FATEFUL CONSEQUENCES:
U.S.-IRAN RELATIONS DURING THE NIXON AND FORD
ADMINISTRATIONS, 1969-77

BY

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ABSTRACT

This thesis analyzes the trajectory of U.S.-Iran relations from 1969, when Richard Nixon came to office, through the early and mid-1970s when the Nixon Doctrine embraced Iran as the cornerstone of its national security architecture in the Persian Gulf and West Asia, to 1977 when Ford left office with U.S.-Iran relations in a state of disrepair. It discusses the factors—geopolitics, economics, Iranian nationalism, domestic politics, the rise of transnational entities like Organization of Petroleum Exporting Countries (OPEC), rivalries between the Departments of Defense, State, and Treasury and personal ambitions—which damaged the relationship and contributed to the collapse of the Pahlavi dynasty in Iran. It lays particular stress on the difficulties in resolving national security and conflicting economic interests in regards to Iran's oil resources at time when U.S. dependency on oil from the Middle East increased. It places these conflicts in the context of a series of crises in the form of the 1973 energy crisis, the October War, Watergate, the OPEC oil embargo and oil shock. It explains that the inability or unwillingness of either side to resolve their policy differences resulted from the economic forces unleashed by the oil shock, the difficulties of reconciling strategic, geopolitical and economic goals, and the domestic political vulnerabilities of chief architects of the relationship—Presidents Nixon and Ford, Henry Kissinger, and the Shah Reza Pahlavi—at a time when Vietnam, Watergate and recession weakened the U.S. and the Shah faced the dangers of incipient rebellion, revolution and coup which he tried to suppress through the use of SAVAK, the secret police, and one-party rule. The thesis thus examines how the intrusion of economic concerns into cold war geopolitical calculations had fateful consequences, not only for U.S.-Iran relations, but for U.S. national security strategy, the survival of the Pahlavi regime, and stability in the Persian Gulf which resulted in a new U.S. reliance upon Saudi Arabia to ensure access to oil.

ACKNOWLEDGEMENTS

This thesis grew out of a research project begun in New York City in the spring of 2006. Professor Gary Sick of Columbia University gave generously of his time and encouraged my efforts to research President-Shah relations during the Nixon and Ford administrations. Columbia is also the home of the Center for Iranian Studies, and Ahmad Ashraf, managing editor of the *Encyclopaedia Iranica*, introduced me to the diaries of Court Minister Asadollah Alam, provided me with an invaluable Iranian perspective of events, and helped with introductions. Half-way through my research I returned to New Zealand to enroll in the PhD history program at Victoria University in the city of Wellington. My supervisors, Associate Professor Dolores Janiewski and Professor Roberto Rabel, offered wise counsel and patiently worked with me as I developed my thesis. I would like to thank them for their advice, patience and support.

Scholars who study US-Iran relations during the cold war invariably turn to the collection of documents housed at the National Security Archive at George Washington University. The National Security Archive provides an unparalleled service to historians through its collection of documents, *Iran: The Making of US Policy, 1977-80*, as well as the Kissinger telephone transcripts. The papers of former Secretary of the Treasury William E. Simon are open to scholars at Lafayette College's Skillman Library. Although I was unable to personally visit the Library, Diane Wyndham Shaw located documents and mailed them to me. I am grateful to Professor Gholam Reza Afkhami and the Foundation for Iranian Studies in Maryland for making available the Foundation's invaluable collection of oral history interviews conducted with former high ranking U.S. officials and diplomats. The holdings of FIS offer a unique historical record and I am appreciative to Professor Afkhami and his staff for their efforts and assistance during the course of my own research.

General Brent Scowcroft's collection of papers deposited at the Gerald R. Ford Presidential Library in Ann Arbor, Michigan, is one of the single most important troves of documentation available to American foreign policy scholars. Thank you to Geir Gunderson and his colleagues at the library for fulfilling so many research requests,

I owe a debt of gratitude to former government officials and retired diplomats whose interviews for my book *The Oil Kings* were folded into this thesis. They agreed to meet to interpret documents, share insights and offer reminiscences. In the United States, former Ford administration officials General Brent Scowcroft, James Schlesinger and Frank Zarb offered invaluable insights into oil policy during the crisis days of the mid-1970s. Diplomats Henry Precht, Bill Lehfeltdt and Charlie Naas, now retired, helped provide a diplomatic perspective of events, shared stories, and helped decipher declassified documents. Defense strategist Edward Luttwak talked to me about U.S. power projection in the mid-1970s, a time when the U.S. was perceived as weak at home and abroad. Former Iranian Foreign Minister and Ambassador Ardeshir Zahedi opened his home in Montreux, Switzerland, and spent two days answering my questions, offering his own perspective, and talking about the personalities and events of that earlier era.

Former Secretary of Defense Donald Rumsfeld and former Chairman of the Federal Reserve Alan Greenspan declined my requests for interviews. I did not receive responses from the office of former Secretary of State Henry Kissinger or from Iranian economist Jahingir Amuzegar.

Lastly, I would like to thank my family for their love and support during the time it took to produce the thesis.

TIMELINE OF EVENTS

1921

- Reza Khan, commander of Persia's Cossack regiment, seizes power.

1925

- Reza Shah sworn in as Iran's new monarch, adopts family name "Pahlavi."

1941

- Troops from Great Britain and the Soviet Union invade, occupy Iran.
- Reza Shah Pahlavi abdicates, vacates Peacock Throne.
- Crown Prince Mohammad Reza, 21, succeeds as second Pahlavi king.

1946

- Iranian troops crush pro-Soviet separatists in Azerbaijan.

1951

- Iranian parliament confirms Dr. Mohammad Mossadegh as prime minister.
- Mossadegh nationalizes Iranian oil assets.

1953

- Mossadegh overthrown by royalists in CIA-sponsored revolt.
- Vice President Richard Nixon visits Tehran, meets Shah.

1959

- Shah marries Farah Diba.

1963

- Shah launches White Revolution reforms.
- Royalist troops crush demonstrations inspired by Ayatollah Khomeini.

1964

- King Faisal's reign begins in Saudi Arabia.

1967

- Nixon consults Shah in Tehran.
- Shah holds belated coronation.

1969

- Shah travels to Eisenhower funeral observances.
- Nixon enunciates 'Nixon Doctrine'.
- Shah pays state visit to Washington.

1970

- U.S. officials debate lifting restrictions on arms sales to Iran.
- Nixon signals the Shah he can "push" for higher oil prices.
- U.S. adopts 'Twin Pillars' policy in Persian Gulf.
- U.S. oil production peaks at 11 million barrels.

1971

- Oil producers and oil companies sign Tehran Agreement.
- Ambassador MacArthur assures Nixon Iran is ready to defend Persian Gulf.
- Persepolis celebrations in Iran.
- Iran seizes three disputed islands at entrance to the Persian Gulf.
- Secret U.S.-Iran airlift of military supplies to Pakistan.

1972

- Nixon visits Tehran.
- Nixon administration secretly ends restrictions on arms sales to Iran.
- Kissinger intervenes in sale of F-14 fighter jets to Iran.
- Secret U.S.-Iran airlift of military supplies to South Vietnam.
- Nixon appoints Helms U.S. ambassador in Tehran.

1973

- Fuel shortages threaten domestic U.S. economy.
- Shah nationalizes Iran's oil industry.
- Helms arrives in Tehran to assume post of ambassador.
- U.S. abandons oil import quotas.
- Shah pays three-day state visit to Washington.
- U.S.-Iran military contingency planning gets under way.
- Faisal links future Saudi oil production to progress on a Mideast peace settlement.
- Fourth Arab-Israeli War breaks out.
- Arab oil producers cut production and impose oil embargo.
- U.S. naval task force off coast of Oman.
- OPEC doubles the price of oil.

1974

- Western economies staggered by Arab oil embargo.
- Revolution in Portugal and political crisis in Italy.
- Shah diagnosed with incurable lymphoma.
- Simon urges Nixon to confront Shah on oil prices, warns of financial instability.
- Saudi oil auction collapses.
- Ramsar meeting decides Iran's Fifth Plan.
- White House officials debate Shah's role in oil shock.
- Ford succeeds Nixon, following his resignation.
- In Detroit, Ford warns oil producers against further oil price increases.
- Kissinger and Shah meet in Tehran to discuss secret bilateral oil deal.

1975

- Shah tours Middle East capitals to bolster ties with Arab states.

- Shultz visits Tehran to discuss oil deal and nuclear power.
- Kissinger consults Shah in Zurich.
- Shah declares one-party state and terminates Kurdish operation.
- Ford administration agrees to sell Iran eight nuclear power plants.
- Khalid succeeds Faisal as Saudi king.
- Shah pays state visit to Washington.
- Unrest in Iranian city of Qum.
- White House officials debate terms of bilateral oil deal.
- Schlesinger urges Ford to review U.S.-Iran arms sales and bilateral relations.
- Shah refuses Ford's appeal to not raise oil prices.
- Rumsfeld replaces Schlesinger at Defense, Scowcroft takes over at NSC.

1976

- White House turns down Shah's appeal to help Iran's struggling economy.
- Pahlavi dynasty celebrates fiftieth anniversary.
- Clashes escalate between security forces and urban guerrillas in Tehran.
- U.S. economic recovery stalls.
- Ford meets Saudi Prince Abdullah to discuss arms sales and oil prices.
- Senate Foreign Relations Committee condemns arms sales to Iran.
- Fear grows of 'double dip' recession and bank collapses linked to fuel costs.
- Kissinger travels to Tehran to meet Shah.
- Ford meets Saudi foreign minister, requests help on oil prices.
- NSC convenes to consider strategies to break OPEC.
- Financial and political crisis in Great Britain.
- CIA hosts inter-agency seminar of Iran experts.
- Ford loses election to Carter.

- Pressure mounts over oil prices.
- SAVAK spy scandal.
- OPEC meets in Doha, splits over oil price hike for 1977.

1977

- Iranian oil production and revenues slump.
- Iran's oil production stages modest comeback.
- Saudi Arabia increases oil production.
- Saudi Arabia and Iran agree to end 'oil war'.
- Financial crisis, economic chaos in Iran.
- Opposition groups mobilize in Iran against the Shah.
- Carter pays state visit to Tehran, declares Iran "island of stability."

1978

- Iran wracked by strikes, protests and violent unrest.

1979

- Shah flees, monarchy abolished, Khomeini takes power, and U.S. severs ties with Iran.

PERSONALITIES

The Americans

ARTHUR BURNS (1904-87): Chairman of the U.S. Federal Reserve from 1970 to 1978.

JOSEPH FARLAND (1914-2007): U.S. ambassador to Tehran in 1972.

GERALD FORD (1914-2006): Thirty-eighth U.S. president who served from 1974 to 1977.

ALAN GREENSPAN (1926-): Chairman of the President's Council of Economic Advisers.

RICHARD HALLOCK (1919-1999): Defense Department consultant on arms sales to Iran.

HENRY KISSINGER (1923-): National Security Adviser from 1969 to 1975, and Secretary of State from 1973 to 1977.

MELVIN LAIRD (1922-): Secretary of Defense from 1969 to 1973.

DOUGLAS MACARTHUR II (1909-97): U.S. ambassador to Iran from 1969 to 1972.

RICHARD HELMS (1913-2002): Director of the CIA from 1966 to 1973, and U.S. ambassador to Iran from 1973 to 1976.

RICHARD NIXON (1913-1994): Thirty-seventh president who served from 1969 to 1974.

WILLIAM ROGERS (1913-2001): Secretary of State from 1969 to 1973.

DONALD RUMSFELD (1932-): Envoy to NATO from 1973 to 1974, White House Chief of Staff from 1974 to 1975, and Secretary of Defense from 1975 to 1977.

BRENT SCOWCROFT (1925-): National Security Adviser from 1975 to 1977.

JAMES SCHLESINGER (1929-): Chairman of the U.S. Atomic Energy Commission from 1971 to 1973, CIA Director in 1973, Secretary of Defense from 1973 to 1975.

GEORGE SHULTZ (1920-): Secretary of Labor from 1969 to 1970, Director of the Office of Management and Budget from 1970 to 1972 and Secretary of Treasury from 1972 to 1974.

WILLIAM SIMON (1927-2000): Administrator of the Federal Energy Office from 1973 to 1974 and Secretary of treasury from 1974 to 1977.

EARLE WHEELER (1908-1975): Chairman of the Joint Chiefs of Staff from 1964 to 1970.

FRANK ZARB (1935-): Administrator of the Federal Energy Office from 1974 to 1977.

The Arabs

HAFEZ AL-ASSAD (1930-2000): President of Syria from 1971 to 2000.

HOUARI BOUMEDIENE (1932-1978): President of Algeria from 1965 to 1978.

SADDAM HUSSEIN (1937-2006): Vice President and Deputy Chairman of the Revolutionary Command Council from 1969 to 1979 and President from 1979 to 2003.

MUAMMAR AL-QADDAFI (1942-2011): Leader of Libya from 1969 to 2011.

ANWAR SADAT (1918-81): President of Egypt from 1970 to 81.

ABDULLAH BIN ABDUL AZIZ AL SAUD (1924-): King of Saudi Arabia since 2005.

FAISAL BIN ABDUL AZIZ AL SAUD (1906-75): King of Saudi Arabia from 1964 to 1975.

KHALID BIN ABDUL AZIZ AL SAUS (1912-82): King of Saudi Arabia from 1975 to 1982.

AHMED ZAKI YAMANI (1930-): Saudi oil minister from 1962 to 1986.

The Iranians

ASADOLLAH ALAM (1919-78): Prime Minister of Iran from 1962 to 1964, and Minister of the Imperial Court from 1964 to 1977.

JAMSHID AMUZEGAR (1923-): Prime Minister of Iran from 1977 to 1978.

HUSHANG ANSARY (1927-): Ambassador to Washington from 1967 to 1969, and Minister of finance and Economics from 1969 to 1978.

AMIR ABBAS HOVEYDA (1920-79): Prime Minister of Iran from 1965 to 1977.

FARAH PAHLAVI (1938-): Queen and Empress from 1959 to 1979.

MOHAMMAD REZA SHAH PAHLAVI (1919-1980): King and Emperor from 1941 to 1979.

ARDESHIR ZAHEDI (1927-): Ambassador to Washington from 1959 to 1962, Ambassador to London from 1962 to 1966), Minister of Foreign Affairs from 1966 to 1973, and Ambassador to Washington from 1973 to 1979.

Introduction

WHEN THE SHAH FELL, OUR POLICY FELL WITH HIM

On January 17, 1977, just three days before President-Elect Jimmy Carter took the oath of office, Iranian Ambassador Ardeshir Zahedi attended the inaugural festivities of Jay Rockefeller, the new governor of West Virginia. The Rockefeller family enjoyed a close association with Zahedi and Iran's ruling Pahlavi dynasty. Jay Rockefeller's uncle Nelson, the outgoing U.S. Vice President, was a friend of the Shah. A second uncle, David, was the president of Chase Manhattan, the bank which financed a major share of Iran's oil revenues. Another attendee at the inaugural festivities in Charleston was Cyrus Vance, the incoming Secretary of State. The public perception was that the U.S.-Iran relationship was one of the few comparatively bright spots in an otherwise troubled international environment. Behind the scenes, however, relations were in crisis. Vance wanted to learn more about what went on during the eight years of the Richard Nixon and Gerald Ford administrations. He learned that Zahedi was in the crowd and extended an invitation to join him on the helicopter flight back to Washington. The pilot detoured so the two could spend more time in the air. When Vance asked Zahedi what he thought was behind recent tensions, Zahedi explained that a dispute over oil prices had severely strained bilateral relations. He was unable to provide precise details because he had not been privy to the high-level communications and debates over oil policy. When they landed, Vance arranged for a follow up meeting between the ambassador and one of his senior aides to learn about the Iran-U.S. relationship.¹

¹ Interview with Ardeshir Zahedi cited in Andrew Scott Cooper, *The Oil Kings: How the U.S., Iran and Saudi Arabia Changed the Balance of Power in the Middle East*, New York: Simon & Schuster, 2011, p. 374.

This thesis, which seeks to answer Vance's question, and explain Zahedi's response, examines the inner workings of U.S.-Iran relations during the Nixon and Ford administrations from 1969 to 1977 and explores leadership calculations on both sides. The eight-year period under review has in the past attracted a great deal of scholarly interest and conspiratorial speculation, in large part because 1969 to 1977 marked the apogee of bilateral relations, swiftly followed by Iran's descent into revolution and the overthrow of the monarchy. The decade that opened with the United States and Iran forging a close strategic partnership closed with Saudi Arabia supplanting Iran as Washington's indispensable ally in the Persian Gulf. Events during this period ranked as some of the more important of the second half of the twentieth century: the 1973 October War, the 1973-74 Arab oil embargo, the Watergate scandal, the Nixon-Ford leadership transition and the 1974-75 oil shock. These events coincided with Iran's rise to regional supremacy in the Persian Gulf and the U.S. transition from the world's number one oil producer to its biggest consumer of imported oil.

This thesis discusses the extent to which the underlying dynamics of U.S.-Iran relations provided a basis for cooperation and conflict. Analysis of the complex dealings between U.S. and Iranian leaders will show that a combination of geopolitics and political economy shaped the underlying dynamic of U.S.-Iran relations during the Nixon-Ford years. This thesis explores the degree to which the United States first encouraged the Shah's oil-driven agenda to modernize and transform Iran into a regional powerhouse, then resisted Iran's leadership role in the Organization of Petroleum Exporting Countries (OPEC), the oil producers' cartel whose aggressive policing policies threatened to destabilize western security and economic interests. OPEC's membership included countries in the Middle East (Iran, Saudi Arabia, Iraq, Kuwait, Qatar and United Arab Emirates), Africa (Algeria, Libya and Nigeria), South America (Venezuela) and Southeast Asia (Indonesia).

The rise of OPEC in the 1960s and early 1970s testified to the emergence of transnational power “blocs” in the developing world seeking to challenge the dominance of the wealthy, developed north and gain control of their mineral and resource wealth. OPEC was founded in 1960 by host governments demanding a greater share in profits from Western oil companies that still controlled such elements as production and pricing levels. As demand for oil increased in the West, OPEC member states demanded more generous financial settlements from the companies and a greater say in how much oil was produced. The oil supply became entangled in regional politics in 1967 when Arab oil producers imposed a short-lived blockade against Israel’s friends in the West, giving rise to the notion that oil could be “weaponized” and used as a tool to exert pressure on the industrialized West and further isolate the Jewish state. Moderate Arab governments, dismayed at the intrusion of politics into the oil sector, founded the Organization of Arab Petroleum Exporting Countries (OAPEC) in 1968 in the hope it would act as a conservative counterweight to the radicals. In 1972 the admission of more radical states into OAPEC brought its members to share the view of oil as both an economic asset and a weapon to be used against Israel and the West. The rise of transnational entities and corporations posed a challenge to traditional concepts of national sovereignty. The decisions made by OPEC members in particular on oil pricing and oil production directly impacted the health of the domestic U.S. economy, leading to higher levels of inflation and unemployment, which in turn created political difficulties for elected leaders. To further complicate matters, many commodity producers in the Third World harbored vociferous anti-American and pro-Russian views. The Nixon and Ford administrations were faced with a loss of control over economic decision-making at the exact same time they struggled to absorb defeat in Southeast Asia and had to grapple with a resurgent Soviet Union.

This thesis focuses on the role played by senior high-ranking policymakers and officials in both governments in determining the framework of U.S.-Iran relations from 1969 to 1977, and deciding the extent to which oil and arms sales helped each side influence the actions of the other. President-to-Shah relations were highly secretive and relied mostly but not exclusively on verbal assurances and back-channel communications to determine mutual policy decisions. The Shah, who ruled Iran as an unelected autocrat, was his own foreign minister, but Nixon's management of the bilateral relationship could be just as controlling. Contemporaries including American diplomats wondered what really went on behind closed doors when the two leaders met. "Normal diplomatic intercourse doesn't happen with Iran because the unique, unwritten, ill-defined American-Iranian relationship has in large part been built up by President-to-Shah contacts," said a U.S. official at the end of Ford's term in office.² Aside from Nixon, Ford, and Henry Kissinger, who served both men in his dual capacity as Assistant to the President for National Security Affairs from 1969-75, and Secretary of State from 1973-77, other senior U.S. officials who played a recurrent role in U.S.-Iran policy because of their job titles and areas of policy responsibility included Secretary of State William Rogers (1969-73), Secretaries of Defense Melvin Laird (1969-73), James Schlesinger (1973-75) and Donald Rumsfeld (1975-77), and Secretary of Treasury William Simon (1973-77). The newly declassified documentation confirms that Kissinger took the lead to devising policy towards Iran but faced vigorous challenges to its implementation from bureaucratic rivals Laird, Schlesinger, Simon and Rumsfeld.

Simon's involvement in Iran policy highlighted the degree to which economic and financial concerns preoccupied Washington foreign policy and domestic political establishments in the aftermath of the 1973 oil shock. The oil shock, a geopolitical crisis with

²Lee Lescaze and Walter Pincus, "Iran Courts U.S. to Enhance Relations," *Washington Post*, November 28, 1976.

economic origins, had severe repercussions for Western security interests. Indeed, by the end of Ford's term even the most ardent practitioner of *realpolitik* foreign policy accepted that Washington's first and foremost order of business was to break the power of OPEC and bring oil prices under control, and to restore a measure of stability and moderation to world energy markets. For the United States, the oil shock was a landmark event that signaled the convergence of national security policy with energy security concerns. This thesis will show that the gradual formulation of a coherent foreign economic policy by the Nixon and Ford administrations in response to the events of 1973 ultimately had profound and negative consequences for U.S.-Iran relations within the context of a cold war setting.

Reza Shah, the illiterate, ambitious and strong-willed head of a Russian-trained Cossack brigade, led a coup d'état in Tehran in 1921.³ He became Shah in 1925 and adopted the dynastic name 'Pahlavi'. Reza Shah epitomized the 1920s ideal of the strongman on horseback determined to restore his country's national pride. Over the next two decades he instituted a series of draconian reforms that at different times exhilarated, traumatized and disoriented Iranian society. Persia was renamed Iran. The Arabic lunar calendar was scrapped and replaced with the Persian solar calendar. Women were liberated from the veil and all Iranians were ordered to wear western dress. Shi'a clerics were stripped of their role in public life and children's education but kept their property. The army pacified Iran's tribal lands. He established a national taxation system, a modern judiciary, and overhauled state finances. Reza Shah personally oversaw construction of the Trans-Iranian Railway which united the country. Light industry was developed, factories were built, and a network of irrigation channels dug.

³ For further reading on Reza Shah and the origins of the Pahlavi dynasty, including the reforms of the 1920s and 1930s, please consult the following sources: Ervand Abrahamian, *A History of Modern Iran*, Cambridge: Cambridge University Press, 2008, pp. 63-96; Gholam Reza Afkhami, *The Life and Times of the Shah*, Berkeley: University of California Press, 2009, pp. 3-41; Ali Ansari, *Modern Iran Since 1921: The Pahlavis and After*, Edinburgh: Longman, 2003, pp. 20-74; Said Amir, *The Turban for the Crown: The Islamic Revolution in Iran*, Oxford and New York: Oxford University Press, 1986, pp. 59-68.

The United States first took a strategic and economic interest in Iran during World War Two.⁴ Great Britain and the Soviet Union invaded and occupied Iran in 1941 because they believed Reza Shah was on the verge of aligning his country with Hitler's Germany. They deposed the Shah and replaced him with his son Mohammad Reza who took the throne as the second Pahlavi king. The reluctance of the Soviet Union in 1946 to evacuate its troops from northern Iran provoked the first great crisis of the Cold War when the United States took the lead in insisting that the Russians pull back.⁵ A second crisis followed in 1951 when a leftist nationalist government led by Prime Minister Mohammad Mossadegh revoked the oil concessions enjoyed by British petroleum companies. Prime Minister Winston Churchill and President Dwight Eisenhower decided that Iran's oil and 1,200-mile long border with the Soviet Union made it vulnerable to a communist takeover. In August 1953 Eisenhower approved a covert operation led by the Central Intelligence Agency (CIA) to overthrow Mossadegh and restore Shah Mohammad Reza Pahlavi to the throne with full autocratic powers.⁶ Almost sixty years later, the 1953 coup remains a subject of intense debate among Iranian and western scholars. Questions remain about the extent of the CIA's role in the affair. Exiled Iranian scholars have challenged the conventional interpretation of events, arguing instead that the "coup" was actually a nationalist uprising by Iranians in support of the throne. Following the coup, Vice President Nixon went to Iran to inform the young Shah and his ministers that vital military and economic aid from Washington would not resume

⁴ To learn more about early U.S. involvement in Iran see Abrahamian, *A History of Modern Iran*, pp. 97-122; Ansari, *Modern Iran Since 1921*, pp. 75-112; James Bill, *The Eagle and the Lion: The Tragedy of American-Iranian Relations*, New Haven: Yale University Press, 1988, pp. 15-98; Malcolm Byrne, "The Road to Intervention," in Mark J. Gasiorowski, Ed., *Mohammad Mossadegh and the 1953 Coup in Iran*, Syracuse: Syracuse University Press, 2004.

⁵ Stephen McFarland, "A Peripheral View of the Origins of the Cold War: The Crises in Iran, 1941-47," *Diplomatic History*, Vol. 4, No. 4, October 1980, pp. 333-351.

⁶ For a straightforward account of the events of 1953 see Mark J. Gasiorowski, "Coup D'état of 1332 S/1953," *Encyclopaedia Iranica*, December 15, 1993, at www.iranicaonline.org. See also the collection of academic essays in Gasiorowski (2004). The view that the CIA was the instrumental player is advanced by Stephen Kinzer in his best-selling book *All the Shah's Men: An American Coup and the Roots of Middle East Terror*, Hoboken: John Wiley & Sons, 2003.

until Tehran agreed to allow foreign oil companies back into Iran.⁷ An oil consortium was established to manage the most lucrative 100,000 square miles of Iran's oil fields.⁸ U.S. oil companies dominated the consortium.⁹

One of the ironies of the post-coup oil arrangement was that the U.S. oil majors had been reluctant to establish their consortium in post-Mossadegh Iran. They viewed Iran as an unstable and risky investment and had only gone in due to prodding from the Eisenhower administration which wanted to deepen NATO's strategic interest in Iran.¹⁰ The companies had much more invested in the lower Persian Gulf states of Saudi Arabia and Kuwait where production costs were lower and profit margins higher. The petroleum they produced was referred to as light and sweet because its low-grade sulphur content made it easier to convert to gasoline. Iran's mostly heavier grade fuel oil drew a lower price on the world market. Exxon's 7 percent stake in Iran's consortium paled in comparison to its 30 percent share in Saudi Arabia's national oil producing company. Gulf Oil owned 50 percent of Kuwait's national oil company but only held a 7 percent share in Iran's consortium. Iran's return to the market in 1954 meant the companies were forced to cut back production elsewhere in the Persian Gulf to avoid glutting the market with cheap oil. Even then they secretly agreed to suppress production in Iran to hold up prices elsewhere. To most Iranians and many foreign observers the 1953 coup and 1954 consortium agreement comprised a form of legalized economic colonization of Iran by oil companies.

For the first fifteen years after the 1953 coup U.S. officials kept a close eye on the Shah. Presidents Eisenhower, Kennedy and Johnson wanted a strong, stable, anticommunist

⁷ "Nixon Ties Aid to Iran to Settlement on Oil," *New York Times*, December 13, 1953.

⁸ Amin Saikal, *The Rise and Fall of the Shah: Iran From Autocracy to Religious Rule*, Princeton and Oxford: Princeton University Press, 1980, p. 48.

⁹ British Petroleum eventually took a 40 percent stake in the new consortium and Royal Dutch Shell was awarded a 14 percent investment. American companies took the remaining 46 percent. Those companies were Standard Oil (Exxon), Socony Mobil Oil, Standard Oil (California), Gulf Oil and Texas Oil Company (Texaco).

¹⁰ For detailed accounts of how Iran's oil consortium was established see Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power*, New York: Simon & Schuster, 1991, pp. 475-478, and Saikal, *The Rise and Fall of the Shah*, pp. 48-51.

Iran. They enjoyed considerable leverage over their Iranian ally in the two key areas of arms sales and oil production and encouraged reforms to address underlying social and economic inequalities. In the matter of arms sales, U.S. officials worried about the Shah's propensity to spend too much money on military hardware to the detriment of Iran's civilian economy. They feared upheaval in an impoverished country with a recent history of revolutionary unrest.¹¹ Most Iranian peasants, wrote one scholar in 1963, were landless, "live a life of virtual serfdom," and their plight could be summarized in eight words: "sickness, poverty, ignorance, exploitation, dependence, indebtedness, hardship, and squalor."¹² During the Shah's reign military expenditures accounted for never less than 23 percent and often up to one-third of the national budget.¹³

In response to American concerns, in 1963 the Shah inaugurated an ambitious package of social and economic reforms known as the "White Revolution."¹⁴ The White Revolution placated President Kennedy and reassured his administration that the Pahlavi crown was on the side of progressive reform.¹⁵ Iran's forests and waterways were nationalized. The royal estates and the king's vast private landholdings were broken up in favor of peasant ownership. Women were granted voting and political rights. A health corps, literacy corps and reconstruction and development corps were created. Workers' profit-sharing was introduced.

¹¹ Nikki R. Keddie, "Iranian Revolutions in Comparative Perspective," *The American Historical Review*, Vol. 88, No. 3, Jun., 1983, pp. 579-598.

¹² James A. Bill, "The Social and Economic Foundations of Power in Contemporary Iran," *Middle East Journal*, Vol. 17, No. 4, Autumn, 1963, p.406.

¹³ Robert Graham, *Iran: The Illusion of Power*, London: Croom Helm, 1979, p. 170.

¹⁴ For fuller discussion of the 1963 White Revolution, its origins, the reforms and their impact on Iranian society and the Pahlavi dynasty, the following sources offer helpful reference points: Afkhami, *The Life and Times of the Shah*, pp. 208-237; Ali M. Ansari, "The Myth of the White Revolution: Mohammad Reza Shah, 'Modernization' and the Consolidation of Power," *Middle Eastern Studies*, Jul. 2001, Vol. 37, No. 3, pp. 1-24; Ansari, *Modern Iran Since 1921*, pp. 147-165; Arjomand, *The Turban for the Crown*, 71-74; Nikkie R. Keddie with a Section by Yann Richard, *Roots of Revolution: An Interpretive History of Modern Iran*, New Haven and London: Yale University Press, 1981, pp. 160-182; Saikal, *The Rise and Fall of the Shah*, pp. 71-96.

¹⁵ To learn more about the Kennedy administration's role in Iranian affairs in the early 1960s, see April R. Summitt, "For a White Revolution: John F. Kennedy and the Shah of Iran," *The Middle East Journal*, Vol. 58, No. 4, Autumn, 2004, pp. 560-575, and also James Goode, "Reforming Iran During the Kennedy Years," *Diplomatic History*, Vol. 15, Issue 1, June 2007, pp. 13-29.

The Shah successfully co-opted many of the crown's critics on the left. But the reforms enraged Iran's Shi'a religious establishment. Religious leaders, the mullahs, opposed the emancipation of women, and they realized that the breakup of their landed property would weaken their hold over the peasantry and made them financially dependent on handouts from the Pahlavi state. They condemned the White Revolution as unconstitutional and un-Islamic and denounced a law to grant U.S. military personnel immunity from prosecution if they committed criminal acts on Iranian soil. The Shah struck back, compared the mullahs to "snakes and lice who float in their own dirt," and threatened that "the fist of justice, like thunder, will be struck at their head in whatever cloth they are, perhaps to terminate their filthy and shameful life."¹⁶ A showdown between the Pahlavi monarchy and Iran's religious leaders began on June 3, 1963, when a charismatic cleric by the name of Ruhollah Khomeini denounced the Shah in words remarkable for their slanderous tone and bitter invective. "O Mr. Shah, dear Mr. Shah," he cried, "abandon these improper acts. I don't want people to offer thanks should your masters decide that you must leave. I don't want you to become your father."¹⁷ Khomeini's detention at the hands of SAVAK, the state security police, triggered violent clashes in cities across Iran that briefly threatened the monarchy. The Shah's government sent troops to quell the unrest and more than one hundred people died in street fighting before the unrest ended.¹⁸

Most U.S. analysts and officials believed the crackdown marked the end of an era of social unrest and interpreted it as the Shah's conclusive victory over the forces of religious

¹⁶ Baqer Moin, *Khomeini: Life of the Ayatollah* (London and New York: I.B. Tauris & Co. Ltd, 1999), 89. An article which explores the role of clerics in political opposition to Iranian rulers is Thomas Hodgkin, "The Revolutionary Tradition in Islam," *Race and Class*, Vol. 21, No. 221, 1980, pp. 221-237.

¹⁷ Ibid.

¹⁸ The June 1963 crackdown is the subject of debate among Iranian scholars, specifically the Shah's role in initiating the crackdown. Most scholars conclude that Prime Minister Asadollah Alam made the fateful order and stiffened the Shah's backbone by offering to take responsibility if the bloodshed led to even more unrest. See Asadollah Alam, *The Shah and I: The Confidential Diary of Iran's Royal Court, 1969-1977*, introduced and edited by Alinaghi Alikhani, translated into English by Alinaghi Alikhani and Nicholas Vincent, New York: St. Martin's Press, 1991, pp. 279-280. See also Afkhami, pp. 235-236, and Milani's *Eminent Persians*, pp. 51-52.

and political reaction. However, a minority of observers, including some liberal lawmakers, continued to harbor doubts about Iran's future prospects. At a closed-door session of the United States Senate Committee on Foreign Relations in the early 1960's, Senator Frank Church shared his low opinion of the Shah with colleagues. "I just think it is going to be a miracle if we save the Shah of Iran," he told his colleagues. "All I know about history says he is not long for this world, nor his system. And when he goes down, boom, we go with him." Senator Hubert Humphrey expressed similar sentiments when he said of the Pahlavis, "They are dead. They just don't know it. I don't care what revolution it is. Somebody is going to get those fellows. They are out. It is just a matter of time."¹⁹ As an insurance policy against future unrest, the Johnson administration decided to tie future arms sales to Iran's economic performance. General Hamilton Twitchell, the head of the U.S. military mission to Iran in the mid-to-late 1960s, lent his name to the firewall built to shield Iran's civilian economy from excessive arms purchases. U.S. officials also understood that modest arms sales helped Washington retain influence over the Shah and his government, whereas supplying the Shah with too many weapons might strengthen him to the point where he could pursue an independent foreign policy.

In addition to the Twitchell Doctrine, the U.S.-dominated oil consortium established in Iran in 1954 provided U.S. officials with a secondary dike to block a potential flood of defense expenditures by the Shah. The members of the consortium split their profits fifty-fifty with the Iranian state and it was they, and not the Iranian government, who determined whether oil production would increase or decrease and how much consumers in the West would be charged for their imports of Persian crude. This gave them enormous power over the Iranian state and posed a problem for the Shah. The ruling Pahlavi dynasty rested, as

¹⁹ Senators Frank Church and Hubert Humphrey quoted in Bill, *The Eagle and The Lion*, p. 136.

economist Jahangir Amuzegar put it, on “oily legs.”²⁰ The Pahlavi elite understood that “oil revenues are the foundation on which the present system maintains its stability.”²¹ The assumption was that a rising tide of oil wealth would lift all boats, guarantee social stability, buy off and co-opt potential critics of the regime, and avoid a repetition of the dangerous social and political unrest of recent times. By 1970, when oil revenues topped the billion dollar mark for the first time, Iran’s prime minister boasted that “public revenues will permit us to expand the ordinary budget by 23% and the development budget by 30%.”²² Yet doubts persisted about the wisdom of relying so heavily on one stream of revenue to maintain political equilibrium and social harmony. What would happen if the tide of petroleum ran out or if oil revenues flat-lined? In the view of American officials the stability of the Pahlavi state could be undermined; hence, the need for caution in regards to oil revenues and arms sales.

To a great extent the Pahlavi dynasty’s survival and stability in Iran depended on the Shah simultaneously increasing oil production while raising oil prices. Yet Western oil companies pursued profits and did not give priority to the stability of the Iranian state. They resisted the Shah’s entreaties to increase oil production out of fear that more oil on the market would depress prices. The stage was set for round after round of punishing clashes between the Shah and the oil companies. The Shah’s frustration was understandable.

By 1969, the year Nixon entered the White House, Iran had entered a period of political stability and economic prosperity. Indeed, many foreign observers viewed Iran, at least by the standards of the Middle East and West Asia, to be relatively well governed and orderly. Iran enjoyed an annual economic growth that was the envy of its neighbors. In foreign affairs, Iran enjoyed cordial relations with the Soviet Union. Unlike every other Muslim country in the Middle East, Iran maintained unofficial but close relations with Israel

²⁰ The term “oily legs” was coined by Jahangir Amuzegar, whose brother, Jamshid, was appointed prime minister of Iran in August 1977. Jahangir Amuzegar, *The Dynamics of the Iranian Revolution: The Pahlavis’ Triumph and Tragedy*, Albany: State University of New York Press, 1991, p. 171.

²¹ Ibid.

²² Marvin Zonis, *The Political Elite of Iran*, Princeton: Princeton University Press, 1971, p. 323.

and didn't punish the United States for supporting the Jewish state. The Shah was "awfully good on that subject," affirmed Nixon.²³ The Shah saw Iran and Israel as natural allies in the region, outsiders in an Arab sea, two bastions of tolerance, moderation and anti-communism with overlapping strategic interests.²⁴ "Both our countries, Israel on one side, and Iran on the other, are confronted by a radical Arab nationalism and expansionism," explained an Iranian official to the Associated Press in 1969.²⁵ The Government of Israel's unofficial representative in Tehran worked out of the Israeli Trade Mission located near the United States embassy.²⁶ The Shah took great pride in protecting Iran's religious and ethnic minorities, particularly the 60,000 Jews who chose to stay on in Iran even after the state of Israel was established in 1948.²⁷ Their community had ties with the Persians going back to biblical times. By 1970, about \$40 million worth of Iranian oil was exported to Israel every year.²⁸ The Shah made the somewhat specious claim that the sale of oil to Israel was a business arrangement worked out with the oil consortium that had nothing to do with his government. Yet Tehran's newest supermarket sold Israeli food and publications, and Hebrew-language literature was openly sold in bookstores and at newsstands.²⁹ In a country that loved cinema, Israeli nationals ran three of the four biggest film distribution companies. Israel's state airline, El Al, flew two regularly scheduled flights each week between Tel Aviv and Tehran, flying over Turkey to avoid Arab airspace.³⁰ Israeli engineers and advisers, meanwhile, helped their Iranian counterparts dig deep water wells in Qazvin north of Tehran,

²³ Conversation amongst President Nixon, Ambassador Douglas MacArthur II, and General Alexander Haig, Washington, April 8, 1971, 3:56-4:21 p.m.," Foreign Relations of the United States (FRUS) 1969-76, Volume E-4.

²⁴ To learn more about the Shah's policy towards Israel and the Middle East conflict see R. K. Ramazani, "Iran and the Arab-Israeli Conflict," *Middle East Journal*, Vol. 32, No. 4, Autumn, 1978, pp. 413-428.

²⁵ "Israeli Mission Flourishes in Iran," *Washington Post*, June 8, 1969.

²⁶ *Ibid.*

²⁷ *Ibid.*

²⁸ *Ibid.*

²⁹ John K. Cooley, "Israeli Mission Functions 'Diplomatically' In Iran," *Christian Science Monitor*, May 9, 1970.

³⁰ *Ibid.*

and irrigated farm land on the southern slopes of the Elburz Mountains.³¹ Iran's Jewish community and the state of Israel were on the front lines of the Shah's crusade to modernize Iran and eliminate clerical influence.

Yet there were rumblings of discontent beneath the surface tranquility. The Shah's conciliatory approach to Israel tested the patience of many of his people. Young Iranians, especially university students, were enamored with Nasserism and the Palestinian struggle for an independent homeland. Israel's lightning victory over Iran's Muslim brethren in the 1967 Seven Day War had led to street protests, an upsurge in support for the Palestinian cause, and a tendency to lump Americans in with the Israelis as a common foe. The decision by the Shah's government to raise bus fares and alter bus routes in February 1970 led to street clashes between hundreds of students and riot police in Tehran. The U.S. Embassy cabled Washington that the protests quickly took on nationalist and anti-American, anti-Israeli and anti-government overtones even as American diplomats hastened to assure Washington that the sentiments expressed by the demonstrators were "insignificant."³² Two months later, more than 30,000 football fans chanted anti-Israeli slogans and took to the streets when their local team defeated the visiting Israeli team.³³

Following the week-long 1967 Arab-Israeli War, when Arab states briefly tried to block the sale of Middle East oil to the industrialized West, U.S. analysts worried that a precedent for a future oil embargo had been established. The potential for a longer cut-off of oil supplies in the event of a more protracted conflagration could not be dismissed or ignored. Douglas MacArthur II, Nixon's first ambassador to Iran, asked the NATO Secretary General what he thought might happen if European nations were faced with the choice between a cut-off of their Persian Gulf oil supplies and caving in to Arab oil producers on the issue of

³¹ Ibid.

³² Telegram 668, From the Embassy in Tehran to the Department of State, February 24, 1970, 140Z, FRUS 1969-76, Volume E-4.

³³ Ibid.

Israel. The Secretary General's prognosis was grim: "I fear that Western Europe would have no choice but to reach some form of an accommodation, because the alternative would be a total collapse of its economy and its national life."³⁴ Another fear for Western military planners was that in the event of a future crisis Soviet paratroopers might swoop in and seize Persian Gulf shipping lanes and oil fields. Who would—or even could—assume the burden of defending the oil lanes for the West once the British sailed for home? The security of the United States and the Western industrialized world was bound up in the Persian Gulf at a time when domestic public opinion had soured on new foreign entanglements owing to the war in Vietnam. U.S. officials commenced the search for a local actor who could be armed and equipped to defend Persian Gulf oil and shipping lanes from subversion and sabotage.

As Iran prospered, the weak and timid king of the early 1950s emerged confident and assertive in middle age, proud of his accomplishments, and determined to exert a presence on the world stage. The Shah was a keen observer of American politics and had stayed in touch with Nixon, a politician whose acumen he valued, and whose judgments on strategic strategy and foreign policy he shared, through Ardeshir Zahedi, the monarch's son-in-law who went on to serve as Iran's foreign minister in the late 1960s, then as ambassador to Washington during the Nixon and Ford administrations.³⁵ Zahedi was the Shah's primary backchannel to Nixon. One of his most important accomplishments was to arrange a private meeting in 1967 between the Shah and Nixon, who had not yet returned to the political arena, in which the two men discovered they shared similar views on a range of issues including Iran's future role as a force for stability and order in the Persian Gulf.³⁶

³⁴ Foundation for Iranian Studies Oral History (FISOH) interview with Douglas MacArthur II, by William Burr, Washington, DC, May 29, 1985, pp. 1-23.

³⁵ To learn more about Ardeshir Zahedi please consult the first of two volumes of his planned four volume set of memoirs: Ardeshir Zahedi, *The Memoirs of Ardeshir Zahedi, Volume One: From Childhood to the end of My father's Premiership*, Maryland: Ibex, 2006, and Ardeshir Zahedi, *The Memoirs of Ardeshir Zahedi: Volume Two (1954-65), Love and Marriage, Ambassador to Washington and London*, Maryland: Ibex, 2010. See also: Pari Abasalti, Editor, *Ardeshir Zahedi: Untold Secrets* (Los Angeles: Rah-e-Zendegi, 2002). Abbas Milani has a profile of Zahedi in *Eminent Persians*, pp. 327-340.

³⁶ Cooper, *The Oil Kings*, pp. 28-30.

The meeting occurred against a backdrop of uncertainty prompted by Great Britain's declared intention to evacuate its military presence from the Persian Gulf within four years, at the end of 1971. Britain's navy had provided a security shield in the region for a hundred years.³⁷ The British decision to withdraw from the Persian Gulf posed a serious challenge to the Johnson administration which was preoccupied with events in Vietnam when the U.S. military presence in the oil-rich Persian Gulf consisted of a seaplane tender and two destroyers "assigned an area from Malaysia to South Africa."³⁸ The low-key U.S. presence in no way reflected the geopolitical and economic importance of the region to U.S. national security interests. Countries that bordered the Persian Gulf, including Iran, Saudi Arabia and Kuwait, held two-thirds of the world's known reserves of petroleum.³⁹ Although the U.S. was still the world's biggest oil producer at the time, fifty-five percent of NATO Europe's oil and a staggering ninety percent of Japan's petroleum supplies flowed from the Persian Gulf.⁴⁰ Oil from the Persian Gulf accounted for eighty-nine percent of the fuel used by the U.S. military in Southeast Asia.⁴¹ The booming Persian Gulf oil industry generated \$1.5 billion in revenue for the U.S. economy and employed 12,000 American expatriates.⁴²

Nixon left his meeting with the Shah in April 1967 deeply impressed with the Iranian's leadership and intrigued by Iran's potential as a U.S. strategic partner in the Persian Gulf instead of a junior client state. Nixon agreed with the Shah that their two countries could not allow a power vacuum to form in the Persian Gulf at a time when pro-Soviet proxies in Iraq and South Yemen actively destabilized not only the immediate region but also the broader Middle East and West Asia. Three months later, in private remarks delivered to the

³⁷ To learn more about the British role in the Persian Gulf, see Lawrence G. Potter, Ed., *The Persian Gulf in History*, New York: Palgrave MacMillan, 2009, pp. 277-293.

³⁸ Memorandum from the President's Assistant for National Security Affairs (Kissinger) to President Nixon, Washington, October 22, 1970, FRUS 1969-77, Volume E-4.

³⁹ Warren Unna, "Guam Policy Near Test in Gulf," *Washington Post*, February 16, 1970.

⁴⁰ Ibid.

⁴¹ Memorandum from the President's Assistant for National Security Affairs (Kissinger) to President Nixon, Washington, October 22, 1970, FRUS 1969-77, Volume E-4.

⁴² Ibid.

influential Bohemian Grove men's club in California, Nixon expanded on his evolving personal view that allies like the Shah were deserving of unconditional instead of conditional American support. After praising the Shah's record in power, Nixon reminded his audience that despite Iran's lack of representative democracy "their system has worked for them. It is time for us to recognize that much as we like our own political system, American style democracy is not necessarily the best form of government for people in Asia, Africa and Latin America with entirely different backgrounds."⁴³ Nixon's admiration for the Shah, and his pessimism about the prospects for democracy in the developing world, led him to conclude that the U.S. should be prepared to arm and train allies like the Shah of Iran and President Ferdinand Marcos of the Philippines as 'gendarmes' to protect vital interests in western and eastern Asia.

The Nixon Doctrine was perhaps the ultimate expression of Nixon's realist instincts and his approach to foreign policy. Nixon had only been in the presidency for six months when he delivered a public version of his private remarks at the Bohemian Grove. Speaking to reporters during a trip to Guam in July 1969, Nixon explained that his administration sought to avoid future 'Vietnams' and planned to do so by arming and training American allies in Asia to defend themselves rather than relying on U.S. troops to do the job for them.⁴⁴ The Nixon Doctrine attracted a great deal of interest abroad and at home, not least because it provided the strategic rationale for Nixon's controversial decisions to lift restrictions on the sale of conventional arms and nuclear technology to Iran.

Nixon followed through by expanding on his Guam remarks with more formal, public statements. "America cannot—and will not—conceive all the plans, all the programs, execute

⁴³ Louis J. Smith and David H. Herschler, Editors, and David S. Patterson, General Editor, *Foreign Relations of the United States, 1969-76, Volume I, Foundations of Foreign Policy, 1969-72*, Washington: United States Government Printing Office, 2003, p. 6. Nixon followed up the Bohemian Grove speech with an article in *Foreign Affairs*. See Richard M. Nixon, "Asia After Viet Nam," *Foreign Affairs*, Vol. 46, No. 1, October 1967, pp. 113-125.

⁴⁴ Robert B. Semple Jr., "Nixon Plans Cut in Military Role for U.S. In Asia," *New York Times*, July 26, 1969.

all the decisions, and undertake all the defense of the nations of the free world,” Nixon told the Congress in 1970.⁴⁵ The Nixon Doctrine responded to the political challenges he faced at home from a war-weary Congress and public reluctant to approve new foreign entanglements or commitments.⁴⁶ Under the terms of the Nixon Doctrine, said Deputy Secretary of Defense David Packard in 1970, the Nixon administration encouraged and obliged client states to increase their purchases of U.S.-manufactured military hardware:

I believe the best hope of reducing our overseas involvements and expenditures lies in getting allied and friendly nations to do even more in their defense. To realize that hope, however, requires that we must continue, if requested, to give or sell them the tools they need for this bigger load we are urging them to assume. That is why, in the interests of maintaining an adequate defense posture at minimum cost, the growing use of credit-assisted sales of military equipment, as well as increased military assistance, seem clearly indicated for the immediate future.⁴⁷

Packard’s remarks confirm that the Nixon Doctrine had an important economic subtext. Arms sales to friendly nations such as Iran were intended to help the U.S. balance its budget and provide jobs in the defense industry.

Given the conditions in the region at the time, a U.S.-Iran partnership to safeguard the oil lanes and combat communism was logical. From a political economy standpoint, however, there were bound to be tensions in a relationship in which an oil producer like Iran needed higher oil prices that had the potential to hurt the energy-consuming economy of the

⁴⁵ <http://www.presidency.ucsb.edu/ws/index.php?pid=2921&st=plans&st1=programs#axzzli3a8zUVL>.

