where Simon would show his belief that Iran was a threat to the region's stability and that Saudi Arabia thus was a more valuable strategic asset than Iran.

TREASURY SECRETARY SIMON

If Kissinger was the Shah-loving, realpolitik-embracing Secretary of State, William Edward Simon was his Saudi-leaning foil in the Nixon and Ford White Houses. Simon, an investment banker by trade, had served as the senior partner in charge of the government and municipal bond trading desk at the famed Wall Street firm Salomon Brothers until President Nixon tapped him in January 1973 to serve as Deputy Secretary of the Treasury. In December 1973, Nixon chose Simon to administer the Federal Energy Administration and serve as Nixon's "Energy Czar" during the 1973 crisis. He then served as Treasury Secretary from May 1974 to January 1977, presiding over the tumultuous transition of power from Nixon to Ford and their accompanying energy policies.[34]

Simon was a champion of free markets. Since the oil market was dominated by two main producers, Iran and Saudi Arabia, his simple calculus was that the easiest solution to the oil supply problems from 1973-76 was to align with Saudi Arabia, the supplier that was pushing for lower prices and provided the greater quantity of reserves in the long term. He also believed the Shah was untrustworthy and reckless in his pursuit of military dominance. Simon sympathized with the Saudi rulers' feelings of insecurity caused by an ascendant Iran and thought Saudi Arabia was being unfairly demonized for its role in the oil price increases. Simon recognized that the Saudis were the most dovish members of OPEC and that the Shah was the main price hawk. He thus reasoned that America would be better off in the long-term if aligned with the Saudis, both because of their larger reserves and because of Simon's own close personal relationship with Saudi Oil Minister Zaki Yamani, who actually stayed at Simon's home in McLean, Virginia during visits to Washington, D.C.[35] Simon even maintained a private back-channel communication line with Yamani to avoid going through Kissinger.[36]

Simon did not believe in Nixon and Kissinger's Cold War realpolitik. He was a numbers man, and the numbers pointed toward warming relations with Saudi Arabia and cooling relations with Iran. Simon calculated that the Saudis had 150 years of oil reserves while the Shah only had 15 years, so from a numbers perspective, America's long-term energy needs would be better satisfied by aligning with Saudi Arabia.[37] Simon also saw the Shah as "a nut … He wants to be a superpower. He is putting all his oil profits into domestic investment, mostly military hardware."[38] Simon made sure his comments were publicly known, evidencing his low regard for the Shah.

According to a piece published in *Foreign Policy* by V.H. Oppenheim in the winter of 1976, Kissinger supported Iran's hawkish pursuit of oil price increases in 1974 because he wanted the Shah to be able to finance military purchases to strengthen Iran as a buffer against the USSR and an ally of Israel. The Shah saw the high oil prices as a temporary issue that would allow him to develop his military rapidly for a few years, after which more non-Middle Eastern oil fields would add to global production and push the price back. According to Oppenheim, Kissinger also pushed for price increases because the higher prices would boost US corporate profits from the production stage while strengthening America vis-à-vis Japan and Europe, who were more vulnerable to Middle East oil price spikes since they imported a greater percentage of their oil from the Middle East.[39]

In addition to his skepticism regarding Kissinger's actions with oil prices, Oppenheim also wrote that the Ambassador to Saudi Arabia Schlesinger stated that the Saudis wanted to prevent the price spikes after the embargo was lifted, but Kissinger and the American government discouraged them. Ambassador Akins said in 1976, "the Saudis were open to negating the price increases pushed for by the Shah but the administration repeatedly was against it."[40] Unlike Oppenheim, this paper does not argue that Kissinger, Nixon, and Ford pushed the Shah to increase global oil prices. Rather, the Nixon and Ford administrations did not resist and perhaps even condoned the price increases. For them, energy policy was a tool for achieving geopolitical aims.

Although Oppenheim's view was rather alarmist and not widely shared, it was not a unique one. Jack Anderson, a *Washington Post* investigative journalist, argued in 1978 that

Kissinger and Nixon had been planning to arm the Shah since the late 1960s, when they knew that the British withdrawal from the Middle East would create a power vacuum, and so they did nothing to stop him from increasing oil prices in 1974.[41] The Shah wanted to purchase more military hardware from the United States, so he continued to raise oil prices in 1974. Even though the American domestic economy was suffering, Kissinger and Nixon did not forcefully intervene with the Shah.

