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Oil, dollars, and US power in the 1970s: re-viewing the connections

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Résumé

Petrodollars – the dollars accumulated by oil-producing countries as revenues for oil exports – are usually considered key to our understanding of the renewal and transformation of US power during the 1970s. Yet, in the context of a large and expanding literature, in which the essence of such power is described by terms as diverse as dominance, hegemony, empire or *pax americana*, scholars hold different views as to the precise nature of the link established between petrodollars and US power at the time. After reviewing the state of the literature, this essay discusses the issue based on declassified documents from US and British national archives by focusing on the way Saudi Arabian authorities allocated their vast oil earnings. While conclusive evidence is still lacking, it appears likely that Saudi choices were shaped by US diplomatic démarches and economic inducements, as well as by US offers of an ambivalent military "protection".

Back to top

Introduction

1 There is basic agreement among scholars on three main points concerning the link between petrodollars – the dollars accumulated by oil-producing countries as revenues for oil exports – and the renewal and transformation of US power in the 1970s. The first concerns the fact that, with oil priced and sold mostly in dollars, and oil prices abruptly quadrupling in the last two months of 1973, during the 1970s the United States kept benefiting from the central position of the dollar in international monetary affairs, despite the end of its convertibility into gold in 1971.[1] The notion that an oil-dollar standard replaced the gold-dollar one is debatable, but the link with oil – then the major commodity in world trade – did ensure that the dollar keep a major role in world monetary reserves and trade transactions.[2] With that came what political scientist David Spiro has aptly described as a "double loan" enjoyed by the United States: the US could print dollars both to import oil from OPEC and to import goods and services "from all other economies that had to pay dollars for oil but could not print currency".[3] Thus, in historian Charles Maier's parallel between the US and British "empires", it was "especially because OPEC countries continued to price oil in dollars" that the United States could continue to "enjoy the monetary privileges of its imperial predecessor".[4] While putting greater emphasis on the new challenges that the abuse of such position would soon put before the US government, historical sociologist Giovanni Arrighi concluded that

> [f]rom 1973 to 1978, the abandonment of the gold–dollar exchange standard appeared to have resulted in the establishment of a de facto pure dollar standard that enabled the United States to tap the resources of the rest of the world virtually without restriction, simply by issuing its own currency.[5]

2 The second point of agreement is that a significant portion of the petrodollars accruing to oil-exporting states – around 170$ billion in 1973-77, according to the IMF[6] – were not “absorbed” through increased imports, but deposited in dollar-denominated accounts, particularly – though not exclusively – with US banks operating both in the US and in the London Eurodollar market. Of course, in many ways selling oil in dollars and depositing petrodollar revenues in dollar-denominated accounts reinforced each other. Thus, in his history of the dollar’s “exorbitant privilege”, economic historian Barry Eichengreen observed that

> there was no shift away from the dollar [after the end of Bretton Woods]. Volatility there was in the share of dollars in foreign exchange reserves in the 1970s, but no secular decline. The dollar’s share of total identified international reserves remained close to 80 percent in 1977, as the United States pumped out dollars and the members of the Organization of Petroleum Exporting Countries (OPEC), having jacked up oil prices, parked their earnings in New York.[7]

3 The third point of agreement concerns the transformation induced by petrodollar flows in US power itself. On the one hand, the aforementioned “double loan” facilitated the transition toward a new configuration of the international economy in which the United States, long the world’s industrial powerhouse, now exerted its influence (also) by accumulating external debts. On the other, petrodollar flows contributed to feed the transnational business of Western commercial banks, with US-based banks in a leading position. In Maier’s formulation, this was the beginning of the “striking” transformation of the United States from an “empire of production” to an “empire of consumption”.[8] In historian Peter Gowan’s more radical view, it was the beginning of a “Dollar-Wall Street Regime” and of “Washington’s Faustian bid for world dominance”.[9]

4 There is more controversy, however, on what determined such outcomes. According to a well-established version of the story, “free markets” stepped in autonomously as the multilaterally-managed Bretton Woods system showed repeated symptoms of stress and crisis in the early 1970s, particularly after the second devaluation of the dollar and suspension of fixed exchange rates in March 1973. In this view the financialization of the world economy would be somewhat self-explanatory, the fact that the US dollar was the established currency for international transactions would explain its use in oil transactions, and the superiority of US banks in managing dollar-denominated assets would explain why US banks took the lion’s share of petrodollar deposits. Thus, the renewal and transformation of US power described above would have been only an indirect result of the work of “unfettered private markets” in the “recycling of petrodollars” from oil exporters with limited import capacity – particularly the Arab states of the Gulf – to oil importers with great financing needs – particularly in the developing world. In the words of the former chairman of the Federal Reserve, Paul Volcker,

> the mechanism was simplicity itself. The major oil exporters found it convenient to place large parts of their dollar accumulations in the big, well-known international banks, particularly in the form of short-dated Eurodollars. […] The banks, now awash with liquidity, found willing borrowers for these huge sums in Latin America and elsewhere.[10]

5 Dear to “neoliberal” thinkers and policymakers since the 1970s, such interpretation has more to do with conventional wisdom than with factual analysis. As noted by various critics, it suffers from at least two main flaws. First, private banks in London and in the US were indeed the destination of a relatively large portion of OPEC’s investments, but by no means the only one: according to statistical data from the Bank of England, private banks collected roughly 40% of OPEC’s financial surplus (35.5% with Eurodollar banks including US banks in the Eurodollar market, and 4.5% with US banks in the US), while the rest ended in direct bilateral and multilateral aid and loans to developing countries (around 18%), US government securities (11%), portfolio investments in the US (7%), IMF and World Bank facilities (6%), and direct and equity investments in other industrialized countries (15%).[11] Secondly, a large portion of the loans issued by private banks actually went to the oil producers themselves, both OPEC members or non-members such as Mexico.[12] To the extent that they did “recycle” petrodollars to oil-importing countries, private banks made loans only to a very small group of rapidly industrializing countries (led by Brazil, Argentina and South Korea), while the financing of oil-related deficits for most other developing countries came from official bilateral and multilateral channels.[13]

