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OIL AND AMERICAN FOREIGN POLICY

By John Hagel III

In October 1972 the first Libertarian Scholars Conference was held at the Williams' Club in New York City. The sponsors of the conference planned to present as the main speakers a number of young libertarians who were still completing or had recently completed their doctoral studies. Comment was supplied by the older generation of libertarian scholars. The results were so successful that all present came away with renewed confidence that the libertarian movement was well on the way towards producing a splendid new generation of first-rate intellectual leaders. All agreed that the papers read ought to have a wider audience, but despite the efforts of the sponsors to secure financial support, publication of the excellent papers and discussion was not feasible. Under these circumstances, Libertarian Forum has undertaken to publish those papers which were in publishable form and which we deemed especially significant.

Among the young scholars we are proud to present to our readers is John Hagel III, a graduate of Wesleyan University, Middletown, Ct. and presently a graduate student at Oxford University. He began research on U. S. oil policy while a summer fellow at the Institute for Humane Studies, Menlo Park, Ca. and has continued his studies as a research intern with one of the largest oil corporations in the United States.

"All those who have studied the past from the standpoint of economics, and especially those who have studied economic geography, are aware that, from the material point of view, history is primarily the story of the increasing ability of man to reach and control energy." — Allan Nevins, 1959

"It is even probable that the supremacy of nations may be determined by the possession of available petroleum and its products." — President Calvin Coolidge

The current concern among American policy-makers over the so-called "energy crisis" serves to emphasize a continuing and more far-reaching objective of American foreign policy — the establishment of secure control over foreign sources of essential raw materials. American foreign policy planners have been acutely aware of the importance of guaranteeing reliable and relatively inexpensive supplies of key raw materials for domestic industry and, perhaps more importantly, for the military machine which ensures America's predominance as a world power. One of the most essential raw materials within the context of modern industrial society and the military is crude oil.

American foreign policy planners have perceived control over adequate supplies of foreign crude oil as an indispensable objective of American foreign policy since the early 1920's and, in order to achieve this goal, the government and the major international oil companies have developed a symbiotic relationship which neither now wish to terminate. Historically, the attainment of this objective has necessitated a long term diplomatic strategy designed to challenge the control of British oil interests over the massive crude oil reserves of the Middle East. This essay will cover the basic phases involved in this struggle but, due to limitations of space, this analysis will necessarily constitute only an outline of the subject.

By focusing the analysis on the importance of oil in the formulation of foreign policy, it is possible that this article unintentionally over-emphasizes its role. It must therefore be reiterated that the role of oil can be understood fully only when it is examined within the total context of international economic policy. Second, in the interests of brevity, this article will not fully explore the disagreements which frequently divide the oil industry and which often affect its relationship with the state. The reader must be cautioned against the simplistic view of either the oil industry or the state as monolithic entities but at the same time it should be stressed that the disagreements which do emerge occur within a broadly defined consensus that inherently limits the scope of debate and ultimately provides a basis for minimizing the disruptive impact of the internal divisions.

Perhaps one of the most historically significant events in the development of the oil industry involved the decision by the U. S. Navy to convert its ships to fuel oil. Although initially reluctant to embark upon such a course as a result of uncertainty about available oil supplies in the future, the U. S. Navy Fuel Oil Board issued a report recommending conversion to oil in 1904 and, within ten years, Secretary of the Navy Josephus Daniels had announced that all naval battleships and destroyers were burning fuel. While the Navy remained the largest military consumer of fuel oil, the Army also became increasingly dependent upon oil since much of its new weaponry, tanks and trucks relied on petroleum products.

At a time when the U. S. was aggressively expanding overseas and relying increasingly on the Navy for support in these ventures, policy planners soon expressed concern over the possibility of inadequate domestic crude oil reserves. Thus, even prior to World War I, military planners and government officials were acutely aware of the extent to which the military had become dependent on petroleum products and, in response, sought to develop arrangements which would ensure reliable and inexpensive supplies. Throughout this period, naval planners acted closely with leading civilian conservation spokesmen within the government to oppose the leasing of federal lands containing crude oil reserves. Secretary of the Navy Josephus Daniels and others within the Department of the Navy even went so far as to publicly favor the

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nationalization of crude oil reserves and facilities to ensure security of supply for the Navy. [1]

British Oil Policies

The U. S. government was not alone in its recognition of the importance of crude oil supplies for military preparedness. Following the conversion of the British Royal Navy to fuel oil-burning ships, Winston Churchill announced in July 1913 that the British government had acquired a majority interest in the Anglo-Persian Oil Company which held highly productive crude oil concessions in the Middle East. In justifying this move to Parliament, Churchill declared that it would permit the government to "draw our supply, so far as possible, from sources under British control or British influence, and along those . . . ocean routes which the Navy can most easily protect." [2] It is not unlikely that American naval planners were carefully following British initiatives in this area and that their proposals for selective nationalization of petroleum reserves and facilities were at least partially inspired by the British model.

If the leading governments of Europe and the United States maintained any illusions regarding the importance of oil, they were quickly dispelled during World War I. France, in particular, experienced a dangerous shortage of petroleum supplies for its mechanized military. Within the U. S., World War I and the vastly greater demand for petroleum products provided a catalyst which transformed the relationship between the oil industry and the government. The government's primary concern became the necessity of maximizing crude oil production and the resolution of unprecedented logistical problems involved in supplying Allied armies, the American military and wartime industry.

Oil and War

To accomplish these tasks, the administration solicited the assistance of A. C. Bedford, chairman of the board of directors of Standard Oil of New Jersey. Throughout the wartime years and into the post-war period, Standard Oil of New Jersey emerged as the primary intermediary between the government and the oil industry. Under its guidance, an extensive institutional framework was established to maximize government-industry cooperation in every phase of petroleum operations and at all levels of management. The network of advisory committees which subsequently evolved was dominated by the large, integrated oil companies and permitted them to stabilize the industry under their control to a degree which had been impossible on the free market. Oil company profits during the immediate post-war period soared to unprecedented levels, often tripling or quadrupling in value.