⁴⁶ LaFeber described the Nixon Doctrine as “containment on the cheap.” See LaFeber, *The American Age*, p. 266.

⁴⁷ Michael T. Klare, “The Political Economy of Arms Sales,” *Social Scientist*, Vol. 4, No. 11, Jun., 1976, p. 10.

United States. This was the context in which U.S.-Iranian relations developed during the initial years of the Nixon presidency, and it is where this thesis begins.

In the first wave of scholarship on the subject of U.S.-Iran relations during the Cold War, political scientists, social scientists, international relations scholars, investigative reporters, former U.S. government officials, Iranian exiles and historians relied on an array of secondary source material and self-serving autobiographies written by principal figures such as Nixon, Ford, Kissinger and the Shah. Their books presented a real challenge to independent scholarship. The Shah's autobiography, *Answer to History*, published in 1980 while he was dying in exile, read as a defense of his thirty-eight year reign and contained few revealing insights.⁴⁸ Some reviewers questioned whether he had written it at all. Nixon's 1,120 page memoir, *RN*, mentioned the Shah just twice and only briefly.⁴⁹ His successor, Ford, preferred not to talk about the Shah at all in *A Time to Heal*, a puzzling omission given Iran's central role in the oil shock, the event which dominated Ford's time in office.⁵⁰ Perhaps the most obvious reason for the decision by Nixon and Ford not to talk about their myriad dealings with the Shah had to do with timing: the publication of their books coincided with the outbreak of revolution in Iran, the Shah's fall from power, the U.S.-Iran hostage crisis, and Iran's transformation from Cold War ally to ideological foe. As Nixon sought to repair his public image after Watergate, and Ford contemplated a presidential run in 1980, neither statesman was willing to shine a light on their role in a particularly tragic chapter in the history of United States foreign policy.

⁴⁸ Mohammad Reza Pahlavi, Shah of Iran, *Answer to History*, New York: Stein and Day, 1980.

⁴⁹ Richard Nixon, *RN: The Memoirs of Richard Nixon*, New York: Grosset & Dunlap, 1978.

⁵⁰ Gerald Ford, *A Time to Heal*, New York: Harper & Row, 1979.

By not discussing the Shah in their books the two former presidents fueled the perception that they might have something to hide. Scholars, former colleagues and journalists hoped that Kissinger would be more forthcoming in his 1979 memoir *White House Years*.⁵¹ Their hopes were dashed when Kissinger's book robustly defended U.S. support for the Shah and severely criticized the performance of the Carter administration in its response to the revolution in Iran. Kissinger stoutly refused to acknowledge any shortcomings in his conduct of U.S.-Iran diplomatic relations. He insisted that U.S.-Iran relations had flourished during the Nixon and Ford administrations. In Kissinger's words the Shah had been "that rarest of leaders, an unconditional ally, and one whose understanding of the world enhances our own...Iran under the Shah, in short, was one of America's best, most important and most loyal friends in the world." Even on the sensitive question of high oil prices, which had caused great damage to the U.S. economy in the mid-1970s, Kissinger argued that the Shah had shared the energy security objectives of the Nixon and Ford administrations. The Shah "helped keep the price of oil stable," "never sought to manipulate the oil price by restricting his production," and permitted "the law of supply and demand to operate in favor of stable prices."⁵² It was obvious that Kissinger, like Nixon and Ford, for whatever reason, preferred not to talk about the inner workings of U.S.-Iran relations during his eight years in power.

The public response to *White House Years* was not slow in coming. William Shawcross accused Kissinger of rewriting the historical record and shifting responsibility for his policy failures. "Certainly it was a debacle," he wrote of the Nixon-Ford policy toward Iran. "The story of Iran is a terrifying parable of our times. It is one in which all Western governments, not just the U.S. government, played unhappy parts. And not just governments, but corporations, institutions, newspapers, and individuals, also...We found that we could not control that regime, and in the end we could not save it either from itself or from its own

⁵¹ Henry A. Kissinger, *White House Years*, Boston: Little, Brown & Company, 1979.

⁵² Ibid, p. 1262.

people. The revenge was, and is, terrible.” Added Shawcross: “Given the importance of Iran in the Nixon-Kissinger design, which was supposed to give us a ‘generation of peace’, this skimpy treatment can be explained only by a desire to conceal.”⁵³ The criticisms of Shawcross and others politicized an already fraught historical debate about the role U.S. policy played in collapsing the Pahlavi monarchy and ushering in Khomeini’s intensely anti-American theocratic regime. Kissinger’s silence fed the rumors and speculation.

In his next two volumes of memoirs, *Years of Upheaval* (1982), and *Years of Renewal* (1999), Kissinger remained defiantly unapologetic, though their tone was somewhat more measured to reflect the negative reviews generated by *White House Years*. “There have been many falsehoods about America’s relationship with the Shah,” Kissinger lectured readers in *Years of Upheaval*. “The impression has been created that personal friendships or a predilection for authoritarian rulers shaped American support for the Iranian leader. Reality was more complex: a relationship that thrived under eight presidents of both political parties must have resulted from deeper causes than personal idiosyncrasy.”⁵⁴ Kissinger emphasized the strategic and geopolitical benefits to the United States of an alliance with the Shah. He pointed out Iran’s proximity to the Soviet Union and to the oil fields and warm water ports of the Persian Gulf. He denied that the Nixon White House had secretly lifted restrictions on the sale of military hardware to Iran as its critics had accused it of doing. Kissinger insisted there had been no such deal: “Later, when our interests were beyond salvage, it grew fashionable in America to exorcise guilt feelings by blaming Iran’s fate on Nixon’s decision in 1972 to sell advanced weapons to our ally.”⁵⁵ In fact, as this thesis will show, Kissinger altered the historical record in the full knowledge that he did secretly lift restrictions on arms sales and that U.S. policy overloaded the Iranian economy and destabilized Iranian society.

⁵³ William Shawcross, ‘Through History with Henry A. Kissinger,’ *Harper’s*, Vol. 258, no. 1548, May 1979, p. 39.

⁵⁴ Henry A. Kissinger, *Years of Upheaval*, Boston: Little, Brown and Company, 1982, p. 667.

⁵⁵ *Ibid*, p. 668.

The absence of declassified U.S. government documents from the Nixon and Ford administrations meant that for more than thirty years scholars could not weigh the evidence and fully discuss Kissinger's version of events. They could not know how U.S. officials navigated and acted in response to the contradictory demands of political economy and geopolitical strategy. In the absence of original documentation, non-historians Barry Rubin, Gary Sick and James Bill wrote the first wave of scholarship. Their three books, *Paved with Good Intentions*, *All Fall Down*, and *The Eagle and the Lion*, defined U.S.-Iran relations for a generation of scholars.⁵⁶ The absence of declassified primary source materials influenced recent scholarly works. Kenneth Pollack's 2005 book *The Persian Puzzle* hewed to the conventional methodology of a close U.S.-Iran military and political partnership during the Nixon-Ford years.⁵⁷ Two years later, Robert Dallek's study of Nixon-Kissinger foreign policy, *Partners in Power*, included just a single reference to Iran and failed to mention the Shah at all. Dallek's work focused almost exclusively on questions pertaining to cold war diplomacy, Vietnam and detente, and did not discuss the impact of the 1973 oil shock and bilateral tensions with Iran over oil prices.⁵⁸ Michael Oren's *Power, Faith and Fantasy* also relied on a cold war geopolitical approach to U.S.-Iran relations.⁵⁹ This was true of *Washington Post* journalist Patrick Tyler's 2009 book *A World of Trouble*. Tyler's book studied the ways in which American presidents handled relations with countries in the Middle East, including Iran, since the end of World War II. He devoted separate chapters to each president but omitted virtually all mention of the Ford presidency.⁶⁰ Ford's extensive personal dealings with the Shah were not discussed by any of the authors because no

⁵⁶ Rubin, *Paved with Good Intentions*; Gary Sick, *All Fall Down: America's Tragic Encounter with Iran*, New York: Random House, 1985; Bill, *The Eagle and the Lion*.

⁵⁷ Kenneth Pollack, *The Persian Puzzle: The Conflict Between Iran and America*, New York: Random House, 2005.

⁵⁸ Robert Dallek, *Partners in Power: Nixon and Kissinger*, New York: Harper Collins, 2007.

⁵⁹ Michael Oren, *Power, Faith and Fantasy: America in the Middle East, 1776 to the Present*, New York: W.W. Norton & Company, 2007.

⁶⁰ Patrick Tyler, *A World of Trouble: The White House and the Middle East—From the Cold War to the War on Terror*, New York: Farrar, Strauss, 2009.

documentary evidence had surfaced to challenge the conventional view of U.S.-Iran cold war relations. Although Yanek Mieczowski's book-length study of the Ford presidency acknowledged the centrality of the mid-1970s economic recession, the author did not discuss the foreign policy implications of the crisis or its genesis in the crisis conditions of Middle East diplomacy.⁶¹ Many contemporary scholars and authors tended to apply the interpretation of cold war geopolitics to U.S.-Iran relations when they discussed them at all.

Yet oil and political economy have their place not only in the historiography of U.S. relations with Iran, but also in the broader discussion of the American encounter with the Middle East in the twentieth century.⁶² More than fifty years since the ouster of the Mossadegh government, Operation Ajax, as it was known, continues to cast a long shadow over the study of U.S.-Iran cold war relations.⁶³ Former Carter White House official Sick once characterized the activities of the CIA in Iran under the Shah as "one of the central myths of the relationship, particularly as viewed from Iran but also from the American side."⁶⁴ Scholars have debated the degree to which the U.S. intervention was motivated by the geopolitics of cold war containment or the dangers of oil nationalization. In his best-selling book *All the Shah's Men*, Stephen Kinzer argued that the U.S. acted in Iran to preserve Western control over Iranian oil.⁶⁵ A collection of essays compiled by Mark Gasiorowski buttressed Kinzer's thesis of an oil-driven conspiracy.⁶⁶ The political economy thesis developed in the work of scholars like Stephen Rosskaum Shalom claimed that oil, control over markets, and the perceived threat to American corporate power by nationalist

⁶¹ Yanek Mieczowski, *Gerald Ford and the Challenges of the 1970*, Lexington: University Press of Kentucky, 2005.

⁶² As seen in Douglas Little, "Historiography: Gideon's Band: America and the Middle East Since 1954," *Diplomatic History*, Vol. 18, Issue 4 (October 1994), pp. 513-540, and Robert Vitalis, "Black Gold, White Crude: An Essay on American Exceptionalism, Hierarchy, and Hegemony in the Gulf," *Diplomatic History*, Vol. 26, No. 2, Spring 2002, pp. 185-213.

⁶³ Exiled Iranian scholars challenge the conventional interpretation of events, arguing instead that the "coup" was actually a nationalist uprising by Iranians in support of the throne. See Afkhami, *The Life and Times of the Shah* and Bayandor, *Iran and the CIA*.

⁶⁴ Sick, *All Fall Down*, p. 7.

⁶⁵ Kinzer, *All the Shah's Men*, p. 2003.

⁶⁶ Gasiorowski, *Mohammad Mossadeq and the 1953 Coup in Iran*.

regimes shaped the U.S. response to events in Iran and elsewhere during the cold war.⁶⁷ Michael C. Hudson noted that factoring oil into the cold war equation of U.S.-Iran did include a key geopolitical component: U.S. officials acted out of an obligation to prevent Middle East oil from falling into subversive hands.⁶⁸ Journalist Daniel Yergin agreed that oil played an integral role in U.S. calculations towards Iran. This thesis argues that the economic consequences of the 1973 oil shock altered the way American and Iranian leaders viewed oil as a strategic asset.

Historians did what they could despite the lack of significant primary source documentation. Nikkie Keddie, Mark Lytle, Walter LaFeber and John Lewis Gaddis concluded that regardless of the motivation behind the coup, Ajax had disastrous long-term consequences for U.S. policy toward Iran and also for the Shah's regime. Ajax traumatized Iranian society, tainted the Shah's legitimacy in the eyes of his people, and led the monarch to engage in ever bolder and riskier courses of action at home and abroad to prove his nationalist credentials and therefore erase the stain of illegitimacy.⁶⁹ In the aftermath of the 1979 Islamic Revolution, and after the cold war wound down, the political economy thesis gained merit among scholars. Writing in *The Cambridge History of Iran*, Amin Saikal wrote that the 1954 consortium agreement provided the Eisenhower administration with the fig leaf of legitimacy to indirectly manage Iran's oil assets and determine the country's economic destiny.⁷⁰ He concluded that the U.S.-Iran oil alliance contained within it the seeds of its own destruction because the Eisenhower administration grossly underestimated the potential for

⁶⁷ Stephen Rosskaum Shalom, *Imperial Hubris: Rationalizing U.S. Intervention After the Cold War*, Boston: South End Press, 1993, p. 193.

⁶⁸ Michael C. Hudson, 'To Play the Hegemon: Fifty Years of U.S. Policy Toward the Middle East,' *Middle East Journal*, Vol. 50, No. 3, Summer 1996, pp. 329-343.

⁶⁹ See John Lewis Gaddis *The Cold War*, London: Penguin, 2005, p. 167; Keddie, *Roots of Revolution*, p. 130; Walter LaFeber, *The American Age: U.S. Foreign Policy at Home and Abroad*, New York: W. W. Norton & Company, 1994, p. 546; Mark Lytle, 'Tragedy or Farce? America's Troubled Relations With Iran,' *Diplomatic History*, Vol. 14, No. 3, July 1990, pp. 461-470.

⁷⁰ Peter Avery, Gavin Hambly and Charles Melville (Editors), Amin Saikal, 'Iranian Foreign Policy 1921-79,' *The Cambridge History of Iran, Vol. 7, From Nadir Shah to the Islamic Republic*, New York: Cambridge University Press, 1991, pp. 443.

future conflict with Iran over oil prices. If the Shah was to survive on his throne he would have to provide the Iranian people a higher living standard. But he could only do that by vastly increasing Iranian oil revenues, which in turn meant charging oil consumers in the U.S. more for their oil imports. Just as the U.S. viewed Iran's oil consortium as a vehicle for cheap petroleum, so too did the Shah come to view the oil producers' cartel OPEC as *his* vehicle to break the consortium and ultimately gain back control over his country's oil resources.⁷¹ Ervand Abrahamian agreed with Saikal that the 1953 intervention was a "joint British-American venture to preserve the international oil cartel."⁷² Mark Lytle wrote that Mossadegh and not the Kremlin comprised the real threat to the West's supply of affordable Middle East oil.⁷³

Scholars have noted the calamitous impact increased oil revenues had on Iran's political structure, economy and society. By 1975, wrote Mohsen Milani, due to limitations on Iran's absorptive capacity, the deluge of oil money was blamed for double-digit inflation, land speculation and infrastructural bottlenecks. His was a view shared and expanded on by University of California historian Keddie.⁷⁴ In her seminal work on the domestic origins of Iran's revolution, *Roots of Revolution*, Keddie explored the role oil money played in undermining the foundations of Pahlavi power, upsetting traditional Iranian culture, and inciting the rise of conservative religious leaders against the Shah's secular monarchy.⁷⁵

Another important factor that influenced the historiography of U.S.-Iran relations was thinking about the role of nationalism. The idea that the Shah might have been a fervent Persian nationalist who consistently challenged U.S. oil policy, and who acted first and

⁷¹ Saikal, *The Rise and Fall of the Shah*, p. 207.

⁷² Abrahamian, *A History of Modern Iran*, p. 118.

⁷³ Little, *Gideon's Band*, pp. 513-539.

⁷⁴ See Mohsen M. Milani, *The Making of Iran's Islamic Revolution: From Monarchy to the Islamic Republic*, Boulder: Westview Press, 1994, p. 97, and Nikkie R. Keddie, 'The Midas Touch: Black Gold, Economics and Politics in Iran Today,' *Iranian Studies*, Vol. 10, No. 4, Autumn, 1977, pp. 243-266. See also: Nikki Keddie, 'Oil, Economic Policy, and Social Conflict in Iran,' *Race Class*, 1979, 21:3.

⁷⁵ Keddie, *Roots of Revolution*.

foremost to defend and preserve Iran's national interests, was never seriously explored by first-wave scholars who had no access to White House meeting notes, transcripts and policy briefs. The widespread perception that the Shah was a puppet, 'America's Shah', was accepted because no known evidence to the contrary was ever presented so long as U.S. government documents remained classified and Nixon, Ford and Kissinger refused to discuss their private dealings with the Shah. Consequently, when David Schmitz looked at Iran from the overall vantage point of US strategy and foreign policy in the 20th century he concluded that Washington's support for the Pahlavi dictatorship fitted a familiar decades-long pattern of backing dictatorships of the right. In Schmitz's rendering, the Shah was virtually interchangeable with Ngo Dinh Diem of the Republic of Vietnam and Ferdinand Marcos of the Philippines. In *The United States and Right-Wing Dictatorships*, Schmitz wrote that the U.S. developed and institutionalized the logic, rationale, and ideological basis under which support for "right-wing dictatorships in the name of freedom" dated back to the 1920s.⁷⁶ In his books *The Three Kings* and *The Long Road to Baghdad*, Lloyd Gardiner examined the relationship between U.S. national security and energy security, and noted that even before World War Two had formally ended President Franklin Roosevelt flew to Saudi Arabia to meet with King Saud to discuss ways in which the world's newest superpower and its biggest oil producer could work together to secure the oil supply.⁷⁷

The Nixon Doctrine also emerged as a lively source of scholarly debate. Some scholars interpreted Nixon's remarks to mean that the United States should end its physical presence on the Asian mainland. Others argued that the President favored retrenchment over retreat. Some analysts wrote off Nixon's remarks as casual and informal, shrewdly calculated

⁷⁶ David F. Schmitz, *The United States and Right-Wing Dictatorships, 1965-1989*, New York: Cambridge University Press, 2006, p. i. See also David Schmitz, *Thank God They're on Our Side: The United States and Right-Wing Dictatorships, 1921-1965*, Chapel Hill: University of North Carolina Press, 1999.

⁷⁷ Lloyd C. Gardner, *The Long Road to Baghdad: A History of Foreign Policy From the 1970s to the Present*, New York: New Press, 2010, and *Three Kings: The Rise of an American Empire in the Middle East After World War II*, New York: The New Press, 2009.

to reassure voters at home that he understood their concerns about the risks of foreign policy adventurism. Others reasoned that the President's words signaled a grand overhaul of long-standing U.S. national security strategy in Asia. Presidential historian Joan Hoff argued that the primary objective behind the Nixon Doctrine was to allow the Nixon administration to maintain its overseas commitments while reducing direct military involvement in Asia.⁷⁸ Jeremi Suri wrote that the Nixon Doctrine accurately reflected Nixon and Kissinger's realist leanings and in particular their preference for right-wing authoritarian dictators prepared to guarantee a U.S. role in Asian affairs.⁷⁹ Jeffrey Kimbal concluded that Nixon's remarks in Guam were ill-considered and not carefully thought through.⁸⁰ Dan Caldwell argued the opposite when he wrote that Nixon actually sent a careful signal to allies that the days of U.S. liberal interventionism in the developing world were over.

One thing not in dispute amongst scholars was that the Shah emerged as the single biggest foreign beneficiary of the Nixon Doctrine.⁸¹ The Shah was a keen student of international affairs, wrote Shahram Chubin and Sepehr Zabih, and understood that the Nixon Doctrine provided him with an opportunity to fulfill a long-standing ambition to transform Iran into a regional power and reconstitute a portion of the old Persian empire.⁸² The Shah exploited the Nixon Doctrine to its fullest by leveraging concessions in military equipment, nuclear technology and commercial investment from the Nixon and Ford administrations. There was more than a trace of irony in the fact that the Shah acted out of the sincere belief that he needed to strengthen himself with American technology to safeguard his regime

⁷⁸ Joan Hoff, 'A Revisionist View of Nixon's Foreign Policy,' *Presidential Studies Quarterly*, Vol. 26, No. 1, The Nixon Presidency, Winter 1996, p. 11. Other scholarly articles of interests on this topic include Earl C. Ravenal, "The Nixon Doctrine and Our Asian Commitments," *Foreign Affairs*, Vol. 49, No. 2, Jan., 1971, pp. 201-217; Frank N. Trager, "The Nixon Doctrine and Asian Policy," *Southeast Asian Perspectives*, No. 6, Jun., 1972, pp. 1-34.

⁷⁹ Jeremi Suri, *Henry Kissinger and the American Century*, Cambridge: Harvard University Press, 2007, p. 236.

⁸⁰ Jeffrey Kimball, "The Nixon Doctrine: A Saga of Misunderstanding," *Presidential Studies Quarterly*, Vol. 36, No. 1, Mar, 2006, pp. 59-74.

⁸¹ See Kimball, 'The Nixon Doctrine', and Dan Caldwell, 'The Legitimation of the Nixon-Kissinger Grand Design and Grand Strategy' *Diplomatic History*, Vol. 33, No. 4, September 2004, p. 644.

⁸² Shahram Chubin and Sepehr Zabih, *The Foreign Relations of Iran: A Developing State in a Zone of Great Power Conflict*, Berkeley: University of California Press, p. 6.

against future U.S. mischief. Above all else, and perhaps even greater than his suspicions of Soviet ambitions towards Iran, the Shah feared a repeat of Operation Ajax against his own increasingly assertive nationalist regime. Like Mossadegh, the premier he helped depose, the Shah was determined to wrest absolute control of Persian crude oil from foreign hands, only this time from U.S. instead of British hands.

Ali Ansari agreed that the Shah's basic distrust of U.S. assurances and intentions influenced his decision to pursue "an even more independent role" for Iran in an unconscious ironic twist on the foreign policy realism espoused by Nixon and Kissinger.⁸³ Stephen Stathis shared the view that the Shah exploited the Nixon Doctrine as a way of strengthening his hand *against* his American benefactors. Stathis noted that the Shah was keenly aware that Vietnam and Watergate left Nixon weakened to his own advantage, altering the power dynamic between them to the point where by 1973 a role reversal of sorts had taken place.⁸⁴ Politically wounded, Nixon came to rely on the Shah much more than either of the two leaders could ever have imagined when they consulted in Tehran in 1967.

"First-wave" scholars were particularly interested to learn more about Kissinger's personal dealings with the Shah. More than any other U.S. official in the 1970's it was Kissinger who handled the most sensitive aspects of the U.S.-Iranian relationship, kept a tight reign over secret presidential communications to Tehran, championed the strategic architecture that placed Iran's king at the center of American national security strategy in the Persian Gulf, and ensured that even his colleagues at senior levels in the White House were cut out of the loop of paperwork and backchannels between Washington and Tehran. Kissinger's knowledge of secret communications and backroom deals was assumed by observers to have been extensive, perhaps unrivalled. The 2004-06 declassification of Nixon and Ford-era material on U.S. diplomatic relations with Iran in the 1970s confirmed

⁸³ Ansari, *Modern Iran*, p. 177.

⁸⁴ Stephen W. Stathis, 'Nixon, Watergate, and American Foreign Policy,' *Presidential Studies Quarterly*, Vol. 13, No. 1, Winter 1983, pp. 129-147.

Kissinger's central role in managing the U.S.-Iran strategic relationship during the Nixon and Ford administrations. There are intriguing new insights into Kissinger's diplomatic strategy and his personal dealings with the Shah. Court-ordered released transcripts of Kissinger's secretly taped telephone conversations provide even more textual evidence.

The new documents permit a more thorough analysis of relations between presidents and the Shah than was previously possible. This was because during the Nixon and Ford administrations senior U.S. and Iranian officials preferred to make oral agreements and not put their promises or commitments to paper. As a result, we now have verbatim transcripts of conversations between Nixon, Ford, Kissinger, the Shah and their senior advisers in which they discussed such varied subjects as invading and occupying Arab oil fields, manipulating oil prices, fixing defense contracts to their mutual advantage, influencing the outcome of American presidential elections, assessing the risks posed by anti-American terrorists to U.S. nationals living in Iran, and engaging in covert operations such as the mission undertaken between 1972 and 1975 by the U.S., Iranian and Israeli intelligence services to arm Kurdish rebels in Iraq. This thesis, and the author's book, *The Oil Kings*, were the first to utilize the Scowcroft papers in the context of U.S.-Iran relations.

The transcripts reveal that after 1973 economics assumed increased importance in the U.S.-Iran bilateral relationship. U.S. officials began to lose confidence in the Shah after the oil price shocks of 1973. The documents confirm serious differences over the Shah's desire to obtain nuclear power and develop enriched uranium. They show that U.S. officials believed that the Shah's impetuous and unpredictable behavior, and his refusal to exercise restraint over oil prices, threatened the stability of banks and governments in the industrialized West. Faced with the Shah's disregard for its wishes on oil prices, the transcripts reveal that the Ford administration turned to the government of Saudi Arabia to help it loosen the Shah's grip over oil pricing policy by breaking the independent power of OPEC and delivering the

cartel into the more moderate hands of the Saudi royal family. The transcripts referred to in this thesis challenge long-accepted assumptions about the conduct of U.S.-Iran bilateral relations, laying bare tensions and disputes on a range of issues.

Most of the documents originated with the National Security Council (NSC), Defense Department (DOD), State Department, Central Intelligence Agency (CIA) and the Federal Energy Administration (FEA). The papers of General Brent Scowcroft reveal the inner workings of President-Shah relations. As Kissinger's aide from 1973 to 1975, and as Ford's National Security Adviser from 1975 to 1977, Scowcroft kept notes of every Oval Office conversation in which the Shah of Iran was either physically present or the subject of discussion. His papers included transcripts of conversations, memoranda, and correspondence between Nixon and Ford and other foreign heads of state. This thesis also utilizes the diaries of Arthur Burns, the chairman of the Federal Reserve under Nixon and Ford, and also Kissinger's collection of secretly recorded telephone conversations covering the period from 1969 to early 1977. Interviews conducted for *The Oil Kings*, the author's recently published book on the same topic, including those with Scowcroft, former Secretary of Defense James Schlesinger, and former Federal Energy Administrator Frank Zarb, provided context to these documentary collections.⁸⁵

Other archival sources include oral history interviews compiled by the Foundation for Iranian Studies with the cooperation of former U.S. officials including ex-director of the CIA Richard Helms and former American ambassadors and diplomats stationed in Iran in the 1960s and 1970s. On the Iranian side, an author interview conducted with former Iranian ambassador Ardeshir Zahedi complemented the English translation of the secret diaries of Imperial Court Minister Asadollah Alam and a trove of new works of history and scholarship on Iran and the Shah by western and exiled Iranian scholars. Interviews, scholarly works,

⁸⁵ Cooper, *The Oil Kings*.

popular histories and recently declassified documents meant that U.S. diplomatic correspondence published in the 1980s by the National Security Archive at George Washington University could finally be placed in context and utilized more effectively.

This thesis opens with a chapter discussing U.S.-Iran relations during Nixon's first four years in office from 1969-73. Nixon and Kissinger gradually asserted direct control over U.S.-Iran relations, overcame bureaucratic opposition, and gave the Shah virtually unlimited access on arms sales and oil policy. It discusses the state visits they exchanged and their foreign policy collaborations. The second chapter discusses how energy shortages, rising oil prices, oil nationalization, political instability, and war in the Middle East interacted with the Watergate scandal to weaken the Nixon administration, with the same events strengthening the Shah's hand which hastened Iran's rise to regional power status. The events of 1973 tested to the utmost Nixon's decision to entrust the Shah with the defense of western security and economic interests in the Persian Gulf. Chapter three shows that U.S.-Iran relations were tested when the Shah helped engineer the first "oil shock" of the modern era, a transformational event which shook the foundations of western prosperity and security and forced U.S. policymakers to confront the problems of energy security and Middle Eastern petropower.

The fourth chapter relates how U.S. policymakers struggled to respond to the oil shock and debated whether U.S. energy security lay with the Saudis, OPEC's biggest oil producer, or with Iran, the cartel's political heavyweight. Divisions within the Ford White House over how to respond to the challenge posed by the Shah's aggressive oil pricing policies paralyzed the ability of U.S. policymakers to develop a coherent foreign economic policy, thereby increasing the chances of a global financial crisis accompanied by widespread political and social instability, and increasing the opportunity for a miscalculation or confrontation between the U.S. and Iran. The fifth chapter traces Iran's rise to regional

hegemony leading the Shah to overreach in domestic affairs and in foreign policy. His decision to spend rather than invest Iran's oil bonanza overheated the economy with disastrous results. The Shah's decision to abandon Kurdish separatists in Iraq, improve relations with the Arab world, and use oil prices as leverage over the West, alienated allies and foes alike, isolating the Pahlavi state. Chapter six describes the failure of Kissinger's efforts to sell nuclear technology and purchase Iranian surplus oil, leading to a collapse in confidence. In the final chapter, U.S. officials, faced with the Shah's refusal to cooperate to bring down high oil prices, entered into a secret pact with Saudi Arabia to flood the world markets, a brazen act that had the inadvertent result of destabilizing Iran's economy and undermining the foundations of political stability in Iran.

The findings contained in this thesis mark a significant departure from a conventional historiography. Analysis of the complex dealings between U.S. and Iranian leaders will show that a combination of geopolitics and political economy shaped the underlying dynamic of U.S.-Iran relations during the Nixon-Ford years. The desire to contain Soviet adventurism in the Persian Gulf led the Nixon administration to lift restrictions on arms sales, sell nuclear reactors, and essentially grant the Shah domain over the Persian Gulf in the first place, but rising oil prices, and alarm at the consequences of unrestricted arms sales, led to policy reassessments. This thesis will show that oil, the same commodity that brought American presidents and the Pahlavis together in a geopolitical alliance in the early 1950s, had by the mid-1970s set their two countries on a course of confrontation. The geopolitics of containment of Nixon's first term in office was balanced during Ford's term by pressing economic concerns. This thesis does not blame U.S. policy toward Iran for causing or starting the Iranian revolution. Revolutions are highly complex phenomena that cannot be simplified in conspiratorial terms or explained by one or two trigger causes. On one issue, however, there is unanimity of opinion. "When the Shah fell, our Iran policy fell with him," recalled

former Secretary of State Colin Powell.⁸⁶ The collapse of Iran dealt a severe blow to the U.S. strategic position in an arena vital to U.S. national security interests. This thesis argues that certain aspects of U.S. foreign policy caused significant problems for the Shah, intensifying and accelerating the process of collapse already under way in Iran in the mid-1970s.

⁸⁶ James Mann, *Rise of the Vulcans*, New York: Penguin, 2004, p. 89.

Chapter One

I LIKE HIM, I LIKE HIM AND I LIKE HIS COUNTRY

U.S.-Iran Relations in Nixon's First Term, 1969-72

The death of former President Dwight Eisenhower in March 1969 offered an occasion for reflection and grand pageantry. Dozens of world leaders gathered in Washington to attend the state funeral of the former wartime commander and two-term president. Two faces in the pantheon of greats stood out. President Charles De Gaulle of France shuffled forward to salute his wartime comrade's bier. The other statesman familiar to television viewers was the Shah of Iran. Standing erect in elevator shoes, still trim at age 49, His Imperial Majesty Mohammad Reza Shah Pahlavi, King of Kings, Light of the Aryans and Shadow of God, radiated the majesty of the fabled Peacock Throne and shouldered the weight of 2,500 years of Persian monarchy.¹ At Eisenhower's funeral the American hosts treated the Shah as first among equals. If there was one friend Americans counted on in 1969, with war raging in Southeast Asia, and the nation's campuses in turmoil, it was the Shah of Iran.

The new American president had been in office barely eight weeks. Nixon enjoyed a strong rapport with the Iranian monarch and exhibited a deep interest in all things Iranian. Nixon felt "a proprietary interest in Iran, because [the Eisenhower administration] helped get the Shah back," said a former U.S. ambassador to Iran.² "The President has a strong feeling about the Shah," was how National Security Adviser Kissinger put it in a conversation with

¹ The Shah had a well known preoccupation with his height. According to his biographer, Marvin Zonis, who interviewed the Shah, the monarch was "known to wear elevator shoes and shoes with relatively high heels. One can also look in vain for a picture of the Shah standing side by side with Empress Farah, for that would show all too clearly that she was taller than he." Marvin Zonis, *Majestic Failure: The Fall of the Shah*, Chicago and London: The University of Chicago Press, 1991, p. 14.

² FISOHA interview with Douglas MacArthur II, by William Burr, Foundation for Iranian Studies, Washington, DC, May 29, 1985, pp. 1-53.

an aide.³ Nixon's private home in California and White House quarters displayed gifts of carpets, jewels and gold trinkets received from members of the Iranian royal family.⁴ Nixon was an awkward man with few close intimates, yet the first time he welcomed Iranian Foreign Minister Ardeshir Zahedi to the White House was with a rare hug and the greeting, "You've been a good friend."⁵ The new president needed good and reliable allies in the spring of 1969.

Nixon inherited a nation bitterly divided at home and isolated abroad over its disastrous intervention in Southeast Asia. The war in Vietnam was "the most pressing foreign problem I would have to deal with as soon as I became President," Nixon wrote in his memoir.⁶ He regretted his Democratic predecessor's obsessive focus on the war in Southeast Asia to the detriment of U.S. relations with allies in Europe, East Asia and the Middle East. In the latter, infusions of Soviet weaponry to Arab states had turned the area into "a powder keg" that threatened war between local actors and their superpower patrons.⁷ Together with Kissinger, Nixon looked for ways to reassert American leadership in world affairs, improve relations with the Russians and Chinese, and end U.S. involvement in Vietnam. They adopted a strategy of "linkage" towards the East Bloc, tying progress on arms talks to other issues such as trade and regional developments in the Middle East and Berlin.⁸ Regional allies played a leading role in buttressing the new strategic architecture in this strategy. In the Middle East, Asia and the Pacific, countries like Iran, the Philippines and Australia were accorded the responsibility of ensuring that any detente or "relaxation" of relations between the cold war super powers did not lead to weakness, insecurity and collapse on the periphery.

³ Telcon, Kissinger-Sisco, 8:00 a.m., September 18, 1970, National Security Archive (NSA), Washington, DC.

⁴ List of Foreign Head of State Gifts Presented to President and Mrs. Nixon by H.I.M. Mohammad Reza Pahlavi, Shahanshah of Iran; by H.I.H. The Princess Ashraf; By H.I.M. The Empress Farah; and By H.E. Ardeshir Zahedi, February 2, 1978. Project Editor, Eric Hogland, *Iran: The Making of US Policy, 1977-80*, National Security Archive, Alexandria, VA: Chadwyck-Healey, 1990, Document Reference No. 01316.

⁵ Cooper, *The Oil Kings*, p. 30.

⁶ Nixon, *RN*, p. 347.

⁷ Ibid, p. 343.

⁸ Ibid, p. 346.

In 1969, in the eyes of the Shah's admirers in Washington, Iran's booming economy, oil wealth, secular political system and anti-communist, pro-U.S. and pro-Israel foreign policy positioned the country as an ally in a turbulent region scarred by war, religious strife, and political extremism. The Shah was one of the world's great survivors, having survived twenty-eight years on the Peacock Throne and assassination attempts, coup plots, illnesses, a plane crash, military invasion, and foreign occupation, to preside over a once destitute country now held up as a showcase of Third World development. It was the year when Iran's thriving economy reached the point of "take-off," the transformational moment when investment becomes self-renewing.⁹ Cheerful American diplomats in Tehran kept a chart on hand that showed Iran's industrial production climbing at a 45-degree angle and "getting steeper all the time."¹⁰ "The growth of the gross national product now going on is comparable only to that of Japan in the immediate postwar period, and is, with the exception of Libya, the fastest in the world—an average of 9.5 percent per year over the past five years and 11.3 percent over the last three of those years," applauded *The New York Times*. "That's about twice as fast as the United States," the paper of record reminded its readers.¹¹ It was a comparison that delighted the Shah.

A State Department briefing document from 1969 captured the extent of official American enthusiasm for the Shah. "The Shah is clearly the most important person in Iran," Secretary of State William Rogers advised Nixon. "By Iranian tradition any Shah is a kind of super man whose position and prerogatives have even mystical significance. This Shah adds to this tradition the weight of his enormous political sagacity, his intelligence and cunning,

⁹ Dana Adams Schmidt, "Iran's Prosperity Thrives Likes Bubbling Oasis," *New York Times*, December 9, 1968. For a contemporary scholarly perspective, see Charles Issawi, "Iran's Economic Upsurge," *Middle East Journal*, Vol. 21, No. 4, Autumn, 1967, pp. 447-461.

¹⁰ Schmidt, "Iran's Prosperity."

¹¹ *Ibid.*

his ability to get things done as an executive.”¹² Although the Shah had his critics in the lower echelons of the Washington foreign policy establishment, who recalled his flight into exile in 1953 and doubted his courage and leadership credentials, the overwhelming sentiment in Washington was that the Shah was a force for stability in a troubled region, a champion of progressive reform, and a bold leader who broke the power of Iran’s feudal landowning aristocracy and conservative religious establishment to give women the vote and land to the peasantry. He appointed Western educated technocrats to run Iran’s government and economy even as he concentrated real power in his own hands, and making him the model of a progressive autocrat.

The Shah’s arrival for the Eisenhower observances marked the first time he and Nixon had met since their private meeting in Tehran in April 1967. They had a lot to discuss. The decision by the British to withdraw military forces from east of Suez heralded the end of an era in the Persian Gulf.¹³ The U.S. and Iranian governments wanted to prevent the formation of a power vacuum that could strengthen the forces of pro-Soviet Arab radicalism. During his discussions with Nixon and top White House officials that spring, the Shah emphasized Iran’s natural attributes as a strategic partner, assuring them he prized stability, sought cooperation, and desired self-reliance. “Iran is a friend of the West sufficiently powerful to maintain her own sovereignty, able to defend her interests and by implication capable of defending the interests of her western friends,” he explained. “At the end of Asia, there were two strong countries: Japan and Iran...In between there is unfortunately much instability and poverty.” Iranians and Americans “think alike and react alike’ and their two

¹² National Security Council (NSC) Files, VIP Visits, Visit of the Shah of Iran, October 21-23, 1969 (1 of 2), Box 920, Gerald R. Ford Presidential Library (GFPL), Ann Arbor, MI.

¹³ The government of Prime Minister Harold Wilson was under political and fiscal pressure to reduce Britain’s commitments ‘east of Suez’. To learn more about the decision to withdraw from the Persian Gulf see Roham Alvandi, “Mohammad Reza Pahlavi and the Bahrain Question, 1968-1970,” *British Journal of Middle East Studies*, Vol. 37, No. 2, August 2010, and F. Gregory Gause, “British and American Policies in the Persian Gulf, 1968-1973,” *Review of International Studies*, Vol. 11, No. 4, Oct., 1985.

countries were ‘natural allies, no doubt.’”¹⁴ The Shah understood that burden-sharing in the Persian Gulf would not come cheap. If Iran was to replace Great Britain as the dominant power in the region the country’s armed forces would have to be refurbished and refitted at enormous expense. This was something that could only be done by finding ways to help increase the revenues Iran earned from oil exports.

The Shah said he hoped the Nixon administration would agree to lift the arms restrictions imposed by the Twitchell Doctrine and buy more Iranian oil. As a practical gesture, the Iranian monarch offered to sell the United States secretly one million barrels of oil a day over the next ten years at a specially discounted price.¹⁵ He promised to recycle Iranian oil profits into U.S.-manufactured weapons systems and sensibly proposed that the administration salt the oil away in case of a future emergency such as a cutoff in the oil supply. His proposal was illegal under existing U.S. law. In March 1959 the Eisenhower administration had imposed mandatory quotas on the amount of foreign petroleum that could be imported into the United States. The quotas were meant to protect the domestic American oil industry from foreign competition, while ensuring that the United States never became too dependent on a single supplier of foreign oil. The Shah’s offer to sell such a vast amount of oil at a reduced price showed how eager he was to increase American economic reliance on Iranian crude oil.

During his discussions in Washington, the Shah made clear that the days when American presidents and their ambassadors could interfere in Iranian political life were over. In talks with Secretary of State Rogers on April 1, the Shah tested the patience of his host when he expressed dismay at Washington’s record of involvement in the affairs of its allies. He charged that the catalyst for the military stalemate in Vietnam had been the murder of the

¹⁴ Asadollah Alam, *The Shah and I: The Confidential Diary of Iran’s Royal Court, 1969-1977*, Introduced and Edited by Alinaghi Alikhani, Translated into English by Alinaghi Alikhani and Nicholas Vincent, New York: St. Martin’s Press, 1991, p. 50.

¹⁵ Kissinger, *Years of Upheaval*, p. 857. Kissinger’s notes from his meeting with the Shah in March 1969 do not include this detail.

Republic of Vietnam's President Ngo Dinh Diem in a U.S.-sponsored coup d'état in 1963.¹⁶ This bald accusation of American regicide against a client who bore more than a passing resemblance to the Shah was instructive. Rogers politely challenged the Shah's assertion that the U.S. had disposed of Diem but agreed that "the US should not interfere in the internal affairs of other countries." In a separate meeting with Assistant to the President for National Security Affairs Henry Kissinger, the Shah delivered a lecture on the merits of one-man rule when he insisted that dictators were more likely to pursue caution in foreign policy. He specifically cited the example of Soviet leader Josef Stalin.¹⁷ Kissinger said he agreed with him in principle, though cited Adolf Hitler as a possible exception.¹⁸ The Shah insisted that his position was the correct one. By referring to Diem's fate, and by praising the virtues of absolutism, the Shah put the Nixon administration on notice that if it wanted a closer strategic partnership he would operate as an equal and not a client.

The Shah's brief, informal visit ended without any formal commitments from the White House regarding the Shah's requests. The new administration was still settling into office. Nixon's new national security apparatus, headed by Kissinger, was engaged in an exhaustive review of U.S. national security objectives on all fronts and was not ready to make substantive policy recommendations. The Shah gladly accepted Nixon's invitation to return to Washington in October for more substantive discussions on Persian Gulf security, arms sales and oil imports. Still, there was no doubt the Shah had set the policy agenda for future bilateral discussions on oil diplomacy and arms sales, a tactic he would employ again and again in coming years to drive U.S. policy toward Iran in a direction favorable to his domestic and foreign policy imperatives.

¹⁶ Memorandum of Conversation, Washington, April 1, 1969, 10:00 a.m., Foreign Relations of the United States (FRUS), 1969-77, Volume E-4.

¹⁷ Ibid.

¹⁸ Ibid.

In preparation for the Shah's return visit in the fall of 1969 White House officials, U.S. diplomats, and officials at the State Department, Defense Department and CIA debated the merits of granting the exemptions the Shah sought concerning U.S. arms sales and increased imports of oil from Iran. By this time Nixon had announced his views about ceding security responsibilities in Asia to allied governments, a policy better known as the Nixon Doctrine.¹⁹ Administration officials understood that the current restrictions imposed on Iran provided a stable framework for bilateral relations and ensured continued U.S. influence over the direction of Iranian foreign and defense policy. Controlling the flow of arms to Tehran "maintained our relationship," said Armin Meyer, who served as President Lyndon Johnson's ambassador to Iran in the late 1960s. "Our whole relationship with the Shah, I think, depended on the military side of things. If we had left it to the Shah, during my days, the sky would have been the limit. He wanted everything...I was always trying to talk him out of equipment."²⁰ Officials in the Nixon administration were not worried about the Shah's overall commitment to the West or his loyalty to Washington, yet official enthusiasm for the Shah was still tempered by an awareness of the potential downsides that could follow any decision to reduce the strategic leverage the U.S. currently had exerted over Iran's government, military and economy.

Officials in the State Department and Defense Department insisted that the current arrangement worked well because it suited U.S. national security interests and also benefited Iran. A briefing document prepared by the State Department on the eve of the Shah's return

¹⁹ Nixon's remarks in Guam on July 25, 1969 were not included in a set speech. Instead, Nixon spoke to reporters accompanying him to Vietnam and as the official State Department historian later noted, "[The President's] remarks were on a background basis, for attribution but not direct quotation." See Louis J. Smith and David H. Herschler, Editors, and David S. Patterson, General Editor, *Foreign Relations of the United States, 1969-76, Volume I, Foundations of Foreign Policy, 1969-72*, Washington: GPO, 2003, p. 91. Nixon later claimed that his comments had been taken out of context: "The Nixon Doctrine was interpreted by some as signaling a new policy that would lead to total American withdrawal from Asia and from other parts of the world as well...the Nixon Doctrine was not a formula for getting out of Asia, but one that provided the only sound basis for America's staying in and continuing to play a responsible role in helping the non-Communist nations and neutrals as well as our Asian allies to defend their independence." Nixon, *RN*, p. 395.

²⁰ FISOHA interview with Armin Meyer, by William Burr, Foundation for Iranian Studies, Washington, DC, March 29, 1985, pp. 1-23.

visit reminded Rogers of the risk that “growing Iranian independence could result in less reliance on U.S. support and less attention to American advice, especially on regional matters...The Shah is convinced that Iran must play the dominant role in the Persian Gulf and he is determined that radical Arab or Soviet influence should be prevented, or at least kept to an innocuous level.”²¹ The State Department’s intelligence analysts shared their opinion that the Shah exaggerated regional security threats to Iran in order to extract from the administration an excuse to generate higher oil revenues and buy more arms. It had required a “major US effort” in recent years to make sure that the Shah’s arms purchases from the US do “not become a severe strain on Iran’s economic development...” The Shah appeared “determined to follow this course” even though “sharply rising military expenditures cannot but cause problems for Iran internally by hindering its development plans and externally by perhaps alarming and alienating its weaker Arab neighbors.”²² Rogers forwarded the cautionary approach favored by his analysts to the White House for consideration.

In 1969 Rogers’ views on Iran carried weight because at this early stage it was the State Department and not the NSC that determined the parameters of administration policy in the Persian Gulf. This was not because Rogers shared Nixon’s confidence. Quite the reverse was true. Nixon had originally appointed Rogers to the post of Secretary of State because he wanted to run foreign policy out of the White House with Kissinger’s help and not be hindered by an independent foreign policy bureaucracy.²³ Rogers’ lack of experience in foreign policy strengthened the hand of Kissinger and the NSC, and the two were often in conflict.²⁴ Nixon and Kissinger also distrusted each other, exhibiting personal characteristics that bordered on the paranoid and conspiratorial, but they agreed on the need for a

²¹ Intelligence Note No. 743 from Deputy Director George C. Denney, Jr., of the Bureau of Intelligence and Research to Secretary of State Rogers, Washington, October 17, 1969, FRUS 1969-77, Volume E-4.

²² Ibid.

²³ For an overview of the Nixon-Kissinger relationship, see Walter Isaacson, *Kissinger*, New York: Simon & Schuster, 2005, pp. 129-156. For an overview of the way they formulated foreign policy in the White House, see Dallek’s *Partners in Power*, pp. 89-134,

²⁴ For an overview of the Kissinger-Rogers relationship, see Isaacson, *Kissinger*, pp. 195-198.

personalized approach to diplomacy, one that ensured tight control over communications to foreign leaders.²⁵ Their foreign policy “involved secret maneuvers, dramatic surprises, and a desire for the White House rather than the State Department to get the credit,” wrote Walter Isaacson, Kissinger’s biographer.²⁶ In the first year of the Nixon administration Nixon and Kissinger were intently focused on seeking a pathway to peace in Southeast Asia, opening a dialogue with the People’s Republic of China, improving relations with the Soviet Union, and strengthening ties with European NATO allies. Relations with Iran were important but not yet a matter of high-level presidential concern. “The general issue since this [arms sales] program began has been its effect on Iran’s economy,” read Rogers’ memo on the future of arms sales to Iran, pointing out that political stability in Iran depended to a great extent on the strength of the Iranian economy.²⁷ Diverting government revenues to arms sales would increase Iran’s debt load and divert resources from the civilian economy to the military sector: “So far it has proved financially manageable, but Iran’s future soundness is still fragile, depending as it does on the continued flow of oil revenues at a high level.”²⁸ Rogers reminded Nixon and Kissinger that Iran struggled to pay for existing weapons orders, let alone future defense expenditures. The only way for present expenditures to keep up would be for Iran to enjoy a surge in oil revenues and the State Department assumed the White House did not want to see that happen.

Secretary of Defense Melvin Laird and officials at the Pentagon shared Rogers’ concerns and expressed similarly strong reservations about the wisdom of removing

²⁵ Ibid, p. 206. Nixon famously resented Washington’s professional foreign policy establishment. When he met with the staff of the National Security Council in early 1969 he commiserated with them for having to deal with those “impossible fags” at the State Department. In a 1973 speech given by Thomas Hughes, one that attracted attention from contemporaries, the former high-ranking State Department official summed them up this way: “Both were incurably covert, but Kissinger was charming about it. Both abhorred bureaucracy, but Nixon was reclusive about it. Both engaged in double-talk, but Kissinger was often convincing. Both were fiercely anti-ideological, but Nixon had recurrent relapses. Both jealously guarded against diffusion of power, but Kissinger dispensed balm. Both were inveterate manipulators, but Nixon was more transparent.” See Ibid, p. 141.

²⁶ Ibid, p. 197.

²⁷ Letter from Secretary of State Rogers to Secretary of Defense Laird, Washington, October 20, 1969, FRUS 1969-77, Volume E-4.