6 If private banking was not the sole recipient of petrodollar flows, and if petrodollar flows had governments and international institutions involved at all ends (depositors, intermediaries, and final recipients), the allocation of petrodollars by just "free market" logic appears rather shaky (at least if a "free market" is considered to be incompatible with state activism).[14] In particular, the reason why the oil-producing countries invested predominantly in dollar-denominated assets, including around one-tenth of their total earning in US Treasury securities, becomes open to alternative interpretations. According to one, the explanation lies in a well-orchestrated plan by US President Richard Nixon, who allegedly manipulated OPEC into raising oil prices from the beginning, with the ultimate goal of empowering the US Treasury and Wall Street over the ruins of the embedded liberalism of Bretton Woods.[15] In reality, there is little hard evidence to prove the existence of such a grand plan. It is indeed possible to claim that in the early 1970s various US officials expressed, both privately and publicly, a relatively relaxed attitude toward somewhat higher oil prices: according to some Treasury officials these could facilitate domestic oil development in high-cost Alaskan fields;[16] according to Secretary of State Henry Kissinger, higher oil revenues to Iran would support the Shah's military build-up on the southern flank of the Soviet Union;[17] and for some officials with good Wall Street connections, under appropriate policies, higher oil prices might also lead to growing returns of dollars to the US banking community.[18] But from here to the claim that the US government orchestrated the actual "oil shock" – not vaguely "higher prices", but a fourfold price increase in only two months –, the step seems frankly quite a big one.[19]

7 Alternatively, according to the two authors of a recently published official history of the Saudi Arabian Monetary Agency (SAMA, that is the Saudi Central Bank), there was an active role of the US government in facilitating Saudi investments in the US – and US Treasury securities in particular –, but it was limited to working out the "most practical solution" for a notoriously risk-averse investor as the Saudi state.[20] Indeed, the representation of the US as a rather passive beneficiary of the consequences of international processes has been recently canonized in Daniel Sargent's claim that "the United States has been [...] exceptionally lucky. Fortune – in the form of outlandish endowments – are *[sic]* what enabled the formulation of a Pax Americana".[21] In the absence of much evidence from the investors' side, this version of the story cannot be ruled out. After all, ever since Machiavelli, "fortune" (*fortuna* in Italian) is one of the foundational concepts in Western political science, even though the Florentine thinker was much more pessimistic about its effects on human affairs.

8 However, the choice for interpretation is not limited to that between a virtually all-controlling United States and an almost completely passive one.[22] Thus, in keeping with a Machiavellian language, the sections that follow attempt to show that, even without the need to resort to Borgia-style conspiracies, the American "prince" did deploy some "virtue" – well beyond that required by working out "practical solutions" – in order to ensure that a large share of petrodollars end up in dollar-denominated assets in general, and in US-banks and the US Treasury in particular.

The challenge of petrodollars

9 The hike in international oil prices in the early 1970s constituted a challenge to world political and economic equilibria, particularly after the "oil shock" of 1973.[23] As the balance of payments of oil-importing countries fell into trade deficit in 1974, governments were called to decide whether to reduce imports, promote exports or borrow their way out of the "oil crisis". Each of these solutions carried potential problems: reducing imports of oil could lead to shortages of fuel and bring economic activity to a halt; promoting exports could lead to beggar-thy-neighbor policies; borrowing required availability of lenders. In practice, the seven largest industrial economies as a whole quickly turned their trade deficit into a surplus by 1975, shifting the burden of adjustment onto the oil importers in the developing world.[24] While some oil exporters, most notably Iran, "absorbed" a large portion of their oil revenues by increasing imports apace, other countries with large oil sales and small populations – particularly Saudi Arabia, the United Arab Emirates, and Kuwait – were "low absorbers", that is they were unable to increase their imports significantly: this is where liquid petrodollars originated.[25]

10 Capitalist logic wants that private banks take deposits, on which they pay interest, only if they can make profitable loans. During and after 1973, private bankers increasingly voiced their fears for the incapacity of the banking system to absorb the increasing amount of short-term deposits by Arab petro-states.[26] Thus, in international forums, the "recycling" of petrodollars – from the oil producers in surplus to the oil consumers in deficit – came to be seen as a way to avoid several alternative dangers: that of a steep contraction of oil imports by the developing world, that of the contraction of OPEC's oil exports, and that of the oil exporters' use of their newly acquired wealth for "political purposes".[27]

11 Under the Bretton Woods system, then in deep crisis but technically still the norm of international monetary affairs, the financing of abrupt deficits in balance of payments was the task of the IMF.[28] In reality, as seen above, during 1974 and 1975 the IMF's role as a lender was rather marginal: it contributed to giving implicit guarantees to private bankers, but in quantitative terms it was limited to the two "oil facilities" established at the initiative of managing director Johannes Witteveen.[29] There is substantial agreement that from 1973 to 1975 an insurmountable opposition to a larger role for the IMF came from the US government, increasingly intent in promoting "a new financial liberalism".[30]

12 But US opposition was not limited to vetoing theoretical IMF-led recycling schemes. Taking into consideration Saudi Arabia, soon to emerge as the single largest holder of petrodollars, Ahmed Banafe and Rory McLeod explain that

> [i]n early 1974, [SAMA governor] Anwar Ali had been in a difficult position. He had historically placed the bulk of the oil income with commercial banks, mainly in the Eurodollar market. This was unsatisfactory now because it meant placing and then rolling over short-term deposits in huge amounts, stretching SAMA's investment team and its telex operators to the limit. It also meant that SAMA was exposed to Western banking risk. […] Meanwhile, he pursued two other routes – setting up a development bank and lending money to the International Monetary Fund (IMF). […] For Ali, the former IMF official, using the IMF was an obvious route but it foundered on two obstacles. The Fund would not pay him a commercial rate of interest for buying assets, known as Special Drawing Rights (SDRs). If Saudi Arabia could have been given an executive directorship, there might have been a compromise on the rate of interest. But the Americans were concerned about losing their veto over the Fund as their share of the quota declined, and they stalled consideration of this idea, so SAMA made no big SDR purchase.[31]

13 Thus, it is correct to point out that the IMF had limited resources to deal with recycling.[32] But if the long citation above is a reliable interpretation of SAMA's predicament, it seems it had few resources also because – as another famous Florentine would have put it – "it was so willed, there where the power was".