The business executives who guided the wartime experiment in industry-government cooperation were highly enthusiastic regarding its results and emerged as leaders in the formation of the American Petroleum Institute. At the organizational meeting of the API, three primary objectives were articulated which served as the basis of industry-government cooperation throughout the inter-war years: (1) the rationalization and integration of all phases of domestic oil industry operations; (2) the promotion of greater cooperation within the industry and with the government and (3) development of foreign crude oil sources and markets. [3]

The aggressive search by American oil interests for foreign oil concessions originally became a major factor in American foreign policy during the inter-war period. From the very beginning, the domestic oil industry had been oriented toward the export market. By the end of the Civil War, the value of exported petroleum products had reached $15.7 million and the oil industry ranked sixth in the U. S. export trade. During the latter half of the eighteenth century, net exports of crude oil and petroleum products were equivalent to at least 1/3 of domestic crude production and at times exceeded 3/4 of domestic production. [4] However, the role of the United States as the world's largest crude oil producer during this period had contributed to a complacent attitude within the domestic industry regarding the necessity for exploration and production outside the United States. This attitude ultimately changed as U. S. crude oil production declined from 98.4% of the world total in 1860 to 42.7% in 1900. [5]

The major petroleum shortages experienced within the U. S. immediately following World War I precipitated the decision by industry leaders and government officials to seek concessions abroad. In 1919, the shortage of crude oil and consequent spiraling of prices prompted the Secretary of the Navy to revive earlier proposals for the nationalization of petroleum resources and to order officers to seize necessary fuel supplies if an acceptable price was not forthcoming. [6] The API denounced the commandeering policies of the Navy and, emphasizing the inadequacy of domestic oil reserves, proposed that the government assist the oil companies in obtaining foreign producing concessions as a long-term solution to the shortage of crude oil.

Once again, Standard Oil of New Jersey emerged in the vanguard of the industry following a major reorganization within the company. None of the members of Nersey's board of directors had been involved in production and most were too old to provide the necessary enthusiasm for a major new venture. However, the badly-needed impetus was provided by a rising young executive, Walter Teagle, who had been placed in charge of the company's foreign operations. One of Teagle's aides summarized the new outlook which guided the company's development during the following years:

> It appears to me that the future of the Standard Oil Company, particularly the New Jersey company, lies outside the United States, rather than in it. This is due primarily to the fact that the New Jersey's company's business is largely outside the United States, its principal refineries are on tidewater, and it is also true that the trust laws of the United States and their present trend seems to preclude continued expansion in this country. [7]

The importance which the American government attached to the overseas ventures of American oil companies is evident in the following memorandum of August 16, 1919 distributed by the State Department to all its personnel abroad:

> The vital importance of securing adequate supplies of mineral oil both for present and future needs of the United States has been forcibly brought to the attention of the Department. The development of proven fields and exploration of new areas is being aggressively conducted in many parts of the world by nationals of various countries, and concessions for mineral oil rights are being actively sought . . .
>
> You are . . . instructed to lend all legitimate aid to reliable and responsible United States citizens or interests which are seeking mineral oil concessions or rights. [8]

The U. S. entered into the world arena at a relatively late date, discovering that British, French and Dutch oil interests controlled the known reserves overseas and operated in close cooperation with their home governments in their search for exploration concessions. British oil interests, represented primarily by the Anglo-Persian Oil Company (now British Petroleum) and the Royal Dutch-Shell Oil Company, constituted the most formidable rival and their optimism was reflected in a statement by Sir Edward MacKay Edgar, a British petroleum banker, that

> The British position is impregnable. All the known oil fields, all the likely or probable oil fields, outside the United States itself, are in British hands or under British management or control, or financed by British capital. [9]

Seeking to gain entry for U. S. oil companies into areas already dominated by European oil interests, Secretary of State Charles Evans Hughes, the central architect of American foreign oil policy and later counsel for Standard Oil of New Jersey, vigorously championed the Open Door policy. The diplomatic offensive organized by the State Department on behalf of American oil interests focused on three major producing areas abroad — Latin America, the Dutch East Indies and the Middle East. Confronted by strongly entrenched oil interests and more

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experienced European diplomats, the performance of the State Department left much to be desired, although it did experience some success in promoting the entry of U. S. oil companies in Latin America, particularly Colombia and Venezuela. The complicated diplomatic intrigues accompanying U. S. and British competition for producing concessions in Mexico, however, provide ample evidence regarding the difficulties involved in challenging the predominant British position even directly across the border. [10]

In the Dutch East Indies, the Dutch government steadfastly refused to give American oil interests access to the extremely rich Djambi fields, despite repeated efforts by Secretary of State Hughes to invoke the Open Door policy. In its response to Hughes' protests, the Dutch government cited the difficulties that Royal Dutch-Shell had experienced in obtaining oil leases in the United States as evidence of the double standard underlying the American protests.

The State Department experienced its greatest frustration in its efforts to gain entry into the major oil fields of the Middle East. Within weeks after the cessation of hostilities in this area, the British government denied access to all foreign companies seeking permission to explore and drill in the Palestine and Mesopotamia regions. The British further consolidated their position in this region by negotiating the San Remo Agreement in April 1920 with the French, effectively establishing a detente between the two major European oil interests. Overtly violating the Open Door principle, the Agreement granted the French a 25% share in the British-dominated Turkish Petroleum Company and sought to exclude the nationals from any other countries from engaging in petroleum operations within the Balkans and Near East. The U. S. State Department refused to acknowledge the legality of this arrangement but failed to obtain any concessions from either France or Great Britain.