In a letter written by former US ambassador to Saudi Arabia James Akins to Secretary of Treasury William Simon in August 1975, Akins explicitly referred to the Saudi belief that Henry Kissinger was duplicitous about oil price increases. Akins wrote, "He [Saudi oil minister Zaki Yamani] told me he 'knows' Kissinger is following the old Enders' line of speaking about lower oil prices but in secret doing everything possible to jack them up. This will enable him to unite the consumers in a front against the producers, particularly the Arabs."[42] According to Akins, Kissinger also threatened Yamani with political retribution if Saudi Arabia did not cease its price increases. Meanwhile, the Shah was calling for a 15 percent price increase, and Kissinger was not protesting.[43] Akins captured Kissinger's price duplicity when he wrote, "Yamani also said the Shah told him that while in the States 'the Americans' understood why the oil price increases had to be established. Prince Saud, who was at the meeting with the Shah, confirmed that the Shah had indeed said this. Kissinger denied it to Yamani, of course."[44] Ironically, though Saudi Arabia was the price dove compared to hawkish Iran, Kissinger was pressuring Saudi Arabia on prices rather than Iran. Perhaps Kissinger was not opposed to price increases. Instead, he was acutely aware of the political tool he wielded and knew *who* should be increasing the prices. Kissinger valued America's relationship with Iran more than its relationship with Saudi Arabia, and he was very reluctant to place pressure on the Shah to lower prices.

Nixon shared this reluctance to place any pressure on the Shah to reduce oil prices. He viewed the price increases as a necessary price for stability and maintaining America's close relationship with the Shah, the new policeman of the Middle East. In a conversation between Nixon and Treasury Secretary Simon in July 1974, Nixon advised Simon to push King Faisal of Saudi Arabia for oil price cuts during his visit. "I have already raised with King Faisal privately," Nixon said, "and you can do the same, that current oil prices cannot go on. This, of course, will have to be done very privately. I doubt that you can do very much as long as the Shah holds up the prices, but we want to explore whatever might be possible."[45] The juxtaposition of Nixon's approach toward Saudi Arabia and Iran was apparent: the stern, enforcing line of "current oil prices cannot go on" put the onus of reducing oil prices on the Saudis, while Nixon's passive, almost fatalistic line ("I doubt that you can do very much as long as the Shah holds up the prices") showed his view of the non-negotiability of the Shah's price increases. Simon pushed back and asked if he could put pressure on the Shah to reduce prices:

> Simon: Is it possible to put pressure on the Shah?
> Nixon: You are not going there.
> Simon: No. We thought we would let them sweat a bit while we were discussing goodies with the Arabs.
> Nixon: He is our best friend. Any pressure probably would have to come from me.[46]

Nixon explicitly referred to the Shah as "our best friend" and admonished Simon for even suggesting that he could put pressure on the Shah. The pressure that "probably would have to come from" Nixon never materialized.

Three weeks later on July 30, 1974, when Simon had returned from his Middle East trip, he once again warned Nixon that the Shah was threatening to cut production, much to Saudi Arabia's chagrin. Simon relayed King Faisal of Saudi Arabia's request that Nixon help rein in the Shah's hawkish pursuit of higher oil prices. Nixon responded, "We have to see what we can do. I will have to meet and talk with the Shah."[47] Nixon did not ask Simon to deal with the Shah, he asked him to deal with King Faisal, Anwar Sadat, and nearly every other nation's leader. Instead, Nixon insisted that he himself would have to apply the pressure and negotiate with the Shah. Nixon dealt with the Shah with greater sensitivity than he did with the leaders of other Middle Eastern countries both because of Iran's geostrategic significance and because lowering oil prices was not one of Nixon's immediate concerns in 1974.

While Kissinger shared Nixon's view that the Shah deserved special treatment, Simon's background in economics and his role as Treasury Secretary provided him a different perspective. Simon viewed the world in a fundamentally different manner than Kissinger and Nixon; he focused on American price stability and international financial markets rather than Cold War proxy battles and "pillars of stability" in the Middle East. Simon, as Treasury Secretary, was alarmed by inflation and high oil prices. He told Nixon in 1974, "The situation is troublesome – there are a number of producers with a lot of money, nowhere to spend it, and the banks and financial markets are in trouble. Oil prices have created great instability in the international financial markets."[48] His primary economic mission was to reduce oil prices in the most efficient manner possible, and that path lay with Saudi Arabia.

Kissinger, on the other hand, believed his primary duty as Secretary of State was advancing US political power through *realpolitik*. "I don't want to run economic policy," Kissinger stated in a November 1974 conversation with Simon, "I just want to give it a conceptual basis."[49] Kissinger was acutely aware of his economic ignorance, yet he nevertheless made fundamentally economic decisions about oil prices that wreaked havoc on the American economy.