Back to top

New evidence on US-Saudi agreements

14 On the basis of abundant evidence, political scientist Eric Helleiner has illustrated how Washington's (neo-)liberal shift was based also on the expectation that a more liberal system would allow the dollar to exploit the attractiveness of the US financial market and Eurodollar market.[33] Thus, besides containing the role of the IMF, in January 1974 the US administration facilitated the emergence of private finance by unilateral action when it removed all remaining restrictions on the flow of funds to and from the US and allowed US banks – beyond those already active on the London market – to participate in the management of petrodollars.[34]

15 As the year progressed, despite widespread skepticism among private bankers about their own capacity to meet the great challenges posed by OPEC's funds, the notion that private markets should play a significant role in "recycling" conquered greater acceptance among international policymakers.[35] In September a communique by the central bankers of the Group of Ten openly stated that "means are available for that purpose and will be used if and when necessary", *de facto* assuring private banks that they would be rescued with public money, should their petrodollar loans go wrong.[36] Yet, the US government's activism was not only aimed at "creating markets", as Karl Polanyi would have it. As shown by Spiro, in the second half of 1974, while Gerald Ford replaced Nixon in the White House, US officials also moved at the highest levels in order to ensure that most of the oil revenues of Saudi Arabia would flow to various US destinations, including directly into the US Treasury.[37]

16 At the Washington energy conference of February 1974, Western industrialized countries – except France – had pledged not to compete for preferential agreements with oil exporters.[38] In order to avoid preferential financial agreements, discussions were also held throughout 1974 for the creation of a "financial safety net" within the OECD.[39] But neither the empowerment of private commercial banks nor the discussions about the OECD safety net served to prevent Western governments from competing in what a specialized magazine called "the battle for the petrodollar".[40]

17 The US government played its cards skillfully: on 8 June, at a ceremony in Washington DC, Secretary of State Henry Kissinger and Crown Prince Fahd signed before cameras a framework agreement for the creation of two joint US-Saudi commissions (an economic one, and a military one), aimed at the promotion of Saudi investments in the US in exchange for US cooperation in technology and in the modernization of Saudi Arabia's armed forces.[41] In the following months, the meetings aimed at setting up the Joint Economic Commission provided the context in which US Treasury officials negotiated with SAMA a more specific agreement, allowing Saudi authorities to purchase US Treasury bonds outside regular auctions and at preferential rates.[42] This last agreement, evidence of which was first uncovered by David Spiro's research in the 1990s, has achieved semi-mythical status over the years for the aurora of mystery that surrounded it (until 2016 the US Treasury grouped Saudi Arabia's holdings with those of other nations under the generic heading "oil exporters").[43] As declassified US sources now show, US Undersecretary of the Treasury Jack Bennett and the new SAMA Governor, Abd Al Aziz Qurayshi, finalized the so-called "add-on arrangement" at the end of a lengthy negotiating session in Jidda on 11 and 12 December 1974, and Ambassador James Akins immediately notified Kissinger:

> The Saudi governor accepted the proposal to have a new confidential relationship through the Federal Reserve with the treasury borrowing operation. When announcement of an issue is made, SAMA will be queried as to its interest in purchasing additional amounts of the same issue at the average price of the auction. Certificates for these additional amounts will be issued and probably deposited in one of the banks on deposit for SAMA. In the event that SAMA wishes to dispose of these issues ahead of their date of maturity for any reason, notification will be given Treasury at least two days ahead so that market forces can be evaluated and an offer made to SAMA if judged necessary to prevent disruption of the ordinary market in such issues.[44]

18 In light of such information, it is easier to understand both the overall context for Saudi investments in dollar-denominated assets, and the more specific rationale for Saudi investments in US Treasury bonds. During the negotiations that led to the arrangement, Saudi negotiators had consistently asked that the US guarantee "confidentiality" on Saudi investments, while adjusting the tempo of the negotiations with that of the evolution of other openly "political" issues in US-Saudi relations: for example, it is easy to connect the telegram that the US embassy in Jidda had sent to the State Department on 28 august, stressing that SAMA's governor Ali Anwar was "somewhat negative on Treasury issues", with the one the embassy sent one week later, stressing that the "Saudis fear[ed] their oil money might end in Israel".[45] In general, the US ambassador to the kingdom expressed no doubt that the "decision to pick up special issue at any meaningful level [was] dependent on political factors".[46] After the conclusion of the negotiation, the "add-on arrangement" duly began to work in early 1975, with a first SAMA purchase of some 2.5$ billion of Treasury issues through the Federal Reserve Bank of New York.[47]

Detour: why "petrodollars", by the way?

19 Before returning to the political context of US-Saudi financial relations a short detour is required. As mentioned above, with oil prices increasing by 70% between 1970 and 1973, ideas and proposals for "recycling" had been circulating in banking and government circles well before the actual "oil shock".[48] The neologism "petrodollars" materialized quickly: the *New York Times* used it for the first time in September 1973 in a quote from a congressional testimony by the chairman of Lehman Brothers bank.[49] *Le Monde* used its French translation for the first time in November 1974, quoting from an interview with the Algerian Minister of Industry and Energy.[50] But it took some time for "petrodollars" to make their way next to other expressions as "oil earnings", "oil wealth" or "OPEC funds": beyond form and style, a good reason for this was that until 1974 the dollar did cover a large portion of international oil transactions (around 75%), but still left a good 20% to the British pound.[51] The latter lost ground as a petro-currency only in the two following years, falling to 11.8% of total transactions in 1975, and to a 6% in 1976, after ARAMCO – the Saudi-American Oil Company – at the end of 1974 decided not to accept it any longer as payment for its oil.[52]

20 In practice, what is usually considered as the starting point of most accounts of the dollar's post-Bretton Woods centrality – that oil was inertially priced and sold *only* in dollars – should be seen instead as one of the results of the complex international processes at work in the early 1970s.

21 In the days following the announcement, the American refining companies that kept pound sterlings in reserve quickly discharged them, plunging the pound to deep lows.[53] From a longer-term perspective, that was the moment at which the equation between "petrodollars" and "oil earnings" came to be a more precise one and when the oil-dollar link consolidated as a quasi-exclusive one.