Although State Department protests over British policies on the Middle East did not produce any immediate results, they did set the stage for an eventual solution to the competition between British and American oil interests. One of the most instrumental personalities in arranging this solution proved to be Calouste Gulbenkian, an Armenian oil magnate with a 5% interest in the Turkish Petroleum Company. Gulbenkian argued vigorously with the British Foreign Office for a more farsighted policy:

> Personally from the inception of the American crisis, I had held the opinion, taking the broader view, that it was sounder and higher policy to admit the Americans into the Turkish Petroleum Company, instead of letting them loose to compete in Iraq for concessions when in reality the company had a very weak grip there. The oil groups are always tempted to seize what they see before them without looking ahead or following broader policies of collaboration. [11]

Gulbenkian's arguments were persuasive and the British companies in the Turkish Petroleum Company initiated discussions with a consortium of American oil companies which culminated in an agreement in 1925 to grant the American consortium a share of the Turkish Petroleum Company. Under the leadership of Walter Teagle of Jersey Standard, the American consortium insisted upon and received an equal share with the three other principal participants (Shell, Anglo-Persian and the French Compagnie Francaise des Petroles).

The agreement effectively integrated the American oil companies into an arrangement for the production of crude oil in the Middle East which preserved British dominance, yet avoided competition for concession agreements between American and British oil interests. It is particularly crucial because it established the model for a series of wide-reaching agreements among the major international oil companies during the late 1920's that represent the first systematic effort to stabilize the oil industry on an international level and to eliminate the rivalry between American and British oil interests. Before considering these agreements, however, it is important to briefly outline the reason for this sudden reversal of previous trends within the international oil industry.

Control of Markets

Within the United States, a fundamental shift in orientation had occurred within the oil industry and government as a result of discoveries of extensive crude oil reserves both domestically and in foreign producing areas during the mid-1920's. As increasingly large quantities of oil were brought into the market, the price index for petroleum products, which had been steadily rising over the previous decade, began to decline precipitously. The major oil companies sought to limit production through a variety of voluntary arrangements but, when it became evident that these had failed, the companies turned to the state to enforce compulsory pro-rationing schemes designed to stabilize prices by limiting the production of oil.

While this effort succeeded on a national level, the oil industry confronted rapidly expanding production from foreign concessions which seriously weakened the international price structure. In the absence of a world government capable of enforcing a global pro-rationing plan, the major international oil companies, representing both British and American interests, negotiated a system of voluntary agreements in 1928 which would stabilize the market. The Red Line Agreement in 1928 provided a basis for the controlled exploration and development of the massive oil fields believed to exist in the Middle East since it pledged the participants in the Turkish Petroleum Company consortium not to engage in oil exploration or production within the borders of the former Ottoman Empire without first consulting and obtaining the approval of all the other participants. A parallel agreement, known as the Achnacarry or "As Is" Agreement, contained provisions for preserving the existing shares of the international market held by the major oil companies and the pooling of refining and marketing facilities. One oil economist provided a perceptive description of the agreements which were formulated in 1928:

> The international oil companies regarded the stabilization of international markets as an essential auxiliary to the domestic stabilization program they engineered with the help of both state and federal governments during the late 1920's and in the 1930's . . . In 1928, oilmen took steps to translate their common concern about price instability in international oil markets into a program of action . . . in the As Is Agreement we find the first evidence of a conspiratorial arrangement to perpetuate a pricing system that was breaking down under the impact of surplus world production and increasing competition. [12]

These agreements in 1928 provided the framework for the evolution of the international petroleum industry during the period preceding World War II, representing a temporary detente among the leading American, British and European oil interests. However, World War II, the substantial weakening of British imperial hegemony and the systematic challenge launched by American foreign policy planners to replace Britain as the predominant state-capitalist power in the Western world, ultimately doomed the international detente prevailing within the oil industry. On a more immediate level, the advent of World War II once again graphically demonstrated the indispensable role of oil in modern warfare. Its importance in the strategic thinking of the American government is illustrated in the statement by Charles Rayner, the Petroleum Advisor to the Department of State, that "World War II has been and is a war based on oil." [13] While British and American oil interests cooperated closely during the war in supplying Allied war needs, renewed friction became evident in both Saudi Arabia and Iran, two of the major oil producing countries in the Middle East. [14]

American Hegemony

American foreign policy planners anticipated that the war would seriously weaken the British international position and prepared a comprehensive strategy designed to expand and consolidate the American position in the Middle East, believed to contain the highest concentration of crude oil reserves in the world and traditionally a British and French sphere of influence. John D. Lotfus, a prominent State Department official in 1945 prepared a memorandum entitled "Petroleum in International Relations" which outlined the foreign policy objectives of the American government:

> Another major category of problems concerns the support

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> given by the Department on behalf of the United States government to American nationals seeking to obtain or to retain rights to engage in petroleum development, transportation and processing abroad. This is the traditional function of the Department with respect to petroleum. It has continued to be significant, though of temporarily diminished importance, during the war period. As normal conditions return this function will come to be of very great importance . . . . there are . . . areas where after the war there is a genuine possibility of securing an amelioration of the unfavorable discriminatory conditions under which American nationals were able to obtain rights before the war. [15]

By 1947, an interdepartmental committee from the State, Interior, Commerce, Army and Navy Departments had prepared a confidential report outlining the strategy of the American government. The fundamental objective of American policy, according to this report, should be to "seek the removal or modification of existent barriers (legal, contractual or otherwise) to the expansion of American foreign oil operations and facilitate the entry or re-entry of private foreing capital into countries where the absence of such capital inhibits oil development." [16] To implement and coordinate this policy, the State Department designated at least thirteen petroleum officers and attaches to key positions in American embassies around the world. Gabriel Kolko has, with characteristic insight, summarized the strategic importance of the Middle East which

> encompassed all the critical challenges to American goals and power after World War II. There was pre-eminently, the question of Britain's future in the region, and the unmistakable United States intention to circumscribe it in some fundamental fashion to re-allocate Western influence in the area. [17]

The formal end of the detente among oil interests in the Middle East occurred with the announcement of Jersey Standard in January 1946 that it had repudiated the Red Line Agreement of 1928. Standard Oil of New Jersey had sought to join the Arabian-American Oil Company producing consortium in Saudi Arabia and, upon encountering the opposition of its British and French partners in the Red Line Agreement, consulted with, and received the encouragement of, the State Department in its decision to dis-associate from the Agreement. Once again, Standard Oil of New Jersey performed a vital role as an intermediary between the American oil industry and the U. S. government, and other American participants in the Red Line Agreement soon announced their own decision to withdraw from the Agreement.