²⁸ Ibid.

restrictions on arms sales. Laird's relationship with Kissinger was equally as troubled but "certainly more evenly matched."²⁹ Laird was a shrewd political operator who "worked his technique marvelously [if not] always scrupulously."³⁰ Defense Department officials couched their objections in the sort of geopolitical language meant to appeal to Nixon's and Kissinger's realist sensibilities and in keeping with the foreign policy principles laid out in the Nixon Doctrine three months earlier. Laird observed that during a recent cross-border clash between Iran and Iraq the Shah had asked the Pentagon to move U.S. troops into forward base positions near the Iran-Iraq border. This incident, said the Secretary of Defense, violated the spirit of the Nixon Doctrine and had aroused concern among Pentagon officials.³¹ The Pentagon was already worried that Iran's high level of spending on arms risked driving Iraq closer toward the Soviet Union, thereby intensifying an arms race that had the potential to destabilize the Persian Gulf region. The Iran-Iraq border incident confirmed Laird's belief that the Shah was using his close relationship with Nixon to manipulate concessions from the White House.³² He worried that it was just the sort of creeping involvement that had lured the United States into Vietnam in the first place. The Shah's request for military support, if it became public, would hurt United States-Iran relations by arousing "serious Congressional opposition" at a time when public opinion was opposed to new American military incursions in Asia. Laird reminded the White House that the central thrust behind the Nixon Doctrine was to help U.S. allies in Asia, the Pacific and the Middle East help themselves and not do their fighting for them.

Senior administration officials understood that the Shah's habit of overspending on arms had already placed great strain on Iranian government finances. The Shah had recently

²⁹ Isaacson, *Kissinger*, p. 198.

³⁰ Cooper, *The Oil Kings*, p. 57.

³¹ Intelligence Note No. 295 from the director of the Bureau of Intelligence and Research (Hughes) to Secretary of State Rogers, Washington, April 22, 1969, FRUS 1969-77, Volume E-4.

³² Memorandum from Harold Saunders of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger), Washington, October 20, 1969, FRUS 1969-77, Volume E-4.

announced a five-year \$11 billion economic development plan to be mainly financed from oil revenues.³³ If Iran was going to meet the plan's spending targets, foreign oil companies operating in the country would have to boost their collective output by 20 percent a year for each of the next five years. When the companies refused to budge, the Shah approved his government's five-year budget anyway in the full knowledge that the state did not have enough money to meet its commitments. One observer likened the negotiations between the government and the companies to a "giant poker game."³⁴ In foreign affairs as in domestic politics, the Shah followed a policy of brinksmanship that delighted his admirers but concerned domestic critics and alarmed foreign observers. In effect, Shah approved a five-year fiscal plan knowing that his government lacked the income to meet its financial objectives and would have to pay for them with anticipated or future oil revenues. "The Shah is in dead earnest in his quest for additional oil revenues, and Iran's current tight foreign exchange situation has added urgency to problem," warned the U.S. embassy in Tehran.³⁵ Diplomats warned the Nixon administration that the Shah wanted the White House to press U.S. oil companies operating in Iran to increase their production so that his government could increase its income from oil royalties. In effect, the Shah proposed a giant swap between Iran and the U.S. in which the U.S. would agree to barter military equipment for oil.³⁶ He also wanted the administration to exempt Iran from its oil import quota system altogether, while agreeing to secretly purchase 200,000 barrels of oil a day at a steep discount, a variation on his earlier proposal.³⁷

³³ Thomas F. Brady, "Iran and Western Companies Clash Over Oil," *New York Times*, March 9, 1968.

³⁴ *Ibid.*

³⁵ Telegram 4054 From the Embassy in Iran to the Department of State, October 6, 1969, 1230Z, FRUS 1969-77, Volume E-4.

³⁶ *Ibid.*

³⁷ Memorandum for the President Through John Ehrlichman from Clark Mollenhoff, "Potential Problem Area in Connection With the Visit of the Shah of Iran," October 17, 1969; Memorandum for the President from Henry A. Kissinger, "Background on the Shah's Oil Prospects," October 22, 1969, NSC Files, VIP Visits, Visit of the Shah of Iran, October 21-23, 1969 (1 of 2), Box 920, The National Archives, College Park, MD.

Administration officials had not yet concluded their policy review when the Shah arrived in Washington to begin his second visit of the year. Nixon and his guest were scheduled to hold several meetings alone and away from their advisers. Internal White House memoranda confirm that Nixon's aides were worried about what he might promise the Shah in the privacy of the Oval Office. Nixon's personality was a matter of concern to some of his advisers. "Although we have suggested that the President try to steer clear of details of the Shah's military and oil proposals, the Shah has a way of pressing hard for answers," read a memo prepared for Kissinger. "If the going gets heavy, the President may ask you on the spot what can be done or ask you to talk to Secretary [of Defense] Laird."³⁸ Kissinger reminded the President that the Shah was a persistent and tenacious negotiator who would 'read any generally sympathetic answer as assent. Precise and frank talk about how far the U.S. can and cannot go is important in avoiding later miscommunications.' Even telling the Shah that "we will consider" his requests would most likely be interpreted by the monarch as "a promise to consider favorably." Kissinger advised Nixon that the best way to avoid misunderstandings would be for him to inform the Shah "exactly how we will handle his requests, explaining where necessary why it is not possible to give a final answer immediately."³⁹ Unsaid but implied in the memos of Nixon's foreign policy aides was their fear that the President might be outmaneuvered or browbeaten by the Shah during their discussions.⁴⁰

The worst fears of Nixon's advisers were confirmed during the visit. The President set the tone when he lavished praise on the Shah during an unusually emotional exchange of

³⁸ Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon, Washington, October 21, 1969, FRUS 1969-77, Volume E-4.

³⁹ Ibid.

⁴⁰ Kissinger recalled that Nixon displayed "an extraordinary nervousness" when he first met the president-elect on November 25, 1969. "His manner was almost diffident; his movements were slightly vague, and unrelated to what he was saying, as if two different impulses were behind speech and gesture." Kissinger, *White House Years*, 11. Kissinger's biographer, Isaacson, related in great detail Nixon's propensity for sequestering himself in a White House hideaway with a notepad for hours at a time. Kissinger concluded that Nixon "dreaded meeting new people or conveying a disappointing decision to someone's face." Isaacson, *Kissinger*, p. 145.

toasts at the two leaders' state banquet.⁴¹ He spoke of his "love and affection" for Iran.⁴² During their private talks, the Shah informed Nixon that he wanted to buy enough weapons to give Iran "an overkill capability so that should anyone be tempted to attack Iran they would think twice or three times."⁴³ The Shah's proposal amounted to a massive new undertaking that would cost hundreds of millions, perhaps even billions, of dollars in new arms purchases. When he left the Oval Office the Shah informed startled U.S. officials that the President had agreed with him that it was time to end restrictions on arms sales to Iran. Indeed, he was "under the impression that there were no problems of any kind, and that he could now obtain virtually anything that he wanted in the way of military equipment."⁴⁴ The Shah believed that Nixon had agreed to help Iran boost its income from oil, either by granting an oil import exemption, or by placing executive pressure on U.S. oil companies operating in Iran to increase their oil production.⁴⁵ The President, said the Shah, had also agreed to sell Iran dozens of new fighter aircraft and send as many Air Force technicians as were required to train Iranian pilots and maintain the new fleet.⁴⁶

Nixon's concessions perplexed his staff.⁴⁷ No foreign leader had ever been allowed to dictate his choice of weapons and terms of conditions to the Department of Defense. If enacted, the new policy would amount to a blank check. It was one thing for Iran to want to defend the Persian Gulf for the West, quite another for the country to develop enough firepower to defeat not only its immediate neighbors but also project Iranian power across a broad expanse of land and sea. Rearmament on the scale proposed by the Shah had the potential to strain Iran's finances and industrial infrastructure severely by diverting capital,

⁴¹ To read a transcript of the state toasts, see Exchange of Toasts Between the President and His Imperial Majesty Mohammed Reza Shah Pahlavi, Shahanshah of Iran, State Dining Room, National Security Council (NSC) Files, VIP Visits, Visit of the Shah of Iran, October 21-23, 1969 (1 of 2) Box 920, The National Archives at College Park, MD.

⁴² Ibid.

⁴³ Memorandum of Conversation, Washington, October 22, 1969, 10:00 a.m., FRUS 1969, Volume E-4.

⁴⁴ FISOHA interview with Douglas MacArthur II.

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Ibid.

technology and trained personnel away from popular domestic programs intended to buttress the ruling Pahlavi dynasty.

Nixon had agreed to do everything his advisers had opposed. This was not out of character for a president who enjoyed undermining his own foreign policy bureaucracy and regularly ignored the advice of experts. A case in point was the CIA, for whom he harbored a special antipathy, and whose daily intelligence briefs he refused to read.⁴⁸ The absence of a transcript of his discussion with the Shah only added to the sense of confusion and dismay among administration officials in the wake of the Iranian state visit. The Shah's version of events could not be denied so long as no written summary of the talks existed. Nixon's top officials and staff spent the next few months trying to fathom the extent of his verbal commitments. An added complication was that the Cabinet-level task force Nixon had appointed to review U.S. oil import quota policy was about to come out publicly *against* granting special exemptions to individual countries such as Iran.⁴⁹ "Predictably, the Shah will be sharply disappointed if these recommendations become U.S. policy," advised the State Department.⁵⁰ One of Rogers' aides wrote a strongly worded request for additional information from the National Security Council. "As there is no written record of the President's conversations with the Shah we find it difficult to assess the Shah's present expectations. We would appreciate it if you could shed light on this critical point."⁵¹ Faced with strong opposition from within his Cabinet, Nixon felt he had no choice but to write a contrite letter to the Shah in which he explained that he could not deliver the promised concessions at the moment. "There are, as you know, limits on what we as a government can

⁴⁸ CIA Director Richard Helms first became aware that Nixon was not reading his President's Daily Brief even before Inauguration Day in January 1969. Helms wrote in his memoir that he was never sure "how often Nixon even glanced at his PDB." Richard Helms with William Hood, foreword by Henry A. Kissinger, *A Look Over My Shoulder: A Life in the Central Intelligence Agency*, New York: Ballantine Books, 2003, pp. 377-379.

⁴⁹ Memorandum From the Executive Secretary of State (Eliot) to the President's Assistant for National Security Affairs (Kissinger), Washington, December 1, 1969, FRUS 1969-77, Volume E-4.

⁵⁰ Ibid.

⁵¹ Ibid.

do, and I cannot report any breakthroughs at this point,” he explained.⁵² Nixon was as yet either unwilling or unable to override the objections of his senior civilian and military advisers, but there could be no denying the President’s willingness to bypass the federal bureaucracy, and go against the wishes of his own advisers to promise the Shah everything he wanted to modernize and strengthen Iran.

The Nixon administration’s internal policy review continued throughout 1970 and 1971. There were forceful interventions and interjections from General Earle Wheeler, chairman of the Joint Chiefs of Staff, and from Richard Helms, director of the CIA. Wheeler shared Laird’s skepticism about the Shah’s leadership abilities, his foreign policy brinksmanship, and Iran’s long-term strategic objectives in the Persian Gulf. He recognized that the Shah was trying to obtain an offensive as well as a defensive capability. In May 1970 he wrote a strongly worded memorandum defending existing restrictions on arms sales to Iran.⁵³ He explained that while the Pentagon appreciated the Shah’s attributes as an ally, military chiefs were concerned about the Iranian leader’s tendency to take reckless foreign policy gambles. Wheeler said he did not believe the White House should surrender the strategic leverage it enjoyed over Iran on arms sales. “The Shah continues to play hard on the same themes with us,” wrote an exasperated Wheeler. “He seems in fact to be testing the limits of our capacity to help him.” The Chairman said the Joint Chiefs opposed the sale of four additional squadrons of F-4 fighter jets to Iran, pointing out that the Iranian military could not possibly absorb the new equipment, and noting that the Iranian air force lacked the pilots to fly them and the technicians to maintain them. Wheeler dismissed the Shah’s oft-stated threat to turn to other arms supplies if the U.S. refused to sell him what he wanted. The Iranian armed forces were too integrated into the U.S. defense structure and too reliant on

⁵² Letter from President Nixon to the Shah of Iran, Washington, February 23, 1970, FRUS 1969-77, Volume E-4.

⁵³ Memorandum From the President’s Assistant for National Security Affairs (Kissinger) to President Nixon, Washington, May 13, 1970, FRUS 1969-77, Volume E-4.

U.S. technical support, to the point where no other military power could compete as a reliable supplier of spare parts and training. The Shah's threat to buy military equipment from Moscow was similarly unrealistic because, wrote Wheeler, the Shah would never accede to the stationing of Soviet military technicians and trainers on Iranian soil. In Wheeler's view, the U.S. could and should resist the Shah's unrealistic demands.

Six months later, Laird wrote a bluntly worded memo to Rogers.⁵⁴ He vigorously protested the Shah's request to order another four squadrons of F-4 fighter jets. Laird explained that the Shah had more than enough planes to defend Iran. 'There is little question that the Shah will be unhappy over our unwillingness to sell him all that he wants, wrote Laird. "Nonetheless, I consider the course he follows to be inimical to Iran's interests and our own, and I think the time has come to talk bluntly with him about arms stability in the Persian Gulf area, as well as the excessive monetary and personnel costs which these programs would entail."⁵⁵ In their objections, Wheeler and Laird made it clear that they supported the status quo policy and opposed giving the Shah a blank check to defend the Persian Gulf at the risk of destabilizing his regime and the region.

CIA Director Richard Helms's intervention in the U.S.-Iran policy review balanced the opposition from State and Defense. Helms had known the Shah for almost as long as Nixon. In 1957, as a young intelligence officer, he had travelled to Iran to negotiate the installation of two intelligence listening posts along the Iran-Soviet border.⁵⁶ The posts allowed the U.S. to monitor Soviet rocket tests and helped enable Washington to maintain missile superiority in the nuclear arms race.⁵⁷ The CIA regarded the bases as the crown

⁵⁴ Letter From Secretary of Defense Laird to Secretary of State Rogers, Washington, October 27, 1970, FRUS 1969-77, Volume E-4.

⁵⁵ Ibid.

⁵⁶ "I had first met the Shah in 1957 when I visited Tehran to negotiate permission to place some sophisticated intercept equipment in northern Iran," Helms wrote in his memoir. Helms, *A Look Over My Shoulder*, p. 417. In retirement, Helms confirmed the existence of two CIA stations in Iran during this period. FISOHA interview with Richard Helms, by William Burr, Foundation for Iranian Studies, Washington, DC, July 10 & 24, 1985, pp. 1-10.

⁵⁷ Memorandum for the Record, Washington, October 22, 1969, FRUS 1969-77, Volume E-4.

jewels in U.S. national security architecture erected against the Soviets. To Kissinger, Helms expressed concern that the objections raised by State and Defense to increased arms sales risked damaging U.S.-Iran relations and endangered the long-term viability of the CIA listening posts.

In his memo, Helms frankly dismissed the strategic logic behind the Shah's military build-up in the Persian Gulf "on grounds of cost, lack of urgency, limited capability, undesirable precedent and other arguments," but he insisted that a much bigger prize existed in the form of intelligence facilities vital to U.S. national security.⁵⁸ Helms insisted that "there is no place to which we could transfer these activities were Iran denied us...The [facilities] are entirely dependent on the continued willingness of the Shah to permit them to operate and to transmit promptly the information they collect."⁵⁹ On another occasion Helms protested a study initiated by the Department of Defense to assess the military threat facing Iran.⁶⁰ The future of U.S. electronics eavesdropping along the Soviet Union's southern border, he wrote, "rests very directly on the Shah's support." Failure by the Nixon administration to cooperate with the Shah would result in "increased pressure on oil interests, and possibly termination of US special facilities [i.e. spy bases] and military over-flight rights."⁶¹ Helms identified the study as a classic stalling tactic by Laird and said it would only antagonize the Shah when cooperation was essential to U.S. surveillance of the Soviet Union.

The personal views of the CIA Director contrasted starkly with warnings issued by his agency's own analysts, in which they drew a link between arms sales and economic stability. The agency had accumulated enough data to conclude that the Shah's appetite for military

⁵⁸ Memorandum From Harold Saunders of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger), Washington, April 16, 1970, FRUS 1969-77, Volume E-4.

⁵⁹ Memorandum From the Office of the Director of the Central Intelligence Agency to The Honorable Henry A. Kissinger, Assistant to the President for National Security Affairs, included in Memorandum For the President From Henry A. Kissinger, April 16, 1970, FRUS 1969-77, Volume E-4.

⁶⁰ Memorandum from the director of the Central Intelligence Agency (Helms) to the President's Assistant for National Security Affairs (Kissinger), September 2, 1970, FRUS 1969-77, Volume E-4.

⁶¹ Ibid.

equipment already acted as a drag on Iran's civilian economy. In 1970 Iran's holdings of gold and foreign exchange fell to a six-year low.⁶² The CIA concluded that Iran's economic and military expansion had led to "considerable deficit financing and balance-of-payments problems..." Iran's proposed budget for 1971-72 would require deficit financing to be covered by domestic borrowing and foreign loans which "will exacerbate an already difficult financial situation...Iran will continue to walk a narrow financial tightrope."⁶³ Data collected from the U.S. military mission in Tehran found that the Iranians had ordered "exotic equipment" they were not prepared to use and "cannot afford to purchase."⁶⁴ A second agency review conducted a year later linked excessive weapons purchases with the possibility of a future financial crisis in Iran and possibly even collapse.⁶⁵ "We don't know just how keenly the Shah appreciates the limits of financial elasticity," wrote the CIA's Office of National Estimates.⁶⁶ Despite the fact that Iranian oil revenues had risen in recent years, contributing to a general sense of prosperity, they could not possibly keep pace with the Shah's spending habits. It warned of tough choices in the years ahead. The Shah "will only ease off on military expenditures after several prophets of doom have sounded Iran's economic death-knell, but before disaster has actually set in."⁶⁷ Helms's support for overturning existing policy made it possible for Nixon and Kissinger to disregard prescient CIA warnings about the risks of overloading Iran with expensive and impractical military hardware.

⁶² Office of Economic Research and Coordinated within the Directorate of Intelligence, "Intelligence Memorandum: Some Revenue Implications of the 14 February Oil Settlement with the Persian Gulf States," The Central Intelligence Agency (March 1971), NSA, Washington, DC.

⁶³ Office of National Estimates, "Memorandum: Nothing Succeeds Like a Successful Shah," The Central Intelligence Agency (8 October 1971), NSA, Washington, DC.

⁶⁴ Memorandum From [name not declassified] of the Near East and South Asia Division of the Directorate of Plans, Central Intelligence, to the Deputy Director's Executive Assistant [name not declassified], August 10, 1970, FRUS 1969-77, Volume E-4.

⁶⁵ Central Intelligence Agency Office of National Estimates, "Nothing Succeeds Like a Successful Shah," October 8, 1971, NSA, Washington, DC.

⁶⁶ Ibid.

⁶⁷ Ibid.

Kissinger advised Nixon that he shared Helms's assessment that "there seems little reason not to give the Shah whatever he wants."⁶⁸ He praised Iran as "an island of stability" in a sea of uncertainty and instability. He reminded Nixon that the main argument in favor of keeping restrictions on arms sales in place had to do with Iran's economy. Iran's debt load "is high enough to be cause for concern in Iran as well as here about raising it much higher," he wrote. "The problem arises as [the Shah] pushes the limits of his resources and ours." Kissinger described the Shah as "a man in a hurry who will press all resources available to their limits." He said he shared the view of Helms that the Shah was probably exaggerating the threats facing Iran and the Persian Gulf. However, Kissinger said he agreed with Helms that the CIA bases were too important to jeopardize the overall U.S. strategic effort in the Persian Gulf. They adopted a geopolitical approach to the issue of arms sales to Iran.

The National Security Adviser concluded that moderate pro-American Arab states faced encirclement by Soviet proxy states and that Iran needed to play the role of Washington's enforcer and "gladiator" in West Asia.⁶⁹ "And this was achievable without any American resources, since the Shah was willing to pay for the equipment out of his oil reserves," said Kissinger.⁷⁰ The White House viewed as crucial Iran balancing Soviet influence and aspirations in West Asia. The fact that Iran supplied the United States with only 5 percent of its foreign oil imports meant that it was unlikely to ever gain leverage over the U.S. economy and by extension influence U.S. foreign policy objectives.⁷¹

Frustrated with the slow pace of the policy review, and anxious to follow through on his commitments to the Shah, Nixon made a decisive and characteristically secretive personal intervention in U.S.-Iran relations. During a private meeting with Zahedi in May 1970, the

⁶⁸ Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon, Washington, April 16, 1970, FRUS 1969-77, Volume E-4.

⁶⁹ Cooper, *The Oil Kings*, p. 20.

⁷⁰ Gause, "British and American Policies in the Persian Gulf, 1968-1973," p. 262.

⁷¹ Briefing Memorandum, April 30, 1977, "Your Meeting with the Shah, May 13, 1977," NSA, Washington, DC. As chapter three explains, the same could not be said of Saudi Arabia: U.S. imports of Saudi oil grew steadily in the early 1970s until by 1976 they reached fully a quarter of all imports.

President and Iran's foreign minister discussed Iran's cash flow problems and the Shah's pressing need to generate higher oil revenues. "Tell the Shah you can push [us] as much as you want [on oil prices]," he told Zahedi. "As long as you make this money for the good of the Iranian people and the progress of Iran [then] I will back you."⁷² The conversation was not transcribed, neither were its contents relayed to senior White House staff with the undoubted exception of Kissinger. Nixon's private assurance meant that his administration would not object if Iran pressured U.S. oil companies to increase production and charge consuming nations in the West more for their oil. This was the sign the Shah had been anticipating. Now he could support the efforts of other Middle East oil producers to increase oil prices through OPEC with the knowledge that he enjoyed Nixon's private backing.

Nixon's pledge on oil prices was made without a cost-risk analysis to the United States economy, which was built on a foundation of affordable energy. Oil prices were not yet a major concern at a time when energy supplies were plentiful and affordable in the view of foreign policy analysts. Ironically, what really worried Nixon and Kissinger at that time was the prospect of not higher but *lower* oil prices. They believed that unless conservative pro-U.S. Middle Eastern monarchies like Iran and Saudi Arabia generated billions of dollars to develop their economies and strengthen their military capacities they faced the possibility of violent revolution from the left. "It is not likely that the monarchies of Iran, Kuwait, Abu Dhabi, and Saudi Arabia would survive if petroleum prices fell," argued a scholar whose work reflected their viewpoint. The price of stability in the Middle East required high oil prices because the region's conservative monarchies were "least likely to force a confrontation over American support for Israel."⁷³ A greater share of oil revenues would allow pro-U.S. oil potentates to develop their economies while buying the weapons they needed to strengthen them from internal subversion and defend NATO's oil supply. It did not

⁷² Cooper, *The Oil Kings*, p. 42.

⁷³ Stephen D. Krasner, "The Great Oil Sheikdown," *Foreign Policy*, No. 13, Winter 1973-1974, p. 133.

seem to occur to Nixon that he had placed in the hands of a foreign leader the power to redistribute wealth away from the industrialized West in favor of oil producers who did not necessarily share U.S. strategic objectives. He placed cold war geopolitics above all other considerations including economics and energy issues. In November 1970, Nixon decided that henceforth U.S. strategic policy in the Persian Gulf would rest on a strong Iran supported by Saudi Arabia in a clearly subservient and secondary role. This became known as the “Twin Pillars” policy.

Despite the shift on oil, as the deadline approached for Britain to evacuate the Persian Gulf, Nixon still hesitated to challenge Laird, Rusk and the Joint Chiefs on unrestricted arms sales. In early 1971 his private remarks suggest that he fully sympathized with the Shah’s objectives and wished he could do more for him. In an April 1971 conversation with Ambassador MacArthur, the President praised the Shah’s “damn tight shop” and insisted he was “stronger than a horseradish” for Iran’s monarch: “I like him, I like him and I like his country. And some of those other bastards out there I don’t like, right?”⁷⁴ He said he wished “there were a few more leaders around the world with his foresight...And his ability, his ability to run, let’s face it a virtual dictatorship in a benign way.” Iran was America’s one essential “building block” between Japan and Europe. Nixon’s comments made it clear that he did not think any other leader or country in West Asia had the potential to take over from the British in the Persian Gulf. Still, he wanted assurances from his ambassador that Iran had “the stroke” or the capacity to assume the defense burden. With just seven months to go before the British deadline to depart, Nixon’s refusal to heed his advisers’ concerns made it all the more likely that events in the region or the Shah’s unilateral actions might force his hand.

⁷⁴ Conversation Among President Nixon, Ambassador Douglas MacArthur II, and General Alexander Haig, Washington, April 8, 1971, 3:56-4:21 p.m.,” FRUS 1969-76, Volume E-4.

There was growing evidence in Iran in 1971 that opposition to the Shah was strong and growing. The United States embassy and the CIA tracked a sudden upsurge in terrorist activity in Iran. The Embassy reported that “criticism and dissatisfaction with the United States is growing, especially among students, and there are no indications this trend will be reversed in the near future.”⁷⁵ The CIA concurred with that assessment when it noted, “The past year or so has seen a number of manifestations of discontent.” There were “soft spots, real and potential in the Iranian situation.”⁷⁶ Iranian universities were in turmoil from student protests. Gunmen infiltrated Tehran and fought cat-and-mouse battles with the security forces. The Shah was isolated and there was “a regrettable lack of communication upward to him from his ministers...Even foreign ambassadors cringe before the Shah’s responses to official presentations which displease him.” Sycophancy at court stifled discussion and analysis. “The manner in which the Shah projects his royal will adds to the discontent, and more incidents are likely in the future.” The Shah’s tendency to overspend on weapons was bound to have political consequences: “Financial difficulties arising from overspending could hurt the development program which diverts much Iranian energy away from political affairs...Iran’s fundamental vulnerability lies in the unique concentration of power in the hands of the Shah.” Ominously, the CIA warned that without the Shah at the helm the Pahlavi state might stove in: “His demise will usher in change, perhaps involving tumult and chaos.” Kissinger reminded Nixon on the eve of their departure for Tehran that the Shah had himself voiced concerns that stability and progress in Iran relied too much on his own firm leadership and that the institutions and leaders were not in place to make an orderly transition if he were removed from the scene.⁷⁷

⁷⁵ Airgram A-56 From the Embassy in Iran to the Department of State, February 22, 1971, FRUS 1969-77, Volume E-4.

⁷⁶ Office of National Estimates, “Memorandum: Nothing Succeeds Like a Successful Shah,” The Central Intelligence Agency (8 October 1971), NSA, Washington, DC.

⁷⁷ Ibid.

In November 1971 the Shah ordered Iranian commandos to invade and annex three small islands strategically located at the mouth of the Persian Gulf and about to be surrendered by the British.⁷⁸ The Nixon administration made no effort to protest the seizure, despite the obvious illegality of the operation under international law, and almost certainly encouraged it. With the annexation of Abu Musa, Greater Tunb, and Lesser Tunb, the Shah's lightning assault constituted an act of bluff and daring that subsumed whatever remaining doubts Nixon might have had about Iran's military prowess or the Shah's ability to defend regional oil fields and shipping lanes. The military operation deepened the deep rift between Iran and its Arab neighbors. Iraq broke off diplomatic relations and expelled 60,000 Iranian nationals. Iran and Iraq exchanged threats and moved reinforcements to their border to defend mountain passes and oil assets. Libya used the invasion to justify its decision to nationalize British Petroleum assets and withdraw one billion dollars from British banks.⁷⁹ As Laird predicted, the Shah's foreign policy brinksmanship caused Iraq to draw closer to the Soviet Union, accelerated a regional arms race, and further radicalized an already tinderbox region. Yet this only made the Shah a more attractive ally in the view of Nixon and Kissinger.

Regional developments in a cold war setting continued to influence the Nixon administration's evolving national security doctrine in the Persian Gulf. Days after Iran seized the three islands, neighboring Pakistan went to war with India for the third time since independence. Although Pakistan's military government provoked the conflict, Nixon and Kissinger regarded their ally as a bulwark against leftist Indian influence and expansion in West Asia. The Shah had previously warned the Nixon administration that the goal of the Soviets was to dismember Pakistan with a view to gaining access to the warm waters of the

⁷⁸ The following newspaper articles described in detail the Iranian takeover of the three islands: John K. Cooley, "As Britain Exists, Iran Commandeers Head of Persian Gulf," *Christian Science Monitor*, December 2, 1971; William Dullforce, "Iran Seizes 3 Strategic Gulf Islands," *Washington Post*, December 1, 1971; "Iranian Troops Occupy Three Strategic Islands in Persian Gulf, and a Sheikdom Protests," *New York Times*, December 1, 1971.

⁷⁹ John K. Cooley, "Iraqi-Iranian Relations Nearing Crisis," *Christian Science Monitor*, January 8, 1972.

Persian Gulf. He worried that Iran faced encirclement from Iraq to the west and India in the east. Constrained by law from sending military supplies to either side in the conflict, Nixon and Kissinger responded by asking the Shah to rush shipments of his own U.S.-made weapons to Pakistan with the promise to reimburse and compensate Iran at a later date.⁸⁰ Ultimately, the U.S.-Iran effort to prevent Pakistan's collapse and dismemberment failed. Pakistan's eastern province broke away to form the new state of Bangladesh and the remnants of the Pakistani rump state in the west was reduced to impoverishment and instability. Yet President-Shah cooperation to save Pakistan from defeat set an important precedent for future covert endeavors and also set the stage for Nixon's decision the following year to lift all restrictions on arms sales to Iran.

The Pakistan crisis convinced Kissinger that U.S. policy towards Iran and the Persian Gulf could no longer be handled exclusively by the State Department. The idea took root in Kissinger's NSC that Iran could serve as a sort of American "aircraft carrier" in Asia, a giant regional arms dump and landing pad from which U.S. firepower could be quietly and quickly inserted and extracted at will. Asking the Shah to do favors for them meant that Nixon and Kissinger could bypass U.S. domestic law, avoid scrutiny from the media and the Congress, and avoid explaining their actions to the American public. It also meant that each time they asked the Shah to help them out of a tight spot they owed him something in return. Kissinger never forgot the Shah's willingness to help save Pakistan. Years later, when the Shah came under severe criticism in Washington for refusing to lower oil prices, Kissinger reminded an audience that their Iranian ally had always been a steadfast friend. "When has [the Shah]

⁸⁰ Kissinger's declassified telephone transcripts tell the story. In one instance Kissinger phoned Nixon at the White House residence to let him know that "another thing we have done is to send a back channel to the Shah from you saying that, trying to find out whether he wanted to give some support to Pakistan and saying if he did we would look to see whether we could find a way of letting, of replacing his..." Nixon cut him off: "Are you sure the back channel is safe?" When Kissinger said it was, Nixon urged him not to go through Ambassador MacArthur whom he did not trust. When Kissinger said that the Department of State knew nothing about their plan Nixon enthused: "Good, well we'll have some fun with this yet. God, you know it would really be poetic justice here is if some way the Paks could really give the Indians a bloody nose for a couple of days." Telcon, Nixon-Kissinger, December 4, 1971, NSA, Washington, DC.

done anything that we disapprove of?” he asked them. “Whenever we have needed his help he has been willing to apply positive pressure to help, to send special messages or emissaries.”⁸¹ The Shah’s unconditional support for U.S. strategic objectives during the India-Pakistan war further confirmed Nixon’s and Kissinger’s sympathetic view of the Shah and Iran’s potential as a key NATO ally in the cold war.

The dramatic events in West Asia in late 1971 and early 1972 included not only India’s victory against Pakistan but also Iraq’s decision to sign a treaty of friendship with the Soviet Union. Coming so soon after similar agreements were reached between the Soviets and Egypt and India, the Nixon administration felt obliged to balance Moscow’s regional aspirations by asserting American strength in a vital area of interest while bolstering support for the Shah. The Shah was anxious to seek an assurance from Nixon that U.S.-Soviet detente did not signify a reduction in Washington’s commitment to the survival of the Pahlavi monarchy. He fretted that East-West detente might encourage the Soviets to “increase pressure in the Middle East.”⁸² Ever wary of great power machinations, the Shah sought a pledge from Nixon that the U.S. would not conclude any secret deals with Moscow that infringed Iranian sovereignty or territorial integrity. The Shah had never forgotten the traumatic events of 1941 when the Allies invaded Iran and divided the country between them for the duration of the war. It was in the spirit of flying the flag, sending a message of support for their ally, and dissuading the Soviets from further regional mischief, that Nixon and Kissinger led a high-level delegation to Iran in May 1972 after ending summit talks in Moscow to reduce nuclear weapons stockpiles.⁸³ The summit heralded a new era in

⁸¹ Memorandum of Conversation, 8/7/76, “Kissinger, Helms, Atherton, Eilts, Pickering, Oakley: Guidance for Ambassadors Eilts and Pickering,” 8:00 a.m. - 10:00 a.m., August 7, 1976, NSA, Washington, DC.

⁸² Alam, *The Shah and I*, p. 211.

⁸³ See the President’s daily schedule for a minute-by-minute breakdown of his overnight stay in Tehran: www.nixon.archives.gov/virtuallibrary/documents/dailydiary.php. See also Memorandum From the President’s Assistant for National Security Affairs (Kissinger) to President Nixon, Washington, May 18, 1972, FRUS 1969-77, Volume E-4, 6.

superpower relations and came just weeks after Nixon concluded a similarly triumphal state visit to the People's Republic of China.

Prior to their departure for Tehran, Kissinger provided Nixon with a memorandum on the Shah's prospects and conditions inside Iran. The National Security Adviser noted that the scope and speed of the Shah's reforms at home were "producing increasing internal dislocations and generating discontent from student activists."⁸⁴ Anxious to reassure the Shah, Nixon made sweeping concessions to his Iranian host during an intense twenty-four hour visit from May 30-31, 1972. The two leaders allowed Kissinger to sit in and write summaries of their two formal sessions but excluded him from a third late discussion.⁸⁵ During their talks Nixon made a series of sweeping concessions. He approved the sale of laser bombs and F-14 and F-15 fighter aircraft.⁸⁶ He agreed to provide Iran with nuclear power plants and fuel for reactors.⁸⁷ He agreed to match the number of U.S. military support staff in Iran with the same number of Russian technicians stationed in Egypt.⁸⁸ He agreed to provide covert CIA support for an Iranian-sponsored Kurdish guerrilla operation in Iraq

⁸⁴ Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon, Washington, May 18, 1972, FRUS 1969-77, Volume E-4.

⁸⁵ Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon, Washington, May 18, 1972, FRUS 1969-77, Volume E-4, 6.

⁸⁶ Memorandum of Conversation, Tehran, May 31, 1972, 10:30 a.m. to 12:00 p.m., FRUS 1969-77, Volume E-4. As an example of how little we actually know about what transpired in Nixon's private talks with the Shah, there are three widely varying time frames for their first session on the late afternoon of May 30, 1972. Alam in his diary says the President and the Shah met for one and a half hours. See Alam, *The Shah and I*, p. 222. The President's daily schedule allotted him an hour and forty-five minutes, from 5:30 p.m. until 7:14 p.m. See www.nixon.archives.gov/virtuallibrary/documents/dailydiary.php. Kissinger's notes say that the three men met from 5:35 p.m. until 6:35 p.m. for a total of one hour. See Memorandum of Conversation, Tehran, May 30, 1972, 5:35 p.m. to 6:35 p.m., FRUS 1969-77, Volume E-4. Kissinger's notes have been proven to be unreliable. The President's schedule was prepared in advance and probably did not reflect a late start or early end to the talks, let alone a run over in time. Because Alam was on the scene and watching events like a hawk, then jotting them down in his diary, his version of the time length is the most reliable.

⁸⁷ "The Growing U.S. Involvement In Iran," The United States Department of Defense, January 22, 1975, 13, NSA, Washington, DC. There is no doubt that Nixon, Kissinger and the Shah discussed the possibility of Iran attaining nuclear technology and fuels at their summit in Tehran in 1972. This was alluded to in a January 1975 report prepared by the U.S. Department of Defense on the American presence in Iran. The authors of the report made one factual inaccuracy: they mistakenly placed Nixon in Tehran in 1974 instead of 1972. They then cited Secretary Kissinger's November 1974 visit to Iran as the occasion for further consultations and the signing of a joint communiqué on cooperation in the field of nuclear energy.

⁸⁸ Telegram 4575, Major General Williamson to Under Secretary of Defense Kenneth Rush, June 5, 1972, NSA, Washington, DC.

aimed at weakening that country's pro-Soviet regime.⁸⁹ In return, Nixon appealed to the Shah not to fear detente but to view it instead as strategic architecture that actually strengthened the United States position in West Asia rather than one that signaled withdrawal or retreat from regional affairs. "Protect me," the President told the Shah at one point. "Don't look at detente as something that weakens you but as a way for the United States to gain influence."⁹⁰ Although Nixon's concessions appeared to mark a sharp break with previous U.S. policy towards Iran, it was the result of a three and a half year search for the right formula by which to meet the Shah's needs while securing the Persian Gulf after the British departure in 1971. This latest set of verbal commitments between the two leaders tightened the bonds between Washington and Tehran and made the Nixon administration even more dependent on the Shah's continued goodwill and cooperation.⁹¹ As usual, the deals concluded between Nixon, Kissinger and the Shah were decided in secrecy, outside normal diplomatic channels and away from public, media and congressional scrutiny.

When they learned about the President's promises to the Shah, Nixon's national security team struggled to define the details. The Shah wasted no time in informing U.S. military and diplomatic officials in Tehran that the President had pledged to end all restrictions on arms sales and provide Iran with "all available sophisticated weapons short of the atomic bomb."⁹² General Williamson, head of the U.S. military mission, resisted implementing what he regarded as unwritten and therefore non-existent commitments. Williamson was shocked when Iranian officials presented him with plans that called for U.S.

⁸⁹ US House Select Committee on Intelligence, *CIA: The Pike Report*, With an Introduction by Philip Agee Spokesman Books: Nottingham, 1977, p. 196. Details of the Kurdish operation were investigated by the US House Select Committee on Intelligence led by Congressman Otis Pike. The so-called Pike Report and its findings on covert operations and abuses by the CIA during the cold war were leaked to the Village Voice newspaper in February 1976. It was published in book form in 1977 in Great Britain.

⁹⁰ Memorandum of Conversation, Tehran, May 31, 1972, 10:30 a.m. to 12:00 p.m., FRUS 1969-77, Volume E-4.

⁹¹ Nixon's verbal promises were formally adopted as administration policy in July 1972.

⁹² Telegram 4575, Major General Williamson to Under Secretary of Defense Kenneth Rush, June 5, 1972, NSA, Washington, DC.

military personnel to occupy “operational positions in Iranian units.”⁹³ Joseph Farland, the newly arrived U.S. ambassador, sought clarification from Kissinger. Had the President really promised the Shah that American GI’s would “operate some combat elements of the Iranian forces”?⁹⁴ He assumed there had been a misunderstanding. The Congressional implications were obvious and so too was the risk that the United States would be drawn into a regional conflict. The whole idea violated the spirit of the Nixon Doctrine.

Kissinger’s reply hinted at the enormity of the backroom deals reached between Nixon and the Shah. He conceded to Farland that “this is one of those cases where the commitment made was a broad one without specific reference to the kind of details we must now address.”⁹⁵ Yet while it was the case that United States military personnel would not take on operational roles with the Iranian armed forces, “it was very important that this not be handled in such a way as to dissipate the advantage gained from the President’s very forthcoming response.”⁹⁶ The disputes between the military mission and embassy in Tehran led Kissinger to decide to draft a formal policy ruling to settle the question of U.S. arms sales policy towards Iran.

Harold Saunders, the NSC desk officer with day-to-day responsibility for U.S.-Iran relations, proposed a straightforward solution. We “should leave decisions on what to buy to the Government of Iran and confine ourselves to assuring that the Iranian Government has good technical advice from our people on the capabilities of the equipment involved.”⁹⁷ Saunders had been seconded to the NSC from the CIA in the early 1960s and within the NSC was the senior analyst working on Iran. He had accompanied Kissinger to Tehran and was

⁹³ Memorandum From Harold Saunders of the National Security Council to the President’s Assistant for National Security Affairs (Kissinger), Washington, August 2, 1972, FRUS 1969-77, Volume E-4.

⁹⁴ Ibid.

⁹⁵ Kissinger’s reply to Embassy Tehran was made on August 31, 1972. But the archival reference is included as a bundle with the actual request which dates from August 2. Memorandum from Harold Saunders of the National Security Council to the President’s Assistant for National Security Affairs (Kissinger), Washington, August 2, 1972, FRUS 1969-77, Volume E-4.

⁹⁶ Ibid.

⁹⁷ Memorandum From Harold Saunders of the National Security Staff to the president’s Assistant for National Security Affairs (Kissinger), Washington, July 14, 1972, FRUS 1969-77, Volume E-4.

sensitive to the linkages between economic development and arms purchases. “The decision to let the Shah buy what the Shah wanted or the decision not to have the [economic] review, all of that was virtually four years behind, three years behind us in any case,” he recalled. The new policy, dubbed the “blank check,” was actually “a ratification of a posture that had long since crystallized.”⁹⁸ There was truth in this. The speed with which Kissinger took Saunders’ recommendation and adopted it as broad-stroke administration policy suggests that he too saw it as the logical next step and not as a radical departure from existing policy. It certainly reflected Nixon’s views.

The Nixon administration’s new arms sales policy towards Iran became enshrined on July 25, 1972, when Kissinger sent a presidential directive to Secretaries Laird and Rogers in which he confirmed the sale of F-14 and F-15 aircraft, laser-guided bombs, and the dispatch of Air Force technicians to Iran.⁹⁹ To emphasize that the long-standing debate on arms sales was now ended, Kissinger instructed both secretaries that from now on, “in general, decisions on the acquisition of military equipment should be left primarily to the government of Iran,” and that it was now up to the Shah and not them to decide whether or not he wanted to buy “certain equipment...” Kissinger left them an inch of wiggle room when he inserted the words “in general” and “primarily” to his original directive.¹⁰⁰ There was no doubt in anyone’s mind that this meant the burial of the Twitchell Doctrine. One embassy official in Tehran exulted that the White House directive “pretty much gives us carte blanche” to whistle up business with defense contractors.¹⁰¹ Almost immediately, the Embassy signed off on a laundry list of items including commercial and military aircraft worth hundreds of millions of dollars.¹⁰² Henceforth, Iran’s economic indicators were no longer factors to be taken into account by the

⁹⁸ FISOHA interview with Harold Saunders.

⁹⁹ Memorandum From the President’s Assistant for National Security Affairs to Secretary of State Rogers and Secretary of Defense Laird, Washington, July 25, 1972, FRUS 1969-77, Volume E-4.

¹⁰⁰ Ibid.

¹⁰¹ Jack C. Miklos to The Honorable L. Douglas Heck, Minister-Counselor at the American Embassy, Tehran, Iran, July 26, 1972, *The Making of US Policy, 1977-80*, NSA, Washington, DC.

¹⁰² Alam, *The Shah and I*, p. 230.

United States when selling arms to Iran. The Shah knew what was best for Iran and it was time for officials to get out the way.

The floodgates opened to a deluge of billions of dollars in unrestricted arms sales from the United States to Iran. During the first two years of the Nixon presidency Iran acquired almost \$750 million in U.S. arms, a number that was about the same amount it had received from the U.S. from 1955-1969 (and in addition to separate purchases from Britain, the Federal Republic of Germany and France).¹⁰³ With all restrictions now removed, that figure was about to increase substantially. Iran's military budget already absorbed more than 10 percent of GNP.¹⁰⁴ Imports of weapons had piled up \$380 million in debt to western and communist bloc suppliers. The CIA reported that Iran would shortly "not have enough money to pay for the investment required by an ambitious development plan while servicing its foreign debt, and providing the consumer goods that make for political tranquility."¹⁰⁵ For Nixon and Kissinger, the risks to Iran's economy were of secondary importance to the perceived geopolitical benefits to the United States of having a strong Iran guarding the Persian Gulf and containing the strategic ambitions of the Soviet Union and its proxies. The U.S. defense posture in the Persian Gulf was based on the assumption that Iran under the Shah's leadership would not do anything to "supersede, or erase" American influence.¹⁰⁶ Whereas Kissinger viewed arms sales to Iran as a short-term tactical consideration, the Shah saw them in strategic terms as a way to strengthen Iran against interference from the great powers and project Iranian power throughout the Middle East and West Asia.

¹⁰³ Memorandum for Dr. Brzezinski, The White House, from Anthony Lake, National Security Council, *Iran: The Making of US Policy, 1977-80*, NSA, Washington, DC.

¹⁰⁴ Ibid.

¹⁰⁵ Ibid.

¹⁰⁶ Michael Getler, "Arms Sales May Raise Oil Cost," *Washington Post*, April 28, 1974.

U.S.-Iran relations in Nixon's first term were defined by a shared commitment to forge a closer strategic relationship with the objective of securing the Persian Gulf in the wake of Britain's departure. Geopolitical, economic and personal factors came into play. The Nixon administration's most immediate foreign policy concern was to bring the war in Vietnam to an end without weakening its ability to project global power and maneuver in relation to the Soviet Union and the People's Republic of China. It encouraged allies such as the Shah to assume the burden of their own defense in return for greater access to U.S. arms. Nixon's personal enthusiasm for the Shah, a leader he trusted, and the sense of urgency imposed by Britain's scheduled departure from the Persian Gulf in 1971, led him to bypass the bureaucracy. Consequently, he ended restrictions on conventional arms sales and accepted higher oil prices as the trade-off necessary to pay for Iranian rearmament. This entailed a risk of instability in both countries—higher oil prices could weaken the U.S. economy and overheat Iran's. In the conditions of the early 1970s, when oil prices were low, the risks were regarded as minimal and subservient to the overarching strategic objective of securing Iran's role within detente as the guardian of U.S. interests in the Persian Gulf and West Asia. If there was a disconnect it was in perception. The Nixon administration assumed the Shah shared its goals and placed the U.S. national interest on an equal footing with his own. This was not the case. The Shah exploited the Nixon Doctrine because he sought to strengthen his regime against possible U.S. interference in the future.

Chapter Two

POPEYE IS RUNNING OUT OF CHEAP SPINACH

U.S.-Iran Relations and the Energy Crisis, Watergate, October War and Arab Oil Boycott

In January 1973, the same month Richard Nixon began a second presidential term, and the U.S. officially withdrew from Vietnam, a powerful convergence of economics and geopolitics ushered in a new era of energy crisis and financial insecurity. The wisdom of the Nixon administration's decisions to end restrictions on U.S. arms sales to Iran and allow oil prices to increase came into question during a year of global upheaval unprecedented since the end of the Second World War. Energy shortages, rising oil prices, oil nationalization, political instability and war in the Middle East, and the Watergate scandal weakened the U.S. international position even as the same events hastened Iran's rise to regional power status. The Shah's view of Iran's national interest began to show signs of divergence from U.S. national security policy and the potential for future disagreements between the two allies over oil policy.

Domestic politics had a direct bearing on President-Shah relations and the economic crisis. The previous June, five men had been arrested for breaking into the offices of the Democratic National Committee in the Watergate complex in Washington, DC. Police discovered that the burglars trying to wiretap the offices of the Democratic National Committee were affiliated with Nixon's re-election campaign. While police hunted for clues, Nixon and aides insisted that the CIA not cooperate with the investigation lest it reveal their complicity in even worse acts of political espionage and corruption. Throughout the year, Nixon's domestic travails impacted his ability to manage foreign policy. Leaders like the Shah began to question the Nixon administration's ability to implement its policy objectives,

leading some to conclude that American leadership was in doubt. The political crisis coincided with a different phenomenon dubbed the “energy crisis.”

In the early 1970s U.S. national security policy abruptly adapted to structural changes afflicting the world and domestic consumer economies. As recently as 1970 the United States had been the world’s number one producer of oil.¹ In that year domestic oil production in the continental United States had peaked before falling off.² Declining oil production was a worrying trend at a time when domestic oil consumption at home and around the world sharply increased as other economies grew, further decreasing U.S. economic influence.³ Although the U.S. still produced most of the oil it consumed in 1973, it was obvious that within a decade the majority of the country’s source of fuel would originate abroad. The bulk of American petroleum imports still came from Venezuela, but the Middle East held 70 percent of the world’s proven oil reserves, particularly in the Persian Gulf area with the region as a whole destined to become a vital arena for U.S. global strategy in the cold war.⁴ “Like it or not, during the next decade the United States will have to import a lot of Arab oil—or face a national economic catastrophe,” warned *The Chicago Tribune* in September 1973⁵ Radical and nationalist Arab states such as Algeria, Iraq and Libya, and the conservative Persian Gulf monarchies of Iran, Saudi Arabia, United Arab Emirates and Kuwait assumed an enhanced role in world economic affairs far beyond their military capability, industrial capacity, and land and population.⁶ Oil producers exploited their new status to demand increased minority ownership in the foreign-dominated oil consortia operating in their

¹ Yergin, *The Prize*, p. 567.

² Ibid.

³ Euclid A. Rose explored the issue of increased oil dependency in the early 1970s in his essay, “Global Oil Market: The Rise of the World’s Dependency on Oil,” *Middle East Journal*, Vol. 58, No. 3, Summer, 2004, pp. 424-443.

⁴ Marvin Howe, “In Middle East, Oil Pays The Way,” *New York Times*, January 21, 1972.

⁵ Lawrence Mosher, “Arab Oil Policy, Means a Crisis for U.S.,” *Chicago Tribune*, September 16, 1973.