22 Based on the available sources, the dynamics that led to this important Saudi decision are not entirely clear. What is known is that Saudi Arabian authorities enjoined ARAMCO not to sell its oil in any other currency than the US dollar on the same days during which SAMA was finalizing the add-on arrangement with the US Treasury.[54] Of course, such striking coincidence of dates might be accidental: in the same period, the Saudi government was also discussing oil price indexation within OPEC, negotiating with US majors the complete takeover of ARAMCO, and hosting the British Chancellor of the Exchequer on an official visit to the kingdom.[[55] US sources indicate two alternative scenarios. On the one hand, in his telegram to Kissinger announcing the "add-on arrangement", US ambassador Akins wrote laconically that

> [r]egarding yesterday's (dec 11) *surprise* decision to require sales of oil only in dollars, the governor [Al Qurayshi] said only that it had been unfortunate that the decision had become known while Chancellor of Exchequer was on visit to kingdom […]. No further explanation given of Saudi decision to leave sterling.[56]

23 On the other hand, Fred C. Bergsten, then serving as Assistant Secretary of the Treasury for International Affairs in the Carter administration, drew a different picture some years later – in late 1978 –, when he wrote to the Secretary of the Treasury Michael Blumenthal that

> *in response to US requests* the Saudis have held the line on oil prices and assured the US that they will not denominate oil sales in a currency other than the dollar and will not try to diversify dollar holdings into other currencies.[57]

24 Neither document allows a definitive interpretation: ambassador Akins might have been expressing his own surprise (and not necessarily that of the US negotiating team), while Bergsten had not been present in Jidda in 1974 and might have been writing with little knowledge of the facts.[58] But while the timing of the two Saudi decisions – on oil sales and petrodollar investments – could be merely coincidental, it is frankly hard to believe that either decision could be made without an appreciation of the general developments at work in US-Saudi relations.

Back to top

Saudi decisions in the context of US-Saudi relations

25 In 1974 the accumulation of dollars was not a self-evident blessing: the US currency had been devalued twice in the previous three years, and the future of the international monetary system was a hotly contested issue, particularly after the passing of the two resolutions of the United Nations General Assembly on the Establishment of a New International Economic Order and the unsuccessful conclusion of the works of the IMF's "Committee of Twenty", in May and June 1974 respectively.[59] Of course, in the aftermath of the Arab-Israeli war of 1973, the Arab "oil embargo" and OPEC's price hike, it is also hard to believe that the relations between Washington and Riyadh were business as usual.[60] In short, in that connection, Saudi investment and oil-sales decisions should not be taken as foregone conclusions.

26 In order to show that Saudi Arabia's choices were at least in part politically motivated, David Spiro presented as a counterfactual the more diversified investments by Kuwait's Future Generation Fund, created in 1954 and endowed with a certain degree of independence from the Kuwaiti central bank and Finance ministry.[61] Banafe and McLeod have written that Spiro's work "is useful when he stops seeing American exploitation of its dominant position behind what was simply the most practical way of resolving the problem" of managing SAMA's abruptly increased wealth.[62] But if we are to trust their account of SAMA's original preferences quoted above – an IMF-led recycling scheme with an executive directorship in the organization, had they not run against US opposition –, the two authors seem to fall in a quite patent contradiction.[63]

27 Indeed, Saudi choices seemed rather "political" to qualified US observers: in June 1977, Alan Greenspan, who had just stepped down from his role as chairman of the Council of Economic Advisers in the Ford administration, told Carter's Treasury Secretary that he "would not worry" about the possibility that OPEC divest from a weak dollar, since "the Iranians and the Saudis are non-market decision-makers".[64] In that connection, it is often noted that by the mid-1970s Saudi Arabia became a major importer of US military equipment, for amounts that jumped from 305$ million in 1972 to 5$ billion in 1975.[65] It also appears likely that the launching of the Joint Military Commission by Kissinger and Fahd in 1974 was the symbol of an implicit US extension of "protection" to the kingdom.[66]

28 Yet, if US-Saudi relations in the mid-1970s eventually ended up in a *quid pro quo* agreeable both to Washington and to Riyadh, the road to reach it was not a linear one. As historian Charles Tilly would have it, US "protection" came with "two contrasting tones".[67] In the same months when Washington and Riyadh enhanced their military cooperation, the US government also addressed two discernible kinds of threats against Saudi Arabia and the other oil-exporting countries on the western shore of the Gulf. The first came through the public comments of high-ranking officials which more or less openly threatened the use of force against the oil exporters. In particular, during a television interview in the months of the "embargo", Defense Secretary James Schlesinger declared that

> the independent powers of sovereign states should not be used in such a way as would cripple the larger mass of the industrialized world. That is running too high a risk, and it is a source of danger, I think, not only from our standpoint but from the standpoint of the oil-producing nations.[68]

29 In September 1974, with the "embargo" over but oil prices still high, President Ford and Secretary of State Henry Kissinger delivered two speeches very critical of oil producers, and an unnamed "senior Administration official" was reported as saying that "some form of military action could not be ruled out": Schlesinger's following reassurance that the US "was not contemplating military action against the oil-producing countries in the Middle East" only made the military threat more present to the readers (as students of George Lakoff's invitation "not to think about an elephant" know very well).[69]

30 A second form of threat remained in place well into 1975. As documented by Andrew Scott Cooper, Iran's military buildup – again with US weapons – assumed objectively ominous features from the Saudi perspective, also in consideration of the fact that Kissinger did not dislike generating some uncertainty for the Saudis on the matter.[70] At any rate, US records more than once reported about the bitter complaints by Saudi diplomats, convinced that the US was using Iran to threaten Saudi territorial integrity and security.[71]

31 All of this should indeed be taken with caution. In the first place, US troops' morale and will to fight in the wake of Vietnam was not at its highest, nor did Congress look particularly enthusiastic about launching another major war in those days.[72] Secondly, the possibility of an intervention, or even a US green light to an Iranian operation, had to be weighed against the possibility of a reaction by Moscow, only months after the quasi-showdown of October 1973.[73] Yet, even if it were only a bluff, it appears that Saudi authorities took it seriously: in January 1974, the *New York Times* cited several sources reporting about Riyadh's authorities having "wired their oilfields with explosives that would be detonated in case of an attack by American forces".[74] Even Banafe and McLeod have written that, in the wake of the price hike and "oil embargo", "King Faysal ordered Prince (later King) Abdullah to reinforce the National Guard's protection of the oilfields with orders to destroy the facilities if the Americans attacked".[75] Most interestingly, according to the two authors,

> [t]he alternative to occupying the Saudi oilfields was for both sides to manage the consequences of the high oil price. Saudi Arabia took the initiative in responding to the crisis and SAMA played a pivotal role in shaping that response. […] The foreign reserves would be recycled back to the West, and particularly to New York, for investment in US banks and Treasury bonds to help finance the balance of payments deficits that the oil price hike had produced.[76]

32 All in all, this appears to be another strong proviso to their claim that US-Saudi financial arrangements were only "the most practical solution" to SAMA's accumulation of petrodollars.