This agreement had represented the continued hegemony of British and European oil interests within the Middle East and, in the fundamentally new circumstances following the war, American oil interests no longer felt it necessary to accept the secondary role which had been assigned to them. In marked contrast to the diplomatic offensive launched by the U. S. State Department on behalf of American oil interests in the early 1920's, however, this new offensive was not motivated by an urgent search for crude oil supplies to supplement inadequate domestic reserves. Instead, American foreign policy planners recognized the importance of controlling the Middle East oil reserves as one element in their strategy to weaken Britain's international position and, in a more long-range perspective, sought to ensure secure supplies of crude oil and petroleum products for its allies in Western Europe.

The CIA and Iranian Oil

Following the immediate post-war period, the extensive Anglo-Persian concession in Iran, covering some of the most prolific oil fields in the world, represented the one area in the Middle East which remained under the exclusive control of British oil interests. The opportunity for U. S. oil interests to penetrate this last bastion of British supremacy arose when concession negotiations between the Anglo-Persian Oil Company and the Iranian government stalled in 1951 and Iran, under the leadership of Mohammed Mossadegh, announced the nationalization of all oil operations in the country. Most politically conscious Americans are aware of the role of the CIA in the overthrow of the Mossadegh government and installation of a new government more amenable to the oil companies. Yet the CIA coup proved to be merely the final act of a far more complicated situation, involving extensive preliminary negotiations between American oil interests and the Anglo-Persian Oil Company.

While these negotiations proceeded, the American government adopted a carefully neutral position in the nationalization controversy, advising the British to reconcile themselves to the loss of their assets in Iran. This attitude prompted widespread suspicion within the British Foreign Office that the Americans were maneuvering to replace the British oil interests in Iran. However, once the negotiators had produced an agreement which granted the American oil interests a 40% share in the Iranian producing concession, the CIA dispatched Kermit Roosevelt, a grandson of President Theodore Roosevelt, to Iran to coordinate preparations for the coup. The coup succeeded, replacing Mossadegh with General Fazlollah Zahedi and negotiations were soon announced to establish the consortium of oil companies which would resume producing operations in the country. Several years later, Kermit Roosevelt left the CIA and joined Gulf Oil Company, one of the participants in the Iranian consortium, as government relations director and then, in 1960, as a vice-president. [18]

The Iranian nationalization represented the final step in the consolidation of the position of United States oil interests in the Middle East and, ultimately, in the world. The reversal of roles between American and British oil interests in this area is demonstrated by estimates of the crude oil reserves in the Middle East controlled by each group. In 1940, British interests controlled an estimated 72% of total crude oil reserves in the Middle East while American interests controlled a relatively minor 9.8%. In 1967, on the other hand, Britain's share of the total had declined to 29.3% while American-controlled reserves had risen to 58.6%. [19]

Oil Policies Since 1950

This highly schematic history of the rivalry between British and American interests within the international petroleum industry provides a useful background for understanding the situation within the industry during the past few decades. However, developments in the period since 1950 have had significant implications for the future position of U. S. oil interests abroad and the American government is now in the process of formulating a comprehensive energy policy in response to these developments. To place these changes within the proper context it is necessary first to consider two aspects of the contemporary oil industry: the economic significance of foreign investment in petroleum facilities by U. S. companies and the strategic military significance of foreign crude oil reserves.

Briefly summarized, the international oil companies represent the most important single concentration of economic power in the U. S. The five major American international oil companies possess total combined assets of $40 billion, or 20% of the total assets of the 100 largest U. S. corporations. Overseas investments by American oil companies represent 30% of the total book value of American foreign direct investments and 40% of total U. S. investment in the developing countries. Moreover, this petroleum investment is highly profitable, representing 60% of total U. S. earnings in developing nations.

The profitability of petroleum investment explains its traditionally significant role in cushioning the unfavorable balance of payments experienced by the U. S. Michael Tanzer has estimated that, without the overseas affiliates of American oil companies, the balance of payments deficit of $2.8 billion in 1964 would have been 25% greater. [20] Most importantly, the contribution of the international oil companies to the balance of payments accounts occurs almost exclusively as a consequence of direct investments in producing operations.

Thus, while the U. S. remains the largest producer of oil in the world and, as a consequence, the developed nation least dependent on imports of foreign crude oil, foreign investments by American oil companies in crude oil production have acquired great economic significance, both in terms of profitability and contribution to an unfavorable balance of payments. Nor can the U. S. remain complacent regarding its leadership among oil producers. The geography of oil has shifted dramatically over the past fifteen years and future trends indicate increasing American

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dependence on foreign imports of crude oil. During the past decade, the U. S. share of world production of crude oil declined from 38% to 24% while the share of Africa and the Middle East rose from 23% to 40% over the same period. Even today, America's production rate can only be sustained as a consequence of an elaborate system of subsidies and tax credits, further enforced by a quota system limiting foreign imports.