⁶ By September 1973 the United States imported 28 million barrels of oil or 26 percent of its total imports from Arab states—a 35 percent increase over the same period the year before. David Ottaway, “Saudi Threat to Cut Oil Flow Million Barrels Daily Reported,” *Los Angeles Times*, September 5, 1973.

countries. Working together in OPEC, they pressed the oil companies to increase production and raise prices to maximize their percentage of profit-sharing.

In the United States, the emerging gap between oil production and oil consumption became alarmingly self-evident for the first time over the winter of 1972 and 1973 when unseasonably frigid temperatures heightened demand for home heating fuel and kerosene. The national power grid almost collapsed, airports ran low on fuel, school districts closed, and power blackouts resulted in widespread job losses. The federal government drew up guidelines to implement fuel rationing. Commentators dubbed the events of late 1972 and early 1973 an “energy crisis,” a term which highlighted the fact that the domestic American economy was remarkably unprepared to handle sudden changes to fuel pricing, production and supply.⁷ “We’ve had a happy era of low costs, low risks and high benefits,” conceded Peter Peterson, Nixon’s outgoing secretary of commerce. “But Popeye is running out of cheap spinach.”⁸ As recently as 1965 the electrical power grid had failed, plunging the east coast into darkness. Yet the Johnson administration’s inquiry into the blackout had still concluded that the country’s energy resources were more than adequate to meet demand for the rest of the century.⁹ That turned out to be a woeful underestimate.

The Nixon administration responded to the energy crisis by first loosening and then scrapping entirely the 1959 oil import quota regulations. Once the quotas were lifted, U.S. imports of foreign crude oil increased in commensurate terms, soaring from 19 percent of domestic consumption in 1967 to 35 percent six years later.¹⁰ Analysts predicted that by 1980 imports of foreign oil would constitute more than half domestic consumption.¹¹ Within a

⁷ “America’s Energy Crisis,” *Newsweek*, January 22, 1973.

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ Oil imports soared from 2.2 million barrels of oil per day in 1967 to 6.2 million barrels per day in 1973. Yergin, *The Prize*, pp. 567 and 591.

¹¹ Edward Cowan, “New Part of the Mideast Problem: US Oil Supplies,” *New York Times*, September 10, 1973. For more news analysis from the period on U.S. oil imports see the following two articles: Ray Vicker, “Fight Over Fuel; Oil Crisis Points Up Huge Western Reliance On Producing Nation,” *Wall Street Journal*, February 4,

remarkably short period of time the U.S. economy became highly dependent on the vagaries of the world oil market. The growing dependence of the U.S. economy on the global energy marketplace brought with it a slew of other complications. First, it soaked up excess capacity and tightened the market to the point where prices began spiraling in an upward direction for consuming nations everywhere. Second, as a major consumer of foreign oil the U.S. now competed with its allies in Europe and Japan for access to the same pool of oil and gas. U.S. oil dependency posed serious and unexpected implications for U.S. foreign and national security policy, none more so than towards Middle East oil producers.¹² What had historically been a buyer's market turned in favor of sellers and producers who looked for ways to profit commercially and strategically from their newfound economic power. The Middle East oil market, already vulnerable to the slightest interruption in supply caused by an event such as a war, embargo, blockade, acts of terrorism, severe weather conditions, or outright political manipulation, became a major focus of attention for oil consuming countries.¹³

The Nixon administration's twin pillars of security and strength in the Persian Gulf, Iran and Saudi Arabia, employed different short-term strategies to maximize their influence in world economic affairs, though they shared the same long-term objective which was to raise oil prices. The main difference was in the pace and scale of price increases. The Kingdom of Saudi Arabia, boasting one-fifth of the world's oil reserves, was "the swing producer for the entire world," and the world's largest exporter of crude oil.¹⁴ Saudi Arabia was also a thinly populated and lightly defended country. King Faisal shared the Shah's

1972, and, "Edward Cowan, "Oil Imports Climbing With No End In Sight; Upward Trend to U.S. Affluence and Fuel Needs Oil Imports Are Continuing to Climb," *New York Times*, May 22, 1973.

¹² Oil industry analyst Daniel Yergin explained that in 1970 there had been "3 million barrels per day of excess capacity in the world outside the United States, most of it concentrated in the Middle East. But by 1973 the surplus production capacity that could be considered actually 'available' added up to only 500,000 barrels per day. That was just one percent of world production." Yergin, *The Prize*, p. 586.

¹³ One of the first proponents of a comprehensive U.S. energy security strategy towards Middle East oil producers was James E. Akins. Akins' article, "The Wolf is Here," in *Foreign Affairs*, Vol. 51, No. 3, Apr., 1973, pp. 462-490, drew widespread praise and attention. Nixon appointed Akins to the post of ambassador to Saudi Arabia, where he served from 1973-75.

¹⁴ Yergin, *The Prize*, p. 594.

staunch anti-communism and looked to Washington for expressions of support and military aid against radical Arab regimes in Libya, Egypt and Iraq.¹⁵ Faisal rejected the use of oil as a tool for political blackmail and favored only modest increases in price. “Oil isn’t a weapon,” the King insisted. “It is an economic force with which we can buy weapons which can be used in battle.”¹⁶ Saudi Minister of Petroleum and Mineral Resources Zaki Yamani explained that his government viewed sudden increases in the price of oil as potentially destabilizing to the world economy and harmful to Saudi Arabia’s plan of cautious economic modernization. “My main worry was that if we increased the price of oil too much we would merely reduce demand for it in the future,” he once said. “I have always felt price increases should come in small doses. After all, the economic stability and the political stability of the West is very important to us.”¹⁷ In the Saudi view, sudden, sharp increases in the price of oil could potentially shock the global economy, whereas modest price increases made at regular intervals could be safely absorbed by consuming nations.

U.S. officials appreciated Saudi responsiveness and flexibility on the oil supply and price increases. Nixon and Kissinger accepted that the Saudis needed to raise oil revenues to buy more arms to strengthen their regime against radical threats at home and abroad. Washington began looking for new ways to increase Saudi dependency on Washington in the area of military cooperation and arms sales. The strategic energy alliance between the U.S. and Saudi Arabia intensified and American imports of Saudi oil rapidly increased after 1970.¹⁸ Saudi petroleum was particularly prized by the U.S. because its low-grade sulphur content met new clean air standards and made it easier to convert to gasoline. In 1972 Nixon

¹⁵ To learn more about King Faisal’s relations with the United States in the pre-oil shock era, see Helmut Mejcher, “King Faisal Ibn Abdul Al Saud in the Arena of World Politics: A Glimpse From Washington, 1950-1970,” *British Journal of Middle Eastern Studies*, Vol. 31, No. 1, May, 2004, 5-23.

¹⁶ Rachel Bronson, *Thicker Than Oil: America’s Uneasy Partnership With Saudi Arabia*, Oxford and New York: Oxford University Press, 2006, p. 112.

¹⁷ Geoffrey Robinson, *Yamani: The Inside Story*, London: Simon & Schuster, 1988, p. 203.

¹⁸ U.S. imports of Saudi oil rose from \$13.5 million in 1970, increased six-fold in 1971, and surpassed \$79 million in the first six months of 1972 “Saudi Arabia Supplying More U.S. Oil,” *New York Times*, November 11, 1972.

and Kissinger privately acquiesced when King Faisal demanded a greater stake in Saudi Aramco, the U.S.-dominated oil consortium that had controlled Saudi oil production since the 1930s.¹⁹

The Shah shared Faisal's anti-communism and pro-U.S. foreign policy stance but disagreed on the regularity and size of oil price increases. Iran's population of 30 million, and the country's burgeoning industrial base and ambitious modernization programs, meant the Pahlavi regime had no choice but to find new ways to increase government revenues as quickly as possible to grow the economy and provide a restive population with a higher standard of living and more opportunities. The state of the economy was inextricably linked to the Shah's popularity and hence to political stability. The problem for the Shah was that 92 percent of Iran's oil production lay outside his government's control. In January 1973, taking advantage of the energy crisis, and citing as precedent Faisal's recent move against Aramco, the Shah pulled off his greatest act of brinksmanship yet. He defied a last minute appeal from Nixon not to nationalize the operations of the nineteen-year-old oil consortium, forcing the companies to accept a new accord under which they agreed to yield their operational role in the Iranian oil sector. In exchange, the companies accepted a twenty-year preferred access contract to buy oil from the Shah and take it to market.²⁰ The Shah boasted that he had achieved what his nemesis from the 1950s, Mossadegh, had failed to do: gain final control over Iran's mineral wealth and the country's means of production.

The Shah's triumph masked the fact that his regime's decision to seize control of domestic oil production had as much to do with fiscal pressure as national pride. Iran's government was readying a new five-year billion economic development plan intended to

¹⁹ In his memoirs, Kissinger wrote that he "had not been involved in the negotiation" to resolve Aramco's status." Kissinger, *Years of Upheaval*, p. 867. This was untrue. Kissinger's telephone transcripts reveal he was closely involved in all aspects of the problem. For example, see his August 2, 1972 conversation with John Connolly, Nixon's designated intermediary on the issue: Telcon, Connolly-Kissinger, 12:32 p.m., August 2, 1972, NSA, Washington, DC.

²⁰ "Iran Tells Oil Firms To Sharply Increase Production Or Leave when Pacts Expire," *Wall Street Journal*, January 24, 1973.

grow the economy by more than 11 percent annually over the next five years.²¹ The government also had to find money to pay for billions in new arms purchases.²² The Shah's old habit of approving unsustainable fiscal goals had once again asserted itself. By granting foreign oil companies preferred access to buy Iranian oil and the Shah also added an element of uncertainty into the Iranian economic equation, because the companies were not *required* to buy all the oil Iran produced. In the event of an economic downturn and reduced oil consumption in the West, the companies might be tempted to slash their purchase orders rather than flood the market with cheap oil. Such a scenario raised the possibility that Iran would be saddled with millions of barrels of unsold oil and a gaping hole in its budget projections.

The Shah's decision to nationalize Iranian oil production disappointed Nixon, concerned U.S. officials, and led to the first high-level threat to friendly relations. In a toughly worded letter dated January 19, 1973, Nixon urged the Shah to rethink the takeover, issuing his appeal "in light of our long friendship and our mutual concern for stability in your area of the world. My concern is that the most recent proposals of Your Majesty's government could seriously affect the entire area and the whole course of our mutual relationship." He cautioned the Shah that taking "a unilateral step which doesn't meet the legitimate interests of both sides could have serious consequences for the objectives we are pursuing together."²³ Nixon's letter to the Shah urging restraint was a bluff. In the wake of the U.S. withdrawal from Vietnam, the country's political establishment lacked the will to back up threats with the implied use of force.

Nixon's personal sympathies may well have been with the Shah. Nonetheless, the incident caused strain between the two leaders. Nixon's letter prompted the Shah to complain

²¹ Ibid.

²² Memorandum for Dr. Brzezinski, The White House, from Anthony Lake, NSC, "Attachment: One-Volume Compilation of Summaries of documents Relating to the US-Iranian Relationship, 1941-79, January 29, 1980," *Iran: The Making of US Policy, 1977-80*.

²³ Alam, *The Shah and I*, p. 277.

privately to an aide that the Americans still treated him as a client instead of an equal. It intensified the Shah's suspicions about U.S. motives in Iran. He denounced Nixon as a man who "has the audacity to tell me to do nothing in the interests of my country until he dictates where that interest lies." Recalling Nixon's second Inaugural speech, the Shah noted that the President had advocated non-interference in the internal affairs of other countries, and yet "the blasted man has the audacity to write me such a letter...I say to hell with special relations"²⁴ The diary of Asadollah Alam, the Shah's minister of the imperial court, and the king's close confidante, reveals that the Shah did not fully trust Nixon and Kissinger to safeguard Iranian interests. They had not intervened to stop India from crushing Pakistan. They had forced President Thieu to sign a Vietnam peace settlement that resembled a suicide note. The Shah even saw Nixon's unseen hand in Morocco where King Hassan had barely survived several spectacular coup plots. He told Alam "that he could see absolutely no reason why the Americans should have tried to bring down King Hassan...Likewise, there seems no rhyme or reason to their overthrow of Ngo Dinh Diem of Vietnam..." Diem's bloody end was never far from his thoughts: "But if it's the Americans who are to blame, why is it that they have refrained from curbing my independence?"²⁵ The Shah had did not trust any of the foreign powers with whom he did business, but the nature of his regime's reliance on American expressions of support and memories of Nixon's involvement in the 1953 coup against Mossadegh, convinced the Shah that his allies might move against him if they believed it was in the national interest. There was irony too in the fact that the Nixon Doctrine, which gave the Shah more leeway to maneuver in defense and foreign policy, also increased the likelihood that he could overreach at home or abroad. He already had a track record of provoking his neighbor Iraq. When the Shah stood firm on nationalization the

²⁴ Ibid, p. 277.

²⁵ Ibid, p. 322.

White House let the matter drop, once again allowing geopolitical concerns to take priority over oil policy.

The Shah drew important conclusions about the Nixon administration's evolving national security policy towards his country and the region. He believed that Nixon allowed Pakistan's deposed Yahya Khan to hang because there was no political price to be paid at home for doing so. The Shah concluded that the best way to avoid Khan's fate was to actually *deepen* the American investment in Iran, so that Washington would view a future attack on Tehran as akin to an attack on Chicago or New York. When the Shah talked about "creating an American interest in Iran," as he did in a meeting that spring with the Israeli foreign minister, he meant a co-dependency in the areas of oil security, military cooperation and commerce.²⁶ He wanted to increase the number of American citizens living in Iran. Washington might not be prepared to fight for Iranians but it would not hesitate to rush to defend the lives of its own. American men, women and children would be the Shah's insurance policy. The Shah did not intend the U.S. presence in Iran to be permanent or protracted. It was a strategy laden with risks and rife with contradictions. He sought to reduce his reliance on the U.S. in the long-term but saw a need to deepen military and commercial ties until the Iranian military was strong enough to hold its own. The Americans "should be out of here in a few years," explained an Iranian government official. "That's the theory at least."²⁷ The Shah had to hold out until around the year 1980 when Iran would possess enough U.S. firepower to be strong enough to shoulder the burden itself.

Following the Shah's short-term strategy, the number of Americans living and working in Iran rapidly increased after 1972. By May 1973 there were approximately 500

²⁶ "[The Shah] feels that documents are not important," Foreign Minister Abba Eban explained to Kissinger in May 1973. "For instance, the India-Pakistan crisis showed this. But he is creating an American interest there which is more." The Shah envisioned a strategic posture that comprised a "triangle—Israel, Ethiopia, and Iran—which if buttressed by US support will be a stabilizing influence." Memorandum of Conversation, Saturday, May 12, 1973, 9:50 - 10:40 a.m., Dr. Kissinger's Office in the White House, NSA, Washington, DC.

²⁷ Bernard Weinraub, "U.S. Quietly Sending Servicemen to Iran," *New York Times*, May 2, 1973.

American soldiers, sailors and marines based in Iran with a further 600 servicemen and their families due to arrive over the summer.²⁸ They were the first wave of technicians promised by Nixon to help make the Shah's \$2 billion worth of new defense contracts operational. "He wants the latest stuff and he thinks the United States has got the best," a U.S. Embassy official in Tehran cheerfully told one visitor in the spring of 1973. The Shah would be getting "most everything short of atomic weapons...Whether he needs it or not is his decision. His military knowledge is extraordinary and he knows what he wants."²⁹ This policy also carried with it grave risks for Americans. Three years earlier, the CIA, the State Department and the Defense Department had bluntly warned the White House that the Shah was overspending on arms, anti-American sentiment in Iran was building, and a financial crisis resulting in economic distress might mobilize the Shah's enemies at home. Nixon and Kissinger chose to disregard the advice of professional analysts who warned about the risks of removing U.S. leverage on arms sales and oil prices as part of their preference for bypassing bureaucratic impediments.

U.S.-Iran relations, oil policy and energy security preoccupied Nixon in the first weeks of his new term in office as revealed during a meeting with the new ambassador to Tehran, Helms. Following his landslide election victory in November 1972, Nixon had removed the CIA director to bring the foreign policy, military and intelligence establishments into line with his national security objectives.³⁰ Nixon needed to keep Helms on side but also out the way as the criminal investigation into the Watergate scandal gathered pace.

²⁸ Ibid.

²⁹ Ibid.

³⁰ "Helms has got to go," Nixon railed several weeks before the 1972 election. He made it clear to White House subordinates that he meant to gut the CIA and break its autonomy: "Get rid of the clowns—cut personnel by 40 percent. Its info is worthless." Helms, *A Look Over My Shoulder*, 410. Nixon's low opinion of the CIA went back to his narrow loss in the 1960 election to John F. Kennedy. He still blamed former spy chief Allen Dulles for throwing the election Kennedy's way by leaking intelligence data claiming that the Soviets had pulled ahead of the United States in missile production. Nixon had never produced the evidence to support his allegations but the story was apocryphal and the contempt mutual. "The explanations for [Nixon's] attitudes, which in some cases seemed to blind his judgment, is best left to board-certified medical specialists," Helms later observed. Ibid, pp. 382-383.

Helms was the classic company man who knew too much, and Nixon decided to send the former director overseas on a diplomatic posting and away from the media spotlight. Iran was the most obvious post for a man of Helms's background and interests dating back to Operation Ajax in 1953. Under the Shah's leadership Iran was assuming a crucial role in stabilizing West Asia and securing America's oil lifeline through the Persian Gulf. There were the CIA listening posts Helms had championed and the Kurdish operation to manage. In Tehran, Helms could have a frontline role in the coming struggle for mastery of Middle Eastern oil. Just as important: the Shah was one of the few heads of state in the world who would tolerate hosting the U.S.'s former top spy as its diplomatic representative.³¹ The Shah was nonplussed by the appointment but his political advisers were anxious to downplay its significance.³²

Although the Shah approved, Nixon's decision to appoint the former head of the CIA as envoy to Iran, a country with bitter memories of the agency's role in the 1953 coup, engendered great suspicion and resentment amongst the Iranian people. Iranian intellectuals, students and leftists were particularly resentful. An American visitor to Iran in the mid-seventies recalled a conversation in which a prominent Iranian writer asked him, "Why else has Helms been sent here? Why has the United States sent its head spy as ambassador to our country? Could not your country have had the decency to at least remain out of sight while you help the Shah pull the strings?"³³ Contrary to Iranian suspicions, Nixon, Kissinger and

³¹ Helms opted for Tehran because, as he told his wife, "Iran is in an area where the influences of both East and West come to bear. With the West's increasing need for oil and the Shah's plans for modernization, I think it would be challenging to be there at this extraordinary time. Cynthia Helms, *An Ambassador's Wife in Iran*, New York: Dodd, Mead & Company, 1981, p. 3.

³² Alam, *The Shah and I*, p. 264. Suspicious as always of American motives, Court Minister Asadollah Alam believed the former CIA director to be "a peculiar choice of replacement," not only because of the agency's past history of meddling in Iran, but also because the current ambassador, Joseph Farland, "has been here less than a year and is very close to Nixon." Iran's Farsi and English-language newspapers splashed the news of the appointment across their front pages. But the ever perceptive Alam made sure they played down Helms' intelligence background. American diplomats cabled Washington to report that "we understand word has gone out to local press not repeat not allude to Ambassador Helms' past connections with CIA."

³³ Bill, *The Eagle and the Lion*, p. 213. The truth behind Helms's appointment was rather more mundane. Declassified documents, including the telephone transcripts of National Security Adviser Kissinger, confirm that

Helms did not believe Iranian politics needed to be influenced by the CIA's former head. The political status quo in Iran perfectly suited their purposes. They failed to understand that Helms's appointment was a poor choice that fueled Iranian suspicions that the Shah took his orders from the White House.

Nixon's appointment of Helms, which temporarily resolved a political liability, looked like a shrewd act of presidential foresight from a domestic U.S. perspective. The Saudi move against Aramco, the winter fuel shortages, oil nationalization, unstable oil markets, rising oil dependency, and soaring oil prices contributed to a growing sense of alarm in the West. By the time Nixon met with Helms in February 1973 to discuss the ambassador's impending departure for Tehran, oil policy had emerged as a source of great concern to the White House. Nixon's final instructions to his envoy showed just how focused he now was on the question of Middle East oil. "I want you not just to think of your CIA background," he told Helms. "It is important, but apply yourself to the oil problem generally. The question is whether the U.S. can protect its interests adequately without government to government agreements." Nixon repeated his admonition: "Immerse yourself in the oil problem."³⁴ What Nixon had in mind was for Helms to perform duties far beyond the scope of an ambassador and more in keeping with those of a plenipotentiary who cast his gaze over Iran but also the whole of West Asia including Iraq, Pakistan, Afghanistan and Oman. "As a matter of fact, when I went out to Tehran I was told orally by President Nixon that he wanted me to also keep an eye on the whole Persian Gulf area," said Helms. "The President wanted regular reports about what I thought about the political and military situation throughout the Gulf Helms was to help the Shah fashion a strategic architecture that would place Tehran at the

Helms's selection was unplanned and came as a surprise even to Nixon's closest White House aides. Kissinger only learned about it second-hand. See Telcon, Kissinger-Haldeman, November 28, 1972, 7:30 p.m., NSA, Washington, DC.

³⁴ Memorandum of Conversation, 2/14/73, folder "Nixon, Ambassador Helms," Box 1, National Security Adviser, Gerald R. Ford Presidential Library (GFPL), Ann Arbor, MI.

center of a new regional order.³⁵ Geopolitics and oil were intertwined in the Nixon administration's calculations.

The Shah's arrival in Washington in July 1973 for his third visit during Nixon's presidency accelerated the construction of that strategic architecture and deepened the U.S.-Iran bilateral relationship. It was a visit that came as a welcome distraction for Nixon after months of tumultuous revelations about Watergate. The President's top aides had been fired, his approval ratings had fallen, and political observers questioned his ability to ride out the storm.³⁶ Nixon welcomed the leader of the world's most powerful petrostate with open arms. The new Secretary of Defense, James Schlesinger, described the state visit as "a renewal of vows, as it were—a renewal of marital vows" between Nixon, Kissinger and the Shah.³⁷ Nixon's close association with the Shah, and his strong support for Iranian foreign policy objectives, seemed more than justified given the turbulent international scene. The overthrow of Afghanistan's king just a week before the Iranian monarch's arrival infused the bilateral talks with a sense of urgency. The Shah warned that the Soviets had backed the coup because they wanted to "push to the Indian Ocean." The Shah's confidence was palpable during his talks with Nixon and top aides.³⁸ He said that in a recent meeting with Soviet Premier Kosygin he had warned the Russian that he was prepared to "destroy [Moscow's ally] Iraq in a few hours." The Shah enthusiastically embraced his designated role as the West's

³⁵ FISOHA interview with Richard Helms, by William Burr, *Foundation for Iranian Studies*, Washington, DC, July 10 & 24, 1985, pp. 2-63.

³⁶ For a historian's assessment of the impact Watergate had on Nixon's ability to conduct foreign policy, see Stephen W. Stathis, "Nixon, Watergate, and American Foreign Policy," *Presidential Studies Quarterly*, Vol. 13, No. 1, The Economy in Presidential Policy, Winter, 1983, pp. 129-147.

³⁷ FISOHA interview with James Schlesinger, by William Burr, *Foundation for Iranian Studies*, Washington, DC, May 15 & June 27, 1986, pp. 1-20.

³⁸ All comments from this first session of talks are quoted directly from Memorandum of Conversation, Meeting with His Imperial Majesty Mohammad Reza Shah Pahlavi, Shahanshah of Iran on Tuesday, the 24th of July at 10:43 a.m. - 12:35 p.m., in the Oval Office, National Security Archive. Important to note is that Kissinger prevented the Shah's ambassador, Zahedi, from sitting in on this first meeting. Kissinger was jealous of his role as foreign policy gatekeeper, to the extent that he preferred to keep notes of the leaders' discussions. [Kissinger] wanted to write it in his own way," recalled Zahedi. This explains the gaps in the historical record noted by historians curious to learn more about Nixon's promises to the Shah on arms sales, oil prices and nuclear energy. See Cooper, *The Oil Kings*, p. 101.

‘Guardian of the Gulf’. Nixon had given him a free hand and he intended to use it to advance Iran’s and at the same time the U.S.’s interests.

Nixon welcomed the Shah at the White House. The leaders agreed that detente had emboldened the Soviets to test U.S. resolve by probing southward to exploit weaknesses and tensions in West Asia. In conjunction with the Shah’s state visit, U.S. and Iranian officials drew up contingency plans to intervene in the Persian Gulf in the event of a regional crisis. Resurgent India and Iraq posed challenges while Pakistan, Afghanistan, Kuwait and Saudi Arabia appeared weak and vulnerable to leftist subversion and possible takeovers.³⁹ The Shah shared his concerns about Kuwait. Although President Bakr was the titular head of the Iraqi state, the Shah kept a wary eye on a rising young official named Saddam Hussein whose radical credentials, reputation for brutality, and nationalist inclinations were already causing concern throughout the Gulf region. The Nixon administration agreed on the need to revise a 1958 plan under which American and British aircraft were allowed to use Iranian air space and air fields secretly to evict Iraq if it ever invaded Kuwait.⁴⁰ In the revised plan, the Shah proposed that when an Iraqi invasion of Kuwait was imminent, Iran would launch a preemptive strike and occupy Kuwait before Baghdad could do so. The Americans offered assurances that in the event of a future crisis involving Iraq and Kuwait, the Shah would secure Washington’s full support.

American and Iranian officials also agreed to develop a joint contingency plan to occupy Saudi Arabia if radical Arabs tried to overthrow the royal family. An invasion of an Arab state posed enormous risks. The Shah insisted to Kissinger and Helms that “any contingency planning on Saudi Arabia must be most hush-hush.” He understood, as the Americans apparently did not, that the Saudis would never voluntarily agree to place their

³⁹ All comments from this second session of talks are quoted directly from Memorandum of Conversation, Meeting with His Imperial Majesty Mohammad Reza Shah Pahlavi, Shahanshah of Iran on Tuesday, the 24th of July, 5:00 - 6:40 p.m., the Shah’s Reception Room at the Blair House, NSA, The National Security Archive.

⁴⁰ Cooper, author interview with Ardeshtir Zahedi, *The Oil Kings*, p. 103.

security in the hands of their non-Arab Persian neighbors. Ethnic and religious differences between the Sunni Arabs and Shia Iranians meant nothing to U.S. policy makers and officials who did not factor into their national security planning.⁴¹ In fact, the differences between Sunni and Shia Muslims were not acknowledged or even understood. The attention of U.S. officials was solely focused on the strength of Iran's military capacity and the country's ability and willingness to defend the Persian Gulf oil fields and ward off threats from Soviet proxy states. This emphasis on "hard power" came at the expense of "soft power" considerations.

Military contingency plans develop for every eventuality. The U.S.-Iran contingency plan assumed a radical takeover of Saudi Arabia could result in a blockade of oil supplies to the West. However, a plan based on Iranian threat perceptions did not necessarily reflect the U.S. national interest. If activated and implemented, the plan could alter the balance of power in the Middle East and West Asia by giving the Shah control over the world's biggest oil fields. The plan ensured the West's dependency on Iran as oil consumption increased throughout the 1970s. It was a plan that had the potential to pit Shia Iran against its Sunni Arab neighbors and potentially draw in the Soviet Union. The Shah was advocating regime change in Kuwait and Saudi Arabia under cover of declaring an unspecified regional 'emergency' or 'crisis', most likely one involving Iraq and its patron the Soviet Union. The problem was that the Shah was hardly an unbiased observer. Arab governments distrusted his ambitions and wondered how they fitted into his newly reconstituted Empire of Iran. Iran's unilateral seizure of the three islands in the Gulf 1971 had only increased their distrust of his ultimate intentions.

⁴¹ When later asked if U.S. officials considered differences between Sunni and Shia Muslims when they developed Middle East policy in the 1970s, former National Security Adviser Brent Scowcroft conceded they did not: "Sunni, Shia...we just didn't know." Andrew Scott Cooper's interview with General Brent Scowcroft, April 6, 2010.

News of U.S.-Iran military contingency planning reached Congress. Over the summer of 1973 American and European news reports described desert warfare exercises involving U.S. Marines in California.⁴² The reports gave rise to rumors that the Nixon administration was planning for war in the Middle East to protect vital oil installations. Senator J. William Fulbright, the influential chairman of the Senate Foreign Relations Committee, drew headlines, embarrassed the White House and shocked Arab governments when he delivered a forthright speech on the energy crisis and its impact on U.S. foreign policy.⁴³ The Senator warned in dire terms that “our policymakers and policy-influencers may come to the conclusion that military action is required to secure the oil resources of the Middle East, to secure our exposed jugular.” There was “no question” that the United States could take over the “the oil-producing states of the Middle East” if it wanted to. They were “militarily insignificant” and their mere existence pointed to a power vacuum in the Persian Gulf. But why do it when others could do the job for us? “We might not even have to do it ourselves, with militarily potent surrogates available in the region,” continued Fulbright. “The Shah of Iran is known to aspire to a protecting role for the Gulf region and there has been ominous talk of Iran and Israel offering to solve the energy problems for the United States by taking over Kuwait, there being no desert between Israel and the Persian Gulf capable of resisting the Israeli army.” Officials at the State Department declared themselves “shocked” by Fulbright’s remarks, while *The Christian Science Monitor* reported an “electrified” reaction from governments in the Middle East.⁴⁴

Geopolitics and conventional national security priorities had to incorporate issues related to energy security, oil dependency and oil diplomacy. In August and September 1973 King Faisal of Saudi Arabia privately and publicly urged American oil companies and the Nixon administration to take a leadership role in bringing Israel and the Arabs to the

⁴² “Reservists Join Regulars In Marine Corps Exercise,” *Washington Post*, August 20, 1973.

⁴³ Bernard Gwertzman, “Fulbright Warns Of A War Over Oil,” *New York Times*, May 22, 1973.

⁴⁴ Dana Adams Schmidt, “Fulbright Sees Risk of Blow to Seize Oil,” *Christian Science Monitor*, May 31, 1973

negotiating table to settle their differences or risk war in the Middle East.⁴⁵ U.S. officials dismissed the King's remarks as unrealistic. They ignored similar warnings passed on by the Shah and Soviet leader Leonid Brezhnev.⁴⁶ Nixon and Kissinger preferred not to engage in a highly risky diplomatic process that offered few tangible benefits but risked alienating the Arab petrostates and the Israelis whose security assurances provided a regional buffer against the Soviet Union and its radical Arab allies. Kissinger, in particular, relied on official Israeli reassurances that the Arab states were too internally divided and militarily weak to resume armed conflict. "American passivity is due to a fortuitous combination of circumstances and cannot be counted on indefinitely," he confided to Israeli Foreign Minister Abba Eban in the summer of 1973. He added that he was "reluctant to get [the U.S.] into a position where both sides can shoot at us without considering any scheme."⁴⁷ The Israelis offered Kissinger an assurance that even if the Saudis did try to stop oil sales to the West, a boycott would never work because the Shah had promised to oppose it.⁴⁸

Diplomatic inaction led the Nixon administration to make to a catastrophic policy miscalculation. In 1973, Iran's oil production ran at full capacity. The country lacked the swing power enjoyed by the Saudis, who could influence oil prices by either increasing or decreasing their surplus production at will, and so the Shah's influence over Middle East oil policy was essentially political rather than practical. According to a State Department study

⁴⁵ See Robert B. Stobaugh, "The Oil Companies in the Crisis," *Daedalus*, Vol. 104, No. 4, Fall, 1975, pp. 179-202. In February 1974 that Americans learned the detailed nature of the King's warning. At a luncheon hosted in Washington by the Propeller Club, a merchant marine organization, guest speaker and Aramco vice president Michael Ameen Jr. described how King Faisal "told us in August, 1973, there would be another war within six months, and that he would have no alternative but to use oil as a weapon." The Saudi monarch even confided that Arab states were prepared to sustain 50,000 casualties. "His warnings went unheeded," recalled Ameen. The White House never returned his calls. "We talked to the CIA, the Navy, the Army, the Marine corps. They told us, 'Mike, you're out of your head—they don't want to get the hell kicked out of them. They said, 'Don't worry about King Faisal—we're going to give them Phantoms.'" See "Aramco Aide Says Faisal Warned U.S. Last August of War," *New York Times*, February 22, 1974.

⁴⁶ For details of the warnings provided to Nixon and Kissinger by King Hussein of Jordan see Tyler, *World of Trouble*, p. 125. Brezhnev's warning is described in detail in the same book on pages 122-130. Nixon's account can be read in his memoir. See Nixon, *RN*, p. 885.

⁴⁷ *Ibid.*

⁴⁸ Memorandum of Conversation between Abba Eban, Israeli Minister of Foreign Affairs, and Dr. Henry Kissinger, Assistant to the President for National Security Affairs, Saturday, May 12, 1973, 9:50 - 10:40 a.m., NSA, Washington, DC.

prepared for Rogers, Iran was unlikely to participate in any oil embargo against the West because it could not afford the loss to its revenue stream. Iranian government finances were so overextended by the Shah's "inexhaustible appetite for the latest sophisticated weaponry" that Iran had no choice but to keep pumping oil.⁴⁹ "There is no likelihood that it will accumulate vast foreign exchange reserves beyond expenditures, or that it will voluntarily restrain production below projected levels...Iran is not apt to curtail production because of the Arab-Israeli problems." Instead, warned the authors of the report, the Shah could be expected to exploit embargo conditions and profit from the turmoil by charging higher prices for his oil.

On September 1, 1973, news from Libya and Saudi Arabia presented the Nixon administration with two grave challenges to U.S. prestige and national security. Libya's Colonel Muammar Gaddafi nationalized American oil company assets in his country and announced a steep increase in the price of Libyan crude oil.⁵⁰ The Saudi ruler, meanwhile, placed his thumb on the windpipe of the American economy. On the same day, King Faisal announced that his government planned to restrict increases in Saudi oil production until the United States pressured Israel to evacuate its 1967 territorial conquests.⁵¹ Financial markets were badly shaken by the ease with which Libyan oil nationalization was carried out. Billions of dollars in assets were expropriated without a shot fired. The Shah let the White House know that if Qaddafi charged more for his oil he would follow suit.⁵² Any move by Iran to raise prices would ignite a bonfire of price gouging and profiteering among Persian Gulf oil producers. In the words of one administration official, "Faisal is no bluffer and we're playing

⁴⁹ Ibid.

⁵⁰ In May 1973 Under Secretary of Defense William Clements informed Kissinger that his oil company contacts were convinced Gaddafi would move against the Americans that year. Kissinger disregarded Clements' warning. in the Middle East. Telcon, Clements-Kissinger, 10:14 a.m., May 15, 1973, NSA, Washington, DC.

⁵¹ Stobaugh, "The Oil Companies in the Crisis," pp. 179-202.

⁵² In May 1973, Under Secretary of State Kenneth Rush visited Tehran where the Shah warned him of the consequences of Libyan oil nationalization. Telcon, Rush-Kissinger, 7:10 p.m., May 29, 1973, NSA, Washington, DC.

for real marbles now. We're talking about the flywheel of our economic system; if anything goes wrong with it, America stops."⁵³ The Nixon administration had counted on the Saudis to at least double their oil production by 1980.⁵⁴ Middle East oil producers had so far managed to keep pace with high western consumer demand by boosting their production rates by an annual 6.9 percent.⁵⁵ Saudi Arabia's oil production soared by 30 percent in 1973.⁵⁶ Now, Faisal's threat to cut rather than increase production threatened to drive western economies to the wall and in a stroke wipe out surplus capacity in the market, pit consumers against each other in a mad scramble for scarce energy resources, and potentially destabilize financial systems worldwide, provoking economic recession. For the first time, Saudi Arabia signaled it was prepared to mobilize its vast oil resources against its patron, the United States, to achieve its own strategic objectives.

The Saudis' pursuit of national self-interest shocked senior White House officials who realized that the Nixon administration had lost control of its oil lifeline, and U.S. companies had lost billions of dollars worth of assets. U.S. officials quietly discussed behind closed doors the possibility of using force to reassert U.S. influence in the region.⁵⁷ But they still were not focused on the possibility of an Arab strike against Israel and an Arab oil embargo. Until now, historians have assumed that the use of force was seriously considered by the United States only *after* the oil embargo began to bite in November. In fact, Libyan oil nationalization and Saudi threats to reduce the flow of oil were the trigger events for a proposed U.S. military intervention.

⁵³ Nicholas C. Proffitt, "An Arab Blend of Oil and Politics: Faisal's Threat," *Newsweek*, September 10, 1973.

⁵⁴ From 8.5 million barrels to 20 million barrels per day. Ibid.

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ In the first week of September 1973, Kissinger and Schlesinger met to discuss military intervention. "Let's talk contingency plans," said Schlesinger. "The Iranians could take Kuwait but not cross the Gulf." Memorandum of Conversation, 9/5/73, folder "Kissinger, Schlesinger," Box 2, National Security Adviser, Gerald R. Ford Library (GFPL), Ann Arbor, MI.

The Nixon administration's efforts to keep oil policy separate from political conditions in the Middle East collapsed in the first week of October. The armies of Egypt and Syria attacked Israel on the Jewish high holy day of Yom Kipper, punched through Israeli lines, poured across the Suez Canal in the south, and stormed the Golan Heights in the north. Troops from Saudi Arabia, Iraq, Jordan, Kuwait, Morocco and Tunisia rushed to join the fray. Almost immediately, Israel's government appealed for U.S. military assistance. The ferocity of the Arab assault upset Israeli and American military calculations. The Defense Department was particularly concerned with King Faisal's decision to commit troops. Tensions were heightened when OPEC states exploited panic in the oil markets to scrap existing agreements with the oil companies and announce big oil price increases.⁵⁸ Saudi Arabia's Yamani warned the U.S. that if it intervened in the conflict to resupply Israel's armed forces, his government would slash oil production by ten percent immediately and by five percent for every month thereafter until the Israelis vacated the occupied territories.⁵⁹

This was a security challenge that no great power could ignore. The Nixon administration, observed Schlesinger, faced a cruel choice "between support for Israel, loss of Saudi Arabia and if interests in the Middle East are at risk, the choice between occupation or watching them go down the drain."⁶⁰ Whereas previous discussions between Schlesinger and Kissinger had focused on the threat to Kuwait and Saudi Arabia from Iraq, this time they considered launching a strike against their putative Saudi ally. They understood that the United States stood on a precipice, faced with a choice between saving Israel and losing Arab oil. Working in crisis conditions, finally convinced that Israel faced defeat, Nixon believed

⁵⁸ Charles Issawi, "The Oil Crisis and After," *Journal of Post Keynesian Economics*, Vol. 1, No. 2, Winter, 1978-1979, pp. 3-26.

⁵⁹ Edward Cowan, "A Saudi Threat On Oil Reported," *New York Times*, October 16, 1973.

⁶⁰ For a complete transcript of their conversation see Kissinger-Schlesinger, 8:27 a.m., October 10, 1973, NSA, Washington, DC.

the U.S. had no choice but to resupply the Israelis and face the consequences on the oil supply.⁶¹

Crisis in the Middle East converged with crisis on the domestic front in the form of the worsening Watergate scandal battering the Nixon's presidency. Vice President Spiro Agnew resigned in disgrace and there were calls to impeach the president for his decision to fire the Watergate special prosecutor. The Shah confided to King Hussein of Jordan that "the Watergate affair was unfortunate for everyone since it appeared to have brought the U.S. Government to a standstill. There were many problems between the U.S. and its friends which need attention, the Shah continued, but these days they did not seem to be receiving it."⁶² The Shah felt compelled to take an assertive role in regional and world affairs to fill what he perceived was a power vacuum, and he began to lose confidence in his ally's ability to back up threats and promises with determined action. In the midst of the political turmoil, Nixon forced Rogers to step down and replaced him with Kissinger. It was a decision he apparently made with the greatest reluctance, later informing Kissinger's biographer that the new Secretary of State had threatened to resign if he didn't get the post.⁶³ The President worried about Kissinger's lack of interest and experience in economics but felt he had no choice in the matter.⁶⁴

⁶¹ John W. Finney, "U.S. Reported Ready to Replace Some Jet Fighters Lost In Israel," *New York Times*, October 14, 1973.

⁶² National Security Council (NSC) Files, VIP Visits, Visit of the Shah of Iran, July 24-26, 1973 (1 of 2) Box 920, The National Archives, College Park, MD.

⁶³ Isaacson, *Kissinger*, p. 503.

⁶⁴ Ibid, p. 502. Kissinger's disinterest in economics as anything other than a strategic tool of statecraft appalled his colleagues. In the diary he kept, Chairman of the Federal Reserve Bank Arthur Burns wrote that the new Secretary of State asked him to help reduce the role of Treasury in the area of foreign economic policy "so that State's role may be enhanced." He also observed the extent to which Kissinger used economics to settle scores with foreign leaders. On one occasion Kissinger asked Burns to devise ways in which the Federal Reserve could "cause economic trouble for the French? What can U.S. do, or the Fed alone, to cause economic trouble for the French?" Burns was shocked by the suggestion that the administration should destabilize the economy of one of its most important allies and trading partners: "H. at times strikes me as a madman; a genius, yes; but he has a lust for power – a good pupil of Nixon's and Haldeman's, or perhaps one of their teachers? What outrageous thinking on his part!" Arthur F. Burns Handwritten Journals, Journal II (Blue Notebook), April 4, 1974, 200-201, GFPL, Ann Arbor, MI.

Nixon's unstable personal behavior added to the international perception of American weakness and disarray at the seat of power. When the President publicly compared conditions in the Middle East with those in 1953, the year of Operation Ajax, critics of the administration accused the president of living in the past and being dangerously out-of-touch with present conditions.⁶⁵ "It was hardly market forces that threw Mr. Mossadegh out of office as premier of Iran in 1953," the editors of *The Washington Post* scolded the White House in a particularly vociferous editorial that publicly exposed the Shah's CIA connections."⁶⁶ Nixon's decision to evoke the martyred Mossadegh during a stand-off with nationalist Arab governments was a pointless provocation, one that inevitably damaged the ally he relied on the most in the region. For two decades, American presidents had observed a discreet silence on the subject of the 1953 coup, not wishing to embarrass the Shah by resurrecting old accusations of puppetry. It was Nixon, of all people, who broke the taboo. His indiscreet remarks invited media and congressional scrutiny of U.S. policy towards Iran and also his close personal dealings with the Shah. "Because of our relationship with Nixon, [the media] started hitting us," said Zahedi, now Iran's ambassador in Washington.⁶⁷

The United States government was ill-prepared to meet the challenges posed by a cut-off in oil imports from the Middle East. Despite months of warnings from foreign leaders and influential private citizens, the Nixon administration did not take seriously the possibility of an oil embargo until October 14, 1973. That was the day when top officials met in emergency session in the White House to consider the implications of what supply interruptions would do to the national economy and also to the economies of America's trading partners in Europe and Japan.⁶⁸ They knew that although the U.S. still produced most of the oil its

⁶⁵ Bernard Gwertzman, "A Mideast Pledge: President Is Seeking A Settlement to End Oil Threats By Arabs," *New York Times*, September 6, 1973.

⁶⁶ The Editors, "Inflation, Oil and the Press Conference," *Washington Post*, September 9, 1973.

⁶⁷ Cooper, *The Oil Kings*, p. 116.

⁶⁸ For a full transcript of the meeting see Memorandum of Conversation, Sunday, October 14, 1973, Approximately 9:16 a.m. - 11:00 a.m., The Situation Room in the White House, NSA, Washington, DC.

economy consumed, even a modest reduction in imports was likely to produce major dislocations to industry and disruptions to daily life.

Officials learned that Iran lacked the spare capacity required to break an embargo. They learned they lacked such basic information as to how much spare fuel might be available in the event of an immediate cut-off. An oil embargo, said one official, posed “a mega problem” for the national economy. It would lead to factory closures and it could not be fixed by conservation at home, by cutting the speed limit, or surging domestic oil production. The Administration not only lacked a plan to respond to an embargo, it had even neglected to develop evacuation plans for the thousands of American nationals trapped in the war zone and who now presented soft targets for terrorists. Six days later, Saudi Arabia announced a complete end to exports of oil to the United States for its support of Israel.⁶⁹ In effect, Washington’s junior strategic partner in the Persian Gulf declared economic warfare against its patron.

In his memoirs, Kissinger defended the Nixon administration against critics who accused the White House of failing to anticipate or understand the conditions that led to the oil crisis of late 1973. He wrote that the administration had assumed it was witnessing “commercial bargaining and not a revolutionary upheaval” and that “the dimensions of the problem were not immediately apparent.”⁷⁰ Increases in the price of oil were so modest that “no issue of domestic economic policy—not to speak of national security—seemed to be involved.” It was the case that individual increases in the price of oil were modest, but their overall cumulative effect was striking enough: the price of oil jumped 72 percent between 1970 and September 1973.⁷¹ No one at the time missed the upwards trend in oil prices; indeed the news media devoted considerable space to the problem.

⁶⁹ Richard Eder, “4 More Arab Governments Bar Oil Supplies, for U.S.,” *New York Times*, October 22, 1973.

⁷⁰ Kissinger, *Years of Upheaval*, p. 859.

⁷¹ “The Arab World: Oil, Power, Violence,” *Time*, April 2, 1973.

Kissinger later wrote that the NSC did not, as a general rule, involve itself in “commercial disputes,” though he had taken a very keen interest in the Saudi-Aramco negotiations in 1972.⁷² He blamed Rogers for the Nixon administration’s policy of “noninvolvement” in the oil market: “Our hands-off policy ordained the result: the companies yielded.” Kissinger insisted that he, on the other hand, had been “increasingly alarmed by the escalating demands of the producers” in the spring of 1973.⁷³ This was an unfair criticism. Unlike Rogers, Kissinger certainly knew the Shah had Nixon’s permission to push OPEC to increase the price of oil. Regardless of who was personally to blame for the Nixon administration’s handling of oil policy, few would disagree with M. A. Adelman’s observation that the State Department during this period was “deplorably poorly informed in mineral resource economics, the oil industry, the history of the oil crises and the participation therein of the Arabs.”⁷⁴ There was blame enough to go around.

The biggest beneficiary of the crisis was the Shah who had kept Iran out of the war and refused to join the embargo. “Oil is like bread,” he lectured Arab leaders. “You cannot cut it off during time of peace. Why do you want to look as if you want the world to starve.”⁷⁵ The Shah adopted a posture of balancing the competing interests of the combatants.⁷⁶ He lent civilian aircraft to Arab states for strictly domestic use. He refused Moscow’s request that Soviet military aircraft be allowed to fly over Iranian airspace. He kept Israel supplied with oil. He blamed the Nixon administration for refusing to heed his warnings that the Arabs were preparing for war. The Shah said that the war and the embargo were the result of “America’s inaction, or possibly America’s impotence.”⁷⁷ American

⁷² Kissinger, *Years of Upheaval*, p. 864.

⁷³ Ibid, p. 870.

⁷⁴ M. A. Adelman, “Is the Oil Shortage Real? Oil Companies as OPEC Tax-Collectors,” *Foreign Policy* 9 (Winter 1972-73).

⁷⁵ Shah Asks End of Oil Embargo,” *Washington Post*, November 23, 1973.

⁷⁶ To learn more about the Shah’s response to the crisis of October 1973 see Ramazani, *Middle East Journal*, pp. 418-420.

⁷⁷ Alam, *The Shah and I*, p. 326.

impotence and inaction presented Iran with a series of opportunities but also challenges. Iran's economy benefited from surging oil revenues. More money translated into a bigger military budget yet the Pahlavi monarchy's essentially pro-western outlook left it vulnerable to accusations of betrayal from Iranians who resented their country's royal dictatorship and its close ties to the United States and Israel.

Arab governments and their peoples accused the Shah of not only selling out his Muslim brethren but actually profiting from their sacrifices by selling oil to the West. "In their hearts, the Arabs never forgave us for going it alone on the blockade," said Zahedi.⁷⁸ King Faisal had tried to stay ahead of the radical tide by sending troops into war against Israel and clamping an oil embargo against the United States. The Shah's options were more limited. Only in one area, oil policy, could he act quickly to recapture the political initiative and make the sort of dramatic gesture that would reestablish his credentials as a populist and nationalist, while at the same time securing the oil revenues to stave off the inevitable fiscal crisis.

The energy crisis, Watergate, the October War and the Arab Oil Boycott, four events with domestic political, geopolitical, economic and financial implications, challenged the assumptions and calculations of U.S. and Iranian policymakers. National security priorities had to give increased priority to issues related to energy security, oil dependency and the determination of oil producers organized as OPEC and OAPEC to increase their oil resources. The Nixon administration, battered by political scandals which weakened the presidency, struggled to respond to Middle East oil producers who used oil as a weapon to pressure Israel's friends in the West. Weakened militarily by Vietnam, and increasingly dependent on foreign oil imports to sustain its economic prowess, the U.S. entered an era in which transnational groups like OPEC and OAPEC, and individual oil producers such as Iran

⁷⁸ Cooper, *The Oil Kings*, p. 136.

and Saudi Arabia, played a pivotal role in the world economy and domestic economy. Loss of control equated to strategic and political vulnerability.