Conclusions

33 The analysis carried out above leads to a set of conclusions. First, "market logic" was more a discursive justification for, than the actual driver of, the process of creation and allocation of petrodollars, at least if "market logic" is considered as inherently opposed to "power logic". Secondly, there does not appear to be sufficient evidence to support the claim that the entire process followed from a machination of the Nixon-Kissinger duo. Third, the US government was extremely active throughout 1974 on the petrodollar front. Of course, in the following months and years, all other actors – some easily, some grudgingly – adapted to the realities that US unilateral moves and US-Saudi bilateral relations had helped to shape: in November 1975, at a summit in the castle of Rambouillet, the heads of state and government of the six largest Western economies ratified the changes that had occurred in the international monetary and financial system since 1971.[77] And in April 1978 the second amendment to the IMF's charter marked the formal beginning of a pure dollar standard.[78] But the eventual acceptance of the changes by other actors does not automatically imply the "naturality" of the process itself.

34 In particular, as far as the Saudi role as a large investor of petrodollars in the US was concerned, the precise weight of US actions on Riyadh's decisions would need to be investigated further through Saudi sources, which are currently unavailable. What seems difficult to believe is that US actions did not weight at all, also in consideration of the fact that those who hold such a view often fall in contradiction in their own terms. While conclusive evidence is still lacking, it appears likely that Saudi choices were shaped by US diplomatic *démarches* and economic inducements, as well as by US offers of an ambivalent military "protection". Thus, if such indications are correct, the renewal and transformation of US power in the 1970s – to the extent that it depended on petrodollars – should not be considered the result of mere "fortune", but of the active deployment of US power itself.

Notes

1. Classic works emphasizing the intertwined nature of the "monetary crisis" and the "oil crisis" of the 1970s are Susan Strange, Casino Capitalism (London: Blackwell, 1986), chapters 1-2; Howard Wachtel, The Money Mandarins. The Making of a Supranational Economic order (New York: Sharpe, 1990), chapter 5; Harold James, International Monetary Cooperation Since Bretton Woods (Washington, DC: IMF, 1996), chapter 11. The most updated and sophisticated treatment of the "oil shock" of 1973 is in Giuliano Garavini, The Rise and Fall of OPEC in the Twentieth Century (Oxford: Oxford University Press, 2019), chapters 4-6.
2. On the "oil-dollar" standard see Prabhat Patnaik, The value of money (New York: Columbia University Press, 2009) and Prabhat Patnaik, "Response to the Discussion on 'The Value of Money'", Social Scientist, Vol. 37, n° 3-4, 2009, 46-51.
3. David Spiro, The Hidden Hand of American Hegemony. Petrodollar Recycling and International Markets (Ithaca: Cornell University Press, 1999), 121.
4. Charles Maier, Among Empires. American Ascendancy and Its Predecessors (Cambridge USA: Harvard University Press, 2009), 266.
5. Giovanni Arrighi, "The world economy and the Cold War, 1970–1990", in Melvyn Leffler and Odd Arne Westad (eds.), The Cambridge History of the Cold War, vol. 3: Endings (Cambridge UK: Cambridge University Press, 2011), 23-44: 31. A recent assessment of the long-term advantages accruing to US power from oil being priced in dollars is in Carla Norrlof, America's Global Advantage. US Hegemony and International Cooperation (Cambridge UK: Cambridge University Press, 2010), 208-218.
6. Data on oil exporters' surpluses in IMF, Annual Report 1983 (Washington DC: IMF, 1983), 18.
7. Barry Eichengreen, Exorbitant Privilege: The Rise and Fall of the Dollar (Oxford: Oxford University Press, 2011), 63.
8. Charles Maier, Among Empires, op. cit., 255 (cf. note 4).
9. Peter Gowan, The Global Gamble. Washington's Faustian Bid for World Dominance (London: Verso, 1999), 19-22
10. Paul Volcker and Toyoo Gyohten, Changing Fortunes. The World's Money and the Threat to American Leadership (New York: Times Books, 1992). Also: Jeffry Frieden, Global Capitalism. Its Rise and Fall in the Twentieth Century (New York: W.W. Norton, 2006), 370-371; Robert Aliber, The International Monetary Game (New York: Basic Books, 1987), 137-142.
11. Bank of England data, reproduced in David Spiro, The Hidden Hand, op. cit., 58 (cf. note 3).
12. See data in Robert Wood, From Marshall Plan to Debt Crisis. Foreign Aid and Development Choices in the World Economy (Berkeley: University of California Press, 1986), 258.