Currently, approximately 22% of the petroleum consumed in the United States originates outside the country. Virtually all oil imported into the U. S. is produced either in Venezuela or Canada; the U. S. relies only minimally on Middle Eastern oil. Nevertheless, Western Europe and Japan are almost entirely dependent on the Middle East and North Africa for their supplies of crude oil. In 1968, this area supplied 90% of the oil consumed in Japan, 70% of the oil consumed in Great Britain, 80% in France, 90% in West Germany and 95% in Italy. [21]

A report on foreign economic policy by the Rockefeller Brothers Fund discussed the implications of this situation:

> Europe's economic security today depends on two indispensable factors: (1) her own intellectual and technical vitality and economic enterprise; and (2) an international structure which will enable Europe to have access to foreign markets on fair terms and adequate supplies of materials, if Europe can offer reasonable value in return for them.
>
> Nevertheless, the economic situation of the industrialized nations remains precarious. If Asia, Middle Eastern and African nationalism, exploited by the Soviety bloc, becomes a destructive force, European supplies of oil and other essential raw materials may be jeapordized. [22]

Walt Whitman Rostow, in testimony before the Joint Congressional Committee outlined the broader context:

> The location, natural resources, and populations of the underdeveloped areas are such that, should they become attached to the Communist bloc, the United States would become the second power in the world . . . Indirectly, the evolution of the underdeveloped areas is likely to determine the fate of Western Europe and Japan and, therefore the effectiveness of those industrialized regions in the free world alliance we are committed to lead. If the underdeveloped areas fall under Communist domination, or if they move to fixed hostility to the West, the economic and military strength of Western Europe and Japan will be diminished, the British Commonwealth as it is now organized will disintegrate, and the Atlantic world will become, at best, an awkward alliance, incapable of exercising effective influence outside a limited orbit, with the balance of the world's power lost to it. In short, our military security and our way of life as well as the fate of Western Europe and Japan are at stake in the evolution of the underdeveloped areas. [23]

One of the basic sources of American influence in the post-1945 period has been its indispensable role in ensuring adequate and reliable supplies of crude oil to its allies. The importance of this role has been most clearly demonstrated during periods of international crisis in which the flow of crude oil from the Middle East has been disrupted, i.e. the Suez Canal crisis of 1956 and the Six Day War in 1967. Thus, the U. S., at least indirectly, has a vital strategic interest in controlling the crude oil reserves located in the Middle East and North Africa.

Moreover, in studying the gross figures of crude oil imports to the U. S., it is possible to seriously underestimate the dependence of the American military on foreign crude oil sources. According to recent estimates, 53.2% of the total bulk fuel purchased by the military in 1968 came from foreign supplies. [24] Even more importantly, however, both NATO and the U. S. military forces in Southeast Asia are almost exclusively dependent on crude oil supplies from the Middle East. [25] These elementary facts are of major concern to American foreign policy planners as indicated by the following observation by Carl Vansant, an energy consultant for the Department of the Navy:

> From a military point of view, it is important that the energy supplies for military forces be designed for, and maintained in, a secure posture. It is even more important, however, that national systems for energy supply be built on a secure foundation of political, technical and economic policy; for, in fact, it is the civil structure of energy systems that underlies and braces strategic security. [26]

Foreign crude oil reserves, and specifically those located in the Middle East, have therefore acquired direct strategic importance for American policy-makers in the past decade.

Future Needs

Once the full importance of foreign crude oil reserves for American economic and strategic strength has been recognized, it is possible to appreciate more clearly the implications of a number of current developments in the international oil industry. First, the large international oil companies, for a variety of reasons, have never been able to revive the proto-cartel arrangements which had broken down in the immediate post-World War II period. In fact, the past two decades have produced an unprecedented degree of competition within the international oil industry. This competition has dramatically weakened the position of the companies in their negotiations for concessions and tax agreements from the producing countries. The producing countries have further strengthened their own position by establishing the Organization of Petroleum Exporting Countries (OPEC) which has successfully negotiated significant increases in tax rates and recently initiated a series of negotiations designed to establish government participation in all producing companies operating in OPEC countries. These developments have considerably reduced the profits previously received by the international oil companies from their producing operations and, in the longer run, raise the very likely possibility of total nationalization of producing operations by the OPEC governments.

A number of fundamental changes in the international oil industry can be reasonably projected as a consequence of these recent developments. Most immediately, the international oil companies will seek to raise prices on petroleum products to cushion the impact on their accounts of the higher production taxes. These price rises, and growing evidence of the weakness of the international oil companies in negotiations with OPEC, will further accelerate efforts by the major oil consuming countries in Western Europe and Japan to expand the operations of their own state-owned oil companies and, most importantly, to challenge the control over Middle Eastern crude oil reserves by American oil interests.

This trend must be understood within the broader context of the systematic challenge presented by these countries to America's financial and economic position in the non-Communist world. European state-owned oil companies such as the French Compagnie Francaise des Petroles, the Italian Ente Nazionale Idrocarburi (ENI), the German Deminex and the Spanish Hispanoil have been increasingly aggressive in their competition with the established Anglo-Saxon oil companies for producing concessions in the Middle East. Discussions have also been initiated among the consuming governments of Western Europe and Japan regarding the possible formation of an Organization of Petroleum Importing Countries (OPIC) to by-pass the American and British international oil companies and enter directly into multilateral trade negotiations for crude oil from OPEC.

The short term strategy which the American government and the major oil companies will pursue in response to these recent developments will probably include a variety of elements. It is unlikely, barring a major crisis, that the United States will resort to direct intervention as a means for preserving the position of the American oil interests in the Middle East or other producing areas. Instead, emphasis will be placed on the development of formal partnerships between the oil companies and the host governments in the producing phase of the industry to forestall outright nationalization. Cooperation among the oil companies and coordination with the American government will receive an even higher priority than has been the case previously, as illustrated by the recent suspension of anti-trust laws to enable the oil companies to

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present a united bargaining team in negotiations with OPEC.

On a more long-term basis, fundamental transformations are envisaged which will result in an even closer relationship between the oil industry and the government in the U. S. An intensive and extensive search for additional crude oil reserves, preferably in politically "safe" areas has already been initiated and, increasingly, the search will focus on subsea exploration and production. While the discovery of crude oil reserves under the jurisdiction of hospitable governments would be optimal, the primary aim is to maximize the number of sources of crude oil to ensure against the disruptive effects which might be produced if one or several of the sources were simultaneously rendered inaccessible to American oil interests. It is only within this context that the significance of the Alaskan North Share discoveries and British North Sea exploration, and even the high level negotiations currently in process to seek American participation in the development of both Russian Siberian and Chinese off-shore oil reserves can be fully appreciated.