Simon was willing to significantly curtail American support for the Shah, or at least step up to him and force him to back down on price issues. This would place him in conflict with the adamantly pro-Shah Kissinger. As early as the summer of 1974, tensions were boiling within the White House. During a conversation between Kissinger and Secretary of Defense Schlesinger, the two men discussed various contingency plans for bringing down the price of oil. The most pragmatic plan was to arrange reconciliation between Israel and the Arab states in order to remove the impetus and public reason for the Arab producers' push for higher oil prices to punish America for supporting Israel in the Yom Kippur War. They also discussed more outlandish plans, such as seizing Abu Dhabi, which Schlesinger brought up on two separate occasions during their conversation in the Pentagon over breakfast:

> Kissinger: Another oil crisis would be bad.
> Schlesinger: We might have to seize Abu Dhabi.
> Kissinger: Do we have contingency plans to handle Abu Dhabi and Saudi Arabia?
> Schlesinger: It would take a lot of men and ships. We could put a couple of brigades in Diego Garcia.[50]

Kissinger and Schlesinger, two men in the upper echelon of the Nixon administration, earnestly considered invading Abu Dhabi in order to prevent future oil price increases. Schlesinger only brought up the Shah as an insult to Bill Simon: "Simon is talking about breaking the Shah. That's crazy."[51] Kissinger responded that "He [the Shah] is the one real element of stability," and then they moved on to discussing other contingency plans. The Shah was considered nearly untouchable within the State and Defense departments. Kissinger and Schlesinger would rather have resorted to invading Abu Dhabi than even consider talking to the Shah about decreasing oil prices.

If Simon had any window of opportunity in the summer of 1974 to advance his pro-Saudi view, it vanished in August when Nixon resigned. Simon now had to persuade an entirely new president to see his point of view. Kissinger, on the other hand, ensured that the transition from Nixon to Ford did not pose a problem for his Middle East agenda. In Ford's foreign affairs briefing with Kissinger during his first week in office, Kissinger made sure that he carried on Nixon's affinity for and favorable policy toward the Shah into the Ford Administration:

> Kissinger: But we can't afford another embargo. If we are faced with that, we may have to take some oil fields.
> Ford: Like the Gulf and Iran.
> Kissinger: Not Iran. I oppose Simon because Iran wouldn't join an embargo.[52]

Ford's first inclination was to lump "the Gulf and Iran" together in terms of political importance, but Kissinger quickly separated the significance of the two entities and dismissed Ford with two words: "Not Iran." Kissinger also carried his rivalry with Simon over the Shah into the Ford White House.

DOHA AGREEMENT

Kissinger and Ford resisted Simon's calls for price moderation until an internal war within the White House caused Simon to broker a production deal with Saudi Arabia in December 1976, referred to as the "Doha Agreement" by historian Andrew Scott Cooper. The accord created a two-tier pricing system in OPEC and abated the pace of price increases.[53] At the OPEC meeting in Doha in December 1976, Saudi Arabia and the UAE agreed to increase their oil price by 5 percent, while the rest of OPEC increased theirs by 10 percent. However, Saudi Arabia boosted production on such a large scale that oil prices actually declined.

The two-tier pricing system created at the Doha Conference represented a remarkable turning point in the Shah's relationship with the White House. The White House had finally taken decisive action against the Shah's monomaniacal pursuit of higher oil prices, and White House officials had gone behind the Shah's back to execute the plan. The Ford administration at last made an impact on preventing rapid oil price increases, but not until American consumers had already suffered through years of inflation and economic stagnation.

Inadvertently and ironically, the Doha Agreement in 1976 caused a near collapse of Iran's economy in 1977. Because of the two-tier pricing system, oil production in Iran had nosedived. The resulting economic catastrophe played a major factor in the Shah's overthrow in 1979, completely undermining the "two pillar" strategy of the Nixon Doctrine that Kissinger had fought so hard to enforce.

CONCLUSION

The American people paid a high toll for the sustained OPEC oil price increases from 1973-1977. Inflation, unemployment, and gas lines caused much anguish and suffering. Nixon, Kissinger, and Ford all had opportunities to prevent or at least slow these prolonged price increases, had they pressed the Shah of Iran to increase production. Instead, White House leaders allowed a foreign dictator to squeeze American consumers in exchange for providing a buffer against Soviet encroachment in the Middle East. Under the Nixon and Ford administrations, grand strategy and Cold War politics took precedence over domestic economic and energy supply problems. Nixon and Ford's public statements about fighting foreign oil producers to lower prices belied their actual actions and intentions. Nixon and Kissinger passively resisted and even condoned the price increases as a mechanism for achieving geopolitical aims. The American government in the 1970s was willing to make disadvantageous economic allies for the sake of Cold War political objectives, causing domestic economic distress and impacting future stability in the Middle East. One could argue that by not ceasing the Shah's hawkish oil price increases and selling him American armaments, Nixon enabled him to attempt to industrialize and militarize Iran at breakneck pace, ultimately accelerating and precipitating his downfall in 1979. The Iranian Revolution in 1979 dissolved the "two pillar" strategy and pitted Iran against Saudi Arabia in an economic battle, while also alienating Iran from the United States and aligning Saudi Arabia and the United States even more closely.