13. Ibid.. Also see Ethan Kapstein, Governing the Global Economy. International Finance and the State (Cambridge USA: Harvard University Press, 1994), 61-63. Bringing the reasoning to its legitimate conclusion, Spiro questioned whether petrodollars where really “recycled”: David Spiro, The Hidden Hand, op. cit., 131-133 (cf. note 3).
14. Of course, the “free market” logic could be questioned even if private banks had really been the only intermediaries of petrodollar flows. In Spiro’s terms: “First: the public/private nature of an institution does not necessarily tell us whether the outcome was owing to market forces or to political authority. […] Second, [the market] view boils down to the idea that whatever economic actors do is market forces. Falsification is hardly possible”: David Spiro, The Hidden Hand, op. cit., 7 (cf. note 3).
15. Peter Gowan, The Global Gamble, op. cit., 20 (cf. note 9). Various authors have drawn on Gowan to make the same point. See David Harvey, The New Imperialism (Oxford: Oxford University Press, 2003), 62; Christopher Doran, Making the World safe for Capitalism. How Iraq Threatened the US Economic Empire and had to be Destroyed (London: Pluto Press, 2012), 37 and 76-78.
16. See Pierre Terzian, OPEC: The Inside Story (New York: Zed Books, 1985), 144 and 193. Terzian’s rather mild claims are actually the basis of Gowan’s more radical conclusions.
17. Andrew Scott Cooper, “Showdown at Doha: The Secret Oil Deal That Helped Sink the Shah of Iran”, Middle East Journal, Vol. 62, n° 4, 2008, 567-591: 572.
18. See for example: memorandum from Secretary of the Treasury George Shultz to Henry Kissinger, “Economic mission to Saudi Arabia”, 13.08.1973, US National Archives (USNA), RG 56, General Correspondence of the Secretary of the Treasury, Memos 1973, White House, box 52; memorandum from the Undersecretary of State William Casey to George Shultz, 19.09.1973, USNA, RG 56, Records of the Secretary of the Treasury George Shultz (Shultz Files), FRC 5, State Department. Casey had been the chairman of the Securities and Exchange Commission before his appointment to the State department.
19. The “Nixon grand-plan” story ignores that the “oil shock” was seen in many OPEC quarters as an authentic Third-Worldist “oil revolution”: Christopher Dietrich, Oil Revolution. Anticolonial Elites, Sovereign Rights, and the Economic Culture of Decolonization (Cambridge UK: Cambridge University Press, 2017). A balanced judgment on the issue is in Giuliano Garavini, The Rise and Fall, op. cit., 224-226 (cf. note 1).
20. Ahmed Banafe and Rory McLeod, The Saudi Arabian Monetary Agency, 1952-2016 Central Bank of Oil (London: Palgrave MacMillan, 2017), 75.
21. Daniel Sargent, “Pax Americana: Sketches for an Undiplomatic History”, lecture presented at the 132nd Annual Meeting of the American Historical Association in Washington, DC, on January 6, 2018, now in Diplomatic History, Vol. 42, n° 3, 2018, 357-376: 362. The claim cited here is not specifically about petrodollars, but Sargent’s treatment of petrodollars elsewhere seems to fall substantially in line with it: see Daniel Sargent, A Superpower Transformed. The Remaking of American Foreign Relations in the 1970s (Oxford: Oxford University Press, 2015), 184. In a previous essay, the same author had reviewed the literature on the subject but refrained from drawing definitive conclusions: Daniel Sargent, “The Cold War and the international political economy in the 1970s”, Cold War History, Vol. 13, n° 3, 2013, 393-425: 406.
22. Of course, the main term of reference here is the already cited David Spiro, The Hidden Hand, op. cit. (cf. note 3). The interplay between structural forces and US agency – including in regards to petrodollars in the 1970s – is also at the heart of Hal Brands’s recent interpretation of the “renewal” of US power in the late 20th century: Hal Brands, Making the Unipolar Moment. US Foreign Policy and the Rise of the Post-Cold War Order (Ithaca: Cornell University Press, 2016), 55-65.
23. A recent update to the literature is Elisabetta Bini, Giuliano Garavini and Federico Romero (eds.), Oil Shock: The 1973 Crisis and its Economic Legacy (London: IB Tauris, 2016).
24. A detailed disaggregation of the current account performances of, respectively, the seven largest OECD economies, the rest of the OECD, the Newly industrializing Countries (NICs) and the rest of the oil-importing LDCs is in David Spiro, The Hidden Hand, op. cit., 68-79 (cf. note 3).
25. On Iran’s increased imports: Andrew Scott Cooper, The Oil Kings. How the US, Iran, and Saudi Arabia Changed the Balance of Power in the Middle East (New York: Simon & Schuster, 2011), chapter 7. On Saudi Arabia, Kuwait and the United Arab Emirates as “low absorbers”: Ethan Kapstein, Governing, op. cit., 62-63 (cf. note 13).
26. The point is well illustrated in Edoardo Altamura, European Banks and the Rise of International Finance. The Post-Bretton Woods Era (London: Routledge, 2016), pos. 3257-3291 (e-book edition).
27. A chronicle of Western political and financial authorities’ early approaches to recycling is in William Glenn Gray, “Learning to Recycle”, in Elisabetta Bini, Giuliano Garavini, Federico Romero (eds.), Oil Shock, op. cit., 172-197.
28. See the classic Brian Tew, The Evolution of the International Monetary System, 1945-88 (New York: New York University Press, 1988).
29. The qualitative importance of the IMF’s loans is stressed in Ethan Kapstein, Governing, op. cit, 67 (cf. note 13).

30. Eric Helleiner, States and the Reemergence of Global Finance. From Bretton Woods to the 1990s (Ithaca: Cornell University press, 1994), 109-112. New evidence is presented in William Glenn Gray, "Learning", op. cit., 180-182 (cf. note 27).
31. Ahmed Banafe and Rory McLeod, The Saudi, op. cit., 51 and 52 (cf. note 20). Unfortunately, while most likely built on SAMA's records, this account does not indicate any precise source for the reported claims.
32. See, again, Edoardo Altamura, European Banks, op. cit., pos. 3141-3151 (cf. note 26).
33. Eric Helleiner, States, op. cit., 110-115 (cf. note 30). Edoardo Altamura's research has shown that also the Bank of England sponsored recycling through private banks: Edoardo Altamura, European Banks, op. cit., pos. 3141-3151 (cf. note 26).
34. It is appropriate to observe that the Nixon administration had begun to phase out the so-called "capital controls" on US transnational banking as early as 1969: Duccio Basosi, "The Transatlantic Relationship and the End of Bretton Woods, 1969-71", in Giles Scott-Smith and Valérie Auburg (eds.), Atlantic, Euro-Atlantic, or Europe-America? (Paris: Soleb, 2011), 468-485: 474-476. Announced in March 1973 by Secretary Shultz, the US decision to completely eliminate capital controls by 1974 had provoked the end of the monetary parities established in the December 1971 "Smithsonian Agreement": Eric Helleiner, States, op. cit., 111 (cf. note 30).
35. Edoardo Altamura, European Banks, op. cit., pos. 3257-3271 (cf. note 26).
36. Id., pos. 3291.
37. David Spiro, The Hidden Hand, op. cit., Chapter 5 (cf. note 3).
38. For a recent assessment of the Washington conference: Henning Türk, "The Oil Crisis of 1973 as a Challenge to Multilateral Energy Cooperation among Western Industrialized Countries", Historical Social Research, Vol. 39, n° 4, 2014, 209–230.
39. William Glenn Gray, "Learning", op. cit., 184-187 (cf. note 27).
40. "The Battle for the Petrodollar", Institutional Investor, n° 11, 1974. Several plans for "recycling" by Western European governments and the European Community are documented in Silvio Labbate, "Il ruolo dei petroldollari nelle relazioni Nord-Sud", in Daniele Caviglia, Antonio Varsori (eds.), Dollari, petrolio e aiuti allo sviluppo (Milano: Franco Angeli, 2008), 143-170.