More than ever, the Nixon administration relied on the Shah to defend its interests in the Persian Gulf, just when global events favored the Shah's reach for power. Leaders like the Shah, the beneficiaries of the Nixon Doctrine and detente, questioned the Nixon administration's ability to implement its policy objectives and acted accordingly. In the case of the U.S. and Iran, serious differences emerged on oil policy. Whereas the Nixon administration viewed OPEC as a threat to its national interest and economy, the Shah increasingly saw the cartel as the ideal vehicle to drive up the oil prices he deemed essential to finance Iran's industrial expansion and military rearmament. Iranian political stability, and hence the Shah's political survival, became increasingly dependent on the regime's ability to generate wealth, creating further strains U.S.-Iran relations and exposing contradictions in the basic tenets of the bilateral relationship.

Chapter Three

WE ARE HEADED FOR DISASTER IN THE INDUSTRIAL WORLD

U.S.-Iran Relations and the 1973-74 Oil Shock

A cascading series of events in late 1973 challenged the existing relationship between the U.S. and Iran in the midst of a global confrontation between oil producers and consumers. Even the smallest Arab oil producers behaved in ways that exposed the limits of American power. During the crisis Saudi Arabia behaved in a way that policymakers in Washington never envisioned three years earlier when they devised their “Twin Pillars” policy to protect Persian Gulf shipping lanes and oil assets. The Nixon administration concluded that it had to find a way to reassert its will and restore at least the illusion of power in the Middle East. Ironically, the foreign leader whose actions caused the most problems for the U.S. was its ‘Guardian of the Gulf’. The Shah’s decision to exploit the panicked conditions of late 1973 led him to engineer the biggest increase in the price of oil ever recorded. The result was the first “oil shock” of the modern era which unleashed profound forces that ultimately brought Iran into conflict with the United States and weakened the foundations of Pahlavi rule. It was a “shock” with fateful consequences for both the United States and Iran.

The Arab oil embargo which lasted from October 1973 to March 1974 threatened five fronts vital to U.S. national and economic security: military posture, the domestic civilian economy, the economies of NATO allies, commercial interests of multinational corporations, and domestic politics. The embargo was not observed by all OPEC members: non-Arab members such as Iran, Venezuela and Indonesia rushed to fill the gap in supply and profited

from panicked market conditions.¹ Iraq also refused to comply with the embargo, arguing that it was actually a joint plot by the United States and Saudi Arabia to weaken Europe and Japan to the point where they became subservient to Washington. Nor were all western countries and supporters of Israel the targets of the boycott.² The Arabs initially targeted the United States and the Netherlands to punish them for their pro-Israeli stance. West European states and Japan were eventually exempted from the embargo after they mollified Arab concerns by issuing public statements of support for Arab goals. The embargo was, however, extended to include Portugal, Rhodesia and South Africa. Nonetheless, as industry analyst Daniel Yergin later pointed out, the loss of even 9 percent of the 55.8 million barrels of oil consumed each day by the industrialized West “were made even more severe because of the rapid rate at which oil consumption had been growing—7.5 percent a year.”³ With no spare capacity in the market, even the loss of a few million barrels was enough to dislocate supplies worldwide. Saudi oil production fell by two million barrels of oil a day.⁴ The efforts of non-Arab producers could not meet consumer demand around the world. Panic, hoarding and clumsy government efforts to allocate fuel supplies played their part in contributing to the crisis.

In Washington, the Nixon administration announced plans to seek emergency powers to control and redistribute the nation’s fuel supply. The President’s Council of Economic Advisers concluded that the oil embargo “touched off a dramatic change in the domestic

¹ To learn more about the motives of the oil producers see Bahgat Korany, “The Pan-Arab, Pan-Islamic Alliance Decisions, October 1973, *International Political Science Review*, Vol. 5, No. 1, 1984, pp. 47-74. George Lenczowski, “The Oil-Producing Countries,” *Daedalus*, Vol. 104, No. 4, Fall, 1975, pp. 59-72; Edith Penrose, “The Development of Crisis,” *Daedalus*, Vol. 104, No. 4, Fall, 1975, pp. 39-57;

² The impact of the oil embargo on the economies of embargoed economies subsequently became the focus of a great deal of academic study. See Roy Licklider, “The Power of Oil: The Arab Oil Weapon and the Netherlands, the United Kingdom, Canada, Japan, and the United States,” *International Studies Quarterly*, Vol. 32, No. 2, Jun., 1988, pp. 205-226, and Yergin, *The Prize*, pp. 588-613.

³ Yergin, *The Prize*, p. 614.

⁴ Juan de Onis, “Kissinger Fails to Sway Saudis From Oil Embargo,” *New York Times*, November 10, 1973.

supply-demand balance.”⁵ There were incidents of social unrest and violence at petrol stations, labor unrest and hijackings of fuel trucks, and food shortages at supermarkets. The White House assessed the impact of a 9.6 percent jump in the cost of living for the month of October, the first direct result of recent increases in the price of oil. It estimated that the embargo led to an immediate 18 percent reduction in the minimum amount of fuel required for economic activity.⁶ Wall Street suffered its worst back-to-back losses since the crash of 1929, shedding 133 points in three weeks to end the month at an anemic 854.⁷ Economists warned that a lengthy embargo might blow out the unemployment rate to levels last seen during the Great Depression. Shares in Detroit automobile manufacturers plunged and General Motors announced the closure of sixteen assembly plants.⁸ Citrus growers reported shortages of essential fuels. The steel industry estimated that a 10 percent reduction in oil consumption would result in a 4-million ton decline in production and 20,000 job losses. Motorists waited in long line to buy petrol. Over the winter of 1973 to 1974 Americans experienced a psychological as well as an economic shock.

The Nixon administration’s concerns were not limited to the effects of the embargo on the civilian economy. Of more immediate concern was the abrupt cut-off of fuel supplies to the Navy and Air Force. Prior to the embargo, the Saudis had supplied fuel to the U.S. Seventh Fleet in the Pacific.⁹ Also affected was the U.S. Sixth Fleet which patrolled the Mediterranean as part of a western naval task force and depended on oil from Italy. Pentagon officials worried that in the event of fuel rationing in Italy the Mediterranean fleet would run dry and leave the sea exposed to a Soviet flotilla of ninety vessels outfitted with a battalion of

⁵ William D. Nordhaus, “The 1974 Report of the President’s Council of Economic Affairs: Energy in the Economic Report,” *The American Economic Review*, Vol. 64, No. 4, Sep., 1974, pp. 558-565.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ The Saudis supplied the U.S. Navy with 120,000 barrels of oil per day. Drew Middleton, “U.S. Navy Setback Giving Soviet an Edge in Mideast,” *New York Times*, November 10, 1973.

marines trained and equipped for landing operations.¹⁰ A second blow for the U.S. strategic position came when Bahrain announced that it was giving the U.S. Navy one year to close down its small naval base, the military's last physical toehold in the Persian Gulf. Iraq, meanwhile, granted a Soviet naval squadron docking privileges at a new port being built with Russian expertise at Umm Qasr. In Southeast Asia, lack of fuel meant B-52 bombers were grounded.¹¹ It was hardly any wonder the Soviet Union probed and nudged at the periphery, on the lookout for weaknesses in western defenses.

The Defense Department faced a conundrum because the Air Force and Navy, the two services most affected by the embargo, were involved in an intensive effort to construct Saudi Arabia's defensive military capabilities. In addition, the Air Force was about to deliver the first shipment of Northrop F-5E jet fighters.¹² The Saudis sought U.S. permission to buy 30 Phantom F-4 aircraft.¹³ The services had been contracted to install an early warning radar defense system to warn against an invasion. Now, worried about the potential for an *American* invasion, Saudi officials asked the contractors to speed up their work. Yet even as Saudi Arabia relied on American goodwill and treasure to defend it from regional predators, the Kingdom's oil minister, Yamani, declared that his government was closely monitoring the embargo to ensure no oil reached the United States.¹⁴

U.S. officials believed that only a show of force would restore the *perception* of U.S. power in the Persian Gulf. The palpable sense of frustration inside the White House spilled over into officials' meetings. "Can't we overthrow one of the sheikhs just to show that we can do it?" Kissinger exclaimed to his colleagues.¹⁵ They decided to dispatch a naval task

¹⁰ Ibid.

¹¹ Memorandum of Conversation, 11/29/73, "Kissinger, Schlesinger, Colby, Moorer," Box 2, National Security Adviser, Gerald R. Ford Library (GFPL), Ann Arbor, MI.

¹² Drew Middleton, "U.S. Air Force and Navy Help on Saudi Defenses," *New York Times*, November 18, 1973.

¹³ Ibid.

¹⁴ Juan de Onis, "Saudi Arabia Is Tracking Down 'Every' Barrel of U.S. Oil," *New York Times*, November 6, 1973.

¹⁵ Memorandum of Conversation, 11/29/73, "Kissinger, Schlesinger, Colby, Moorer," Box 2, GFPL, Ann Arbor, MI.

force into position off the coast of Oman and made it clear to King Faisal that the United States was quite prepared to end the embargo with force. U.S.-Iran military contingency planning had originally envisioned an internal threat to the Saudi royal family. But in the rapidly changing conditions of November 1973, the House of Saud threatened western energy security interests. The oil embargo had heightened the risk that a smaller state might go too far with its provocations and cross an imaginary tripwire that invited massive retaliation from the outside. Lines of authority had to be clearly demarcated to restore order and to reduce the possibility of a fatal error or reckless gamble that might trigger another war. All the players in the October 1973 crisis—the United States, the Soviet Union, Israel and Arab governments—mistook each other's intentions and motives. Virtually unarmed oil states felt free to declare economic warfare against the West. The Nixon administration believed that it could not accept a situation in which the United States was chased from the Middle East, deprived of fuel for its armed forces, and powerless to protect its economy and the economies of its allies from the actions of a few lightly armed oil-producing states.

The weak U.S. military posture in the Persian Gulf led the Nixon administration to appeal to the Shah to help it break the Saudi embargo. The crisis presented the Iranian leader with another opportunity to prove his value as a strategic partner. The Defense Department decided that Abu Dhabi was the ideal testing ground to restore the perception of U.S. military power in the Middle East and break the will of the Saudis.¹⁶ Abu Dhabi made for a convenient springboard from which the United States could launch future military strikes across a broad swath of the region. It had been the first to impose an oil embargo against the

¹⁶ Robinson, *Yamani*, p. 102. Dr. Schlesinger has been alternately candid and reticent on the subject of U.S. military contingency planning in the Persian Gulf in the mid-1970s. He was most forthcoming in remarks he made to Robinson. Schlesinger told Robinson he had been prepared to order the invasion of Abu Dhabi. But he provided no information on the actual military planning that was involved. He confirmed to this author the validity of those attributed statements. He also confirmed that the invasion would have involved an amphibious invasion involving U.S. Marines. Declassified transcripts of the Washington Special Action Group meetings in 1973 provide revealing new details of the plan and suggest that the actual plan came closer to activation than anyone outside the White House ever knew. Indeed, Schlesinger's remarks confirm that the Marines were being moved into place in the last week of November and readied for action. In his interview with the author, Dr. Schlesinger confirmed that version of events.

United States. “Abu Dhabi would give us what we want,” Schlesinger told his colleagues at one of a series of emergency meetings held that autumn to manage the crisis.¹⁷ The Shah opened Iranian air fields to U.S. spy planes and resupplied the naval task force with fuel and provisions.¹⁸

Regional tensions ran high and Arab governments laid mines around oil wells, threatening a scorched earth policy if the Americans tried to land.¹⁹ Kissinger flew to Riyadh and held talks with King Faisal.²⁰ The Saudi monarch feared a violent response from radical elements at home and abroad if he agreed to lift the embargo without obtaining concessions from Israel. However, as a gesture of goodwill the King quietly resumed fuel shipments to the U.S. Navy.²¹ He accepted that the Nixon administration was firmly engaged in the Middle East and committed to finding a negotiated settlement to the Arab-Israeli conflict.²² The challenge for the White House was to help Faisal find a dignified exit from the crisis. A settlement was finally concluded in March 1974. In return for ending the embargo, the Nixon administration agreed to sell more arms to the Kingdom, and agreed to assist in a speeded-up modernization of the Saudi armed forces.²³

¹⁷ Memorandum of Conversation, 11/03/73, folder “Kissinger, Schlesinger, Colby Moorer” Box 2, National Security Adviser, GFPL, Ann Arbor, MI.

¹⁸ Alam, *The Shah and I*, p. 330.

¹⁹ “Kuwait Threatens Oilfield Destruction Should U.S. Step In,” *The New York Times*, January 10, 1974.

²⁰ Memorandum of Conversation, 11/29/73, “Kissinger, Schlesinger, Colby, Moorer,” Box 2, National Security Adviser, GFPL, Ann Arbor, MI.

²¹ Memorandum of Conversation, 11/29/73, “Kissinger, Schlesinger, Colby, Moorer,” Box 2, GFPL, Ann Arbor, MI.

²² Nixon delivered a personal assurance on the matter of a peace settlement when he spoke to Saudi Ambassador Al Sowayel in the White House on February 7, 1974. “I know your government wants to normalize the situation, but you feel you can’t get out in front of the Algerians and the Syrians.” Nixon came close to offering an apology for not working harder in his first term to help reduce tensions in the Middle East. He wanted Faisal to know that “I am determined now that the Middle East is settled.” He told the ambassador, “I am the first President since Eisenhower who has no commitment to the Jewish community, and I will not be swayed.” Nixon was not exaggerating when he said he would not bow to pressure from Israel or its supporters in the United States when working to reach a regional peace settlement. The war had still been raging when he phoned Kissinger and told him that once the fighting had ended, “what ought to happen is that even though the Israelis will squeal like stuck pigs—we ought to tell [Soviet Ambassador] Dobrynin—we ought to say that the Russians—that Brezhnev and Nixon will settle this damn thing. That ought to be done. You know that.” Memorandum of Conversation, 2/7/74, “Nixon, Ambassador Al Sowayel, Scowcroft,” Box 3, National Security Adviser, GFPL, Ann Arbor, MI.

²³ One week before the Saudis agreed to end their participation in the embargo, Kissinger confided to Deputy Secretary of Defense William Clement, “We are going all out now with the Saudis.” Telcon, Kissinger-

The crisis showed that Washington now leaned heavily on the Shah in ways that Nixon and Kissinger surely never anticipated when they formulated the Nixon Doctrine. There were risks involved that neither Washington nor Tehran had fully considered.

For a start, the events of October and November 1973 antagonized Iran's northern neighbor the Soviet Union. Under the terms of a 1962 agreement signed with Moscow the Shah had agreed to never "allow any foreign power to establish rocket-launching sites of any kind on Iranian territory."²⁴ The Soviets wanted to prevent Iran from being used as a base for U.S. intervention on its southern border. The Shah's secret decision to supply the U.S. naval task force during the October crisis did not violate the terms of that treaty, but it made him vulnerable to the accusation that the United States enjoyed free and unfettered access to Iranian facilities.

There were also repercussions for the United States. The Nixon administration was put in the uncomfortable position of having to ask and receive an ally's permission to take measures it deemed necessary to defend its national interest. It suggested a subtle but profound power shift within the relationship. The Shah knew better than anyone just how eroded U.S. power was in late 1973 and the extent to which the Nixon administration relied on his cooperation and goodwill. The Nixon administration was so focused on oil production and supply that it neglected the related issue of oil pricing. The Shah exploited the American oversight to the fullest. When he met Nixon and Kissinger in July, the Shah had informed them that he planned to raise prices again without giving them a dollar amount.²⁵ Throughout the October crisis the Iranian believed he had more than proven his credentials as an ally.

Clements, 2:45 p.m., March 7, 1974, National Security Archive. He assured Nixon the Saudis had agreed to a deal to end the embargo in an exuberant March 11 telephone conversation. Telcon, Nixon-Kissinger, 5:50 p.m., March 11, 1974, National Security Archive (NSA), Washington, DC.

²⁴ Dev Muraka, "Growing U.S. Ties to Iran Irk Kremlin," *Christian Science Monitor*, June 5, 1975.

²⁵ Memorandum of Conversation, Meeting with His Imperial Majesty Mohammad Reza Shah Pahlavi, Shahanshah of Iran on Tuesday, the 24th of July at 10:43 a.m. - 12:35 p.m., in the Oval Office, NSA, Washington, DC.

From his perspective, oil prices were non-negotiable and he felt free to act upon that conviction.

In early December 1973, at the height of the worldwide panic over oil supplies, the Iranian National Oil Company held two secret auctions of millions of barrels of oil destined for export in the first half of 1974.²⁶ The sale amount totaled less than 4 percent of Iran's estimated petroleum production for the coming year.²⁷ At the end of the month the Shah was scheduled to host an important round of talks with the six Persian Gulf states responsible for producing 43 percent of the oil consumed by the non-communist industrialized world.²⁸ The Shah intended to use the auction results to guide his hand during the negotiations. Oil industry analysts and oil producing and consuming governments were shocked when foreign companies participating in the auction placed bids as high as \$17.40 a barrel.²⁹ The auction was seen by most observers as conclusive proof that the combined impact of the war and embargo had blown out the market. The auction generated \$1.5 billion in new Iranian government revenues.³⁰ The auction results enhanced the power of the producers and the Shah's status as OPEC's most influential leader. The Shah was understandably anxious to translate the results of the auction across the broader market.

In fact, the Shah had little choice but to seek another substantial increase in the price of oil at the end of a year of record increases. He needed a dramatic public gesture to reaffirm the support of his admirers and allies and throw his opponents off-balance. In foreign affairs, the Pahlavi regime faced accusations of betrayal from Arabs furious that Iran continued to profit from the embargo by supplying Israel and the West with oil shipments. The Shah faced

²⁶ William D. Smith, "Price Quadruples For Iran Crude Oil," *New York Times*, December 12, 1973.

²⁷ Bernard Weinraub, "Iran Keeps Oil Flowing Despite Reported Pressure From Arabs," *New York Times*, December 18, 1973.

²⁸ Bernard Weinraub, "Shah of Iran Urges Arabs To End Their Oil Embargo," *New York Times*, December 22, 1973.

²⁹ William D. Smith, "Price Quadruples For Iran Crude Oil," *New York Times*, December 12, 1973.

³⁰ Bernard Weinraub, "Record Oil Prices in Iran Are Expected to Affect Arabs," *New York Times*, December 16, 1973

problems at home too with campus unrest and fiscal pressures. A face-saving gesture was required and preferably one grand enough to recapture the moral high ground, reaffirm the legitimacy of the crown, and consolidate the Shah's credentials as one of Iran's greatest sovereigns.

Iran's emergence as a regional power in 1973 masked some inconvenient truths. In the words of Iranian budget officials the government faced an "explosive deficit in the balance of payments."³¹ Spending on arms drained capital and skilled manpower away from the civilian economy. Iran's economy showed signs of buckling under the strain of the military buildup. The State Department, in an internal memoranda, noted a profound disconnect between U.S. and Iranian threat perceptions. "The Shah's view of his military needs is greater than ours," wrote the memo's author. "He is building a military base beyond the needs for internal security or to meet any reasonably acceptable threat, apparently in order to maximize his strengths and enable Iran to deal from a position of strength."³² The Shah's extensive shopping list for arms had already expanded before the outbreak of the October War, though the war changed his thinking on two big issues. First, the war convinced the Shah that the oil market was about to spike. Second, the war showed that he needed to take urgent steps to prepare Iran for a blitzkrieg invasion of the sort that had almost overwhelmed the Israelis. The new Soviet rapid mobility force influenced the Shah's calculations.³³ His solution in December 1973 was straightforward enough. He used the oil market to pay for his new arms, a fact later grimly conceded by U.S. officials in a classified study which projected that armaments requirements exceeded oil revenues by \$5 billion dollars, this giving the Shah

³¹ Hossein Razavi and Firouz Vakil, *The Political Environment of Economic Planning in Iran, 1971-1983*, Boulder and London: Westview Press, 1984, p. 62.

³² Memo From the State Department to National Security Adviser, National Security Council (NSC) Files, VIP Visits, Visit of the Shah of Iran, July 24-26, 1973 (1 of 2) Box 920, The National Archives (NA), College Park, MD.

³³ Graham, *Illusion of Power*, p. 177. The Soviets' rapid mobility force had also been a top concern of White House officials when they declared their nuclear alert in October 1973.

a major incentive for increasing the price of Iranian oil with the American consumers paying for these purchases.³⁴

Rising oil prices in the early 1970s swelled the ranks of the Iranian middle class. From the Shah's perspective this was a good thing: a growing economy absorbed their energies and channeled their ambitions into making money rather than demanding political reforms. However, an economy experiencing dynamic growth was accompanied by shortages of consumer goods, skilled labor and affordable housing in the cities. The changes to the national economy coincided with a marked increase in domestic unrest in the wake of the October 1971 celebrations to mark 2,500 years of Iranian monarchy at the ancient imperial capital of Persepolis. The Shah put great store in the ritual symbolism of state visits and the sort of grand pageantry that he hoped would further strengthen his standing with the Iranian people and identify the Pahlavi dynasty with its glorious predecessors. Millions of dollars and years of planning went into an event which the royal family hoped would cement Iran's arrival on the world stage as a country of stature. To coincide with the public events the Iranian government spent freely to construct roads, tourist facilities, public health clinics and thousands of new schools, but these investments were swamped by a public relations debacle involving the construction of a Marie Antoinette-style tent village at Persepolis to house foreign dignitaries at a time when raw sewage ran through the streets of the capital.³⁵ Unfavorable foreign media coverage portrayed the Pahlavi elite as modern day Bourbons. The Shah's reputation in the West as a progressive reformer and benevolent autocrat never fully recovered from the imbroglio. The real damage was inflicted at home. In the months

³⁴ Michael Raoul-Duval Papers (Domestic Council; White House Intelligence Coordinating Group; White House Operations Office), OPEC Objectives - FEA Study (1)-(2), Box 6, Prepared for Frank G. Zarb, Administrator, Federal Energy Administration, By International Energy Affairs, April 4, 1975, GFPL, Ann Arbor, MI.

³⁵ For a thorough account of the planning that went into the Persepolis celebrations from the Iranian perspective, see Afkhami, *The Life and Times of the Shah*, pp. 404-415.

leading up to the event the regime rounded up thousands of dissidents and held them for the duration of the event, inciting resentment and driving moderates to consider taking up arms.

The Iranian government blundered when it institutionalized the repressive security measures enacted for the duration of the Persepolis event. The Shah was warned by Ardeshir Zahedi and others not to drive young Iranians into opposition to the regime, but he ignored their appeals and overruled their requests.³⁶ The security forces were unleashed and thousands of activists were arrested, exiled, tortured and killed. State-sponsored repression fed a destructive cycle of protests, terrorist assaults and brutal police crackdowns. Unrest rocked Iranian university campuses in November and December 1973, filling the Shah with “grave anxiety.”³⁷ “The whole thing makes me fear for the future,” he admitted to Court Minister Alam.³⁸ Bread and circuses governance did not satisfy a generation of young student activists radicalized by events within the region. The Shah also grappled with intimations of mortality, first when an assassination plot was uncovered,³⁹ then when the discovery of abdominal swelling led to a formal diagnosis of incurable lymphoma.⁴⁰ The Shah began to speed up the pace of reforms. He believed the regime had to recapture the popular imagination and political initiative with a grand gesture so spectacular that in one fell swoop he could command the respect, if not the love of his own people.

On the eve of the Tehran OPEC meeting, the Shah sent an indirect but unmistakable signal to government planners that they should draw up plans to manage another big windfall in oil revenues. The Iranian government’s budget plans were drawn up by the state Plan and Budget Organization (PBO), a technocratic body comprised of highly-educated and usually foreign-trained economists. Iranian government spending took the form of development plans. The PBO’s \$36 billion Fifth Plan was budgeted to cover the five-year period beginning

³⁶ Author interview with Ardeshir Zahedi, *The Oil Kings*, p. 53.

³⁷ Alam, *The Shah and I*, p. 317.

³⁸ Ibid, p. 344.

³⁹ “12 Accused In Iran In Plot To Kill Shah,” *New York Times*, October 3, 1971.

⁴⁰ For a detailed account of the Shah’s diagnosis for lymphoma, see Cooper, *The Oil Kings*, 162-167.

in March 1973 and ending in March 1978.⁴¹ Fifth Plan projections were based on maintaining an annual economic growth rate of 11.4 percent.⁴² Senior PBO officials worried that the Fifth Plan was already so ambitious as to be “perilously close to absorptive capacity.”⁴³ They feared that another substantial injection of oil revenues might fuel inflation and overheat the economy. The third of the state budget dedicated to the military functioned almost as a ‘black budget’ because it was strictly controlled by the Shah and not subjected to the oversight or review of his government’s civilian technocrats.⁴⁴ The Shah usually tinkered with his government’s budgetary estimates. The Fifth Pan had been in effect only a few months when the Shah and his generals raised fresh demands for a bigger contribution to the defense budget. “The pressures for an increase in domestic spending were immense, with the Shah and his defense establishment in the forefront,” one PBO official later recalled.⁴⁵ The Shah also asked the PBO to draft a long-range twenty-year forecast for economic development that “anticipated inflows of financial resources from the export of oil and gas.”⁴⁶ A government observed with technical correctness that the Shah’s order “signaled that there was indeed an understanding within political circles” that the October War and Arab oil embargo had created an international environment conducive to a sharp increase in oil prices.⁴⁷

The Shah knew that market conditions might never again be as favorable to oil producers as they were in December 1973. The combined effects of the war and embargo led to panic buying that squeezed all excess capacity from the market. Iran’s oil auction showed that prices had spiked. The Shah knew that Nixon and Kissinger were anxious to appease him at a time when Iran refueled the U.S. Navy, supplied Israel with oil and steered clear of the Arab oil embargo. The Nixon administration’s handling of foreign economic policy played

⁴¹ Graham, *Illusion of Power*, p. 78.

⁴² Razavi and Vakil, *Economic Planning in Iran*, p. 70.

⁴³ Ibid, p. 70.

⁴⁴ Graham, *Illusion of Power*, p. 170.

⁴⁵ Ibid, p. 67.

⁴⁶ Ibid, p. 68

⁴⁷ Ibid.

into the Shah's hands. In Tehran, Ambassador Helms left a meeting with the Shah under the erroneous impression the King only intended to raise prices by one or two dollars.⁴⁸ In fact, the Shah meant to raise the price by *seven* dollars."⁴⁹ This miscommunication explains Kissinger's belated admission "that he had assumed that the Shah might hike oil prices by a dollar or two a barrel to pay for his weapons."⁵⁰ In Washington, Secretary of the Treasury George Shultz actually endorsed higher oil prices as a prescription for economic malaise.⁵¹ Treasury completely underestimated the potential damage another big jolt in oil prices would inflict on the national economy. In Paris, Kissinger brushed aside a warning from Foreign Minister Michel Jobert who offered his government's view that the United States "underestimated the economics and overestimated the Middle East political problem in terms of time sensitivity."⁵² He challenged the U.S. view that the Shah was a loyal ally of the West when high oil prices threatened to incur great damage to western economies. Oil prices, he insisted, "were more immediately vital to the French" than the geopolitics of the Middle East. The Saudis tried and failed to alert the White House to the Shah's plans to raise prices beyond anything seen before.⁵³

In Tehran on December 23, 1973, the Shah announced that OPEC's Persian Gulf member states agreed with his proposal to double the price of oil and increase it from \$5.11 to \$11.65.⁵⁴ The world's oil producers, he declared, would in the future set the price of oil themselves and would no longer accept the strictures of western oil companies and

⁴⁸ Alam, *The Shah and I*, p. 350.

⁴⁹ How did this miscommunication happen? The Shah did not always express himself clearly on the subject of oil prices. Here is his reply to a journalist's enquiry when he was later asked to justify the \$7 a barrel price increase: "So we charged experts to study what prices we should put on oil. Do you know that from oil you have today 70,000 derivatives? When we empty our wells, then you will be denied what I call this noble product. It will take you \$8 to extract your shale or tar sands. So I said let us start with the bottom price of \$7; that is the government intake. Suddenly everybody started to cry foul." "A Talk With the Shah of Iran," *Time*, April 1, 1974.

⁵⁰ Isaacson, *Kissinger*, p. 563.

⁵¹ *Ibid.*

⁵² Telcon, Kissinger-Anderson, 3:10 p.m., June 5, 1975, NSA, Washington, DC.

⁵³ Kissinger, p. 885.

⁵⁴ Bernard Weinraub, "Oil Price Doubled By Big Producers On Persian Gulf," *New York Times*, December 24, 1973

governments.⁵⁵ This last price hike for the year meant that oil prices increased more than 400 percent in the space of twelve months. In that same period, the combined wealth of OPEC members soared by \$112 billion, a staggering sum that represented the greatest single transfer of wealth in recorded history.⁵⁶ Iran quadrupled its annual oil revenues and funding for the Fifth Plan increased from \$22 billion to \$98 billion.⁵⁷ Iran's gross national product expanded 50 percent in a single year.⁵⁸ The surge of new revenues more than paid for the Shah's arms orders. "In pushing up prices beyond what is tolerable to western economies [the Shah] is aware of the strains he is imposing," concluded *The Economist*.⁵⁹ "Even after 20 years, the ghost of Mossadegh, the politician who laid claim to the mantle of Iranian nationalism and outbid the Arabs in challenging the West, still haunts the Shah." The Shah's endless quest for legitimacy took him down the same road Mossadegh had embarked on twenty years before. At the end of 1973 Iran was catapulted into the ranks of the wealthiest nations on earth to the discomfort of other nations facing enormously increased oil bills.

The Shah's oil coup against consumers in the West delivered a severe blow to the economies of major oil importers. The American bill for foreign oil imports soared from \$3.9 billion to \$24 billion in one year.⁶⁰ The French estimated that doubling oil prices would triple their unemployment rate, add 10 percent to the cost of living, erase their trade surplus and force the devaluation of franc.⁶¹ Spain's \$500 million trade surplus was turned into a \$3.1 billion trade deficit.⁶² Nixon urged the Shah to reconsider his price increase. It went far beyond any previously conceived increase. The President warned in a letter of "the destabilizing impact that the price increases at Tehran for Persian Gulf crudes will have on

⁵⁵ The U.S. Embassy in Tehran obtained a summarized text of the Shah's remarks and forwarded them to Washington on January 23, 1974. "Department of State Airgram from American Embassy in Tehran, on Shah's Remarks to Delegates to Tehran OPEC Meeting, January 23, 1974," NSA, Washington, DC.

⁵⁶ "Arab Oil Has Gone Up 470% In A Year," *New York Times*, December 30, 1973.

⁵⁷ "Faisal and Oil: Driving Toward a New World Order," *Time*, January 6, 1975.

⁵⁸ *Ibid.*

⁵⁹ "The Shah Goes to the Brink," *The Economist*, December 29, 1973.

⁶⁰ "Faisal and Oil: Driving Toward a New World Order," *Time*, January 6, 1975.

⁶¹ "Energy: How High Is Up?" *Newsweek*, January 7, 1974.

⁶² Joe Gandelman, "Madrid Loses Some of its Glow," *Christian Science Monitor*, October 29, 1976.

the world's economy and the catastrophic problems it could pose for the international monetary system. Not only will it result in raising the prices of manufactured products but it will have severe repressive effect on the economies of oil consumers which could cause a world-wide recessions and which would eventually benefit no one, including the oil exporters.”⁶³ Helms lobbied the Shah to back down but to no avail.”⁶⁴ The Shah professed to be deeply offended by the protests and appeals from Iran's western allies.

The Nixon administration had no choice but to accept the new price. The Shah correctly assumed that the White House saw issues to do with the embargo and the resumption of Saudi production as having a higher priority than forcing a confrontation with Iran over matters of pricing. The Administration “didn't want to fight [the Shah] on energy prices” at the same time it relied on Iran to break the oil embargo.”⁶⁵ The worst fear of U.S. officials was that the Shah might join the ranks of the embargoing states if they tried to deny him his price increase.⁶⁶ Next, the Shah informed the administration that he would only authorize an increase in Iranian oil production to alleviate fuel shortages in the West if the United States supplied Iran with the necessary construction materials to help develop Iranian industry.⁶⁷ On oil pricing and production the Shah played a very hard game with the White House. The Iranian leader had the Nixon White House over a barrel. A State Department

⁶³ Alam, *The Shah and I*, p. 349. Alam kept a copy of Nixon's letter to the Shah in his diary.

⁶⁴ Interview with Richard Helms.

⁶⁵ Cooper, author interview with James Schlesinger, *The Oil Kings*, p. 149.

⁶⁶ Kissinger's most detailed account of administration deliberations came in 1975 during a recorded telephone conversation with newspaper columnist Jack Anderson. The enterprising Anderson had gotten his hands on a classified summary of Kissinger's 1973 meeting with French minister Michel Jobert. Kissinger at first claimed to have no recollection of the event. “Well, there is even a charge here that they offered to join us in military intervention,” Anderson replied. At first Kissinger averred that that was “total nonsense,” but when Anderson persisted his memory suddenly improved. He proceeded to explain that the United States had been desperate for Iranian oil to keep flowing at full capacity during the embargo, telling Anderson that “at a time when we were facing an embargo for us to take on the Shah who was our only supplier of oil in that area was not the most intelligent thing to do...the geopolitics are not irrelevant and it's not irrelevant to have one country that won't join an embargo and that might be available in case of a Middle East conflict but that is not the only consideration.” Kissinger appealed to Anderson for understanding. There was a high possibility of another Middle East war and keeping Iran out of the conflict was a paramount concern for the administration: You have to look at our strategy in light of that period...And not wanting to add Iran to the embargoing counties is not the worst—it is not a senseless judgment.” Telcon, Kissinger-Anderson, 3:10 p.m., June 5, 1975, NSA, Washington, DC.

⁶⁷ Dan Morgan, “Iran Asks Goods For Oil,” *Washington Post*, January 18, 1974.

memo concluded that the Shah's military buildup would "enable Iran to deal from a position of strength," though it did not say against whom. Kissinger either ignored or disregarded the analysis. Some in official circles in Washington questioned the Shah's decision to use "oil as a lever."⁶⁸ The Iranian leader succeeded in making himself indispensable but in ways the Nixon administration neither fully anticipated nor appreciated.

The combined impact of the Arab-Israeli war, the Arab oil embargo and the oil price rise upset assumptions about official U.S. policy towards Iran and the Persian Gulf. Rather than affirm the soundness of the Nixon Doctrine, these historic events exposed a serious flaw in U.S. national security planning: the possibility that an ally armed and entrusted to defend U.S. interests might be empowered to the point where it pursued policies harmful to the interests of its patron. By late 1973 the Shah felt the need to distance himself from the unpopular Nixon and his collapsing presidency. The same president who one year earlier had coasted to reelection stood on the brink of repudiation and impeachment. The same monarch who six months earlier had basked in Nixon's praise on the White House lawn as "an old friend, as a progressive leader of your own people, but as a world statesman of the first rank" refused to be seen in public with him.⁶⁹

Other factors came into play to create strains in the bilateral relationship. In the wake of the October War, the Middle East experienced a rise in extremism and terrorism. The Shah understood that accusations of puppetry were fatal in a country and a region with a long,

⁶⁸ Ibid.

⁶⁹ "an old friend..." "Nixon and Shah Exchange Praise, Confer in Oval Office," *New York Times*, July 25, 1973. "Refused to be seen in public": In June 1974 Nixon announced a grand tour of Middle Eastern capitals in what turned out to be his final attempt to salvage his presidency. The Egyptians and the Israelis, the Syrians and the Saudis, were happy to receive the President. Only the Shah said no. Nixon had become a liability for the Shah, their association an embarrassment. The time had come to cut Richard Nixon loose. "By no means," the Shah told Alam when he was asked whether or not he wanted Nixon's itinerary to include a stop-over in Tehran. "His present trip has nothing to do with us, though of course I'll be happy to receive him if he particularly wishes it. All in all the Americans have been behaving with admirable tact towards us and there really is little for us to discuss." Alam's personal opinion was that the Shah felt the need to distance himself from his ally: "HIM's reluctance to issue an invitation stems from Nixon's deteriorating position at home..." Alam, *The Shah and I*, p. 373.

stained history of regicide. He needed a grand gesture to silence his critics and placate the students. Iran's overextended finances also influenced the Shah's decision to seek a big end-of-year increase in the price of oil. Yet if he hoped that by doubling the price of oil he would win acclamation, rally the Iranian people around the throne, restore his nationalist credentials as a patriot, remove the taint of 1953, and resolve Iran's persistent financial woes, the Shah was very much mistaken. If anything, the country worst affected by the oil shock of 1973 turned out to be Iran, the one most observers expected to benefit the most.

Cold war geopolitics, national ambition and economic and domestic political pressures revealed deficiencies in the Nixon Doctrine in 1973-74 and exposed the limitations of personal diplomacy and the Nixon administration's decision to waive restrictions on arms and oil. Initially, the Arab oil embargo created opportunities for the Shah to prove his loyalty to the Nixon administration by helping to break the embargo stalemate. Soon, however, the Shah seized the opportunity to exploit the embargo, and also Nixon's political weakness because of Watergate, to make a historic push for oil supremacy, driving oil prices to levels well beyond levels the Nixon administration considered either acceptable or sustainable. Soaring oil prices imposed by a transnational cartel, and led by a key ally, directly challenged U.S. power when the economies of the industrialized West were shaken and destabilized, while the economies of radical producers aligned with the Soviet Union gained. The Nixon administration struggled to influence its ally the Shah at a time when it relied on him to achieve regional balance in the Persian Gulf while also trying to respond to the economic and geopolitical implications of the OPEC challenge. The Nixon Doctrine had failed to take into account how national factors such as domestic politics, economics, religion, culture and history weighed on the policies and decisions of its beneficiaries. In the case of Iran, where the Shah faced rising domestic unrest, his behavior was increasingly determined by national

interest, personal ambition and the state of his health rather than responding to the needs of the Nixon administration or American goals.

Chapter Four

THE INFLUENCE OF THE WHALE OVER ITS CAPTORS

The Nixon and Ford Administrations Respond to the Oil Shock, 1974-75

The end of the oil embargo in March 1974 concluded one phase of the oil shock. The Nixon administration had resolved production and supply issues with Saudi Arabia by balancing the threat of military action with pledges of increased security cooperation and a commitment to seek a Middle East peace settlement. On the pricing front, Nixon and Kissinger faced the uncomfortable reality that the leader most invested in OPEC's new pricing structure was the Shah, the ally over whom they had lost traditional tools of leverage. The Nixon administration had few practical policy options at a time when unmanageable oil prices threatened to tip the world economy into a protracted slump. Its ally had become a strong-willed, confident autocrat determined to exploit oil power to achieve Iranian nationalist objectives. Divisions within the White House over how to respond to the challenge posed by a recalcitrant ally paralyzed the ability of U.S. policymakers to develop a coherent foreign economic policy, thereby increasing the chances of a global financial crisis accompanied by widespread political and social instability. The reliance on Saudi Arabia to break the oil boycott suggested a solution favored by some members of the administration but with potentially disastrous consequences for the Pahlavi regime whose ambitious goals had created enormous economic and social pressures within Iran.

The October War, oil embargo and oil shock seemed to confirm what many Americans had already concluded: the Nixon administration had lost control of events and a course correction in foreign policy was required. Many influential conservative and liberal commentators and public figures turned against detente and realpolitik, arguing that Nixon's

foreign policy offended cherished American notions of encouraging the spread of freedom and democracy in the world. In his memoir, *Years of Renewal*, Kissinger wrote that he and Nixon both underestimated the negative impact of detente on domestic American public opinion.¹ The result was a “monumental domestic debate over the nature and priorities of American foreign policy,” one that continued throughout the Nixon-Ford period.

Detente’s most vociferous critics attacked the Nixon administration from the political right, surprising a president with longstanding credentials as a Cold War warrior. Traditional conservatives protested against what they regarded as unseemly deals with communist regimes in China and the Soviet Union and denounced the Vietnam peace accords as the betrayal of an ally. The most articulate and forceful challenge to administration foreign policy came from a second group on the right. The so-called “neoconservatives” were usually but not always former leftist intellectuals who had deserted George McGovern’s Democratic Party in 1972 in protest against its opposition to the war in Vietnam and embrace of social and cultural liberalism. The neoconservative agenda was galvanized by the October War and the near-defeat of Israel at the hands of Arab states supported by the Soviet Union. As Kissinger observed, events in the Middle East in 1973 “completed their conversation to geopolitical realities.”² The neoconservatives adopted an ideological approach to foreign policy that melded fervent anti-communism with uncompromising support for Israel. They applied their own linkage to detente by insisting that Congress not approve any trade or arms accord agreements with the Russians unless Moscow made sweeping concessions on human rights including Jewish emigration from the Soviet Union.

The ability of the neoconservatives to forcefully articulate a moral case for U.S. foreign policy, primarily through opinion pieces and in the pages of their house journal, *Commentary*, resonated with many grass-roots members of the Republican Party, in addition

¹ Kissinger, *Years of Renewal*, p. 111.

² Ibid, p. 106.

to prominent conservative ideologues like California's Governor Ronald Reagan, writer and intellectual William F. Buckley, and Democratic Senator Henry "Scoop" Jackson, the champion of neo-conservatism on Capitol Hill.³ The neoconservatives rallied against negotiated settlements with the Soviets and Chinese. They favored a more muscular response to Arab oil producers with not to the Shah, whose regime supplied Israel with oil and security cooperation.

Nixon and Kissinger countered that a moralistic approach to foreign policy was naive at a time when the United States had to adapt to a constrained role in an era of limits. "As the twenty-first century approached, the United States would have to exercise its influence as the most important and coherent part of an international system but no longer as the predominant country it had been at the beginning of the Cold War," wrote Kissinger.⁴ He strongly disagreed with the neoconservative argument that moral failings had led the country to disaster in Vietnam or that "a burst of ideological élan" would defeat international communism.⁵ By Kissinger's own admission, he and Nixon underestimated the neoconservatives and were too slow to grasp that the differences between them were not over "the nature of Communism, on which we were very close, but over the relationship of moral values to the conduct of international policies."⁶ Nixon and Kissinger also underestimated the desire and ability of Jackson and the neoconservatives to intrude in other spheres of foreign policy such as the bilateral relationship with Iran.

In the spring of 1974, the Nixon administration faced intense political pressure from the right and the left to regain a measure of control over the nation's fuel supplies and relieve the economic impact of the oil shock on middle class Americans and Wall Street. Economics and energy moved to the forefront of Nixon's legislative agenda. The end of the Bretton

³ Senator Jackson's two protégés Paul Wolfowitz and Richard Perle became prominent neoconservatives in their own right. Their rise to power is charted in Mann's *Rise of the Vulcans*.

⁴ Ibid, p. 107.

⁵ Ibid, p. 108.

⁶ Ibid, p. 111.

Woods system, and Nixon's decision to take the United States off the gold standard, had already contributed to the currency fluctuations and inflation of the early 1970s.⁷ In his 1974 State of the Union address, the President told Congress that America's foreign policy "had to change in fundamental ways" and added,

As we turn from an era of confrontation to one of cooperation, trade and commerce become more important. We have moved from a position of virtual economic hegemony in the world to a new role in a more interdependent world economy. We must create an equitable and efficient system of integrating our own economy with that of the rest of the world.⁸

For the United States, economic interdependence was no longer a choice but a reality. "We are (now) part of a single international economic system," agreed Kissinger.⁹

Nixon's initial response to the Arab oil embargo was to establish a new administrative body, the Federal Energy Office (FEO), headed by former Salomon Brothers' executive William Simon. Simon was a protégé of Secretary of the Treasury George Shultz and an intimate of disgraced former Attorney General John Mitchell. In his new role as America's "energy czar" Simon quickly developed a profile as a plain-spoken public advocate. His blunt, freewheeling style played well at a time when political evasion and secrecy was associated with criminality and corruption.¹⁰ Prominent White House officials were aghast at Simon's behavior, including Nixon and Kissinger who denigrated the head of the FEO as a "disaster" and intellectual lightweight. However, Simon's popularity among conservatives

⁷ Denis Healey, "Oil, Money and Recession," *Foreign Affairs*, Vol. 58, No. 2, Winter, 1979, pp. 217-230.

⁸ Stephen D. Hayes, "Joint Economic Commissions as Instruments of U.S. Foreign Policy in the Middle East," *Middle East Journal*, Vol. 31, No. 1, Winter, 1977, pp. 16-30.

⁹ *Ibid.*

¹⁰ For a profile of Simon see Judy Bachrach, "William Simon, The Energetic Czar," *Washington Post*, January 13, 1974. See also Simon's biography, written with John M. Caher, *A Time For Reflection: An Autobiography* Washington: Regnery Publishing, 2004.

within the Republican Party, and David Rockefeller's refusal to accept an administration post, led Nixon to appoint the head of FEO as Secretary of the Treasury in April 1974. Nixon and Kissinger underestimated Simon's ability to pursue an alternative American response to the actions of Middle East oil producers, especially the Shah of Iran, on the issue of oil pricing.¹¹

Simon's first priority over the winter of 1973-74 was to reestablish order to the nation's dislocated internal fuel supply system. He became involved in the foreign policy implications of the oil shock only when Congress issued a summons to testify at hearings on the U.S. oil industry.¹² The Shah drew widespread media attention in February 1974 when he publicly accused American oil companies of rerouting scarce fuel shipments in mid-ocean to extort higher profits from gullible consumers.¹³ Simon's angry denunciation of the Shah's remarks at the hearings¹⁴ caused high-level strain between the White House and Niavaran Palace and the dispatch of a letter of apology from Nixon to the Shah.¹⁵ Simon refused to back down and never wavered in his belief that the Shah was "not only an uninformed, misinformed, irrational megalomaniac given to hallucinating, he was also duplicitous."¹⁶ He shared the belief of many in the business community and on Wall Street that the high price of oil established by OPEC was unsustainable and did not reflect current market conditions. According to their critique, political decisions and not market forces kept prices high.

¹¹ Telcon, Nixon-Kissinger, 7:00 p.m., January 23, 1974, NSA, Washington, DC.

¹² Tim O'Brien, "Defends Nixon on Crisis 'End'" *Washington Post*, February 27, 1974. To read Simon's account on the congressional hearings see Simon, *Time for Reflection*, pp. 88-89.

¹³ Wolfgang Saxon, "Shah Finds No Cut in Oil Flow to the U.S.," *New York Times*, February 24, 1974.

¹⁴ Simon's conduct at the hearing before the House Ways and Means Committee included an exchange in which he described the Shah's views on the oil embargo as not only "irresponsible and just plain ridiculous" but "insane." See "Denies Shah's Charge," *Chicago Tribune*, February 26, 1974.

¹⁵ When he learned of Simon's remarks, the Shah threatened to recall Ambassador Zahedi back to Tehran. See "Iran Considered Action Against U.S.," *Washington Post*, March 2, 1974. Nixon took the extraordinary step of publicly and privately disassociating himself from Simon's remarks. "I want to say to you quite directly that there are no excuses for Mr. Simon's rhetoric, you have our apology," Nixon wrote the Shah. "I want to emphasize once again that, as I believe you know, I continue to attach the highest priority to the warm and cooperative relations that exist between our two countries, and to the strong bond of friendship that has characterized our personal relations..." The Shah's aide, Asadollah Alam, kept a copy of Nixon's letter in his diary. Alam, *The Shah and I*, p. 360.

¹⁶ Cooper, *The Oil Kings*, p. 157.

Privately, Nixon shared their view. He dismissed Simon's efforts to bring prices down as inconsequential. He also told Simon to not get involved in high-level U.S.-Iran relations. "[The Shah] is our best friend," he told his Treasury Secretary. "Any pressure would probably have to come from me."¹⁷ The Shah's critics felt justified when the quadrupling of oil prices led to a sharp drop-off in demand in early 1974 as importers cut their fuel bills by reducing consumption. Even Iran struggled to shift barrels of oil.¹⁸ However, the Shah refused to accept the reality of the new market conditions and made it clear he would not allow prices to fall back.

Simon's personal animus towards the Shah was matched by his equally fervent conviction that the future of U.S. energy security lay with Saudi Arabia's moderate leadership and seemingly endless reserves.¹⁹ The Saudis believed that rapid oil price increases hurt their trading partners in the West but also risked overheating their domestic economy with attendant social and political unrest. Simon believed that if the Saudis were offered the right guarantees they would eventually be prepared to challenge Iran's leadership of OPEC, and break the cartel's pricing structure, by opening up the spigots and flooding the market with cheap oil. He struck up a close friendship with Sheikh Zaki al-Yamani, the Saudi Minister of Petroleum and Mineral Resources, who convinced his American counterpart of the Saudi view that the Shah was the main impediment to lowering the price of oil.

The close Simon-Yamani relationship troubled Kissinger's circle. In the words of Kissinger's deputy at the NSC, Lt. General Brent Scowcroft, Yamani "mesmerized" Simon, who overestimated his friend's influence at court in Riyadh: "And whatever Yamani was, and

¹⁷ Memorandum of Conversation, 7/9/74, "Nixon, Simon and Scowcroft," Box 4, National Security Adviser, GFPL, Ann Arbor, MI.

¹⁸ Secretary's Meeting With Oil Company Executives, Friday, March 29, 1974, 5:15 p.m., NSA, Washington, DC.

¹⁹ In his memoir, Simon wrote that he "favored a closer relationship with Saudi Arabia than Iran." Simon, *A Time for Reflection*, p. 89.

he was very skillful and clever, he was not a policy maker.”²⁰ Kissinger and Scowcroft believed the Saudis exploited Simon’s inexperience in foreign policy to achieve their cherished goal of supplanting Iran as America’s favored regional ally.