On another level, the pressures to minimize American dependence of foreign crude oil reserves are already resulting in the formulation of a comprehensive energy policy by the United States government which will avoid the narrow focus on petroleum as the primary energy source. The most tangible consequence of this new orientation will be the development of extensive, federally subsidized research and development programs by the oil companies to explore the potential of alternative energy sources. The major international oil companies have already quietly diversified into ownership of coal reserves, oil shale reserves and the development of nuclear technology. [27]

One further consequence of recent developments will be the conscious rationalization of energy consumption in the United States to eliminate unnecessary waste. The automobile represents the most inefficient means of surface transportation, in terms of energy consumption, currently in use, and the next few decades will witness the development of systematic, federally subsidized mass transit programs, not because of sudden moral indignation over the ecological damage caused by the automobile, but because of the desire to limit accelerating energy consumption in the U. S.

In summary, therefore, recent developments in the oil industry are likely to result in a much higher degree of sustained interaction between the international oil companies and the American government than the U. S. has ever before experienced. As Michael Tanzer, an oil economist, has pointed out:

> the connection between the government and the international oil companies in the U. S. has generally never been as open nor as close as in Great Britain or France. This is partly because the existence of a large indigenous oil sector has historically made the role of international oil less crucial and also has generated conflicting interests between independent domestic oil companies and the internationals. [28]

While this observation may overlook the assistance received by American oil companies in their effort to challenge British control of the Middle East crude oil reserves, it does focus attention on a crucial advantage historically enjoyed by the United States. However, recent trends demonstrate the increasing dependence of the United States, and particularly the American military, upon crude oil reserves, reserves which have become dangerously concentrated in the politically unstable Middle East. To respond to these developments, the symbiotic relationship which has evolved between the oil industry and the government will become even more pronounced and, more than ever, this relationship will become one of mutual dependence.

Footnotes

[1] Gerald Nash, **United States Oil Policy, 1890-1964**, University of Pittsburgh Press (Pittsburgh, 1968), pp. 18-19. For further details on naval petroleum policy, see John A. DeNovo, "Petroleum and the U. S. Navy Before World War I", **Mississippi Valley Historical Review**, Vol. XLI, March 1955.

[2] Quoted in Richard O'Connor, **The Oil Barons**, Little, Brown and Company (Boston, 1971), p. 189.

[3] An excellent historical account of this period in the domestic oil industry is available in Gerald Nash, **United States Oil Policy, 1890-1964, op. cit.**, p. 28. Also, Murray Rothbard has written a highly informative article on the close cooperation which evolved between business interests and the government during World War I in Ronald Radosh and Murray Rothbard, eds., **A New History of Leviathan**, E. P. Dutton & Co. (New York, 1972).

[4] Schurr, Netschert, et. al., **Energy in the American Economy, 1850-1975**, Johns Hopkins University Press (Baltimore, 1960), p. 100.

[5] Statistics from **Petroleum Facts and Figures**, 9th edition, 1950.

[6] Gerald Nash, **United States Oil Policy, 1890-1964, op. cit.**, pp. 44-46.

[7] Quoted in Harvey O'Connor, **World Crisis in Oil**, Monthly Review Press (New York, 1962), p. 66.

[8] Quoted in **ibid.**, pp. 71-72.

[9] Quoted in Ludwell Denny, **We Fight for Oil**, Alfred A. Knopf (New York, 1928), p. 18.

[10] For details regarding this episode see Ludwell Denny, **We Fight for Oil, op. cit.**, pp. 45-95 and also for general background, see Peter Calvert, **The Mexican Revolution, 1910-1914**, Cambridge University Press (Cambridge, 1968).

[11] Quoted in Richard O'Connor, **The Oil Barons, op. cit.**, p. 232.

[12] George W. Stocking, **Middle East Oil: A Study in Political and Economic Controversy**, Vanderbilt University Press (Nashville, 1970), pp. 396-397.

[13] Quoted in Richard J. Barnet, **Roots of War**, Atheneum (New York, 1972), p. 201.

[14] For further details, see Gabriel Kolko's excellent discussion of the wartime tensions which developed over Middle Eastern oil reserves in **The Politics of War**, Random House (New York, 1968), pp. 294-313.

[15] Quoted in Richard J. Barnet, Roots of War, **op. cit.**, p. 201.

[16] Quoted in Joyce and Gabriel Kolko, **The Limits of Power**, Harper and Row (New York, 1972), p. 415.

[17] **Ibid.**, p. 403.

[18] A highly perceptive muck-raking account of this episode is presented in Richard O'Connor, **The Oil Barons, op. cit.**, pp. 366-382.

[19] Statistics presented in Harry Magdoff, **The Age of Imperialism**, Modern Reader Paperbacks (New York, 1969), p. 43.

[20] These statistics are presented in an excellent analysis of the economic significance of foreign petroleum investments by Michael Tanzer, **The Political Economy of International Oil and the Underdeveloped Countries**, Beacon Press (Boston, 1969), pp. 41-49.

[21] **Business Week**, September 26, 1970, p. 24.

[22] Quoted in Harry Magdoff, **The Age of Imperialism, op. cit.**, p. 53.

[23] Quoted in **ibid.**, p. 55.

[24] Carl Vansant, **Strategic Energy Supply and National Security**, Praeger (New York, 1971), p. 51.

[25] **Business Week**, September 26, 1970, p. 24.

[26] Carl Vansant, **Strategic Energy Supply and National Security**, op. cit., p. 83.