41. "'Milestone' pact is signed by US and Saudi Arabia", New York Times, 9.6.1974. The importance of Saudi investments in the US was repeatedly stressed in the correspondence between the two sides throughout 1975: USNA, RG 56, Chronological files of Gerald Parsky, 1975-1976, FRC 1.
42. The new US Secretary of the Treasury William Simon, who had replaced Shultz earlier in the year, visited Saudi Arabia in July. On the occasion, Saudi authorities spoke openly to the press about their intention to invest in "special United States Government securities": "Simon Has Meeting with Saudi King on Investing in US", New York Times, 21.7.1974. In general, on this: David Spiro, The Hidden Hand, op. cit., 88-91 (cf. note 3).
43. Andrea Wong, "The Untold Story Behind Saudi Arabia's 41-Year U.S. Debt Secret", Bloomberg, 31.05.2016, available at https://www.bloomberg.com/news/features/2016-05-30/the-untold-story-beh… (accessed 3 April 2019).
44. Telegram from US Embassy Jidda (Akins) to Secretary of State, "SAMA agrees to purchase Treasury issues", 12.12.1974, confidential, in US National Archives, Archival databases online (henceforth AAD), https://aad.archives.gov/aad/createpdf?rid=270129&dt=2474&dl=1345.
45. Respectively, US Embassy Jidda to State Department, "Governor Ali somewhat negative on Treasury issues", 28.08.1974, confidential; and US Embassy Jidda to State Department, "Saudis fear their oil money might end in Israel", 05.09.1974, secret. Both telegrams, and others on the negotiations, are in the AAD database online.
46. US Embassy Jidda to State Department, "Governor Ali", op. cit. (cf. note 45).
47. For the SAMA purchase see the February 1975 memorandum by Jack Bennett to Henry Kissinger, reproduced in David Spiro, The Hidden Hand, op. cit., 111-112 (cf. note 3). The overall budget deficit of the US government had been 6.3$ billion in 1974, and would grow to 53$ billion in 1975: Budget of the United States Government, Summary of receipts, outlays and surpluses of deficits 1789-2024, available at https://www.govinfo.gov/content/pkg/BUDGET-2020-TAB/xls/BUDGET-2020-TAB… (accessed 6 April 2019).
48. For early US reflections on "recycling", cf. note 18. A British government document on the same subject is Rothschild to Marshall, 12.12.1972, strictly confidential, in Documents on British Policy Overseas, Series III, Volume IV, The Year of Europe: America, Europe and the Energy Crisis, 1972-74 (London: Routledge, 2006), doc. 6. On the rise of oil prices between 1970 and 1973 see Francesco Petrini, "Eight Squeezed Sisters. The Oil Majors and the Coming of the 1973 Oil Crisis", in Elisabetta Bini, Giuliano Garavini, Federico Romero (eds.), Oil Shock, op. cit., 89-114 (cf. note 23).
49. "Congress Gest Plan to Protect Dollar and Oil Supply", New York Times, 7.9.1973.
50. "'Il existe une convergence dans les préoccupations de la France et de l'Algérie pour établir un nouvel ordre économique mondial' nous déclare M. Abdesselam", Le Monde, 19.11.1974.