The Saudi leadership suspected Iranian strategic ambitions in the Persian Gulf. The rapid pace of Iran’s military build-up was only made possible by high oil prices, and Arab governments remembered Iran’s illegal seizure of the three Trucial islands in 1971. The Saudis let it be known that when it came to oil pricing, King Faisal had “dead aim” on the Shah.²¹ The Saudi perspective was that the Shah’s inflated oil price strengthened not only Iran, but also radical Arab states like Iraq and Syria which bitterly opposed Faisal’s cautious policy of accommodation towards the United States. The King hesitated to intervene in the oil markets in 1974 because he feared the inevitable accusations of treachery from the Arab world if he undertook measures that would ultimately benefit western economies. In June, the King reluctantly cancelled a plan to hold an oil auction that he anticipated would bring in price bids below the current market price. When the Shah learned of the plan he threatened to slash Iranian oil production to prop up the market price of \$11.65.²² The auction’s collapse marked a setback for Simon and Yamani. Kissinger insisted that he never took the idea seriously: “My belief was that the Saudis did not want to get prices down but wanted to place the onus for the price rise on the Shah.”²³ A second, more extreme option for the Saudis would be to announce an arbitrary cut in price and simultaneously surge production in excess of their OPEC quota. Using Saudi swing power to flood the market would presumably break the cartel’s pricing structure, deprive Iran of revenues to invest in the military and offer immediate relief to consumers in the West. For now, the Saudis opted to hold this extreme option in reserve.

²⁰ Cooper, *The Oil Kings*, p. 172.

²¹ Secretary’s Meeting With Oil Company Executives.

²² Details of the oil auction were outlined in the following article by Juan de Onis, “Saudi Arabia and Iran In Oil-Price Stalemate,” *New York Times*, September 10, 1974.

²³ Kissinger, *Years of Renewal*, p. 672.

The domestic and international dimensions of the oil shock intensified the political crisis of Nixon's resignation, accompanied by the inauguration of Gerald R. Ford and the outbreak of war in the Mediterranean between NATO allies Greece and Turkey over Cyprus. The Nixon-Ford leadership transition proved "particularly complex," wrote Kissinger, because the unelected Ford inherited an administration "demoralized by nearly two years of the buffeting and catastrophes surrounding the Watergate crisis."²⁴ Ford reappointed Kissinger to his dual posts of Secretary of State and National Security Adviser, he kept Simon on at Treasury because he appreciated his fiscal conservatism, and he reappointed Schlesinger to Defense. The reappointments ensured the carry over into his own administration of the deep philosophical split over whether the key to America's energy security and future oil needs ran through Iran or Saudi Arabia. Simon and Kissinger made it clear through their actions that they believed they "understood the nuances of the national interest" better than did the new president.²⁵ Policy disputes were never fully settled because Cabinet officers engaged in "endless rear-guard actions" rather than submit to presidential authority.²⁶

Ford's inability to exert his will led foreign leaders to view him as a weak and temporary figure. He lacked the confidence and sure touch in foreign policy that he displayed in domestic politics. Whereas Nixon had enjoyed a long-term working relationship with the Shah and relished their exchanges and deal-making, in his first months in office Ford lacked the requisite knowledge to ask the right questions about geopolitics, strategy and foreign economic policy. The Shah, for example, had respected Nixon because he feared him, but he privately denigrated Ford as a "hopeless old donkey"²⁷ and "idiot,"²⁸ and repeated Lyndon Johnson's laugh line that "that Ford was so thick he couldn't chew gum and walk straight at

²⁴ Kissinger, *Years of Renewal*, pp. 170-171.

²⁵ Ibid, p. 172.

²⁶ Ibid.

²⁷ Alam, *The Shah and I*, p. 442.

²⁸ Ibid, p. 440.

one and the same time.”²⁹ Nixon’s departure heralded the end of an era of personalized presidential diplomacy towards Iran. Ford entered office emphasizing transparency and accountability in government affairs in the wake of the Watergate revelations. The Shah never grasped the extent of the culture shift in Washington. Although Kissinger still enjoyed a high public profile as America’s chief diplomat, behind the scenes in the White House his powers were gradually whittled away by Ford’s forceful new White House Chief of Staff, Donald Rumsfeld, whom Kissinger aptly described as a “skilled full-time politician-bureaucrat in whom ambition, ability, and substance fuse seamlessly.”³⁰ In contrast to Kissinger’s diminishing power, Simon’s influence in the executive branch, and his standing amongst the conservative faithful, went from strength to strength. Simon’s fiscal conservatism earned him the admiration of outspoken conservatives Reagan and Barry Goldwater who opposed stimulus spending to lift the economy out of recession.³¹ Ford and Rumsfeld were anxious to placate their party’s restive conservative base.³² Kissinger’s partial eclipse, coinciding with Simon’s steady ascent, gradually changed the underlying dynamic of the internal policy debate on oil policy towards Iran, Saudi Arabia and OPEC.

At first, in Nixon’s absence, Watergate and Ford’s ascendancy appeared to strengthen Kissinger’s hold over foreign policy. However, by the end of 1974 the Secretary of State faced obstructions from the neoconservatives, and also Ford’s domestic political advisers who worried about the impact of the oil shock on the President’s political prospects. Kissinger was faced with the unhappy reality that the biggest foreign policy challenge facing Americans in the mid-seventies was an economic crisis that required expertise and input from officials with diverse backgrounds in energy, economics and international finance. Simon’s elevation to the post of Secretary of Treasury in April, and the appointment of his deputy,

²⁹ Ibid, p. 486.

³⁰ Kissinger, *Years of Renewal*, p. 175.

³¹ Rowland Evans and Robert Novak, “The Campaign Against Simon,” *Washington Post*, January 20, 1975.

³² Lou Cannon, “Simon Denies He Will Leave,” *Washington Post*, January 17, 1975.

Frank G. Zarb, to replace him as head of the revamped Federal Energy Administration (FEA), escalated the policy disputes over the direction of U.S. foreign economic and energy policy. Simon and Zarb favored dialogue with the Saudis and blamed the Iranians for keeping oil prices artificially high to pay for the Shah's exorbitantly high levels of spending. The "complicated relationship" between Kissinger and Simon over oil policy led to policy paralysis and bureaucratic dysfunction inside the White House, already shaken by the Watergate scandal.³³ Whereas the State Department claimed responsibility for developing a diplomatic response to the oil crisis by coordinating action between consumers and negotiating with producers, the Treasury Department insisted that the economic and financial nature of the crisis meant that it should take the lead in formulating a foreign economic policy response.

In his memoir, *Years of Renewal*, Kissinger made no effort to minimize the scale of the oil shock and the staggering challenges it posed for western security. Neither he nor any of his colleagues had ever experienced anything quite like it. The nearest approximation to its was the Great Depression, and indeed American and European policymakers tended to refer to the earlier event when trying to anticipate policy responses. "No crisis of the second half of the twentieth century fell on a world less prepared for it than the one triggered by the quadrupling of oil prices in the fall of 1973," he wrote. "Within the space of three months the global political and economic system found itself faced with a series of stark challenges threatening its very foundation."³⁴ Consequently, the Nixon and Ford administrations "had no higher priority than to bring about a reduction of oil prices by breaking the power of OPEC." The Nixon-Ford response to the oil shock reflected "not only economic analysis but—even more—political, indeed, moral conviction."³⁵ In the estimation of Kissinger and most other

³³ Cooper, *The Oil Kings*, p. 172.

³⁴ Kissinger, *Years of Renewal*, p. 664.

³⁵ *Ibid.*, p. 668.

American foreign policy analysts, the sudden rise of OPEC constituted a dangerous and unacceptable affront to U.S. perceptions of power and prestige.

Yet Kissinger's determination to break OPEC did not mean he was prepared to countenance a break with the Shah. The same Iranian leader who emerged as the driving force behind the cartel's emergence on the world stage as a third force in global politics was also Washington's bastion of secular conservatism in the Middle East, the host to CIA listening posts, Israel's friend, a regional counterweight to India and Iraq, and the West's primary bulwark against Soviet expansion in West Asia. From Kissinger's viewpoint, the efforts of the Treasury Department to switch America's primary allegiance from Iran to Saudi Arabia was not only naive but dangerous. The Saudis could not possibly replicate Iran's role of centurion in the Persian Gulf. They boasted the world's biggest oil deposits but lacked the population, military and industry to defend and exploit them adequately. Kissinger dismissed Saudi pretensions to regional power status as wholly unrealistic and suspected the royal family wanted to increase U.S. dependency on Saudi oil to the point where Saudi Arabia emerged as America's most important supplier of foreign oil, thereby enabling Arab strategic leverage over the direction of U.S. foreign policy towards Israel and the Middle East peace process.³⁶ "Dependent on the West for military and diplomatic support yet fearful of the radical Arab regimes' capacity to threaten Saudi domestic stability, the Saudi royal family maneuvered with consummate prudence," wrote Kissinger. "Carefully modulating conservative foreign and domestic policies with occasional radical rhetoric, it professed sympathy for America's concern with the price of oil. Yet whenever American importuning on the subject turned practical, we were shunted off, in the politest way possible, to some

³⁶ Kissinger gave voice to his fear of Saudi motives in a meeting with Simon and other colleagues in early August 1974. Memorandum of Conversation, 8/3/74, "Kissinger, Simon, Burns, Ingersoll, Enders," Box 4, GFPL, Ann Arbor, MI.

other address, usually Tehran.”³⁷ He suspected the Saudis wanted to drive a wedge between Washington and Tehran, whose regional pretensions they feared.

Kissinger’s major concern was to ensure balance and stability in Iran and Saudi Arabia. He anticipated problems down the road for both countries if oil prices suddenly dipped or oil markets experienced dramatic fluctuations in price. The Persian Gulf monarchies, but Iran in particular, regularly spent more than they earned in oil revenues. As a result, their finances were overextended and subsequently vulnerable to sudden shifts in market conditions. “Falling prices would quickly bring the revenues of all of the producing countries below their current levels of expenditure,” wrote one scholar who sympathized with Kissinger’s view. “With the government unable to meet expectations conditioned by past experience, conservative regimes would probably not survive, and more radical governments would also be threatened.”³⁸ Iran was not like Saudi Arabia, a country whose small population and vast foreign exchange reserves meant that it could safely absorb a big reduction in the price of oil and accommodate a substantial decline in its revenues. There was no financial cushion to act as a shock absorber for the Pahlavi monarchy if oil prices collapsed. A sudden adjustment in income could lead to a fiscal crisis followed by social unrest and political instability. The “oily legs” of the Pahlavi regime would melt away.

Kissinger appreciated that high oil prices choked economic growth in the West. He was equally attuned to the fact that high oil prices propped up the Shah’s Peacock Throne. The linkage between the Iranian oil pricing policy and Iranian political stability made the State Department reluctant to pressure the Shah to change course. The actions of OPEC states were “intolerable,” Kissinger advised Ford. He advised the new president that the Shah “is our real friend. He is the only one who would stand up to the Soviet Union. We need him for

³⁷ Kissinger, *Years of Renewal*, p. 672.

³⁸ Stephen D. Krasner, “The Great Oil Sheikdown,” *Foreign Policy*, No. 13, Winter 1973-1974, pp. 131-32.

balance against India. We can't tackle him without breaking him."³⁹ An aggressive rollback plan of the sort advocated by Simon at Treasury could have serious consequences for the entire Persian Gulf region.

Kissinger's enthusiasm for the Shah was not universally shared by his NSC colleagues. Scowcroft reflected the views of those who "tended to be ambivalent" about the way U.S.-Iran relations were conducted and believed some of the administration's goals towards Iran were "conflictive."⁴⁰ On the one hand, Iran was the pillar of U.S. Middle East policy, protector of the oil fields and shipping lanes, and guarantor of Israel's oil supply. Yet Iran was also ratcheting up the high oil prices that threatened the American economy. The Shah was a "true and sincere ally" but one whose pursuit of economic remedies to relieve his own domestic problems hurt U.S. economic interests.⁴¹ The White House simply did not know how much pressure to exert on the Shah over oil prices without hurting him or Iran's economy. Kissinger's close aide, Winston Lord, privately reminded his boss of the fix they now found themselves in: "To some extent, arguments over oil prices can be compartmentalized in our dealings with Iran. *Yet unless we press some of the levers we have, thereby incurring political costs on both sides, [the Shah] is unlikely to move on the oil price issue.*"⁴² The situation created an unpalatable series of choices for the new Ford administration.

The policy struggle between State and Treasury and other agencies played out against the background of the complex and evolving nature of the oil shock, a global phenomenon whose international geopolitical, economic and financial repercussions destabilized the

³⁹ Memorandum of Conversation, 8/17/74, "Ford, Kissinger, Box 5, National Security Adviser, GFPL, Ann Arbor, MI.

⁴⁰ Cooper, *The Oil Kings*, p. 202.

⁴¹ Ibid.

⁴² Emphasis in the original document authored by Kissinger's aide Winston Lord. Briefing Memorandum for the Secretary of State from S/P Winston Lord, Department of State, "Strategies for the Oil Crisis and the Scenario for the September 28 Meeting," September 21, 1974, *Iran: The Making of US Policy, 1977-80*, NSA, Washington, DC.

domestic U.S. economy and led to a debt crisis, unemployment and inflation. Economic imbalance lay at the heart of the challenges facing western governments. The 1974 U.S. stock market slump evoked frank comparisons with the onset of the Great Depression.⁴³ “Investors have seemed frightened of an economy that seems out of control,” reported *Time*.⁴⁴ Thousands of businesses failed, housing starts fell, manufacturing slumped and unemployment quickly rose. Pan American airlines, battered by high fuel costs, appealed to the federal government for a taxpayer-funded bailout. In the first eighteen months of the oil shock the number of Americans living below the poverty line increased 5.6 percent, while the number of children living in poverty rose by 8 percent.⁴⁵ Forty-six percent of Americans told Gallup they feared another Depression.⁴⁶ For the first time in decades the American middle class began to lose ground, erasing the gains of previous years, putting domestic related pressures on a presidency trying to recover from the effects of the Watergate scandal.

The oil shock illustrated the dawning reality that an emerging “globalized” world economy carried with it great promise and enormous risk. Abrupt changes in power relationships in one part of the world induced just as sharp adjustments in other areas. Rampant inflation, high unemployment, soaring interest rates and high levels of public and private debt were worsened by the quadrupling of oil prices.⁴⁷ U.S. officials did not hide their anxiety at the pace of change or the scope of distortion and dislocation. “We are heading towards disaster in the industrial world,” warned Arthur Burns, Chairman of the U.S. Federal

⁴³ “Economic Ills: Any Prescription?” *Newsweek*, September 30, 1974. In the first three years after the 1929 stock market crash share prices collapsed a staggering 86 percent. Analysts noted that during the six-year period from 1968-74 shares had fallen an almost equally impressive 79 percent. See “Seeking Relief From a Massive Migraine,” *Time*, September 9, 1974.

⁴⁴ *Ibid.*

⁴⁵ For poverty line statistics, see Memorandum for the Vice President, July 3, 1975, U.S. Council of Economic Advisers, “Alan Greenspan - 1975 (2),” Box 19, Gerald R. Ford Library. For children living in poverty, see “Draft Copy of Report on Poverty in the United States,” July 2, 1975, U.S. Department of Commerce, U.S. Council of Economic Advisers, “Alan Greenspan - 1975 (2),” Box 19, GFPL, Ann Arbor, MI.

⁴⁶ “Seeking Relief From a Massive Migraine,” *Time*, September 9, 1974.

⁴⁷ Thomas E. Mullaney, “Scrutinizing Worldwide Ills,” *New York Times*, September 8, 1974.

Reserve Bank.⁴⁸ Officials at the Treasury Department and Reserve Bank had good reason to worry as they monitored the rapid buildup of monetary reserves in countries whose tiny economies lacked absorptive capacity. The World Bank estimated that if current trends persisted, five countries with a combined population of only 11.5 million—Saudi Arabia, Libya, Kuwait, Qatar and Abu Dhabi—would accumulate total monetary reserves of \$453 billion of the projected \$650 billion of all reserves held by OPEC member countries in 1980.⁴⁹ The World Bank warned that the world banking system could not possibly handle a recycling job involving that volume of foreign exchange holdings.

Oil consuming nations faced a different set of challenges as they plunged into the red to pay exorbitant fuel bills. They took out giant loans and accepted financial assistance from the World Bank, the International Monetary Fund, and private banks on Wall Street, to finance ballooning deficits. The lending binge of the early and mid-seventies left unresolved the question of whether the debtors would ever have the means to pay back their loans. Global financial networks and banking systems had never been subjected to such intense pressures over such a prolonged period of time. Financial experts worried about the potential for a future debt default crisis. In Treasury's worst case scenario, "skyrocketing" fuel bills generated bank failures in Western Europe which collapsed American banks and businesses.⁵⁰ When Franklin National, the forty-seventh largest U.S. bank, ran into trouble in 1974, representatives from ten western governments met to agree on the terms under which they would bail out big international banks threatened by default.⁵¹

The panicked response of oil consumers only made matters worse. In the immediate wake of the Tehran OPEC meeting, consumers rushed to enter into barter deals with oil

⁴⁸ Memorandum of Conversation, 8/3/74, "Kissinger, Simon, Burns, Ingersoll, Enders," Box 4, GFPL, Ann Arbor, MI.

⁴⁹ Leonard Silk, "Energy War Rumblings," *New York Times*, September 25, 1974.

⁵⁰ Rowland Evans and Robert Novak, "Economic Fears and Frustrations," *Washington Post*, September 28, 1974.

⁵¹ "The Big Cash Crunch," *Newsweek*, September 30, 1974.

producers and offered to trade their technical expertise and industrial might in return for long-term access to affordable supplies of crude oil. Taiwan negotiated an oil-for-refinery agreement with the Saudis.⁵² Poland agreed to supply Libya with tankers and industrial equipment in return for oil shipments starting in 1980.⁵³ Argentina bartered grains and meat for oil from Tripoli. France concluded multi-year contracts to supply Libya and Saudi Arabia with weapons and industrial goods in return for oil.⁵⁴ Iraq supplied Japan with 320,000 barrels of oil a day in a ten-year deal that saw Tokyo offer Baghdad a \$1 billion credit to build a natural gas processing plant, a refinery, a petrochemical plant, a fertilizer plant, and an aluminum plant.⁵⁵ These deals extended inflation by lifting commodity prices everywhere.

The Organization for Economic Co-operation and Development (OECD) reported a sharp rise in inflation in the first quarter of 1974 because of oil prices and barter deals.⁵⁶ Between a quarter and one-third of inflation was blamed on rising energy costs which in turn “kicked up the prices of countless oil-based products, including fertilizers, petrochemicals and synthetic textiles.” In 1974, inflation in the United States surged to 12 percent.⁵⁷ Inflation rates in parts of Europe and South America ranged from 20 percent in Britain to over 200 percent in Chile.⁵⁸ The oil shock had a particularly devastating impact on countries in the developing world. The African continent’s combined new fuel bill all but erased the aid from the industrialized world. Rice harvests collapsed in Sri Lanka because farmers there had to pay more for fertilizer.⁵⁹ The social fabric of many countries began to tear, made worse because the barter deals set a floor price below which oil would not fall.

⁵² Secretary’s Meeting With Oil Company Executives, Friday, March 29, 1974, 5:15 p.m., NSA, Washington, DC.

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ “Inflation Rises to 2-Digit Rate in 17 Countries,” *Los Angeles Times*, April 12, 1974.

⁵⁷ Faisal and Oil: Driving Toward a New World Order,” *Time*, January 6, 1975.

⁵⁸ Ibid.

⁵⁹ Ibid.

In 1974, leftist colonels deposed Portugal's right-wing dictatorship. The collapse of the junta provided a salutary lesson in the unpredictable consequences of the new era of energy insecurity. Portugal's petroleum fields were located in the colonial enclave of Cabinda in Portuguese-ruled Angola.⁶⁰ Oil from Cabinda was low in sulphur content which made it attractive to North American consumers prepared to pay premium prices to satisfy strict new clean air regulations. Instead of relying on its own oil production for domestic use, Portugal imported oil from the Middle East. This neat arrangement collapsed in October 1973 when Portugal agreed to a request from the Nixon administration to allow U.S. military jets to refuel in the Portuguese Azores islands before flying on to Israel with military supplies. Arab governments retaliated by stopping all fuel shipments to Portugal, a move which in turn forced Lisbon to curtail its own petroleum exports to the United States and Canada. Consequently, the government relinquished hundreds of millions of dollars in oil revenues. Higher oil prices could not staunch Portugal's financial hemorrhaging. The government's \$400 million annuity from oil exports was more than wiped out by the \$650 million annual cost of defending its rebellious colonies in Africa.⁶¹ "Discontent over unchecked inflation, about 20 percent last year, and one of the highest in Europe, has been general," observed *The New York Times*. "Few seemed to make any connection between the spectacular rise in living costs and the war, but inflation contributed to general dissatisfaction and the feeling that the Government should have been worrying more about conditions at home and less about the African colonies."⁶² Inflation ignited by high energy costs elsewhere in Europe sapped the economy, demoralized Portuguese society, and led to a left-wing takeover of a NATO member state.

⁶⁰ Arthur Vecsey, "Perspective: Portugal Feeling Burden of Colonies," *Chicago Tribune*, May 1, 1974.

⁶¹ Ibid.

⁶² "Portugal's Army Seizes Control and Proclaims Democratic Goal; Caetano's Surrender Announced: War in Africa Eroded Stability, Portugal Was Demoralized By Long Effort to Preserve Overseas Territories," *New York Times*, April 26, 1974.

Italy was destabilized by the oil shock. Factory closures, double-digit inflation, rampant inflation, almost a million unemployed, food shortages and carless days were accompanied by a rash of mysterious terrorist bombings apparently carried out by neo-fascist groups with loose affiliations to state institutions and the military.⁶³ Faced with bankruptcy, Italy appealed to its neighbor, the Federal Republic of Germany, for financial aid. Chancellor Helmut Schmidt approved a \$2 billion loan.⁶⁴ The credit was to last six months but could be renewed for three additional six-month periods. Italy agreed to pay interest and put up one-fifth of the state bank's bullion as collateral.⁶⁵ The German rescue package signaled an ominous new turn in Europe's worsening financial crisis. Schmidt's efforts to stabilize ailing economies in southern Europe were complicated by a historic political realignment transforming the continent's sclerotic southern tier with the collapse within eighteen months of right-wing dictatorships in Portugal, Spain and Greece. These convulsions created opportunities for democracy to flower along the Mediterranean coast from Lisbon to Athens. Yet the most immediate and obvious beneficiaries of unrest were local communist leaders who had led the resistance to dictatorial rule.

Fueling the rise of "Euro-communism" was inflation driven by high oil prices which discredited Europe's post-war political order, resurrecting dreaded memories of the hyper-inflation of the 1920s which propelled extremist groups like Hitler's National Socialist Party to power. West German government officials expressed shock at the collapse of four German banks in 1974, yet another symptom of the financial strain induced by the oil shock and accompanying credit crunch.⁶⁶ Bank collapses, rising levels of unemployment and inflation, falling consumer demand and a slump in the nation's export sector revived memories among older Germans of the financial distress of earlier times. For the generation of European and

⁶³ Clyde H. Farnsworth, "Inflation In U.S. Worrying Europe," *New York Times*, September 5, 1974.

⁶⁴ Paul Hoffman, "Italian Reds Bid For Power Share," *New York Times*, September 2, 1974.

⁶⁵ Ibid.

⁶⁶ "Fears of Deep Recession Grow in Western Europe," *Washington Post*, August 30, 1974.

American statesmen raised during the Depression and World War Two, lengthening shadows were once again falling over Europe. The Portuguese empire disintegrated and Lisbon was in the hands of leftist colonels. Britain, France and Italy were in the grip of deepening recessions. Economists in Brussels predicted inflation of 20 percent and unemployment over one million in Britain.⁶⁷

Many European and American analysts frankly doubted the durability of the continent's postwar democratic institutions to weather the storm. Foremost among them was Kissinger. To Kissinger and other realists, the countries of southern Europe were like dominos ready to fall. The Vietnam syndrome was reasserting itself again, only this time in the heart of NATO Europe. Advocates of the domino theory feared that Portugal might become the first communist state in Western Europe and that political instability would spread to Italy, Spain and France, splintering the continent between a capitalist north and socialist south, and dooming the prospects for superpower detente.

Kissinger expressed grave fears about Italy's future at a meeting with Congressional leaders.⁶⁸ He was as forceful in talks with Israel's Prime Minister Yitzhak Rabin.⁶⁹ "The increasing cost of oil is prompting a significant number of Americans I met during my visit to consider the price of oil as the main reason for the collapse of the democratic regimes in Western Europe, which would make these countries ripe for Communist domination," Rabin told the Israeli newspaper *Maariv* after his return from a trip to Washington. "American personalities pointed out to me in many talks the serious danger of Communist domination in Italy, and perhaps in other European countries."⁷⁰ Kissinger's aides made no attempt to deny this report or others like it. "You have to look upon him in this case as a historian," one of Kissinger's aides explained. "He grew up in Nazi Germany and knows how economic

⁶⁷ Ibid.

⁶⁸ Bernard Gwertzman, "Kissinger Sees Oil Crisis Periling Western Society," *New York Times*, September 27, 1974.

⁶⁹ Ibid.

⁷⁰ Ibid.

depressions can lead to acceptance of authoritarian regimes, and he fears that this could happen in the West if something is not done to solve the problem.”⁷¹ “I find it hard to accept that all Western European countries are now watching like frightened rabbits while Italy goes Communist, doing nothing,” he confided to Britain’s foreign secretary.⁷² Kissinger’s remarks were an admission that the geopolitical strain induced by record high oil prices had reached the limits of acceptability.

Another key U.S. ally whose economy and political system became the focus of concern was the Republic of Vietnam, where doing business at the height of the oil shock was likened by one American entrepreneur to “making love to a corpse.”⁷³ The government in Saigon conceded its finances were overwhelmed by the high cost of oil.⁷⁴ Prices of \$1.50 a gallon threatened to do what the Communists in the North had so far failed to do and win the war.⁷⁵ “The Vietnamese economy is in deep trouble,” warned *The Wall Street Journal*.⁷⁶ An inflation rate of between 70 and 100 percent hurt army morale. Ammunition was so expensive that soldiers were asked by their commanders to preserve bullets and not engage in unnecessary firefights. There was sour irony in the fact that oil was also seen, at least by President Nguyen Van Thieu and U.S. embassy officials, as a possible panacea for South Vietnam’s worsening economic fortunes. For years there had been rumors of vast oil deposits in the coastal waters off the Mekong Delta. In the spring of 1974 a consortium of four western oil companies purchased exploration rights to the area and announced plans to start

⁷¹ Ibid.

⁷² Memorandum of Conversation, “Kissinger, Crosland,” Saturday, April 24, 1976, 9:15 - 10:50 a.m., Officer’s Mess, Waddington RAF Base, Lincolnshire, UK, NSA, Washington, DC.

⁷³ Peter R. Kann, “Land of No Peace: As Vietnamese Keep Losing Lives, US Loses Only Money,” *Wall Street Journal*, September 13, 1974.

⁷⁴ Ibid.

⁷⁵ Ibid.

⁷⁶ Ibid.

drilling by the end of the year.⁷⁷ American officials crossed their fingers in the hope that oil would magically transform South Vietnam into the Kuwait of Southeast Asia.⁷⁸

The outgoing Nixon administration and incoming Ford administration did agree on two important oil policy related matters. They agreed that western consumers had to find a way to break the power of OPEC and drive a wedge between its moderate and hawkish members. They also agreed that the U.S. had to regain influence over policymaking decisions made in Iran and Saudi Arabia. They were aware that to prominent critics U.S. efforts to influence the actions of oil producers were not unlike “the influence of the whale over its captors—the charm of the huge, helpless, and profitable victim.”⁷⁹ U.S. officials decided that the best way to do this was to increase interdependency between the economies of the world’s biggest oil consumer and OPEC’s two powerhouse producers. “If anything was needed to illustrate the interdependence of nations in the world, it is what has happened in the field of energy,” said Simon.⁸⁰ The U.S. invited the governments of Iran and Saudi Arabia to sign separate bilateral trade and security accords to establish Joint Commissions on Economic and Security Cooperation. The Joint Commissions would facilitate commercial opportunities, thereby recycling petrodollars back to the U.S. while creating investment opportunities for American corporations in the Middle East. The Joint Commissions “will sop up this available resource that they have over there, either in money or manpower or time to handle the arrangements and the deals.”⁸¹ Over time, U.S. officials hoped that the rewards and incentives associated with increased economic interdependency could lead both producers to moderate their oil pricing policies and restrain their “arbitrary use of power.”⁸² The Joint

⁷⁷ “South Vietnam: Land of High-Risk Opportunity,” *Nation’s Business*, March 1974, p. 26.

⁷⁸ George McArthur, “A Crisis Swells Amid the Bustle,” *Los Angeles Times*, June 3, 1974.

⁷⁹ M.A. Adelman, “Oil Fallacies,” *Foreign Policy*, No. 82, Spring, 1991, pp. 3-16.

⁸⁰ Stephen D. Hayes, “Joint Economic Commissions as Instruments of U.S. Foreign Policy in the Middle East,” *Middle East Journal*, Vol. 31, No. 1, Winter, 1977, pp. 16-30.

⁸¹ Secretary’s Meeting With Oil Company Executives, Friday, March 29, 1974, 5:15 p.m., NSA, Washington, DC.

⁸² Hayes, “Joint Economic Commissions,” pp. 16-30

Commissions were intended to increase U.S. strategic leverage over Iran and Saudi Arabia in the critical area of oil pricing and production policy.

Saudi Arabia embraced the concept of the Joint Commissions but for an entirely different reason. To the Saudis, interdependency offered a priceless opportunity to increase *their* strategic leverage over U.S. foreign policy in the Middle East. Economic priorities were “not the most important thing” for the Saudis, said Prince Fahd. “What is most important is a commitment that America’s relationship with Saudi Arabia is an integral part of its relationship and attitude toward the Arab world’s problems...”⁸³ The Saudis fully intended to use the Joint Commissions to engage the United States in the Middle East peace process, deepen the American commitment to the survival of the Saudi royal family, and build international momentum for the establishment of a Palestinian state and Israeli withdrawal from the Occupied Territories.⁸⁴

The Treasury Department estimated that Arab oil revenues for the year would total \$60 billion, two-thirds of which would be spent or reinvested in the Arab world.⁸⁵ King Faisal would hold \$10 billion or half of the outstanding sum and Simon hoped to persuade the king to invest that money in U.S. Government notes “that would pay the same as Treasury bills.” Treasury was anxious to recycle the remainder.⁸⁶ On the U.S. side, Simon chaired the Joint Commission on Economic Cooperation, while Robert Ellsworth, director of International Security Affairs at the Pentagon, and a former U.S. ambassador to NATO, chaired the Joint Commission on Security Cooperation. Together, Simon and Ellsworth used their formidable clout at Treasury and Defense to strengthen Saudi Arabia and enhance U.S. influence.

⁸³ Ibid.

⁸⁴ Henry Mitchell, “Henry and the Prince and 1,400 Guests,” *Washington Post*, June 8, 1974.

⁸⁵ “Simon’s Tough Tour,” *Time*, July 29, 1974.

⁸⁶ Ibid.

The Shah was much less enthusiastic about the idea of U.S. influence. His preferred way of doing business was in person, in private, and preferably through oral communications, methods which had served him well in the past and ensured a high degree of control and manipulation. The Joint Commissions required bodies managed by technocrats. He viewed them as Trojan horses that did not fully accord with Iran's nationalist foreign policy objectives.⁸⁷ As ever distrustful of American motives, the Shah signed the accords but made sure they remained as little more than talk shops.⁸⁸

Kissinger's critics began to draw a clear link between the high oil prices threatening the economy and unrestricted arms sales to Iran. The conservative American Enterprise Institute, a think tank closely aligned with Republican conservatives, published a major critique of U.S. arms policy towards Iran that concluded "excessive" arms sales fed the Shah's appetite for higher oil prices and hurt U.S. national security interests.⁸⁹ Arms sales to Iran gave the Soviets an excuse "to respond by providing Iraq with more modern equipment..."⁹⁰ Laird, stout defender of the Twitchell Doctrine, and a longtime skeptic of the Shah, wrote the foreword to the report. The AEI report urged placing "well-defined limits on further sales to Iran" because "if more weapons are bought then oil is the most likely source of new revenues for both arms and domestic projects." On the left, in December 1974 Rep. Clarence Long, Democrat of Maryland, wrote to Ford asking if it was true that Nixon had expanded arms sales to Iran "without national security studies of the possible consequences." A month later, *The Washington Post* reported that indeed it was true, that neither the Nixon nor the Ford administration "has carried out a major National Security Council study of where the Persian Gulf arms race might lead 10 years from now, as is usually done with

⁸⁷ Alam, *The Shah and I*, p. 364.

⁸⁸ Ibid.

⁸⁹ Michael Getler, "Arms Sales May Raise Oil Cost," *Washington Post*, April 28, 1974.

⁹⁰ Ibid.

crucial issues.”⁹¹ One of Kissinger’s aides offered the rather startling excuse that the Secretary of State viewed the sale of military equipment to oil producers as primarily tactical.⁹² The *Post* article quoted an unnamed Pentagon official who conceded that there was “no policy limit on the dollar amounts of what the Shah can buy.”⁹³

The forceful intervention of American neoconservatives further radicalized the debate on Middle East. *Commentary* magazine published a dramatic essay in January 1975 proposing the outright invasion and occupation of the strip of Persian Gulf coastline extending from Kuwait down to Qatar which contained 40 percent of the world’s oil reserves.⁹⁴ The United States was not powerless against the actions of the oil producers, wrote Robert Tucker. The most obvious solution, and perhaps the cheapest, was for the U.S. to seize Arab oil assets on behalf of the western industrialized world. The Shah’s support for Israel presumably exempted Iran from invasion. Tucker argued that an American incursion would be a logistical cakewalk because the area’s lightly populated desert terrain ruled out the dangers of entrapment, morass and a second Vietnam. If the Soviet Union tried to stop a U.S. invasion by thrusting south through Iraq toward Kuwait, the author’s solution was for the U.S. to take Kuwait for itself.

A second lengthier essay, “Seizing Arab Oil,” appeared eight weeks later in the mainstream liberal current affairs journal, *Harper’s*, reflecting Schlesinger’s views⁹⁵ The author, writing under the pseudonym “Unknown Soldier,” argued that the West could no longer tolerate OPEC’s extortionate oil pricing policies. In fact, the article was produced by the Pentagon’s Office of Net Assessment, the internal body responsible for military

⁹¹ Ibid.

⁹² Ibid.

⁹³ Ibid.

⁹⁴ Robert W. Tucker, “Oil: The Issue of American Intervention,” *Commentary*, Vol. 59, No. 1, January 1975.

⁹⁵ Miles Igotus, “Seizing Arab Oil: The Case for U.S. Intervention: Why, How, Where,” *Harper’s*, March 1975, Vol. 250, No. 1498, pp. 44-62.

contingency planning document.⁹⁶ “Miles Ignotus” recommended a ten-year occupation of Saudi Arabia’s oil-rich eastern provinces and predicted an easy victory for American firepower in the Persian Gulf with virtually no chance of a protracted guerrilla insurgency, sabotage of oil installations or terrorism. Saudi Arabia’s oil fields, pipelines, port facilities and air strips could be seized with a force of just 40,000 men. The only country in the region capable of opposing an invasion was Iran. The author advised buying the Shah’s consent by offering Iran the chance to seize and occupy Kuwait. The *Harper’s* piece attracted close attention from Washington political insiders and from the Saudi royal family. The authors achieved their apparent objective, which was to remind the Saudis that the United States could not wait forever for them to unleash their swing power against OPEC.⁹⁷ King Hussein of Jordan passed on a message Ford and Kissinger from Prince Fahd of Saudi Arabia to tell say that the royal family was “deeply concerned” about public statements regarding U.S. plans to seize Saudi oil installations.⁹⁸

The Ford administration did not dismiss the use of force out of hand. High oil prices were “upsetting the established routine,” said former Secretary of Defense Schlesinger in a later interview. “And the failure of the United States to crack the whip meant that the whip hand on such matters was passing away from the United States.”⁹⁹ In December 1974 Ford’s top officials retreated to Camp David to consider the idea of sending the Marines into the Persian Gulf.¹⁰⁰ In early January 1975, Kissinger drew international headlines in an interview

⁹⁶ *Wall Street Journal* reporter Andrew Higgins confirmed the name of the Defense Department office responsible for developing contingency plans in his February 4, 2004, article on U.S. oil policy. See Andrew Higgins, “Power and Peril: America’s Supremacy and its Limits; Power Politics: In Quest for Energy Security, U.S. Makes New Bet: on Democracy. It No Longer Places Stability Above All Else in the Mideast, As Move on Iraq Indicates; Fateful FDR Visit to King Saud,” *Wall Street Journal*, February 4, 2004.

⁹⁷ John K. Cooley, “Who Wrote the Article: Oil Seizure Talk Irks U.S. Saudis,” *Christian Science Monitor*, March 12, 1975.

⁹⁸ Memorandum of Conversation, 4/29/75, “Ford, Kissinger, Jordanian King Hussein,” Box 11, National Security Adviser, GFPL, Ann Arbor, MI.

⁹⁹ FISOHA interview with James Schlesinger, by William Burr, Foundation for Iranian Studies, Washington, DC, May 15 and June 27, 1986, 1-31.

¹⁰⁰ Philip Shabecoff, “White House Declines to Ass to Kissinger Remarks on Use of Force,” *New York Times*, January 4, 1975.

Business Week magazine which quoted him as saying that although the use of force was “a very dangerous course,” the United States was prepared to use all available means “to prevent strangulation of the industrialized world.”¹⁰¹ Yet military force was an unrealistic proposition at a time when U.S. power projection fell its lowest point since the beginning of the Cold War. The Ford administration made no serious effort in the spring of 1975 to save allies in South Vietnam, Cambodia and Laos from communist defeat. During one discussion on oil policy, Kissinger reminded Simon of the limits of American power in the wake of Watergate and Vietnam.¹⁰² Issuing threats that could not be enforced was not only foolhardy but dangerous. Washington’s European allies showed no appetite for a military campaign against a cartel with members on almost every continent. They accepted the new realpolitik of the world economy, accommodated themselves to Arab concerns on the Middle East peace process, and embarked on an aggressive drive to recycle Arab and Iranian petrodollars. A U.S.-led military operation could succeed if industrialized democracies agreed on a common set of objectives and reached a united front in their relations with the oil producers.

Publicly, the Ford administration preferred to keep oil producers guessing as to its ultimate intentions. This policy explicitly laid out in the form of a major policy address delivered by President Ford to a gathering of international energy experts in Detroit on September 23, 1974, in a carefully maximized opportunity to articulate U.S. concerns, defend the administration against charges of inaction, and lay out a roadmap for future cooperation and confrontation with oil producers.¹⁰³ His remarks captured not only the sense of urgency and frustration within the White House but also reflected the growing awareness of convergence between U.S. national security and energy security objectives. “The danger is

¹⁰¹ Murray Mander, “Kissinger: ‘Use of Force’ An Option,” *Washington Post*, January 3, 1975. The *Post* article includes a full transcript of Kissinger’s remarks to *Business Week*.

¹⁰² Memorandum of Conversation, 8/3/74, “Kissinger, Simon, Burns, Ingersoll, Enders,” Box 4, GFPL, Ann Arbor, MI.

¹⁰³ Bernard Gwertzman, “Ford and Kissinger Warn Exorbitant Prices Of Oil Imperil World’s Economy,” *New York Times*, September 24, 1974.

clear,” Ford told the audience in Detroit. “It is severe.”¹⁰⁴ He explained that sovereign nations “cannot allow their policies to be dictated, or their fate decided, by artificial rigging and distortion of world commodity markets.” Oil prices should be allowed to move freely with the laws of the market and not because producers wanted to lock prices in at a particular level. Financial systems and political structures were under enormous strain and “...the exorbitant prices can only distort the world economy, runs the risk of world-wide depression, and threaten the breakdown of order and safety.” He admitted it was not easy to avoid discussing the issue of oil without resorting to “doomsday language” because the whole structure of our society rests upon the expectation of abundant fuel at reasonable prices,” an expectation that “has now been challenged.” Ford refused to rule out the use of force to stop the escalation in oil prices. “Throughout history, nations have gone to war over natural advantages such as water, or food or convenient passages on land and sea,” he said, while conceding that “war brings unacceptable risks for all mankind.” The speech attracted front-page headlines at home and around the world interpreted by commentators as the opening salvo in an “oil war” between energy consumers and energy producers. *The Wall Street Journal* described it as “harsh and even threatening” with “a thinly veiled—and unspecific—threat of possible retaliation against any nation that seriously disrupts the U.S. economy by using oil as a political weapon.”¹⁰⁵ For the first time since the oil crisis began, an American president publicly and explicitly proposed using military force to break OPEC and reduce the threat posed by high oil prices.

Ford’s speech was not delivered in isolation. In a carefully coordinated move, Kissinger and Simon delivered equally hard-hitting policy statements the same day to reinforce their message that the administration was united in its determination to regain control of the energy agenda. “What has gone up by political decision can be reduced by

¹⁰⁴ Ibid.

¹⁰⁵ Dennis Farney, “Ford Warns of Possible Retaliation If Oil Nations Threaten Economy,” *Wall Street Journal*, September 24, 1974.

political decision,” Kissinger told the United Nations General Assembly. “Oil prices cannot go up indefinitely. Strains on the fabric and institutions of the world economy threaten to engulf us all in a general depression...The world’s financial institutions are staggering under the most massive and rapid movements of reserves in history. And profound questions have arisen about meeting man’s most fundamental needs for energy and food.”¹⁰⁶ To emphasize the significance of his remarks, an unidentified official confirmed that the three speeches signaled that “an important battle will be fought on this issue. Up to now we, and they, thought the problem would go away or that supply and demand would come into play.”¹⁰⁷ Kissinger later remarked that the industrial democracies “could not allow themselves to be turned into panicked, paralyzed bystanders while the oil producers played fast and loose with the internal cohesion of our societies.”¹⁰⁸ The only reason the United States did not use force in the Persian Gulf, he added, was because it failed to receive the backing of its European allies to implement a joint military campaign.¹⁰⁹

The Ford administration failed to develop an effective strategy to counter OPEC in 1974-75 at least in part because officials in the outgoing Nixon and incoming Ford administrations could not reach agreement amongst its key members on how to proceed against the oil cartel and the increasingly unreliable Iran. Geopolitical considerations became inextricably bound up in foreign economic policy and vice versa, producing discord between the Treasury Department, which urged action against Iran, and the State Department, which defended the Shah and insisted that the key to resolving the crisis lay with Saudi Arabia, OPEC’s biggest oil producer. Iran’s domestic situation became entangled in U.S. calculations because the State Department feared placing too much pressure on the Shah’s regime lest it collapse, or depriving Iran of the revenues it generated to buy U.S. arms to counter the Soviet

¹⁰⁶ Gwertzman, “Ford and Kissinger Warn.”

¹⁰⁷ Marilyn Berger, “2 Objectives Seen in U.S. Moves on Oil,” *Washington Post*, September 25, 1974.

¹⁰⁸ Kissinger, *Years of Renewal*, p. 668.

¹⁰⁹ *Ibid.*, p. 667.

threat in West Asia. Where Kissinger and Simon did reach agreement was on the need to break OPEC to alleviate the damage high oil prices inflicted on political and financial institutions in the U.S. and throughout the western world. The Defense Department, meanwhile, engaged in a game of bluff intended to intimidate oil producers. Faced with the difficulties of reconciling economic, strategic, geopolitical and political interests, the Ford administration found no easy solution to the dilemma that did not involve damaging its relations with Iran.

Chapter Five

I NOT ONLY MAKE THE DECISIONS, I DO THE THINKING

Pahlavi Iran and the 1974-75 Oil Boom

Few leaders bestrode the world stage with as much confidence and panache as the Shah of Iran in 1974. The Shah's accomplishments were such that he was hailed abroad as one of the modern age's great reformers, the architect of a new economic era, and the 'Emperor of Oil' whose domestic and foreign policy achievements were comparable to his predecessors Cyrus the Great and the other Persian kings of old.¹ Iran's new-found influence in the wake of the oil shock posed a conundrum for western governments, but none more so than the United States which struggled to adjust to the shift in economic power in the Middle East. The Nixon administration had gradually loosened the ties that bound the Shah. The Ford administration now had to deal with the consequences. The Shah pursued an agenda that was unmistakably assertive, nationalist, and at times in conflict with U.S. national security objectives. The rapid pace of Iran's military buildup alarmed the Arab states, the Soviet Union, and even western countries who questioned the Shah's long-range intentions. Iran's rise, fuelled by the oil boom, had the deleterious effect of isolating the Pahlavi monarchy in its foreign relations, whilst severely straining the loyalty of the Shah's subjects as Iran's domestic economy was deluged by a flood of oil revenues it could not safely absorb.

In the early 1970s, the Shah and Iran were regarded by most observers as virtually interchangeable entities. All roads led to Niavaran, the wooded palace where the Shah held court and envisioned a newly reconstituted empire. The Iranian scholar Khosrow Fatemi

¹ *Time* magazine compared the Shah to Cyrus the Great in an article which evoked the mood of 1974. "In the 33rd year of an often uncertain reign, Mohammad Reza Pahlavi has brought Iran to a threshold of grandeur that is at least analogous to what Cyrus the great achieved for ancient Persia." "Oil, Grandeur and a Challenge to the West," *Time*, November 4, 1974.

described the Shah's modus operandi as "leadership by distrust." Ostensibly, the Iranian government was led by a team of technocrats headed by Prime Minister Amir Abbas Hoveyda, but real executive power lay in the hands of the monarch. In oil policy, the Shah dictated the terms of diplomacy towards producers and consumers, negotiated the details of production contracts with foreign oil companies, received the head of Iran's national oil company in weekly meetings, and even approved salary increases "and the scheduling of refinery overhauls..."² In foreign affairs, the Shah forbade Iran's foreign minister from attending meetings with foreign dignitaries. In defense policy, he selected not only which weapons systems to buy but personally conferred with the representatives of foreign defense contractors to discuss pricing and delivery dates. No military plane took off or landed in Iran without the Shah's permission. No member of the Iranian armed forces was promoted above the rank of second lieutenant without his explicit approval.³ The heads of the armed forces were only allowed to meet each other in the Shah's presence. The Shah was the pivot at the center of Iran's political regime.⁴

Cabinet ministers and heads of government departments jockeyed for the Shah's approval and outdid each other to interpret and implement what they perceived to be his instructions or whims. Inevitably, there were abuses and excesses. A culture of corruption developed at court, in government and business. The mid-seventies marked the zenith of the Pahlavi cult of personality. Every front-page of every newspaper published in Iran was required to carry a picture of members of the imperial family carrying out their latest

² Khosrow Fatemi, "Leadership by Distrust: The Shah's Modus Operandi," *Middle East Journal*, Vol. 36, No. 1, Winter, 1982, p. 54.

³ Ibid. See also Steven R. Ward, *Immortal: A Military History of Iran and Its Armed Forces*, Washington: Georgetown University Press, 2009, p. 209.

⁴ The king who ran an empire also found time to rearrange the palace furniture. Court Minister Asadollah Alam recorded the bizarre scene on the same day in 1974 that the Shah's ally, Emperor Haile Selassie of Ethiopia, was deposed in a left-wing coup. The Shah was preoccupied by events alright, though not so much with the geopolitical consequences of the coup, and what it meant for Iran's security, as by the placement of new furniture ordered for one of his palaces. "To begin with [the Shah] tried to give orders how each and every piece is to be displayed, but after a fruitless forty-five minutes it dawned on him that this really wasn't his cup of tea and that we need an interior decorator to decide which items to retain and which to send on to the other palaces," wrote Alam. Alam, *The Shah and I*, p. 387.

appearances and achievements. Private businesses and government offices displayed huge portraits of the Shah and his wife, Empress Farah, the Shahbanou, including one which showed the Shah standing on top of the world, waving, “with clouds rolling by behind him.”⁵ As Iranian political life stagnated, particularly after the Shah declared a one-party state in March 1975, the country’s security forces worked overtime to track down, arrest, torture and even assassinate prominent opponents. Regime critics fled into exile or sought refuge in mosques, forming alliances with religious clerics harboring their own resentments against the Pahlavis. Lubricated by oil money, Iran transitioned from benevolent royal autocracy to repressive police state.

As the Shah’s successes multiplied in the early seventies, he drew the lesson that Iran could exploit international conditions to achieve a new era of prosperity, progress and stability. More than ever, he believed the Iranian people could not manage without his firm guidance and leadership. “I not only make the decisions, I do the thinking,” he boasted.⁶ The Shah’s lymphoma exacerbated his chronic distrust to the point where he kept the diagnosis a secret even from his wife. In the exalted atmosphere of 1974, when the Shah ruled supreme, no one dared challenge his view that Iran was “not a volcano now.”⁷ He fervently believed that Iran’s oil wealth and military capacity meant it ought to dominate not only the Persian Gulf but also “the whole area from the Persian Gulf to the Sea of Japan.”⁸ Hushang Ansary, Minister of Finance and Economics, brushed aside concerns about inflation when he said he trusted the Shah to “make the right judgments.”⁹ American visitors and high dignitaries, who knew better, kept their concerns to themselves. David Rockefeller, the president of Chase Manhattan, viewed the Shah’s behavior as hubristic but did not challenge the Iranian’s view

⁵ Lewis M. Simons, “Shah’s Dreams Are outpacing Iran’s Economic Boom,” *Washington Post*, May 26, 1974.