NOTES

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2. "Crude Oil Price History Chart," MacroTrends (March 31, 2015), accessed May 3, 2015.

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7. Ibid.

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11. "Crude Oil Price History Chart."

12. Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power* (New York: Simon & Schuster, 1991), 635.

13. Ibid, 626.

14. "Consumer Price Index, 1913-," Federal Reserve Bank of Minneapolis, accessed May 4, 2015.

15. Richard Nixon, "Address to the Nation About National Energy Policy," November 25, 1973, Online by Gerhard Peters and John T. Woolley,*The American Presidency Project*, accessed May 3, 2015, http://www.presidency.ucsb.edu/ws/?pid=4051.

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17. Cooper, *The Oil Kings,* 42.

18. Yergin, *The Prize*, 619.

19. Monica L. Belmonte, ed., *Foreign Relations of the United States*, 1969–1976, Volume XXVII, Iran; Iraq, 1973–1976 (Washington: Government Printing Office, 2012), Document 23.

20. Asadollah Alam, *The Shah and I: The Confidential Diary of Iran's Royal Court, 1969-1977* (New York: St. Martin's Press, 1992), 395.

21. National Security Adviser, Memoranda of Conversations, 8/09/73, folder "Nixon, Schlesinger," Box 2, Brent Scowcroft Papers, Gerald R. Ford Library.

22. National Security Adviser, Memoranda of Conversations, 11/13/74, folder "Kissinger, William Simon," Box 11, Brent Scowcroft Papers, Gerald R. Ford Library.

23. Akins' account of his conversation with Yamani was written down in memorandum form and relayed to Washington – it surfaced 13 months later in The Washington Post, in a column written by Jack Anderson. See: Jack Anderson, "Saudis Suspect an Iran-US Plot," *The Washington Post*, September 17, 1976.

24. Yergin, *The Prize,* 625.

25. Ibid.

26. National Security Adviser, Memoranda of Conversations, 11/13/74, folder "Kissinger, William Simon," Box 7, Brent Scowcroft Papers, Gerald R. Ford Library.

27. Charles A. S. Hall and John W. Day, "Revisiting The Limits To Growth After Peak Oil," *American Scientist* 97, no. 3 (2009): 230, accessed May 4, 2015, http://www.americanscientist.org/issues/feature/2009/3/revisiting-the-limits-to-growth-after-peak-oil/6.

28. Hubbert's theory is that "peak oil" will occur when the maximum rate of petroleum extraction is reached, and after that a period of terminal decline will ensue. Therefore, Hubbert posits that a finite supply of oil exists in the world and that the supply will reach its peak extraction by 1970.

29. The most visible sign of OPEC's supply cuts was the "gas lines," the many-hour-long lines that formed at gas stations in 1974. The public's access to information about global oil supply was obviously very restricted, so it is understandable why they would see the gas lines as a sign of permanently shrinking global oil supply.

30. Belmonte ed., *Foreign Relations of the United States*, Document 23.

31. Andrew Scott Cooper, "Showdown at Doha: The Secret Oil Deal That Helped Sink the Shah of Iran," *Middle East Journal* 62, no. 4 (September 2008): 567-591, *America: History & Life*, EBSCO*host,* accessed April 18, 2015.

32. Ibid.

33. National Security Adviser, Memoranda of Conversations, 7/30/74, folder "Nixon, William Simon," Box 4, Brent Scowcroft Papers, Gerald R. Ford Library.

34. Edward A. Goedeken, "Simon, William E.," *American National Biography Online*, July 9, 2008, accessed May 4, 2015, http://www.anb.org/articles/07/07-00800.html.

35. Cooper, "Showdown at Doha," 578

36. Ibid.,

37. National Security Adviser, Memoranda of Conversations, 07/30/74, folder "Nixon, William Simon," Box 4, Brent Scowcroft Papers, Gerald R. Ford Library.

38. Cooper, *The Oil Kings,* 176.

39. V.H. Oppenheim, "The Past: We Pushed Them," *Foreign Policy*, No. 25 (Winter, 1976-1977), 24-57, accessed May 1, 2015, http://www.jstor.org/stable/1148022.

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50. National Security Adviser, Memoranda of Conversations, 08/02/74, folder "Kissinger, Schlesinger," Box 4, Brent Scowcroft Papers, Gerald R. Ford Library.

51. Ibid.

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53. Cooper, "Showdown at Doha."

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