51. Bank of England data on the pound's share in oil transactions for several years are cited in "Bank of England linking oil nations to pound drop", New York Times, 17.06.1976.
52. Data in Ibid.. Also: "M. Healey confirme que l'ARAMCO refuse le paiement en sterling", Le Monde, 14.12.1974. The pound would recover slightly in the latter art of the 1970s, as Britain became an oil exporter itself.
53. "Reported Rebuff by Arabs drives pound to a low", New York Times, 11.12.1974; "La livre sterling est au plus bas", Le Monde, 12.12.1974; "Le refus saoudien d'accepter les paiements en sterling fait tomber la livre à son plus bas niveau depuis 1971", Le Monde, 13.12.1974.
54. "Reported Rebuff", New York Times, op. cit. (cf. note 53).
55. "Les pays exportateurs de pétrole mettent au point l'indexation du prix du 'brut'", Le Monde, 13.12.1974; "Le refus saoudien d'accepter les paiements en sterling fait tomber la livre à son plus bas niveau depuis 1971", Le Monde, 13.12.1974. As concerns the coincidence with the visit to Saudi Arabia by the British Chancellor of the Exchequer, Denis Healey, it is interesting to note that his request to visit SAMA's offices in Jidda was turned down on grounds of logistical complications given by the high numbers of pilgrims directed to Mecca: memorandum of conversation, "Notes of a meeting held at the Ministry of Finance", 10.12.1974, confidential, UK National Archives, T, 277/2880. Ostensibly the same logistical complications did not apply to Jack Bennet, who was then in SAMA's offices to finalize the "add-on arrangement". The documents relative to the preparations for the Chancellor's visit are in UKNA, Records of the Prime Minister, 15/2018 and UKNA, T, 277/2881. These documents show that the pledge not to seek preferential treatment from oil producers was ignored also by the UK. Healey had come to Riyadh to try and attract Saudi oil revenues well equipped with old colonial paternalism as, according to British officials, the goal of the visit was ostensibly to "open Saudi eyes on the frightening prospects" facing the world economy: Mitchell to Principal Private Secretary, "Chancellor's visit to Saudi Arabia", 05.12.1974, confidential, UKNA, T, 277/2881. The Chancellor of the Exchequer received a very cold treatment by high Saudi dignitaries, who did not even reply to his appeals for "expanded financial cooperation". See various memoranda and memoranda of conversations in UKNA, T, 277/2880 and UKNA, T, 277/2881.
56. US Embassy Jidda to Secretary of State, "SAMA agrees", op. cit. (cf. note 44), emphasis added.
57. Assistant Secretary of the Treasury Fred Bergsten to Secretary Michael Blumenthal,"Briefing for dinner hosted by Saudi Ambassador", 17.12.1978, USNA, RG 56, Bergsten Files, FRC 2, bp-4, Briefing memos, emphasis added.
58. On petrodollars and the Carter administration: David Spiro, The Hidden Hand, op. cit., 116-126 (cf. note 3).
59. In previous years OPEC members had often justified raising oil prices with the need to recover the purchasing power that they lost with decreasing value of the US currency: Daniel Yergin, The Prize. The Epic Quest for Oil, Money and Power (New York: Touchstone, 1991), 624. After the start of floating rates, Arab governments had divested from the dollar into gold at least once on a significant scale: "Dollar off again; Gold price rises on free market", New York Times, 7 May 1973. While not divesting from the dollar such, at the end of 1973, in the context of the "oil embargo", the New York Times reported that "Arab states were stepping up their economic offensive against the United States by withdrawing funds from American banks": "Arabs cut funds at banks of US", New York Times, 7.12.1973. On the interplay between the negotiations on the reform of the international monetary system in the IMF's Committee of Twenty and the parallel quest of the Third World for a New International Economic Order, see Giuliano Garavini, After the Empires. European Integration, Decolonization, and the Challenge from the Global South 1957-1986 (Oxford: Oxford University Press, 2012).
60. On US-Saudi relations before the 1970s: Robert Vitalis, America's Kingdom. Mythmaking on the Saudi Oil Frontier (London: Verso, 2007).
61. David Spiro, The Hidden Hand, op. cit., 60 and 113 (cf. note 3).
62. Ahmed Banafe and Rory McLeod, The Saudi Arabian, op. cit., 75 (cf. note 20).
63. Cf. note 31.
64. Memorandum of conversation (Blumenthal, Greenspan), "Review of the economy", 21.07.1977, Jimmy Carter Presidential Library, CEA, Schultze, Box 20.
65. Data cited in Rachel Bronson, Thicker than Oil. America's Uneasy Partnership with Saudi Arabia (New York: Oxford University Press, 2006), 127. In the late 1970s and early 1980s, Saudi Arabia began massive purchases of US advanced weapon systems: Nicholas Laham, Selling AWACS to Saudi Arabia (Westport: Praeger, 2002).
66. See Andrew Scott Cooper, The Oil Kings, op. cit., 158 (cf. note 25).

67. According to Tilly, "With one tone, 'protection' calls up images of the shelter against danger provided by a powerful friend, a large insurance policy, or a sturdy roof. With the other, it evokes the racket in which a local strong man forces merchants to pay tribute in order to avoid damage – damage the strong man himself threatens to deliver": Charles Tilly, "War Making and State Making as Organized Crime", in Peter Evans, Dietrich Rueschemeyer and Theda Skocpol (eds.), Bringing the State Back In (Cambridge UK: Cambridge University Press, 1985), 169-187: 170. There is reason to doubt that King Faisal eventually felt as if he was being exacted a tribute. As concerns Saudi society at large, Rosie Bsheer has documented instead the existence of an active opposition to Faisal's rule and Saudi Arabia's foreign policy alignment to the US at least throughout the 1960s: Rosie Bsheer, "A Counter-revolutionary state: Popular movements and the making of Saudi Arabia", Past & Present, Vol. 238, n° 1, 2018, 233-277.
68. Schlesinger TV interview, cited in "A word to Arabs – 'Risk' – is kicking up a storm", New York Times, 9.1.1974.
69. "No war over oil, Schlesinger says", New York Times, 26.9.1974. There is some evidence that the US government was actually making contingency plans for military operations in the Arabian Peninsula. On the one hand, historian Andrew Scott Cooper has highlighted that in the summer of 1973 the US army held massive military exercises in the Mojave desert in southern California: Andrew Scott Cooper, The Oil Kings, op. cit., 107-108 and 130 (cf. note 25). On the other, recently declassified British diplomatic documents indicate that Secretary Schlesinger told British interlocutors of US military contingency planning for intervention in the Gulf during a meeting in January 1974: Thomas Robb, "The Power of Oil: Edward Heath, the 'Year of Europe' and the Anglo-American 'Special Relationship'", Contemporary British History, Vol. 26, n° 1, 2012, 73–96: 80.
70. Andrew Scott Cooper, The Oil Kings, op. cit., 150-255 (cf. note 25).
71. Id., 274-275. On US-Iranian relations in the 1970s, also see Roham Alvandi, Nixon, Kissinger, and the Shah (Oxford: Oxford University Press, 2014), chapter 3.
72. See Andrew Scott Cooper, The Oil Kings, op. cit., 107-108 (cf. note 25).
73. On this: Geraint Hughes, "Britain, The Transatlantic Alliance, and the Arab–Israeli War of 1973", Journal of Cold War Studies, Vol. 10, n° 2, 2008, 3-40.
74. "Kuwait threatens oilfield destruction should the US step in", New York Times, 10.1.1974 (while the title mentions only Kuwait, the article's text also referred to Saudi Arabia).
75. Ahmed Banafe and Rory McLeod, The Saudi Arabian, op. cit., 50 (cf. note 20).
76. Ibid.. As in the case the account of SAMA's investment preferences, no specific source is cited as basis for such a conclusion.
77. Emmanuel Mourlon-Druol and Federico Romero (eds.), International Summitry and Global Governance: the Rise of the G7 and the European Council, 1974-1991 (London: Routledge, 2014).
78. Margaret Garritsen De Vries, The International Monetary Fund, 1972-1978: Cooperation on Trial, Vol. 1 (Washington DC: IMF, 1985). Incidentally, in the same 1978 Saudi Arabia was granted an executive directorship in the IMF.

Back to top

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