[27] Gulf Oil Company has perhaps led in efforts to diversify out of petroleum operations and a recent account of their strategy is available in **The Economist**, June 10, 1972, pp. 68-69. It is interesting to note that, of the major international oil companies, Gulf Oil is one of the most dependent on Middle Eastern crude oil reserves.

[28] Michael Tanzer, **The Political Economy of International Oil and the Underdeveloped Countries, op. cit.**, p. 50.

101 Ways To Promote Libertarian Ideas

1. Be open, friendly and courteous in presenting your ideas. Avoid any taint of fanaticism or infallibility. Just because other people disagree with you, don't put them down as stupid or evil. Libertarian ideas are radical and shocking when first encountered. It takes most people some time to digest them.
2. Is a friend studying a specific subject — political science, economics, psychology? Recommend a book giving a libertarian perspective on

(Continued On Page 7)

Ways To Promote Lib. Ideas —

(Continued From Page 6)

3. If you have read a favorable review of a libertarian book, especially if in a professional journal, have copies xeroxed and distribute them to friends who might be interested in the review professionally.
4. Write a letter a week to some newspaper giving a libertarian viewpoint on some public issue. It will usually be published if short, topical and clearly not "cranky". Keep it practical and to the point.
5. College libraries usually respond to faculty requests for new acquisitions. Regularly request libertarian titles, if you are on the faculty, or ask a friendly faculty member to do so, if you are a student.
6. Have you been assigned a term paper? Choose a topic that will allow you to read in libertarian sources, and develop a libertarian analysis of the topic.
7. Many libertarian books are now available in paperback editions. Give your local bookstore a list of titles and suggest he stock them. To encourage him, give him the publisher's catalogue.
8. Remember Libertarians don't have **all** the answers! You can learn by listening to others.
9. Most colleges have literary societies. If so inclined, join the society. You can then participate in its discussions, play a role in selecting guest speakers, and even contribute poems, short stories and critical reviews to its journal. Literary people are usually very sensitive to the need for true liberty and are a good audience for libertarian ideas.
10. In many colleges, the newspaper is not fully utilized by the student body. Editors are usually short of copy and welcome contributions of material. Send a review of your favorite libertarian book or movie or play. Do an analysis of some local problem from a libertarian perspective. Better yet, join the staff. You are bound to be promoted over a four year period.
11. Have you found a few sympathetic souls who are interested in further study of libertarian ideas? Form a campus study club. Work up a guest speakers' program and apply for student activity funds.
12. Have you ever recommended a book to your teacher? Why not? He doesn't hesitate to recommend them to you! Tell him you would like to discuss it with him after he has read it. Flattery will get you everywhere!
13. The trustees of most colleges usually read the student newspaper. Any strongly worded criticism is likely to catch their attention — and cause questions to be asked. If the economics department excludes free-market texts from its reading lists, ask why? Remember the national furor created in the Fifties by Bill Buckley's **God and Man at Yale?**
14. A libertarian is not a book burner or witch hunter. But he is certainly entitled to know why a political science department ignores individualist anarchism in courses on political theory. Or Austrian economics in courses on economic theory. Or the contributions of Tucker, Warren, Spooner, Nock and Chodorov to American intellectual history. A letter of inquiry to the professor or department involved could change things.
15. Does your student government have a referendum procedure? Make imaginative use of it to spread libertarian ideas. Call for the abolition of the ROTC or compulsory student activity fees.
16. Is your college bookstore a local monopoly with high monopolistic prices? Open up a student cooperative bookstore; or sponsor a free-market used book exchange. And explain why you are doing it!
17. Is your college supposedly a "private institution"? Check it out. The likelihood is that it enjoys some government privilege or subsidy. And what price does it pay for this governmental support? Does it have its books audited by the State? Is it required to submit reports to the HEW on the number of women and ethnic minority members on its faculty? Do its courses and readings have to be submitted for State inspection? Are its records, or your personal records, open to inspection by government agencies? Prepare a report on the parameters of "freedom" at your college or university.
18. Who rules your university? Prepare a detailed report on the trustees and officers of your university. The corporate, governmental and personal relationships are frequently very interesting. At one local center of learning that we know, two trustees were forced to resign when a rather intimate business and personal relationship between them, the local sheriff and the "Mafia" was revealed as part of a student researched obituary notice in the campus paper. Elsewhere the trustees were involved in conflicts of interest in awarding construction contracts.
19. Do you know what is college policy, and practice, regarding student academic and medical records? Who has access, what is recorded, how long are the records kept? This is especially important if medical or psychological records are kept on students, as rather damaging information may appear in government records at a later time. Some schools in the Sixties kept records of campus political activities also. A civil libertarian might attract support by focusing on this issue.
20. Prepare alternate reading lists for required courses. Distribute them to all "captive" audiences.
21. Student "leaders" are frequently power freaks and even outright grafters. Quietly keep track of their votes, attendance at official meetings, and the number and costs of "official excursions". A voter profile of the "Big Men" on campus might provide some laughs at the next student election.
22. Buy a subscription to your favorite libertarian journal and give a free subscription as a gift to your local library.
23. Buy and display libertarian posters. They are always an excellent way to start a political conversation.
24. Get yourself a libertarian calendar and celebrate libertarian anniversaries. Hold a birthday party for Max Stirner (Oct. 25) or Ludwig von Mises (Sept. 29) and give your guests some literature by the guest of honor. On election eve, Nov. 5, 1973, Britons will be celebrating Guy Fawkes failure to blow up Parliament in 1606. We could at least honor him for trying! Or what about a beer blast on Dec. 5 — the day Prohibition ended in 1933. On Dec. 16, 1973 we ought to celebrate the 200th anniversary of the Boston Tea Party.
25. Does your college have a film society? If so, ask them to show films which would serve as a stimulus for discussion of libertarian viewpoints. If not, why don't you form a film group and use it for libertarian purposes.
26. Many colleges have student-run lecture series, often with large sums to finance guests speakers. Try to get involved with the speakers bureau and promote the invitation of a libertarian guest lecturer.
27. If a guest lecturer is distinctly anti-libertarian, a socialist or behavioralist, for instance, study his published opinions beforehand, and prepare questions for him that will reveal the implications of his errors to the audience.
28. Try to establish a libertarian literature table or reading room on campus or nearby. Even if a student is not immediately receptive to your ideas, you will have made a personal contact that could in time mature into further conversation and thought.
29. Every season there is some issue that seems to arise and receive wide public discussion — the environmental crisis, the crisis of the family, crime, drugs, Watergate. Plan a public debate on the issue, with a libertarian among the speakers, and libertarian pamphlets available for distribution. Have a series of discussions. Many young people were initially attracted to libertarian ideas by a wide distribution of our ideas on the draft.