⁶ Joseph Kraft, “What Restrains the Shah?” *Washington Post*, April 27, 1975.

⁷ Mohamed Heikal, *The Return of the Ayatollah: The Iranian Revolution from Mossadeq to Khomeini*, London: Andrew Deutsch, 1981, p. 104.

⁸ Ibid.

⁹ Simons, *Washington Post*, May 26, 1974.

that high oil prices posed no threat to the world economy.¹⁰ Nelson Rockefeller, Ford's vice president, compared the Shah to Alexander the Great and said he wished he could run the United States "for a couple of years" to instill discipline into the American people.¹¹ Ambassador Helms viewed pessimistically the prospects for Iran's economy and political stability but kept his opinions concealed.¹² In private, Kissinger mused that Iran's rapid pace of development "was bound to lead to revolution," whereas in public he lauded the Shah as "the most diligent statesman in the entire world. An honor I'd previously reserved to myself."¹³ It was hardly a surprise that the Shah believed his own press and working from within a cocoon of splendid isolation made a series of policy decisions in 1974 and 1975 that sent Iran's economy into a tailspin and derailed relations with United States.

In the summer of 1974 Iran was at a crossroads. The biggest decision facing the Shah was how best to manage the billions of dollars in oil revenues pouring into the government's coffers. The previous autumn the Shah had instructed the government's Plan and Budget Organization to adjust its budget forecast in anticipation of a new windfall in oil profits. Since then, Iran's income from petroleum increased 65 percent over a period of twelve months.¹⁴ Virtually overnight, the average Iranian's per capita income soared from \$501 to \$821.¹⁵ However, the full impact of the boom would not be felt until 1975 when revenues

¹⁰ The Rockefeller-Pahlavi connection was personal and financial. Mohammad Reza Shah's social ties to the Rockefellers were primarily through his relationship with Nelson. By contrast, the younger David addressed the Shah as "Your Imperial Majesty" and he in turn was addressed as "Mr. Rockefeller." "The primary topic in all our meetings was business," David Rockefeller recalled. The Rockefeller bank, Chase, enjoyed strong relations with the Bank Melli, Iran's largest commercial bank, and Chase was "the lead bank" for the National Iranian Oil Company which managed Iran's oil wealth. After oil prices rose fourfold in 1973 Iranian deposits in Chase "increased dramatically" and "our finance business boomed because we continued to finance a significant portion of Iran's oil exports. By the mid-1970s as much as \$50 to \$60 million a day passed through Chase, and Iranian deposits at one point in late 1978 exceeded \$1 billion. It was Chase that the Shah turned to when he needed to raise international financing for Iran's big industrial projects. Rockefeller thought it ironic that "we were never successful in attracting the Shah himself as a customer; he preferred to keep most of his money in Switzerland." David Rockefeller, *Memoirs*, New York: Random House Trade Paperback Edition, 2003, pp. 356-361.

¹¹ Cynthia Helms, *An Ambassador's Wife in Iran*, New York: Dodd, Mead, 1981, p. 83.

¹² Helms, *A Look Over My Shoulder*, p. 421.

¹³ Alam, *The Shah and I*, p. 500.

¹⁴ Razavi and Vakil, *The Political Environment*, p. 63.

¹⁵ *Ibid.*

were expected to rocket to \$17.8 billion, a stunning leap of 287 percent in twelve months.¹⁶ The Shah had dreamed of the day when he could buy what he wanted, when he wanted it. That day had finally arrived. “We have no real limit on money,” boasted his chief economist, “None.”¹⁷ The danger was always from inflation. By the summer of 1974 the Iranian government was collecting one billion dollars in oil receipts each month.¹⁸ The Shah and his planning experts understood that pumping too much of that money back into the domestic economy could lead to overheating and runaway inflation. If handled incorrectly, the deluge of petrodollars could blow the economy out from under his feet.

In the first week of August 1974, just as Nixon was in the process of resigning, the Shah, government ministers and leading bureaucrats retreated to the Caspian resort town of Ramsar to decide on a new spending and investment plan. Iran’s inflation rate was already in double digit figures, in marked contrast to the previous year.¹⁹ Eyewitness accounts and hard statistics from the spring and early summer of 1974 showed that a form of financial hysteria took hold in Iran, with Iranians going on a spending spree of luxury items and consumer appliances. Boutiques, cafes and discotheques opened in northern Tehran where the country’s political and business elite lived. There were remarkable scenes of excess. In the city of Mashhad a woman drove through the center of town handing out fistfuls of dollar bills estimated to be in the thousands to passersby whom she assumed were poor.²⁰ Yet while women in the northern suburbs mobbed furriers, the Shah’s own palace guardsmen were unable to feed their families because of a bread shortage.²¹ The economy had heated up even without the full infusion of the new ramped up stimulus.

¹⁶ Ibid.

¹⁷ Simons, *Washington Post*, May 26, 1974.

¹⁸ James Clarity, “Rich But Undeveloped, Iran Seeks More Power,” *New York Times*, June 3, 1974.

¹⁹ Lewis M. Simons, “Shah’s Dreams Are Outpacing Iran’s Economic Boom,” *Washington Post*, May 26, 1974.

²⁰ Clarity, *New York Times*, December 22, 1974.

²¹ Alam, *The Shah and I*, p. 374.

At Ramsar, the Plan and Budget Organization's experts laid out three scenarios to anticipate the consequences of modest, medium and maximum financial stimuli on inflation, infrastructure, employment, housing, and agriculture. Ramsar became synonymous with the deluge that followed. The meeting was a staged event.²² The Shah's behavior made it clear to the participants that the only opinion that counted was his, and his mind was already made up to approve a big new spending plan. He brushed aside explicit warnings of disaster if profits from the oil boom were pumped straight back into the economy. The Shah approved a plan to grow the Iranian economy at the astonishing rate of 25.9 percent each year for the next five years, an exceptionally high figure even by the standards of an economy already growing at an official annual rate of 11.4 percent.²³ Virtually overnight, Iranian government expenditures doubled from \$35 billion to \$69 billion.²⁴ Government ministers reacted as though a starter's gun had gone off and raced to assemble spending projects which eventually compiled enough to pay for the Fifth and Sixth Plans combined.²⁵

The Shah had laid a trap for himself. He had not taken into account the possibility that the recession in the West might lead to a sharp drop in demand for Iran's oil or that OPEC members might fall out among themselves and try to undercut each other in the market place. The Plan and Budget Organization had warned that oil and gas income "was subject to the vagaries of world supply and demand conditions and therefore highly erratic." Iran could not, "on the most optimistic assumptions, become the world's fifth industrial power in this century."²⁶ Iran would remain an importer of food. There was an urgent need to invest in transport, ports, power and the water supply to avoid infrastructure bottlenecks that could

²² Detailed accounts of the Ramsar meeting can be found in Alam, 382; Parvin Merat Amini, "A Single Party State in Iran, 1975-78: The Rastakhiz Party: The Final Attempt by the Shah to Consolidate His Political Base," *Middle East Studies*, Vol. 38, No. 1, Jan., 2002, p. 142; Graham, *Illusion of Power*, pp. 77-83; Razavi and Vakil, *Political Environment*, pp. 73-75.

²³ Graham, *Illusion of Power*, p. 78.

²⁴ Ibid.

²⁵ Razavi and Vakil, *Political Environment*, p. 80.

²⁶ Ibid, p. 68.

throttle economic growth. Iran should concentrate on building nuclear power plants to supplement hydroelectric power and develop heavy industries such as steel, petrochemicals, and machine tools. The Fifth Plan wrongly assumed the oil market would remain tight, oil prices would keep going up, and that demand for oil would stay high. *Financial Times* journalist Robert Graham concluded that the Shah's decision to go for broke was the natural result of his string of unbroken victories over the oil companies and the Nixon administration. "At the end of the Ramsar meeting, few realized they had just agreed to a 'hyper-boom'," wrote Graham. "Even as the Shah pushed through this doubling of proposed expenditure, all the evidence pointed to dangerous overheating of the economy."²⁷ The Shah's habit of overspending on arms and big development projects, and then hiking oil prices later on in order to pay for them, had become a dangerous compulsion.

The Shah decided to spend rather than invest Iran's new petro-fortune for several reasons. He believed that he had to move quickly before Iran's oil fields went into decline. Two former economic planners in the Iranian government, Dr. Hossein Razavi, and Dr. Firouz Vakil, have described the monarch's infatuation with Big Push economics.²⁸ Advocates of Big Push urged countries like Iran, economically undeveloped yet rich in commodities to plow revenues straight back into their economies in the form of big development projects. Instead of investing their money overseas like the Saudis, the Iranians should build steel mills, petrochemical plants, highways and textile factories—anything and everything that created the foundations for a modern, diversified industrial economy. The Shah placed orders for two supersonic Concorde airliners with the option to buy a third.²⁹ He signed a \$6 billion trade deal with France that included construction of an underground subway system, installation of a color television network, construction of 200,000 housing

²⁷ Graham, *Illusion of Power*, p. 9.

²⁸ Razavi and Vakil, *Political Environment*, p. 67.

²⁹ "Iranian Concorde Accords," *Wall Street Journal*, October 6, 1972.

units, an automobile plant to build 100,000 Renaults every year, and construction of tankers to carry liquefied gas.³⁰ “I will sell you aspirins, I will sell you proteins,” declared the Shah as Tehran’s bakeries ran out of bread, “I won’t sell you crude oil.”³¹ For the Shah, with billions of dollars at his disposal, big thinking meant that nothing was off-limits.

Iran’s Big Push could only work if its economy was big enough to safely absorb the financial stimulus. The cash infusion had to be ingested in stages, not inhaled at once. If these conditions were not met, the results would be comparable to an overdose. Perhaps the Shah felt the need to move quickly on the economic front because of the uncertainty surrounding his health. He was a fatalist and sensed that time was not on his side. The end result was that Iran, one of the world’s oldest societies, hurled into the future like a rock flung from a slingshot. The Shah set out on an ill-conceived Persian-style Great Leap Forward that he hoped would bolster the monarchy, inoculate Iran from outside pressures, and build a legacy for the ages.

The consequences of the Big Push became starkly apparent almost immediately. Within two months of Ramsar the CIA reported that the Iranian economy struggled to absorb its petro-windfall. Iran’s economy took off, the problem being that no one knew where it would land. “The latest surge in oil revenues has contributed to an acceleration in the rate of growth,” reported the agency’s analysis. “The economy grew by 33% in 1973 and is expected to grow another 40% in 1974.”³² These were astounding figures. “Oil revenues will continue to exceed the economy’s absorptive capacity over the next few years...” So much money poured into the economy that the Iranian government could not spend it fast enough: “The Shah’s ambitious development program and arms build-up are creating domestic economic problems.” “The cost of living in Iran—where more than 60 percent of the families have a subsistence level income of \$15 a week—is jumping almost daily and is expected to rise soon

³⁰ “France in \$6 Billion Iran Pacts; Premier Sees No Devaluations,” *New York Times*, December 24, 1974.

³¹ David Holden, “Shah of Shahs, Shah of Dreams,” *New York Times Magazine*, May 26, 1974.

³² Document Reference No. 00899, *Iran: The Making of US Policy, 1977-80*.

to 20 percent above what it was last year,” reported *The New York Times* in October 1974. “Prices for staple foods, textile goods and home appliances have been soaring, in some cases to 100 percent above last year’s levels. A black market has developed to circumvent the Government’s price controls.”³³ In an overheated economy, inflation eroded the earnings of poorer Iranians who tended to be socially conservative and more religious. The government tried to keep a lid on inflation with the help of expensive subsidies of basic household items. Despite its best efforts, “inflation still dissipates the income of many Iranians, leaving them little if anything to spare and far below the consumption levels of western nations whose money is pouring into this country in petroleum.” Worse, the flood of oil revenues approved at Ramsar had yet to wash through the economy. Within eighteen months, boom turned to bust.³⁴ In 1975 the government faced a staggering \$10 billion shortfall in income for the year because excessive domestic spending coincided with slumping global demand for Iranian oil.³⁵ In June, Abdul-Majid Majidi, Iran’s Minister of State and the head of the PBO, announced a halt to spending on secondary development projects and the scaling back of big development plans. Iranian banks were forced to take out hundreds of millions of dollars in loans to cover the gaping hole in their balance sheets.³⁶ “Our revenues have dwindled considerably,” the Shah told his people.³⁷ The state security police, SAVAK, assumed responsibility for the publication of economic and financial statistics and censored the consumer price index and true rate of unemployment.³⁸ The government’s economic planners later conceded that the 270 percent increase in government oil revenues over the 1974-75 period propelled Iran down the road to revolution.³⁹

³³ Clarity, *New York Times*, October 7, 1974.

³⁴ “Drop in Oil Revenue Cited,” *New York Times*, June 17, 1975.

³⁵ Ibid.

³⁶ Eric Pace, “Iran, Despite Her Oil Wealth, Is Borrowing on a Grand Scale,” *New York Times*, August 15, 1975.

³⁷ Eric Pace, “Iran Is Exhorted To Develop Thrift,” *New York Times*, May 28, 1975.

³⁸ Amini, *Middle East Studies*, p. 142.

³⁹ Razavi and Vakil, *Political Environment*, 80. See also Theodore H. Moran, “Iranian Defense Expenditures and the Social Crisis,” *International Security*, Vol. 3, No. 3, Winter, 1978-79, pp. 178-192.

U.S. diplomats in Tehran and officials in the State Department monitored the chaotic results of the Shah's Big Push. They recorded what happened when the economy of a major oil producer and important ally descended into disarray. Diplomats filed reports back to Washington in which they observed that Iran's economy was hobbled by transportation bottlenecks and shortages of skilled labor. The country's ports, roads, railways and airports failed to keep pace with the gyrations set in motion by the oil boom. Tankers and freighters arriving at Iranian ports waited on average 250 days to unload.⁴⁰ Longshoremen struggled to clear a backlog of 850,000 tons of goods.⁴¹ "The highways are choked, cracking from increased truck traffic, and being improved only slowly," reported the Embassy.⁴² Iran was short of skilled labor and the cities burst at the seams with hundreds of thousands of poorly trained rural migrants in search of work and housing.

U.S. diplomats studied the ways in which unrestricted arms sales contributed to Iran's overheated economy. Their findings were a devastating indictment of Nixon's secret decision to grant a Shah a blank check to buy U.S. weapons without considering the implications for Iran's economy.⁴³ According to the U.S. Embassy's estimates, although the Iranian government did not publish statistics related to purchases of military equipment, Iran's balance of payments numbers "suggest that nearly one-half or \$10 billion spent on imports during the Iranian year ending on March 10 went for military imports. Our own military sales data suggest that about half of this money was spent on U.S. equipment. Accurate data are lacking because much of Iranian expenditure is buried elsewhere in the budget, but current estimates for this year put total Iranian military spending at more than \$10 billion or perhaps

⁴⁰ Joe Alex Morris, Jr., "Is It For Real: New Broom Stirs Lots of Dust in Iran," *Los Angeles Times*, October 7, 1977.

⁴¹ Harry B. Ellis, "Iran's Race to Modernize Before the Oil Runs Out," *Christian Science Monitor*, January 2, 1976.

⁴² "Confidential: Cable From Ambassador Helms to Department of State," August 4, 1975, NSA, Washington, DC.

⁴³ *Ibid.*

one-third of total GOI [Government of Iran] outlay.” The report concluded that “serious damage is probably being done to the civilian economy.” Only the fact that other sectors of the economy had reached their absorptive capacity prevented an immediate financial crisis. There had already been an “incalculable loss” to the Iranian economy because trained personnel worked in the military instead of the private sector where their skills were desperately needed. The Embassy report connected economic chaos to possible political instability inside Iran:

It is almost impossible to believe that in the long run even as seemingly strong and stable a regime as that in power in Iran can get by with changing the country in only a few decades from a nearly illiterate, poor, and basically peasant society into a well educated, reasonably affluent, modern, and dynamic nation without at some point going through a period of serious political upheaval and perhaps even radical social change. Put in another way, the current Iranian leadership is asking the people to accept modernization in almost every respect while maintaining an autocratic political system which still denies them most of the basic human freedoms taken for granted in most of the advanced western societies which Iran is striving to emulate. What the outside observer, of course, hopes for in Iran is political evolution rather than revolution.

The analysis, signed off by Helms, and forwarded to Kissinger, reminded both men that from a historical perspective the Shah’s chances of retaining power in a rapidly changing economic environment were not good. History, read the report, “provides discouraging precedents about the declining years of autocrats. I can recall no example of an absolute ruler willingly

loosening the reins of power.” The Shah’s decision to declare a one-party state exposed the dictatorial nature of Pahlavi rule, while the passivity of the educated elite meant that the chances for peaceful change in Iran were growing slimmer. “Should we choose to try to use any of our apparent leverage to influence Iranian policies, our first aim probably would be to try to force a more moderate Iranian position on the price of oil. But in this or any other area in which we might try to sway Iranian policies we are limited by our dedication to the free market mechanism.” The author of the analysis obviously wanted the United States to influence Iranian oil policy.⁴⁴

If the Shah’s handling of Iran’s oil boom illustrated the limited extent of his understanding of economics and finance, his decision to declare a one-party state in March 1975 showed a disconnect from political realities.⁴⁵ The mid-1970s were an ideal time for the Shah to step back from day-to-day governance and open up the political process. It provided a short-lived window of opportunity for the regime to broaden its political base by engaging Iran’s emerging middle class. The economic complexities of the new Iran were such that no single individual could possibly manage a society undergoing rapid, dynamic change. He only grasped that the crown had to become more responsive in order to maintain its relevance but not how to engage his people in political dialogue and activism.

Originally, the concept of imposing a one-party state was the brainchild of leftist and liberal intellectuals aligned with Shahbanou Farah.⁴⁶ In the early seventies she emerged as a power in her own right. Whereas the Shah’s circle was composed of older male courtiers who

⁴⁴ To learn more about the political economy of U.S. arms sales to Iran, the following articles are helpful: Michael T. Klare, “Political Economy of Arms Sales,” *Social Scientist*, Vol. 4, No. 11 (Jun., 1976), 3-19; and Thomas M. Ricks, “U.S. Military Assistance to Iran, 1943-1978: The Political Economy of Military Assistance,” *Iranian Studies*, Vol. 12, No. 3/4, Summer-Autumn, 1979, pp. 163-193.

⁴⁵ To learn more about the Shah’s decision to declare a one-party state in Iran in March 1975 and for more his views on democracy and pluralism, the following references are helpful: Abrahamian, *A History of Modern Iran*, pp. 149-154; Afkhami, *The Shah*, pp. 423-440; Ansari, *Modern Iran*, pp. 185-187; Milani, *The Persian Sphinx: Amir Abbas Hoveyda and the Riddle of the Iranian Revolution*, Washington, DC: Mage Publishers, pp. 274-280; Saikal, *The Rise and Fall of the Shah*, pp. 188-191.

⁴⁶ To learn more about Shahbanou Farah’s influence on policy and politics in late Pahlavi-era Iran, the following references are helpful: Afkhami, *The Shah*, pp. 404-440; and Ansari, *Modern Iran*, pp. 197-199.

shared the monarch's right-wing authoritarian instincts, Farah's court was young, French educated, leftist, and preoccupied with social welfare and children's and women's rights programs and initiatives, the "human face" side of the Pahlavi regime. One of the more curious contradictions of the late Pahlavi period was the Shah's tolerance of his wife's activism and her employment of former associates of the deposed Mossadegh, as well as anti-regime exiles who returned home to enjoy the fruits of the oil boom. These former political agitators, some of whom had been imprisoned, decided to work for peaceful change at the seat of power. Their presence was tolerated and apparently taken as a sign by the Shah that his most ardent critics now accepted the legitimacy of his rule and joined the great national effort to modernize and transform Iran into a great power. Yet there were those like Court Minister Alam who suspected the motives of the returned exiles and questioned Farah's judgment. They feared that twenty years later some of the same individuals who had opposed the Pahlavis in the early 1950s were winning the war of ideas by other means. This led to considerable tension at court.

What both sides at court did agree on was the need to find ways to channel safely the unruly social energies unleashed by the oil boom. "The remedy came in the shape of Samuel Huntington," wrote historian Ervand Abrahamian.⁴⁷ Huntington was the intellectual godfather behind the one-party state trend in the late sixties and early seventies, a period when right-wing authoritarian regimes in Taiwan, South Korea and Chile used state power to forcibly modernize their economies and manage their populations. Despite Huntington's conservative American credentials, his message of state power also appealed to idealists on the political left. "Not surprisingly, some heard in Huntington echoes of Lenin," noted Abrahamian. "Huntington's concepts gained currency [in Iran] when young PhDs returned

⁴⁷ Abrahamian, *A History of Modern Iran*, p. 149.

from America and gained access to government think tanks.”⁴⁸ Indeed, Huntington focused part of his research on the Shah’s prospects for survival, a fact surely noted by his Iranian admirers.⁴⁹

During a visit to the People’s Republic of China, the Shahbanou and her advisers were deeply impressed with Chairman Mao Zedong’s mass appeal with the Chinese people and the ability of the Chinese Communist Party to extend its reach to every neighborhood and street corner. The Shah also had a habit of cherry-picking ideas and trends from abroad and fusing them on the back of the Pahlavi state. It was one of the more distinctive and naive hallmarks of the late Pahlavi period. In any event, the Pahlavi kings’ departure from Iran’s Shi’a Islamic heritage left them with few obvious choices but to go abroad in search of ideas and inspiration. The strange hybrid of right and left in the form of the Rastakhiz (Resurgence) Party suited the short-term needs of the royalist establishment at a time when western notions of liberal democracy appeared to offer little or nothing to Iran in the way of economic success or political viability.

The U.S. embassy interpreted the Shah’s declaration of a one-party state on March 2, 1975, to mean that the Shah was circling the wagons.⁵⁰ Helms did not think the Shah’s latest dramatic gambit to increase his popularity and strengthen his legitimacy would work. “Press reports to the contrary, the Shah’s announcement was received by most of the embassy’s contacts with a wave of cynicism and confusion which has not yet fully subsided,” he cabled the State Department. “The arbitrary nature of the announcement tended to reinforce the prevailing Iranian mood of skepticism and cynicism about virtually everything connected with politics. To ordinary Iranians we have talked with—shopkeepers, small merchants, and others—(as distinct from party activists whose personal interests were involved), the previous

⁴⁸ Ibid.

⁴⁹ Samuel Huntington, With a New Foreword by Francis Fukuyama, *Political Order in Changing Societies* New Haven and London: Yale University Press, 2006.

⁵⁰ “Confidential: Cable From Ambassador Helms to Department of State,” August 4, 1975, NSA, Washington, DC.

political parties were ineffective as a means of expression and so far they seem to anticipate a similar result from this party...This [decision by the Shah] inhibits the process by which political institutions can learn to function without his guidance.” The declaration of a one-party state closed the last meaningful door to peaceful dialogue between the regime and its critics. Just three months later, in the religious stronghold of Qum, seminary students rioted to mark the twelfth anniversary of the arrest and exile of Ayatollah Khomeini.⁵¹ The students jeered that Iran was “like a harlot running after the evil ways of the West.”⁵² The Shah rushed security forces to Qum to restore order. The Shah’s decision to abandon even the pretense of a two-party system had the effect of sealing a volcano on the verge of eruption.

The Shah also made important missteps in foreign policy. It was a sure sign that in the wake of Iran’s petro-bonanza he had lost all sense of perspective. The Shah’s stated intention to make Iran’s military the strongest in the region, and to project Iranian petropower across the broad spectrum of the Middle East and West Asia, unsettled Iran’s neighbors and the Shah’s allies and adversaries. In an April 1974 meeting with Kissinger, President Hourari Boumediene of Algeria complained that Iran’s buildup and foreign policy ambitions threatened stability in the wider Middle East.⁵³ Arab governments suspected the motives behind Iran’s decision to send commandos to Oman to crush leftist separatists. They protested its covert effort to destabilize the government of Iraq by supplying money, training and weapons to Kurdish separatists.⁵⁴ Iranian policy was “a cause for anxiety.”⁵⁵ Pakistan

⁵¹ For a scholarly analysis of the 1975 unrest in Qum and its connection to the Islamic Revolution of 1978-79 see Charles Kurzman, “The Qum Protests and the Coming of the Iranian Revolution, 1975 and 1978,” *Social Science*, 27:3, Fall 2003, pp. 287-325.

⁵² Andrew Borowiec, “Moslem Fundamentalists Fight Shah’s Reforms,” *Washington Post*, June 24, 1975.

⁵³ Memorandum of Conversation, H.E. Hourari Boumediene and The Secretary, April 11, 1974, NSA, Washington, DC.

⁵⁴ See Ibid. Kissinger sought to reassure his Algerian host about U.S. intentions toward Iraq. “We have no interest to threaten the unity of Iraq,” he said. “We will not support efforts to split it into component units. I can say this to the Iraqis.” But he noted that Iraq was “pursuing an unfriendly policy toward the U.S. and it is the principal base for the USSR [in the Middle East].” Boumediene warned Kissinger against taking measures to weaken or splinter Iraq from within. “The Iraqis must be vigilant,” he said. “This could be a region of struggle. Iran is intervening in Oman. There is also sensitivity between Iran and Saudi Arabia.” The President was referring to the recent tense exchanges over oil pricing in Vienna between the Saudi and Iranian delegates, and

was a close ally of Iran, dependent on the Shah for financial and military aid, but Prime Minister Zulifikar Ali Bhutto of Pakistan warned the State Department that Iran's support for high oil prices had a "disastrous effect" on his country's economy.⁵⁶ The Soviets had enjoyed cordial relations with Tehran since the early 1960s, but the Shah's Iraq policy, military buildup, and the influx of Americans on their southern border, raised tensions and led to uncomfortable scenes when the Shah met General-Secretary Leonid Brezhnev in Moscow in late 1974.⁵⁷

The most damaging foreign policy dispute involved the Israelis. The Shah's refusal to allow Soviet over-flights during the October War or cut Israel's oil supply during the embargo gave Iran a special place in Israeli strategic calculations, but the Shah believed that the time was right to reorient Iran's foreign policy to accommodate the Arab resurgence led by President Anwar Sadat of Egypt. The Shah met Sadat and the two leaders and their wives took an immediate liking to each other. The Shah began to entertain the notion of an Iran-Egypt axis in the Middle East, with the Arab world's oldest, most cosmopolitan society partnering with the modern heir to the Persian Empire to build a new framework for peace and security in the region. An interview between the Shah and the editors of the Lebanese weekly magazine *Hawadess* in December 1974 offered the first evidence of a possible tilt from Israel towards Egypt and the Arabs. The Shah hinted "at a possible shift of Iranian policy toward closer alignment with moderate Arab governments on the Arab-Israeli

also to the Shah's decision to dispatch to Oman crack troops to put down a leftist insurgency threatening the monarchy there. "Rivalry is not in our interests," Kissinger lied. "There is danger and we are not encouraging Iran to pursue an aggressive policy against Iraq because if something were to occur, we would support Iran against Iraq." The exchange ended with Boumediene issuing a warning: "Advise Iran to stay out of these problems."

⁵⁵ Ibid.

⁵⁶ Memorandum of Conversation, "Bhutto, Kissinger," Prime Minister's Office, Islamabad, Pakistan, October 31, 1974, 1400 - 1530, NSA, Washington, DC.

⁵⁷ Brezhnev berated the Shah for stoking superpower rivalries in the Gulf and meddling in Iraq. "To begin with they did they best to brow-beat me, complaining about our military build-up," he told Alam on his return to Tehran. "They complained about our support for the Kurdish guerrillas." Brezhnev had slammed his fist down on the table and harangued the Shah, asking him, "Why do we feel it necessary to purchase so many new weapons? Against whom do you intend to use them?" Alam, *The Shah and I*, p. 398.

conflict.” He stressed that U.S. military intervention in the Middle East to smash OPEC was “unthinkable as long as oil-producing countries maintained their cohesion.” He criticized the Ford administration for failing to provide Egypt with more aid. Perhaps most intriguing was the Shah’s prediction that “Iran needs only six or seven years to become a military power capable of defending the region.”⁵⁸ By 1980, implied the Shah, Iran could stand up to any great power or aggressive neighbor without U.S. aid or permission.

The Shah’s remarks led to “high-level consternation” in the White House because there were obvious and troubling implications for U.S. national security strategy in the Persian Gulf and for Iran-Israel relations.⁵⁹ State Department officials were particularly concerned with the Shah’s statement that if Israel resisted the implementation of United Nations accords, it ran the risk of another Middle East war. This time “it will be our war. We support the Arab view because the Arabs became a victim of foreign occupation.”⁶⁰ A commentator in *The Washington Post* concluded that the special relationship between Iran and Israel was “coming to an end.”⁶¹ Although the Shah’s comments were “devoid of overtly nasty anti-Israel rhetoric,” they did raise “serious alarms considering the multi-billion-dollar American arms sales to Tehran and Washington’s policy of depending on Iran for western defense of oil-rich Persian Gulf and northern approaches to the Soviet Union.” The Shah’s opinionated outburst led the Israeli ambassador to query Kissinger about intelligence that the Shah had made the unilateral decision to supply Egypt with U.S.-made weapons. Kissinger dismissed the report as “inconceivable” but was unable to confirm or deny it.⁶²

What was clear was that neither the U.S. nor the Israeli governments had a firm grasp of the Shah’s long-term strategic objectives, let alone specific intelligence about Iran sending

⁵⁸ Joseph Fitchett, “Shah Hints Policy Tilt To Arabs,” *Washington Post*, December 13, 1974.

⁵⁹ Rowland Evans and Robert Novak, “A Warning From the Shah,” *Washington Post*, December 19, 1974.

⁶⁰ Fitchett, “Shah Hints Policy Tilt.”

⁶¹ Evans and Novak, “A Warning From the Shah.”

⁶² Memorandum of Conversation, “Kissinger, Dinitz,” Monday, December 23, 1974, 6:45 - 7:45 p.m., The Secretary’s Office, Department of State, NSA, Washington, DC.

guns to Egypt. In fact, the Shah's comments and behavior signaled his intent. Iran's oil windfall, and the relaxed conditions of the mid-seventies, lent him confidence to pull away from Washington's orbit and pursue a more balanced foreign policy based on independent nationalism. Years earlier, the CIA had warned the Nixon White House that as the Shah became more assertive, the chances would increase that Iranian foreign policy goals would diverge from those of the United States. This development complicated the efforts of the Ford administration to reach a Middle East peace settlement. Kissinger was anxious to broker a disengagement agreement between Israel and Egypt that allowed the Israelis to pull back from the Suez Canal. The Israelis were reluctant to withdraw because it meant handing back oil wells they had captured at Abu Rudeis in the Sinai in 1967. Oil was a strategic resource and also an important source of revenue for a country faced with a balance of payments gap estimated at between \$200 and \$400 million.⁶³ The Shah's tilt towards Egypt made the Israelis much less willing to accept as ironclad his pledge to compensate their loss in the Sinai with a commensurate increase in oil from Iran.

Tensions between Iran and Israel came into sharper relief in March 1975. Without formally consulting either the Ford administration or the Israeli government, the Shah decided to turn off the Kurdish insurgency in Iraq by cutting aid to the separatists and closing the Iran-Iraq border. The desire of Saddam Hussein's desire to settle long-standing border disputes near the strategic Shatt-al-Arab waterway motivated the Shah to act. The Shah accepted that the Kurds had outlived their usefulness and viewed the operation as not worth risking Iran's ties with the Soviet Union. Within a matter of days, insurgent forces led by Mustafa Barzani, and backed by the CIA and Mossad, yielded to the Iraqi armed forces. The result was a humanitarian catastrophe that drew widespread international condemnation in the world's press, shined an unwelcome spotlight on Washington's support for the Shah, and

⁶³ Marilyn Berger, "Iran Oil Pledged to Israel," *Washington Post*, February 19, 1975.

exposed U.S.-Iran relations to scrutiny at a time when the U.S. Congress was investigating CIA abuses of power and a raft of suspected illegal activities under the leadership of Senator Church, a longtime critic of the Shah.

The collapse of the Kurdish operation embarrassed the Ford administration in the same month communist guerrillas in Southeast Asia launched a final offensive in South Vietnam, Laos and Cambodia. When news leaked of U.S. involvement in the covert operation, lawmakers on Capitol Hill accused the White House of the betrayal of the Kurds and ordered an investigation to untangle the affair. According to the Pike Report produced by the House Select Committee on Intelligence, since 1972 the CIA had invested \$16 million as a good-faith gesture to the Iranians and Israelis.⁶⁴ The Kurdish leadership, concluded the investigation, had distrusted the Shah but relied heavily on Kissinger's personal promise of aid. The U.S. "acted in effect as a guarantor that the insurgent group would not be summarily dropped by [the Shah]."⁶⁵ U.S. participation in the Kurdish operation paid the Shah for his willingness to host CIA bases on Iranian soil. From the outset, the CIA and State Department understood that the Shah would most likely trade in the Kurds if the opportunity arose to settle Iran's perennial border dispute with Iraq.⁶⁶ A CIA cable from March 22, 1974 captured the cynicism of the whole operation when it described the Kurdish nation as "a uniquely useful tool for weakening [Saddam Hussein's] potential for international adventurism."⁶⁷ The Shah meant to stoke the conflict but not to the point where it might inflame Kurdish communities on the Iranian side of the border. "Neither [the Shah] nor ourselves wish to see the matter resolved one way or another," said the CIA.⁶⁸ Indeed, when Kissinger met the

⁶⁴ *The Pike Report*: With an Introduction By Philip Agee, Nottingham: Spokesman Books, 1977, p. 196.

⁶⁵ Ibid.

⁶⁶ From a CIA memo of October 17, 1972: "[The Shah] has apparently used [another government's] Foreign Minister to pass word to [Saddam Hussein] that he would be willing to allow peace to prevail [in the area] if [Saddam Hussein] would publicly agree to abrogate [a previous treaty concerning their respective borders]." Ibid, p. 214.

⁶⁷ Ibid.

⁶⁸ Ibid.

Shah in Washington in July 1973 he had expressed the view that they should do everything in their power to prevent the Kurds from coming to terms with the government in Baghdad.⁶⁹

The Kurds fought on for three years, buoyed by Kissinger's explicit statements of support for their cause, and enduring thousands of casualties. He urged them to continue the struggle even when Saddam Hussein offered a path to peace.⁷⁰ Barzani told the CIA that although he distrusted the Shah, when it came to the United States "he trusted no other major power" and asserted that if his cause were successful he was "ready to become the 51st state."⁷¹ Barzani went to great lengths to show his appreciation to Kissinger and even sent him gifts of jewelry to express his appreciation and loyalty.⁷²

For the United States, the Shah's decision to end the Kurdish operation led to diplomatic complications that few could have foreseen. News of the deal between Tehran and Baghdad leaked when Kissinger was in the Middle East trying to convince regional governments to agree to disengage their forces in the Sinai Desert and on the Golan Heights. His peace efforts collapsed when Syria's President Hafez Al-Asad insisted during their meeting that the Shah's decision to abandon the Kurds changed the strategic balance of power in the region to the Arab advantage.⁷³ Iran's rapprochement with Iraq was "a strategic victory for the Arab world," one that hastened the fall of the Israeli state. Asad suggested that Iran might turn its formidable new U.S.-equipped military arsenal against the Israelis in a future conflict. "Removal of this block—relations between Iran and Iraq were the main block—strengthens the Arab world as a whole." The Syrian president observed that the abandonment of the Kurds followed what he described as Washington's recent similar

⁶⁹ Memorandum of Conversation, Meeting with His Imperial Majesty Mohammad Reza Shah Pahlavi, Shahanshah of Iran on Tuesday, the 24th of July, 5:00 - 6:40 p.m., the Shah's Reception Room at the Blair House, NSA, Washington, DC.

⁷⁰ *Pike Report*, p. 212

⁷¹ *Ibid.*

⁷² *Ibid.*

⁷³ For a full transcript of the Kissinger-Asad meeting see: National Security Adviser: Kissinger Reports on USSR, China, and Middle East Discussions—Kissinger's Trip, Vol. I (2)," Box 3, GFPL, Ann Arbor, MI.

“abandonment” of South Vietnam, Cambodia, Laos and Taiwan. He said he felt confident that the United States would follow suit with the “little aggressor” Israel.

The Israeli government concurred with Asad’s interpretation of events and accepted that Israel had been weakened by Iran-Iraq rapprochement.⁷⁴ Iraqi military divisions, previously tied down in the east to fight the Kurds, could now move near Jordan’s border with Israel. The Shah’s decision to terminate the Kurdish operation without informing Israel meant it doubted Iranian security guarantees concerning the future of its oil supply. The Shah had revealed himself to be a feckless friend. The Sinai would not be returned, Prime Minister Yitzhak Rabin told Kissinger, because “the Shah took such a decision to agree with the Iraqis to sell out the Kurds. Though that is not known to the public, it’s known to us. It has to be taken into account.”⁷⁵ A dangerous element of uncertainty and distrust was introduced into the peace process. Kissinger’s peace shuttle collapsed and he returned to Washington to face intense criticism from lawmakers.

In Washington, the Shah’s abandonment of the Kurds led to a conservative *volte face*. The neoconservatives, led by Senator Jackson, argued that the Shah’s decision proved he was a fickle ally whose decision weakened Israeli security assurances and could not be trusted to manage U.S. national security interests in the Persian Gulf. Jackson was especially concerned about the administration’s plan to sell nuclear reactors to Iran under the terms of a multi-billion dollar trade agreement reached by the U.S.-Iran Joint Economic Cooperation Commission. He urged the White House to revisit the decision because the Shah’s foreign policy showed a lack of “reliability and continuity.”⁷⁶ Iran had forfeited the right to be regarded as an unconditional ally. “Such transactions as the transfer of a sizable nuclear power production capability, with its plutonium byproduct, need to be assessed in light of

⁷⁴ Ibid.

⁷⁵ National Security Adviser: Kissinger Reports on USSR, China, and Middle East Discussions—Kissinger’s Trip, Vol. I (2),” Box 3, GFPL, Ann Arbor, MI.

⁷⁶ Rowland Evans and Robert Novak, “Kissinger and Jackson: The Feud Goes On,” *Washington Post*, April 13, 1975.

disturbing evidence that...Iran is capable of policy shifts so precipitous as to border on the quixotic.”⁷⁷ The tensions spilled over to infect relations between the Iranian and Israeli leaders. Iran-Iraq detente alarmed the Israelis, their allies in the U.S. Congress, and made it more difficult for Kissinger to defend the Shah’s oil pricing policies and nuclear ambitions. Perhaps the country most affected in the long term by the deal was Iran. Under the terms of the accord, the Iraqi government agreed to allow Iranian Shi’a pilgrims to cross into Iraq to visit Shi’a holy places. If the Shah thought this gesture would bolster his standing at home among the clergy, he was sadly mistaken. Many of the faithful made the trek to the town of Najaf where Ayatollah Khomeini had lived in exile since 1964.⁷⁸ Khomeini, who harbored grievances against the Shah, inspired many of his visitors to return to Iran to begin the fight against Pahlavi rule.

The Shah believed that the 1974 and 1975 oil boom provided a great opportunity for his regime to speed up the pace of modernization and transform Iran into a regional military and economic power. With the decline of Cold War polarity, as a result of detente, he concluded that Iran enjoyed an unprecedented opportunity to maneuver in international affairs.⁷⁹ The oil shock encouraged the Shah’s autocratic tendencies by producing a financial windfall for Iran and encouraging the monarch to initiate a series of domestic and foreign policy decisions, with disastrous consequences for regime stability and U.S.-Iran relations. The perception abroad was that the Shah had reached the height of his powers, but in reality the lavish facade of the Pahlavi regime in 1974 and 1975 hid inconvenient truths of which the most important was that Iran’s economy had spiraled out of control. The government’s finances were dangerously overextended and inflation shook the confidence of the middle class and low income workers, leading some to consider alternatives to royalist rule. Iranian

⁷⁷ Ibid.

⁷⁸ Interview with Richard Helms.

⁷⁹ A point made by Rouhallah K. Ramazani in his essay, “Iran and the United States: An Experiment in Enduring Friendship,” *Middle East Journal*, Vol. 30, No. 3, Summer, 1974, pp. 322-334.

intellectuals recoiled against the notion of a one-party state. A minority of young Iranians, mostly students, were so convinced the door to peaceful dialogue was closed they took up arms against the regime and entered into alliances with radical Islamists. In foreign policy, the decision to terminate the Kurdish campaign responded to the Shah's perceptions of national interest and the understandable need to secure Iran's borders and placate the Soviet Union. Nonetheless, his rapprochements with moderate Arab rulers, antagonized the U.S. and Israel. Prominent neoconservatives and Defense Department officials questioned the Nixon-Ford approach to arms sales policy and nuclear cooperation with Iran, a country whose leader pursued nationalist policies which increasingly conflicted with U.S. national security and foreign economic policy objectives. The debate over the appropriate U.S. response to engaged not only leading figures in the Ford administration but also became a part of a growing challenge to the policies of detente.

Chapter Six

WE HAVE GIVEN IN WHEN THE SHAH REALLY WANTED IT

Realities Collide Over Oil Policy, Arms Sales and Nuclear Cooperation, 1974-75

Even as concerns emerged about the Shah's ability to manage his country's oil boom, and the direction of Iranian foreign and defense policy, the U.S.-Iran bilateral relationship continued to deepen and intensify in ways that made it increasingly difficult for either government to change course or disengage. Interdependence created a new momentum. Nixon's departure from office removed the ballast from President-Shah relations at a time of surging Iranian petropower, declining American influence in world affairs, and increased involvement of each country in the other's internal affairs. Ford struggled to manage the Nixon Doctrine's contradictory legacy whose emphasis on geopolitical order inadvertently created the conditions for economic and financial disorder. High oil prices destabilized the economies of both oil producers and consumers. Unrestricted arms sales overloaded the Iranian economy, exacerbated regional tensions, embroiled American military personnel in corruption scandals, and led to an influx of Americans into a country in the grip of rising xenophobia. The Shah's pursuit of nuclear power perturbed the Defense Department and led Schlesinger to urge an immediate review of policy options towards Iran. Kissinger, anxious to manage an increasingly unmanageable ally, tried to regain the Shah's trust with a major confidence-building initiative. His failure to complete a promised oil deal instead led to the collapse in confidence at the highest levels of leadership, and set the United States on a course of confrontation over oil policy with Iran and the search for a more reliable partnership for the U.S. among the oil-producing states in the Persian Gulf.

Iran's nuclear program emerged as a major source of bilateral tensions in the 1974 to 1977 period. The Shah owed Iran's rise to regional power status to Nixon, whose doctrine of the same name provided him with the guns and money to pursue his ambitions. Hemmed in to the north and west, it made sense from the Shah's point of view for Iran to pivot south and east in search of allies, influence and markets. The Shah envisioned Iran at the center of a new regional order comprised of countries bordering the Indian Ocean. During a trip to the Near East and Pacific in September 1974 he called for a common market binding regional economies, and in Australia proposed a "military understanding," a collective security pact to keep the Indian Ocean free from U.S. and Soviet naval rivalry, and enabling it to be jointly patrolled by the Iranian and Australian navies.¹ The Shah courted Prime Minister Gough Whitlam because the Australian had two commodities the Shah was anxious to obtain: uranium and bauxite.

The story of Iran's fledgling nuclear program dated back to 1959 when the Eisenhower administration provided Iran with a small nuclear reactor under the terms of its Atoms for Peace program. The reactor's use was restricted to university-level research, but by the early 1970s the Shah concluded that Iran should develop nuclear power. Iran's economy was growing, its population swelling, electricity use was up, and Iran's oil fields were projected to run dry after the turn of the century.² Nixon responded to the Shah's concerns in 1972 when he secretly agreed to sell Iran nuclear power plants and nuclear fuel. Later that year, Iran's Ministry of Water and Power publicly announced its intention to build the country's first nuclear power plant.³ The only factor constraining a nuclear program was lack of money, a problem solved when oil prices quadrupled the next year. In 1974, Iran and the United States entered into formal talks on nuclear cooperation "with the precondition that

¹ "Shah Offers Plan For Indian Ocean," *New York Times*, September 29, 1974.

² Maziar Baheri, "The Shah's Plan Was to Build Bombs," <http://www.newstatesman.com>, 11 September, 2008.

³ Mustafa Kibaroglu, "Good for the Shah, Banned for the Mullahs: The West and Iran's Quest for Nuclear Power," *Middle East Journal*, Vol. 60, No. 2, Spring, 2006, p. 214.

[Washington] should have complete control over [Iran's] nuclear fuel cycle.”⁴ The Shah announced his intention to buy eight American nuclear power plants in a deal worth \$15 billion.⁵ Separately, he announced plans to buy five French plants.

There were differences at the outset between the U.S. and Iran, and within the Ford administration, on the complex issue of sharing nuclear technology and placing restrictions on fuel reprocessing. The Department of Defense opposed bilateral nuclear accords because it feared the spread of nuclear technology to countries with a history of political instability. Schlesinger, Nixon's former chairman of the Atomic Energy Agency, expressed his concern that the State Department was too preoccupied with recycling petrodollars to recognize the inherent risk of nuclear proliferation.⁶ Pentagon analysts also suspected that the Shah's motives were not entirely peaceful. The Shah did nothing to ease their fears when in June 1974 he gave a provocative interview to a French journalist. Asked whether Iran would one day possess a nuclear bomb, the Shah boasted, “Certainly, and sooner than is believed.”⁷ “I always suspected that part of the Shah's plan was to build bombs,” Dr. Ahmad Etemad, the head of Iran's nuclear power program, later admitted.⁸ A flurry of cables from the U.S. embassy in Tehran offered assurances that the Shah's comments were taken out of context.⁹

The Shah's stated preference was to build a domestic nuclear reprocessing plant. In 1974 reprocessing did not have significant “commercial potential,” reported *The Bulletin for Atomic Scientists*, “but it did enable scientists to recover plutonium from nuclear fuel once it had been used in a power reactor, and plutonium could be used to manufacture nuclear

⁴ Baheri, <http://www.newstatesman.com>, 11 September, 2008.

⁵ Kibaroglu, “Good for the Shah,” p. 214.

⁶ Cooper, *The Oil Kings*, 210. “I was resisting the efforts of American firms to sell reactors to Third World countries,” said Schlesinger, and he noted that it “irritated some of my fellow commissioners on the Atomic Energy Commission who thought it was our job to go out and sell.” Schlesinger's motto was simple: “Any sales that we make should be in the American interest and not in order to buttress the balance of payments.”

⁷ Department of Defense, National Military Command Center, “Subject: Interview With the Shah,” Message Center, June 24, 1974, NSA, Washington, DC.

⁸ Maziar Baheri, “The Shah's Plan Was to Build Bombs,” www.newstatesman.com, 11 September, 2008.

⁹ Department of Defense, National Military Command Center, “Subject: Shah's Alleged Statement on Nuclear Weapons,” Message Center, June 25, 1974, NSA, Washington, DC.

weapons.”¹⁰ The Shah’s plan suggested that he sought the acquisition of atomic bombs, and the Pentagon stiffened its resolve to oppose sharing nuclear technology with Tehran. “If Iran were to seek a weapons capability, it is noted that the annual plutonium production from the planned...Iranian nuclear power program will be equivalent to 600-700 warheads,” warned an internal report prepared for the Assistant Secretary of Defense.¹¹ “Although Iran is currently stable, that stability is heavily dependent on the Shah’s remaining in power. In a situation of instability, domestic dissidents or foreign terrorists might easily be able to seize any special nuclear materials stored in Iran for use in bombs...An aggressive successor to the Shah might consider nuclear weapons the final item needed to establish Iran’s complete military dominance of the region.” For the first time, U.S. officials mentioned the unmentionable: the forced removal or involuntary departure of the Shah from Iran’s political scene and the potentially catastrophic consequences for U.S. national security.

Led by Kissinger, the State Department began a round of intensive diplomatic negotiations with the Iranian government to reach a bilateral nuclear cooperation accord. A framework for agreement was not out of reach. Iran was a signatory to the Nuclear Non-Proliferation Treaty (NPT) which obliged Tehran to place its nuclear facilities under the inspection of the International Atomic Energy Agency (IAEA).¹² Under the Treaty’s terms and conditions, Iran was allowed to reprocess nuclear fuel so long as it did so in accordance with international standards and safeguards.

As a first step, Kissinger designated Shultz, Nixon’s former Treasury secretary, as his initial backchannel to Tehran. Shultz was president and director of Bechtel Corporation, an engineering firm that specialized in building nuclear power plants, dams, subway lines, and in

¹⁰ William Burr, “A Brief History of U.S.-Iranian Nuclear Negotiations,” *The Bulletin of Atomic Scientists*, January/February 2009, Vol. 65, No. 1, p. 23.

¹¹ Memorandum for Secretary of Defense, “Subject: Nuclear Energy Cooperation With Iran (U) - Action Memorandum,” June 22, 1974, NSA, Washington, DC.