(To Be Continued)

Recommended Reading

Truman Revisionism.
A concise essay on Truman Revisionism by an outstanding young New Left historian is Athan Theoharis, "Ignoring History," **Chicago Journalism Review** (March, 1973). **Spooner!** Seven years ago, Pine Tree Press published one of the great libertarian masterworks of all time, Lysander Spooner's **No Treason, No. 6,** along with the Master's **Letter to Thomas F. Bayard.** Now Ralph Myles, Inc. has reissued this notable pamphlet, with an additional afterwork by Dr. James J. Martin. If you haven't read it, you owe it toyourself to get this pamphlet. Available, for the bargain price of 85¢, from Ralph Myles, Inc., Box 1533, Colorado Springs, Colorado 80901.

News Notes

By Joseph R. Peden

In 1972 members of the Jewish Defense League planted a bomb in the New York offices of Sol Hurok, the impresario who has arranged for the performances of the Bolshoi Ballet and other Soviet cultural groups in the U. S. A secretary was killed. Five men were arrested and indicted for the fatal bombing. The Second Circuit of the U. S. Court of Appeals has now dismissed the case against two of the defendants on the ground that Attorney-General Mitchell had unlawfully tapped the telephones of the JDL and later destroyed the tapes. This was in specific violation of federal statutes. Moreover it was revealed that one of the defendants who participated in the bombing was at the time a Government informer. The court in its decision commented: "The problem of crime, particularly the diabolic crimes charged in the indictments here, is of great concern to us. But if we reflect carefully, it becomes abundantly clear that we can never acquiesce in a principle that condones lawlessness by law enforcers in the name of a just end". Then the court quoted Justice Brandeis: "In a government of laws, the existence of the government will be imperiled if it fails to observe the law scrupulously. Our government is the potent, the omnipresent teacher. For good or ill, it teaches the whole people by its example. Crime is contagious. If the government becomes a lawbreaker, it breeds contempt for law; it invites every man to become a law unto himself: it invites ANARCHY."

• • •

In the last-minute rush to complete its work, the New York State Assemblymen voted themselves a pay raise, by a vote of 94 to 59. Unfortunately this was three votes more than there are seats in the assembly. Also, three seats were vacant — two members having died and a third being hospitalized. When a question was raised by reporters, the clerk announced that a mistake had been made — the vote should have been 83 to 60. When the final record was issued it recorded a vote of 78-60. We wonder how many Assemblymen collect pay checks.

• • •

Bunker Hunt Oil Company has announced that Libya's nationalization of its oil concessions has resulted in a loss to the company of 3.85 **billion** dollars, based on the value of its share in the Libyian Oil reserves. It also stated that it had invested $25 **million** in Libya since 1955. Under U. S. law, companies can claim compensation from the United States Treasury for losses due to nationalization by foreign governments. We wonder what this will cost the taxpayers.

• • •

The Brookings Institution has issued a report on "Economic Aspects of Television Regulation" which deserves attention. Brookings investigators found that in 1969 the profits before taxes of the television industry constituted a 70% return on tangible investment, sharply higher than the 20% average for all manufacturing industries. The reason? The television industry enjoys quasi-monopoly privileges which restricts competitive pricing of advertising allocations. Moreover, 87% of all stations are network affiliates and 85% of prime time is controlled by the three national networks. Brookings recommends that the number of networks could be doubled by the use of UHF channels 2 to 13, that subscription TV be legalized, full development of cable TV, listener-supported outlets, and several technical innovations which could bring cultural events of minority interest to all parts of the country by satellite to home broadcasting or video-cassettes. These would reduce the profits of the present monopoly-owners, but greatly increase competition in pricing, programming and ownership. They also recommend divesting the FCC of any responsibility for content and quality of programming, limiting them to allocation of signal channels and other engineering details.

The Meaning of War

A suggestion from Dr. Benjamin Rush (1745-1813), signer of the Declaration of Independence and pioneer psychiatrist.

Signs of War

"In order more deeply to affect the minds of the citizens of the United States with the blessings of peace, by contrasting them with the evils of war, let the following inscriptions be painted upon the sign, which is placed over the door of the War Office.

1. An office for butchering the human species.
2. A widow and orphan making office.
3. A broken bone making office.
4. A wooden leg making office.
5. An office for creating public and private vices.
6. An office for creating a public debt.
7. An office for creating speculators, stock jobbers, and bankrupts.
8. An office for creating famine.
9. An office for creating pestilential diseases.
10. An office for creating poverty, and the destruction of liberty and national happiness.

In the lobby of this office let there be painted representations of all the common military instruments of death, also human skulls, broken bones, unburied and putrefying dead bodies, hospitals crowded with sick and wounded soldiers, villages on fire, mothers in besieged towns eating the flesh of their children, ships sinking in the ocean, rivers dyed with blood, and extensive plains without a tree or fence, or any other object, but the ruins of deserted farm houses.

Above this group of woeful figures, let the following words be inserted, in red characters to represent human blood: "National Glory."

The above is excerpted from **Selected Writings of Benjamin Rush,** edited by Dagober D. Runes, published in 1947 by the Philosophical Library, Inc., New York, N. Y., with permission.

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