¹² Underlined emphasis in the original. Department of State Action Memorandum, To the Secretary, From Alfred A. Atherton, Jr., and Nelson F. Sievering, Jr., “Nuclear Energy Agreement for Cooperation With Iran,” December 6, 1974, 2, NSA, Washington, DC.

the case of Saudi Arabia an entire industrial city.¹³ The Bechtel connection meant that private commercial motives quickly became entangled in the Ford administration's handling of sensitive policy discussions. State Department correspondence confirmed that officials saw the nuclear accord as a commercial opportunity for Bechtel and other American corporations. "Also, at our instigation, approaches have been made by the Bechtel Corporation to Iran to encourage the Shah's investment (on the order of \$300 million) in a private uranium enrichment plant to be built in the United States."¹⁴ The White House calculated that if the Shah went ahead and acquired half his nuclear power program from the United States, the equivalent of between six and eight nuclear power plants, the U.S. stood to earn \$6.4 billion in revenues.¹⁵ If the Shah then agreed to cover the cost of 20 percent of a privately run U.S.-based enrichment plant, the U.S. stood to reap an additional \$1 billion.¹⁶ Kissinger viewed the nuclear accord as the jewel in the crown of his ambitious plan to encourage American-Iranian commercial interdependency and integrate the economies of the two countries with the end goal of moderating Iran's oil policy

The State Department recognized that U.S. policy had "potentially conflicting goals" because even as the administration reproached U.S. allies for sharing nuclear technology with countries in the Third World, it appeared anxious to reach just such an accord with Iran.¹⁷ There was no doubt that "some are concerned over [Iran's] possible longer-term nuclear weapon ambitions should others proliferate." Pursuit of a nuclear accord with Iran carried with it the potential for conflict later on. Failure to bridge differences between the two

¹³ George Shultz traveled to Switzerland to talk to the Shah in February 1975. On his return to Washington he called in at the White House to brief Ford, Kissinger, Scowcroft and other officials on where things stood. For a transcript of the conversation see: Memorandum of Conversation, 2/7/75, "Ford, Kissinger, George Schultz," Box 9, National Security Adviser, GFPL, Ann Arbor, MI.

¹⁴ Department of State Action Memorandum, To the Secretary, From Alfred A. Atherton, Jr., and Nelson F. Sievering, Jr., "Nuclear Energy Agreement for Cooperation With Iran," December 6, 1974, 2, NSA, Washington DC.

¹⁵ Report of the NSSM 219 Working Group, Nuclear Cooperation Agreement With Iran, 1, NSA, Washington, DC.

¹⁶ Ibid.

¹⁷ Memorandum for the Assistant to the President for National Security Affairs, Subject: Department of State Response to NSSM 219 (Nuclear Cooperation with Iran), April 18, 1975, NSA, Washington, DC.

governments over the handling of nuclear fuels “could have serious, as well as long-term, adverse effects in our relations... Should we not be able to resolve our differences the Shah is likely to view our unwillingness to treat Iran as we have other NPT parties as a reflection on Iran’s stability and the integrity of its commitments as well as an indication that the U.S. cannot be relied upon because of the uncertainties of our political process.” Indeed, the Shah might conclude that he should look elsewhere for nuclear fuel suppliers who were “less cautious” than the United States.

The Shah rejected the Shultz plan to build a reprocessing plant in the United States. He insisted Iran would build its own facility and control its own fuel cycle. If Iran was such a trusted ally, the Shah demanded to know, why should it not receive the same privileges as other American allies? Kissinger responded by offering a compromise: the Ford administration promised to look more favorably on future requests to reprocess and store plutonium on Iranian soil if the enrichment process was carried out in a “multinational plant” jointly managed and secured with the United States.¹⁸ Other friendly countries in the region such as Pakistan and Turkey, which had also expressed a desire to acquire nuclear power, would be invited to participate in the consortium. The State Department hoped that a multinational approach under nominal Iranian leadership would take the sting out of American veto power and appeal to the Shah’s personal sense of grandeur. The State Department saw it as a win-win solution for both governments. “Iran has no dearth of remote areas for long term storage of radioactive waste,” Embassy Tehran’s Jack Miklos cabled Washington. “And the public is insufficiently educated in the dangers of radioactivity to rise against the idea.”¹⁹ Iran was politically stable “as long as the Shah survives,” said Miklos.

¹⁸ Report of the NSSM 219 Working Group, Nuclear Cooperation Agreement With Iran, NSA, Washington, DC.

¹⁹ Telegram From Jack Miklos, Embassy Tehran, to the State Department, Washington, July 17, 1975, NSA, Washington, DC.

The Shah, of course, was slowly dying of lymphoma, but Miklos had no way of knowing that.

The Shah dismissed out of hand the second proposal to build a multinational facility. “The Iranians recognize and resent the regional reprocessing plant concept as a device to impose international control on this very sensitive stage in the nuclear fuel cycle,” Helms cabled the State Department.²⁰ “Iranian bruised honor aside, they believe the idea is ridiculous in the Middle East setting.” Iran and its neighbors did not have the sort of “close functional relationships” required to overcome the “tremendously complex” problems involved in “joint management, distribution of costs, and actual physical arrangements for storage, transport, and processing of material...” Helms offered his view that if the United States wanted to figure in Iran’s nuclear future it would have to reach an accommodation with the Shah in the matter of enrichment. If such an accommodation was not possible, the administration should “cut our losses now rather than to prolong an issue which may fester and poison our relations more in the future.” Schlesinger and the Joint Chiefs of Staff urged President Ford to hold firm and not offer any further concessions to the Iranians. They worried that the State Department was prepared to give away the store. “We recognize the importance of the U.S.-Iranian relationship both for energy and national security,” Schlesinger informed Ford.²¹ “At the same time, due to the potential for instability and uncertain political situation in the Middle East, the proposed agreement for nuclear cooperation could have serious national security implications.” The Pentagon’s civilian and military leadership believed the United States should “delay the operation of such nuclear fuel reprocessing facilities for as long as possible.” The U.S. must never surrender its veto “where any future reprocessing activity of U.S. fuel provided Iran could occur.” Conditions

²⁰ Telegram from Ambassador Richard Helms, Embassy Tehran, to Joint Chiefs of Staff, Department of Defense, November 26, 1975, NSA, Washington, DC.

²¹ Memorandum for the Assistant to the President for National Security Affairs, Subject: Nuclear Cooperation Agreement with Iran: NSSM 219 (C), The Secretary of Defense, April 25, 1975, NSA, Washington, DC.

must be attached so that if Iran evicted international inspectors from its own facilities there would still remain an American presence on site.

The State Department correctly foresaw that the Shah would look elsewhere for nuclear partners if he lost confidence in the diplomatic negotiations. In late 1975 the head of Iran's Atomic Energy Organization admitted that Iran would not allow foreign governments (i.e. the United States) to dictate the terms of its handling of nuclear fuel.²² The White House also learned that Iran had entered into a secret pact with the Republic of South Africa to buy enough uranium to power up to one hundred nuclear power plants.²³ Under the terms of the deal Iran agreed to finance the construction in South Africa of a big new uranium enrichment facility. In return, the white minority regime in Pretoria agreed to supply Iran with ore from its occupied territory of Namibia. "This story has been denied publicly, but in confidence an [Iranian] official has confirmed that there is a secret agreement to purchase uranium from South Africa," the U.S. embassy in Tehran cabled the State Department. "It is evidently being kept under wraps at the insistence of South Africa."²⁴ In a separate communication, Helms informed Kissinger that Iran was "seeking foreign—including American—expertise to help prospect for uranium within Iran, and is reportedly entering into joint ventures for uranium exploration in central Africa."²⁵ The Shah's nuclear deal with South Africa deal directly challenged U.S. domination of the international uranium trade and evaded U.S. restrictions on proliferation and reprocessing.

The Shah's hubris and nuclear ambitions drew renewed scrutiny from military and intelligence officials in Washington. The Department of Defense, under Schlesinger's leadership, decided to revisit the Nixon-Kissinger policy of unrestricted arms sales. The arms

²² Department of Defense Cable 0508432, "Iranian Nuclear Policy," January 5, 1976, National Security Archive.

²³ Thomas O'Toole, "S. Africa Set to Sell Iran Uranium Ore," *Washington Post*, October 12, 1975.

²⁴ From American embassy Tehran, Department of State Airgram, Subject: The Atomic Energy Organization of Iran, April 15, 1976, NSA, Washington, DC..

²⁵ Telegram from Ambassador Richard Helms, Embassy Tehran, to Joint Chiefs of Staff, Department of Defense, November 26, 1975, NSA, Washington, DC.

trade alarmed some military planners who worried that a Middle East arms race heightened the risk of war involving U.S. and Soviet proxies. Overall, U.S. arms sales to the developing world soared from \$200 million per year in the 1960s to \$3.7 billion in 1973 and \$9.9 billion in 1974.²⁶ The United States was now responsible for fifty percent of the total value of the world arms trade.²⁷ These numbers delighted administration officials trying to drum up business for U.S. corporations but alarmed Pentagon analysts who worried that the Middle East had descended into an unchecked arms bazaar.

The political economy of arms sales to countries like Iran was complicated by the rise of transnational corporate influence in the early seventies. The Nixon Doctrine, as discussed earlier, encouraged U.S. allies to spend more on their defense, and it also encouraged U.S. defense contractors and the aeronautics industry to seek out new markets in the developing world. The NSC viewed arms sales as a primarily tactical means of exerting leverage in international affairs: “The more sophisticated the weapon, the greater the dependency.”²⁸ Modern weapon systems required multi-year commitments on the part of the supplier to provide spare parts and training to the recipient country. “When you buy an airplane, you buy a supplier and supply line, in other words you buy a political partner,” explained William D. Perreault, the vice president of Lockheed, the company whose influence-peddling activities in the 1970s spread to three continents.²⁹ The host government also “bought” from the provider a long supply train of mechanics, technicians, accountants, administrators, supervisors, drivers and electricians. In the case of Iran, a country deemed friendly and at peace, families were encouraged to relocate too. The Shah’s preference for sophisticated U.S. military hardware, and the fact that American contractors enjoyed an unsurpassed reputation as the most efficient and reliable spare parts suppliers in the world, meant that by 1976 the Iranian

²⁶ Klare, “Political Economy of U.S. Arms Sales.”

²⁷ Ibid, 6.

²⁸ Ibid, 12.

²⁹ Ibid, 13.

armed forces were so reliant on American spare parts and manpower that Iran could not go to war without them.³⁰ But that was not how the Shah saw it. “We’re spending so much money on U.S. military supplies that no U.S. government, let alone the arms manufacturers, could afford to deny us...” concluded Court Minister Alam.³¹ Both governments looked on arms sales as a way to influence each other’s policies.

U.S. defense contractors anxious to exploit the Shah’s defense budget rushed to Iran to build weapons plants and depots and enter into co-production deals with Iranian companies.³² Weapons co-production fitted in with Kissinger’s strategy to transform Iran into a giant regional armory from which he could insert or extract men and machinery at will to impose regional order. Yet co-production also ensured that thousands more Americans and their families relocated to Iran. An internal survey conducted by the Department of Defense in January 1975 revealed that 17,000 Americans lived in Iran, triple the number from just four years earlier and predicted to increase 20 percent a year for at least the rest of the decade.³³ Sixty-eight percent of the incoming arrivals were attached to the military mission, with the remainder medical personnel, Peace Corps volunteers, teachers, lawyers, accountants, construction workers, contractors, and husbands and wives joining their Iranian spouses.³⁴ The surge resulted from Nixon’s 1972 decision “to provide advanced weapons systems and uniformed technical assistance personnel to Iran.”³⁵ U.S. Air Force and Army trainers and technicians usually arrived some 18 to 30 months after an arms deal was concluded.³⁶ Based on \$6 billion in expenditure for U.S. armaments already signed for 1973 and 1974, a massive influx of American nationals eventually numbering 50,000 could be in Iran during the peak

³⁰ “U.S. Military Sales to Iran,” A Staff Report to the Subcommittee on Foreign Assistance of the Committee on Foreign Relations, United States Senate, July 1976 (GPO: Washington, 1976).

³¹ Alam, 524.

³² For a list of U.S.-Iran co-production contracts as of 1974-75 see Director, Special Regional Studies, The Pentagon, “The Growing U.S. Involvement in Iran,” January 22, 1975, NSA, Washington, DC.

³³ Ibid.

³⁴ Ibid.

³⁵ Ibid.

³⁶ Ibid.

years of 1979-80.³⁷ Their arrival had a major impact on the U.S.-Iran bilateral relationship, creating problems that neither government fully anticipated or understood.

Iranian defense plants and military facilities were dispersed around the country as a precaution against an invasion. That meant many American defense contractors and their families moved out of Tehran, often to remote parts of the country deeply imbued in conservative Shi'ism. "The major distributional change is occurring in [Isfahan] and Shiraz where two large American civilian defense contractor communities are growing," reported the Pentagon.³⁸ "Bell Helicopter and Grumman Aircraft will locate about 4,000 American families there, probably by 1980. Thus, while the appearance of Americans outside Tehran was not unusual in the early 1970s, by the latter part of this decade U.S. citizens will be a significant part of the Iranian 'frontier areas'." From the Shah's perspective, this was ideal: American men, women and children based near the frontier areas acted as tripwires or human shields to deter Soviet aggression and invite an automatic American response in the event of invasion. They were his insurance policy until Iran was strong enough. But neither the incoming Americans nor their Iranian hosts were ready for the cultural disorientation and confrontations that followed. "Many American families are poorly prepared for life in an alien culture," reported the United States Information Service even as it noted that Iranian universities were "producing a highly nationalistic and self-assertive younger generation, skeptical of the American cultural model."³⁹ Anti-American sentiment grew in equal measure to the influx of U.S. nationals, placing additional strains on bilateral relations.

The corporate stampede to set up shop in Iran after 1972 led to a "wild west" atmosphere that alarmed U.S. policymakers and diplomatic officials with an understanding of Iranian culture and history. "That's where Nixon and Kissinger went wrong," said former

³⁷ Ibid.

³⁸ Ibid.

³⁹ Ibid.

President Johnson's former envoy to Iran in the late 1960s, Armin Meyer.⁴⁰ Meyer was one of the old Iran hands appalled by the scenes of excess he witnessed when he visited the country in the mid-'70s. The city of Isfahan, one of the most culturally conservative Iranian cities, degenerated into "a fleshpot" once Bell Helicopter relocated from Saigon.⁴¹ Bell pilots committed crimes of assault, harassment of Iranian women, public drinking, vandalism, desecration of places of worship, and prostituting their Vietnamese wives.⁴² An Iranian taxi driver was shot in the head by an American in a dispute over the fare. Iranians were referred to in their own country by Americans as "sand-niggers," "rag heads" and stinkies.⁴³ Muslim radicals spread rumors through the bazaars of Tehran: "Americans are desecrating mosques, insulting Iranian women."⁴⁴ Even Helms, who had originally urged Nixon and Kissinger to end restrictions on arms sales, recognized the danger of a violent backlash and took steps to try to ameliorate its impact.⁴⁵ Violence against Americans in Iran emerged as a matter of official concern for the first time in May 1975 when assassins killed two marine colonels.⁴⁶ Fourteen months later, three civilian engineers were ambushed and murdered in Tehran while driving to work.⁴⁷ The American presence in Iran destabilized the Shah's regime and raised the risk of a violent backlash against American civilians and officials by anti-Shah terrorists.

⁴⁰ FISOHA interview with Armin Meyer, Interviewed by William Burr, Foundation for Iranian Studies, Washington, DC, 29 March, 1985, pp. 1-50.

⁴¹ Ibid.

⁴² Eric Pace, "U.S. Influence on Iran: Gigantic and Diverse," *New York Times*, August 30, 1976.

⁴³ Ibid, 381

⁴⁴ Andrew Borowiec, "Moslem Fundamentalists Fight Shah's Reforms," *Washington Post*, June 24, 1975.

⁴⁵ "There was concern on my part," recalled Helms. "I felt that the American presence was getting too large...I felt this was wrong and unnecessary. I attempted to take actions to alleviate it." One of the measures he took to reduce the U.S. presence may have backfired. "I did away with the Peace Corps," he said. Interview with Richard Helms. In fact, the Peace Corps was one of the very few U.S. governmental agencies to have earned the respect of the Iranian population. Its small staff of ten Americans managed 142 volunteers working on a variety of language training, urban planning and community development projects. For a discussion of the positive role played by the Peace Corps in Iran see Bill, *The Eagle and Lion*, p. 380. The closure of the Peace Corps was a purely symbolic act at a time when fifty retired military personnel arrived in Iran each month to take up employment as defense contractors. See Director, Special Regional Studies, The Pentagon, "The Growing U.S. Involvement in Iran," January 22, 1975, NSA, Washington, DC.

⁴⁶ The most detailed account of the murders of Colonels Shaffer and Turner appeared in *The Washington Post*. See: Andrew Borowiec, "U.S. Men Killed In Ambush," *Washington Post*, May 27, 1975

⁴⁷ The most detailed account of the August 28, 1976, slayings of three American contractors in Tehran was offered by Ambassador Richard Helms to an associate who kept notes of their conversation. It was first reported

No one was more concerned about the chaos surrounding arms sales to Iran than Defense Secretary Schlesinger. Schlesinger's doubts about Kissinger's handling of policy towards Iran melded with his disapproval at the way the Secretary of State had handled detente and missile negotiations with the Soviet Union. Schlesinger believed the Nixon administration had negotiated from a position of weakness and offered the Russians too many concessions during the Strategic Arms Limitation Talks (SALT). Kissinger suspected his colleague of undermining treaty negotiations and secretly siding with the neoconservatives.⁴⁸ Kissinger was also already under attack from Rumsfeld and deputy, Richard Cheney. Their private polling concluded that detente hurt Ford's prospects for election in 1976. "Detente is a particularly unpopular idea with Republican voters, the word is worse," wrote Robert Teeter, the White House's expert on opinion polling. "We ought to stop using the word wherever possible."⁴⁹ Already troubled by differences over detente, Schlesinger appealed to Ford to initiate a broad review of U.S. strategic policy towards Iran.

On September 25, 1974, Schlesinger publicly disassociated the Department of Defense, and by implication himself, from arms sales policy to Iran and Saudi Arabia. "I should make it meticulously clear that the Department of Defense does not have its own policies with regard to the sale of arms," he told reporters at a press conference.⁵⁰ "In general, military assistance rests under the purview of the Secretary of State. We are the administrators of the programs." It was a little known fact that some big defense and intelligence contracts related to Iran were moved through the State Department's Office of Munitions, an obscure office that Kissinger used to handle special projects he deemed

by Bob Woodward. See Bob Woodward, "IBEX: Deadly Symbol of U.S. Arms Sales Problems," *Washington Post*, January 2, 1977.

⁴⁸ Mann provides a concise summary of the backstage maneuvering between Kissinger and Schlesinger over detente in *Rise of the Vulcans*. See Mann, pp. 56-78.

⁴⁹ Mann, p. 71.

⁵⁰ Michael Getler, "Long-Term Impact of Arms Sales to Persian Gulf Questioned," *Washington Post*, January 30, 1975.

essential and kept tabs on.⁵¹ Schlesinger's concerns were summarized in an internal memorandum produced by the NSC after the Shah fell from power. It stated there were "sufficient negative indicators in relations to the Shah's prospects to prompt the USG [United States Government] toward a somewhat more cautious and guarded relationship with the Shah."⁵² He had never received a briefing on Kissinger's 1972 memorandum that lifted restrictions on arms sales to Iran, and he questioned the National Security Council's efforts to overrule his opposition to the sale of advanced military equipment to Iran like F-14 jet fighters.⁵³ Schlesinger's remarks at the press conference heralded the reemergence of Defense as a counterweight to State's control over arms and nuclear policy towards Iran.

Schlesinger was frankly pessimistic about the Shah's ability to manage Iran's oil boom. He feared the Ford administration ran the risk of engaging too deeply in Iran, a country with a history of political unrest, with the risk of repeating the U.S.'s disastrous involvement in Vietnam. Schlesinger's views were informed by the works of Alexis de Tocqueville, the historian who studied the origins of the French Revolution, and also by Harvard historian Ernest May, whose seminal book, *Lessons of the Past*, warned policymakers not to draw the wrong conclusions from history when conducting statecraft.⁵⁴ When he spoke to the Shah, Schlesinger urged the monarch only to buy weapons which Iran's armed forces were trained and equipped to handle and which they could maintain.⁵⁵ On

⁵¹ Seymour Hersh, "Iran Signs Rockwell Deal For Persian Gulf Spy Base," *New York Times*, June 1, 1975.

⁵² *Iran: The Making of US Policy, 1977-80*, Document Reference No. 03558, NSA, Washington, DC.

⁵³ Interview with James Schlesinger cited in Cooper, *The Oil Kings*, pp. 282-83. "As one reflects on it, there were kind of hints at this and that, but there was no documentation. It became clear to me over the period ahead, that the relationship was very deep. But now I cannot recall any explanation of the degree of commitment, and indeed I have not to this day had it confirmed from the participants that those commitments were made that you can have anything you wanted. I did not, at that time, believe that such deep commitments had been made, although I understood that we were supposed, in general, to support the Shah—because I resisted certain arms sales, certain commitments by the United States which I did not think were in our interest, and sometimes were not in the Shah's interest, and on some of them I just got overruled."

⁵⁴ Cooper, *The Oil Kings*, p. 471. Ernest May used the examples of the American experience in World War II, the start of the Cold War, the Korean War and escalation in Vietnam to warn policy-makers that they "ordinarily use history badly." He cautioned officials in Washington not to assume that patterns of history were repeating themselves but to "free themselves from the analogies, parallels, or trend-readings which they might otherwise thinkingly apply."

⁵⁵ *Ibid*, p. 287.

arms sales, as on nuclear cooperation, Schlesinger rejected the views of colleagues who believed that restricting the sale of military equipment “decreases the potential contribution of sales to strengthening both free world security and the U.S. economy and balance-of-payments position.”⁵⁶ Schlesinger maintained that fiscal affairs and defense policy must remain separate.

Schlesinger was deeply concerned that Iran was overloaded with American military manpower and material. He was just as concerned that he “could not control” the deluge or even moderate it.⁵⁷ He took those concerns to the President in September 1975. “Iran has an almost limitless appetite and has so much on its plate they can’t digest it,” he explained to Ford.⁵⁸ “We have tried to slow them, but we have given in when the Shah really wanted it. Schlesinger’s office calculated that since 1972 Iran had contracted to purchase \$10 billion in U.S. weapons, equipment, support and training, of which \$8 billion had still to be delivered, raising “the specter of severe management problems downstream.”⁵⁹ The Iranian armed forces’ construction program for 1973-78 was more than \$5 billion, while military construction was underway at more than 300 locations around the country.⁶⁰ Iran’s military supply system was “a shambles” and “the expansion is too great for them to cope with.”⁶¹ The Defense Department concluded that even the U.S. military would struggle to absorb a similar quantity of material.⁶² Two other issues of special concern involved damaging allegations of corruption involving U.S. military personnel in Iran, and the rapid influx of tens of thousands of American contractors and their families into a geographically isolated country exhibiting signs of virulent anti-Americanism.

⁵⁶ Klare, “Political Economy of U.S. Arms Sales.”

⁵⁷ FISOHA interview with James Schlesinger, Interviewed by William Burr, Foundation for Iranian Studies, Washington, DC, May 15 & June 27, 1986, 1-15.

⁵⁸ Memorandum of Conversation, 9/2/75, “Ford, Schlesinger,” Box 15, National Security Adviser, GFPL, Library.

⁵⁹ Memorandum for the President, “DOD Activities and Interests in Iran,” May 19, 1975, NSA, Washington, DC.

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² Ibid.

Corruption scandals were a worrying sign that unrestricted arms sales created a culture of influence peddling, price-fixing and outright bribery involving Iranian middlemen, government officials, members of the royal family, and American military personnel and defense contractors. Schlesinger was so alarmed at the allegations of pay-offs that he hired a consultant, retired army colonel Richard Hallock, as his personal emissary to help the Shah sort through the logistics of placing weapons orders.⁶³ Hallock's reports to Schlesinger, only recently declassified, revealed the extent of the graft. The U.S. Government's foreign military sales (FMS) pricing policy "is not correct or consistent and often not honest...the credibility problem is deeper than the absolute costs; and it is heightened by the fact that nearly every case questioned by the [Government of Iran] shows that there were overcharges and abuses. The amount of money that Iran is spending with the U.S. together with the lack of leadership and discipline...has greatly increased the corruption in the FMS system in the Services."⁶⁴ Hallock warned of "marriages of interest between the Services and major contractors for conducting business in Iran which is not authorized by the either the Secretary of Defense or [the Government of Iran]—projects born of deception and lies and greased by influence and payoff."⁶⁵ Hallock condemned the leadership of the United States military mission in Tehran as "weak and child-like," actively sabotaging Schlesinger's own efforts to root out the corruption that now extended to uniformed officers. The Air Force section within the U.S. mission "has not been cleaned up and is waiting like a bomb to go off."⁶⁶ Unrestricted U.S. arms sales to Iran had unleashed a tide of corruption that tarnished the armed forces and embroiled senior military and civilian officials in outright bribery and corruption.

⁶³ Hallock was employed from 1973-76 and received \$2,697,067 in compensation for the period of his consultancy. Martin R. Hoffman Papers, Directorate for Defense Information Press Division, "Query From Vern Guidry, Washington Star., May 28, 1976," Iran - Richard Hallock, 1974-76 (1)-(2), GFPL, Ann Arbor, MI.

⁶⁴ Martin R. Hoffman Papers, "Memo for Mr. Schlesinger, June 19, 1975," Iran -Richard Hallock, 1974-76 (1)-(2), GFPL, Ann Arbor, MI.

⁶⁵ Ibid.

⁶⁶ Ibid.

Members of Congress became aware of the scale of the graft in 1975 during hearings on the arms trade. Evidence was uncovered that revealed Grumman Corporation, anxious to sell hundreds of F-14 fighter aircraft to Iran, paid “commissions” to Iranian middlemen of at least \$20 million⁶⁷ Grumman’s President John Bierworth described it as “normal practice” and refused to apologize.⁶⁸ Members of Congress demanded to know why Grumman paid millions in kickbacks when the company accepted a tax-payer funded bailout in the form of a special loan millions in taxpayer dollars in the form of a special loan extended by the Pentagon, and also a second \$200 million loan offered by Bank Melli of Iran which enjoyed close commercial ties with David Rockefeller’s Chase Manhattan Bank.⁶⁹ In June 1975, an audit prepared by Northrop Corporation’s accounting firm revealed the company had paid \$30 million in bribes to middlemen to secure defense contracts with Middle East rulers including the Shah of Iran.⁷⁰ This was out of a total \$200 million in kickbacks or “commissions” paid by U.S. defense contractors to foreign governments or their agents since January 1973.⁷¹ The web of corruption was such that it eventually ensnared Hallock, Schlesinger’s anti-corruption watchdog.⁷²

Schlesinger’s policy review memo of September 1975 advised the President that U.S.-Iran relations were entering a difficult stretch. Included in the “variety of reasons” was the “troublesome” issue of nuclear safeguards for reactors, but the Shah’s obstinate refusal to

⁶⁷ Pranay Gupte, “Lobbyists In Iran Paid By Grumman,” *New York Times*, December 13, 1975.

⁶⁸ Ibid.

⁶⁹ Ibid.

⁷⁰ Michael C. Jensen, “Bribes by Northrop of \$450,000 For 2 Saudi Generals Reported,” *New York Times*, June 5, 1975

⁷¹ Prominent among Middle Eastern “sales agents” was a man well known to the Shah of Iran and also to Ambassador Helms, who had once supervised his involvement in Operation Ajax: Kermit Roosevelt was the lead CIA agent in the 1953 coup against Mossadegh. Northrop’s audit confirmed that Roosevelt leveraged his CIA connections to secure defense contracts “running close to a billion dollars.” See William H. Jones, “Northrop’s Man in the Middle East,” *Washington Post*, June 7, 1975.

⁷² Unbeknownst to Schlesinger, Hallock also accepted millions of dollars from the Iranian government to help the Shah to gain insider knowledge about the Defense Department and defense contractors, and millions more from defense contractors anxious to gain insider knowledge about the Shah and Defense Department. Hallock’s special status thus “put him in the enviable position of advising the Shah on what to buy, advising the United States government on what to recommend to him, helping the arms supply companies close the deals, and overseeing the program under which all these transactions were being made.” See Rubin, *Paved With Good Intentions*, p. 165.

moderate Iranian oil policy ensured that “U.S. interests and the Shah’s perceptions of his interests could easily collide, and soon.”⁷³ The Secretary might have added that Iran’s conventional military buildup and nuclear ambitions had only been made possible by aggressive Iranian oil pricing policies. The linkage between oil prices and arms sales was explored earlier in the thesis. Schlesinger’s comment on interests and perceptions was made in reference to the widespread belief in western capitals that OPEC’s pricing structure was rigged: the cartel engaged in price-fixing and its “market” price was unsustainable in a free-market environment. If oil prices really were determined by supply and demand, the industrial slump in the West and recessionary conditions around the globe should have translated into reduced prices. The refusal of oil producers to allow prices to fall back heightened the risk of a confrontation between the Ford administration and the Shah who dominated OPEC policy-making in the mid-seventies.

Falling demand for Middle East oil from western consumers throughout 1975 meant oil producers risked pumping oil into a softening market.⁷⁴ Most OPEC members reduced their output to avoid flooding the market with cheap oil.⁷⁵ Not everyone went along with the majority view. The Saudis announced they favored a modest price reduction over less output. King Faisal and his successor, Khalid, had no interest in propping up the Shah’s market price and would have let prices drift back if they could.⁷⁶ The new uncertainty in the market, with changing patterns of demand and supply, left Iran’s economy exposed. At Ramsar in August 1974 the Shah had approved Iran’s \$69 billion Fifth Plan on the basis of an assured tight market that guaranteed consistently high levels of price and production. His biggest gamble yet, \$30 billion in spending commitments against only \$21 billion in government income,

⁷³ Memorandum for the President, “DOD Activities and Interests in Iran,” May 19, 1975, NSA, Washington, DC.

⁷⁴ Juan de Onis, “Arab Oil Exports Trail 1974’s Pace,” *New York Times*, March 1, 1975.

⁷⁵ Ibid.

⁷⁶ Faisal was assassinated in March 1975 by a family member.

meant Iran was now running a giant deficit.⁷⁷ OPEC's existing price structure was a firewall that the Shah had no choice but to defend at all costs or risk the implosion of his revenue base. The fall in demand for Persian crude in 1975 left Iran with millions of barrels of unsold oil on its hands. Worse from the point of view of the Shah, U.S. oil companies contracted to take Iranian oil to market were not required to do so. From their point of view, selling oil at a time of reduced demand only risked flooding the market with cheap oil.

As usual, the Shah wanted it both ways. He wanted to maintain high oil production whilst ensuring high profits by charging high prices. It was for that reason that he resurrected an old proposal from 1969 to offer to sell surplus Iranian crude oil secretly to the United States at a discount. If Iran could be assured of an intact, albeit slightly diminished stream of oil income, the Shah could generate enough revenue from oil exports to pay defense contractors and keep placing orders for more equipment. Led by Kissinger, the State Department viewed the idea as a favorable confidence-building measure at a time when the Shah's restlessness and adventurism in foreign affairs reflected a growing lack of confidence in his American allies.⁷⁸ The Shah was "worried about our ability to continue to play a strong world role, to retain a dominant position over the USSR in the Middle East and Indian Ocean, and to maintain close cooperation with Iran in the political, military, and economic fields," Kissinger wrote Ford in a policy brief on the eve of the Pahlavi state visit to Washington in May 1975.⁷⁹ In the wake of the fall of South Vietnam, Cambodia and Laos, continuing unrest

⁷⁷ Harry B. Ellis, "Iran's Race to Modernize Before the Oil Runs Out," *Christian Science Monitor*, January 2, 1976.

⁷⁸ Kissinger wrote that the mere fact the Shah offered to sell oil under the table for a discount proved to the Ford administration that the talk of OPEC unity on pricing was a myth and that sooner or later one of the major producers would break ranks. Kissinger did not mention the deal in detail or describe the Shah's motives in trying to offload oil to generate revenue for Iran's ailing economy. He claimed that the "amount of the discount was, in fact, less important than the flow of additional oil to the market... The transaction was never consummated because Simon balked at the idea of the Shah—whom he still blamed for the oil crisis—getting any additional benefits and because the major oil companies, not averse to the high OPEC oil price, were reluctant to cooperate." Kissinger, *Years of Renewal*, p. 691.

⁷⁹ Memorandum to President Ford from Secretary of State Henry Kissinger, "Strategy For Your Discussions with the Shah of Iran," *Iran: The Making of US Policy, 1977-80*, Document Reference No. 00954, NSA, Washington, DC.

in Portugal, and an arms embargo placed on Turkey following its war with Greece over Cyprus, the Shah feared that “Congress and America may be moving toward isolationism.” Kissinger told Ford that the Shah was a difficult but important ally: “He may have some excessive ideas of his importance and some people consider him arrogant, but there is no gainsaying the sharply rising economic and military strength of which he disposes.” Within a few short years the Shah “will have the key, if not the controlling, role among the regional powers in helping to assure stability in the Persian Gulf area.” The administration needed to keep the Shah onside, Kissinger argued, or risk the possibility of an independent Iran driven by a nationalist foreign policy that could be detrimental to U.S. interests.

Kissinger’s presidential briefing paper described bilateral tensions over oil policy and arms sales and an ally who did not like being second-guessed. “Closer to home, the Shah is upset by Congressional and American public criticism of Iran’s oil pricing policies; widespread criticism in the U.S. of our military supply to Iran, now our largest foreign buyer of weapons; and problems in completing some major proposed deals with private American corporations...”⁸⁰ Anxious to find a way to bolster the Shah’s confidence in his American ally, reinvigorate U.S.-Iran relations, help Iran’s ailing economy and break OPEC’s pricing structure, Kissinger agreed to pursue the idea of an under-the-table purchase of surplus Iranian crude oil.⁸¹ The Shah and Kissinger agreed that the Shah would support a price freeze at the next OPEC ministerial meeting to be held in Bali in Indonesia in May 1975. That left Kissinger until the end of the summer to work out the details of their plan and get Ford and the Cabinet on board. The Shah made it clear that if a deal was not forthcoming by the end of August he would have no choice but to ratchet oil prices up still further to cover his budget deficit. Iran’s economy could not wait. What Kissinger and the Shah did not do in Tehran

⁸⁰ Ibid.

⁸¹ For the only researched and published account of the Kissinger-Shah bilateral oil deal, see Cooper, *The Oil Kings*, pp. 223-26, pp. 236-40, pp. 267-78 & pp. 322-33.

was agree on actual terms such as dollar price, duration or volume. Still, Kissinger left the Shah with the impression that the deal was as good as done.

The Shah and Kissinger also saw the bilateral oil deal as a way to increase their strategic leverage over each other. “And one of the notions we had was that we could both break the cartel and help the Shah by buying excess oil from him at a lower price than OPEC charged, but still to help him with his economic policy,” said Kissinger’s deputy, Scowcroft, who replaced his boss as National Security Adviser in November 1975.⁸² The Ford administration had decided to build an emergency strategic petroleum reserve as insurance against a second oil embargo. Officials hoped the Shah’s stockpile of surplus oil could be used to build the reserve. Kissinger believed he could relieve the pressure on the American and Iranian economies and at the same time block the effort by Treasury Secretary Simon and Saudi Oil Minister Yamani to strengthen Saudi Arabia’s toehold in the American domestic fuel market. The President asked Federal Energy Administrator Frank Zarb to determine the feasibility of the Shah’s offer and the economics behind it.⁸³ He made it clear that the deal could not go ahead unless it was legal under existing U.S. law and profitable for the economy. Ford’s style could not have been more different from Nixon’s. He still enjoyed close ties with legislators on Capitol Hill and advised Zarb to keep legislators apprised of the progress of his negotiations with Iranian officials. Zarb and his opposite number, Finance Minister Ansary, came close to approving a deal in which Iran would sell the U.S. 300 million barrels of oil at a discount of \$3 a barrel on the existing market price.⁸⁴

The real obstacle to concluding the deal was the Department of Treasury. Simon. Simon headed the White House Economic Policy Board, a crisis management group

⁸² Ibid, p. 224.

⁸³ Ibid, pp. 238-39.

⁸⁴ Ibid, p. 322.

established in 1974 to manage the post-oil shock economic crisis.⁸⁵ The Economic Policy Board was mainly staffed by officials with background in economics and finance and included Zarb, Chairman of the Federal Reserve Arthur Burns, and their deputies. Kissinger was too slow to grasp the Board's importance in determining the parameters of the Administration's nascent foreign economic policy. It was not until June 1975 that he insisted the Board broaden its membership to include State Department representation.⁸⁶ The terms of the oil deal (i.e. pricing, volume and duration) were debated on Simon's terms by sympathetic colleagues with no background in diplomacy. Their presence meant the deal would be decided on its financial merits. The second reason was that Ford was already under pressure from conservative Republicans to reduce Kissinger's influence in foreign policy and not to do any more favors for oil producers. A third factor militating against a deal was the potential downside for the U.S. economy at a time when oil prices were under downward pressure. If the administration entered into a long-term deal to buy hundreds of millions of barrels of Iranian oil at a fixed price it ran the risk of locking itself into terms less favorable than it might ultimately get on the open market. Fourth, Simon was not interested in signing off on *any* deal to help the Shah. He and Yamani wanted to turn the OPEC producers' cartel over to Saudi leadership, which meant breaking the Shah's hold over its pricing decisions. Ford wanted to do the impossible: straddle the divide between the financial concerns of his economic team and Kissinger's geopolitical priorities.

The deal with Iran could not proceed without Simon's authorization. Federal law required special authorization from Congress to purchase oil from a foreign government, authorization that first had to be requested by Treasury. Simon refused point blank to make the request. He argued that it went against his free market instincts. "We definitely do not want a government purchasing authority," Zarb explained to Kissinger. "This notion of a

⁸⁵ To learn more about how the Ford administration's Economic Policy Board functioned, see Philip Shabecoff, "President Ford's Economic Policy Machine," *New York Times*, July 20, 1975.

⁸⁶ Ibid.

government agency handling this sort of matter is inconceivable and inconsistent with our idea of a free-enterprise system...So, success in this venture we are discussing would play into liberals' hands."⁸⁷ Kissinger reacted angrily at what he saw as Simon's bold interference in a matter of foreign policy.⁸⁸ He was particularly troubled by a series of devastating leaks hostile to the Shah that apparently originated from the Treasury Department, including documents that suggested Iran's economy was in trouble.⁸⁹ Another document criticized the Shah's desire to raise oil prices still further.⁹⁰ A third document leaked from the CIA alleged the Shah was mentally unbalanced.⁹¹ A fourth document claimed that the Shah wanted to annex Arab oil fields.⁹²

The Shah, it turned out, also developed reservations about selling so much oil at a discount. The delays on the American side convinced him that the Ford administration was divided and disorganized, and that Kissinger was losing power. The Shah agreed with a court official who suggested that the protracted talks were evidence that they could no longer rely on the Secretary of State's goodwill "in fixing oil prices."⁹³ In September 1975, following the expiration of his deadline, the Shah brushed aside an appeal for restraint from "that idiot" Ford and persuaded OPEC to go ahead with a price increase of an additional 10 percent.⁹⁴ He remained convinced that he would get his way on oil prices because he had "stood firmly" against Nixon when he pushed through the more substantial December 1973 price increase.⁹⁵ There was no doubt that by late 1975 the Shah saw himself and Iran as locked in a battle with the Ford administration to defend OPEC's pricing structure.

⁸⁷ Memorandum of Conversation, June 23, 1975, 12:45 - 2:00 p.m., "Bilateral Oil Deal with Iran," NSA, Washington, DC.

⁸⁸ Telcon, August 13, 1975, 5:45 p.m., "Kissinger/Robinson," NSA, Washington, DC.

⁸⁹ Jack Anderson and Les Whitten, "Iran May Be Spending Beyond Means," *Washington Post*, July 31, 1975.

⁹⁰ 1975 Jack Anderson and Les Whitten, "U.S. Aides Demolish the Shah's Arguments," *Washington Post*, June 27, 1975

⁹¹ Jack Anderson and Les Whitten, "CIA Study Finds Shah Insecure," *Washington Post*, July 11, 1975

⁹² Ibid.

⁹³ Alam, *The Shah and I*, p. 438.

⁹⁴ Ibid, p. 440

⁹⁵ Ibid.

When the oil markets turned again in early 1976, and consumer demand increased in response to economic growth in the West, the bilateral oil deal lost any remaining commercial appeal. Neither government was prepared to lock itself into a long-term accord to buy or sell millions of barrels of oil at a fixed price. If oil prices increased, the Shah stood to lose billions of dollars. If oil prices slumped, the Ford administration stood to lose money. However, the most important contributing factor to the failure of both governments to broker an agreement was the inability or unwillingness of Kissinger and Simon to overcome their policy differences. The Economic Policy Board, the body established to streamline and formulate U.S. foreign economic policy, “was paralyzed because of the hostility” between Kissinger and Simon, according to Scowcroft. “Anything Henry proposed Simon objected to, anything Simon proposed Henry objected to. So it was a very complicated period economically. And that spilled over into oil policy.”⁹⁶ Factionalism in the White House added to the strain in bilateral relations and left Iran’s economy dangerously exposed to future turbulence in the oil markets.

The inability of the U.S. and Iran to overcome differences on oil prices, arms sales and nuclear cooperation in 1974-75 stemmed from their refusal to compromise on core economic and geopolitical policies. Particularly when it came to economic self-interest, neither side was prepared to budge. The Ford administration viewed high oil prices and OPEC’s intransigence as the primary cause of instability in southern Europe, a danger to the banking system, and a threat to Ford’s election prospects in 1976. Within the White House, bureaucratic infighting weakened Kissinger’s grip on policy and constrained his ability to deliver confidence-building measures he deemed essential to the maintenance of U.S.-Iran relations.

⁹⁶ Cooper, *The Oil Kings*, p. 274.

As a consequence, the Shah lost confidence, not only in Kissinger, but also in U.S. assurances to cooperate on a range of bilateral issues. The Shah viewed nuclear cooperation as the ultimate litmus test of U.S. assurances that it not only regarded Iran as a top-tier ally but was treated it as one. The Ford administration's refusal to enter into a bilateral nuclear cooperation accord showed that in the end senior U.S. policymakers were not in fact prepared to entrust their country's national security to their Iranian ally, and that they did doubt the Shah's intentions, his ambitions, and his leadership abilities. Regardless of the high-level maneuvering, decisions made earlier in the decade had already set in motion powerful centrifugal historical forces which placed the U.S.-Iran relationship under enormous pressure. Iran's out of control economy increasingly drove the Shah to adopt ever more nationalist policies as he struggled to prevent a financial crisis and popular backlash, which in turn exacerbated tensions with the U.S. and raised the chances of a confrontation over oil prices. The Shah understood that compromise on oil prices, the measure of Iran's success, and the key to continued prosperity, would subject him to accusations of betrayal from his people but also from other members of OPEC. Other aspects of the U.S.-Iran bilateral relationship, such as the influx of foreign workers into Iran, and the disorderly arms sales process, contributed to the increasing instability in Iran which only added to the difficulties of resolving policy differences and ensuring the survival of the partnership. The Pahlavi dynasty, in particular, hovered dangerously on the brink of collapse, ironically imperiled by the Shah's own efforts to take advantage of oil prices to secure a powerbase for his family and fulfill his conception of Iranian destiny.

Chapter Seven

IRAN IS ON THE VERGE OF MOVING AWAY FROM US

Impasse and Confrontation, 1976

The unraveling of the U.S.-Iranian partnership in 1976 resulted in part from Kissinger's political eclipse, misapprehension by policymakers, and a series of miscommunications and confrontations that altered U.S. perceptions of the value of its "superclient" in Tehran. The Shah's refusal to cooperate on oil pricing raised the specter of financial crises and the bankruptcy of key NATO allies. His dismissal of U.S. appeals for OPEC price restraint subsequently paved the way for a U.S.-Saudi oil accord that split the cartel, prevented the Shah from securing the higher oil prices he desperately needed, and flooded world oil markets with cheap petroleum which undercut OPEC's pricing structure. The U.S.-Saudi oil "coup" against the Shah's leadership of OPEC succeeded in relieving pressure on the world economy by placing the producers' cartel in "moderate" Saudi hands for the foreseeable future. The Ford administration's unprecedented intervention in the oil markets rocked Iran's oil-dependent economy by putting downward pressure on oil prices and creating turbulence in the oil markets. It achieved its economic goals but at considerable cost to its strategic regional interests in the Persian Gulf.

Iran's ruling Pahlavi dynasty rested on "oily legs." "Oil has had a longer and more far-reaching impact on Iran than on any other populous Third World country," wrote Keddie.¹ For the Pahlavi monarchy, with no deep wellspring of popular support, its legitimacy tainted by the events of 1953, economic prosperity channeled by ever-increasing oil revenues provided a foundation for the future and a bulwark against popular unrest. There

¹ Keddie, "Oil, Economic Policy, and Social Conflict."

had always been doubts as to the wisdom of relying so heavily on one stream of revenue to maintain political equilibrium and social harmony. Exactly what would happen to the Shah's rule if the tide of petroleum ran out, or if oil revenues fell, would soon become evident and, with it, the fate of the increasingly fragile U.S.-Iran relationship.

The deleterious state of Iranian state finances became glaringly apparent to officials in the Ford White House over the winter of 1975-76. Unusually, the Shah reached out for help.² Under the terms of the 1973 oil nationalization accord, U.S. oil companies had agreed to yield their operational role to the National Iranian Oil Company in exchange for a twenty-year preferred access contract to sell Iranian crude oil on the world market. But they were not required to buy the oil and now, with market demand in a slump, they had no incentive to do so. In the fourth quarter of 1975, Iran's exports of heavy crude oil collapsed.³ The Iranian government faced a multi-billion dollar budget deficit. The Shah refused to allow the National Iran Oil Company to cut back production, but he also refused to negotiate with the oil companies over a cheaper price. The result was a standoff that left Iran with millions of barrels of unsold oil. "The Shah of Iran has, during the last six to eight months, come to realize that, in spite of a dramatic increase in Iran's income from oil since 1973, his expected revenues will not meet the costs of his ambitious civilian and military development programs," read a policy memorandum on the subject drafted by Kissinger for Ford.⁴ "In the last few weeks the Shah has made a series of direct and indirect approaches to us seeking assistance of this Government in putting pressure on American oil companies to increase their purchases of Iranian oil." Kissinger explained to the President that unless the Shah got his way, and if the oil companies did not fall into line, Iran would cite budget constraints as an excuse to sharply reduce cooperation in foreign policy and cut back spending on

² Memorandum From Henry A. Kissinger to the President, "Message for the Shah of Iran," February 11, 1976, National Security Adviser, Presidential Correspondence with Foreign Leaders, Box 2, Iran - The Shah (1) (2), Gerald R. Ford Presidential Library (GFPL), Ann Arbor, MI.

³ Ibid.

⁴ Ibid.

armaments. Perhaps more seriously, from the point of view of Ford's economics team and domestic political advisers, the Shah threatened to advocate another big increase in the price of oil when OPEC ministers gathered for their next meeting in Bali in May 1976.

Kissinger's memo to Ford was his first acknowledgement of the linkage between unrestricted arms sales, oil prices, and the grave situation facing Iran's economy and society. The White House faced the challenge of how to break the cycle without antagonizing the Shah, who made it clear he viewed any decision to reimpose restrictions on arms sales as a loss of confidence in his leadership. The question that faced U.S. officials was "what did [Iran] need, what did it want, and that was kind of complicated to figure out," said Scowcroft, who replaced Kissinger at the NSC following a major shakeup of administration personnel in November 1975, which also included Rumsfeld succeeding Schlesinger as Secretary of Defense.⁵ The Shah was "trying to do too much, too soon, always," he said. Rising weapons costs consumed a disproportionate share of shrinking Iranian government revenues and placed enormous strain on the government's ability to meet its obligations to international creditors.

Iran's military buildup had gone far beyond what Kissinger or Nixon ever intended. The Department of State and National Security Council had good reason to take seriously the Shah's threat to find other uses for Iran's oil wealth and its 436,000-strong armed forces.⁶ "If you try to take an unfriendly attitude toward my country, we can hurt you as badly if not more so than you can hurt us," he told *U.S. News & World Report* in March 1976. "Not just through oil—we can create trouble for you in the region. If you force us to change our friendly attitude, the repercussions will be immeasurable...A false sense of security will destroy you."⁷ Senior officials at the State Department believed the time had come to call the

⁵ Cooper, *The Oil Kings*, p. 299.

⁶ Memorandum for the President, "DOD Activities and Interests in Iran," May 19, 1975, National Security Archive (NSA), Washington, DC.

⁷ "U.S. Is Warned By the Shah Against Cutting Arms Flow," *New York Times*, March 15, 1976.

Shah on his bluff.⁸ They saw in the Shah's threat to reduce defense spending an opportunity to force fiscal restraint on Tehran.

Kissinger accepted the advice of his inner circle that the Shah's profligate spending had gone too far. To his top aides, the Secretary expressed frustration at the turn of events, though not with the Shah whom he continued to defend.⁹ He blamed the Israeli government and neoconservatives for damaging the Shah's reputation to score political points in an election year. He acknowledged that the stalled nuclear talks and bilateral oil deal had seriously strained President-Shah relations, so much so that "Iran is on the verge of moving away from us."¹⁰ If the Ford administration did not give the Shah everything he wanted it ran the risk of "pushing [him] in a direction where five years from now we'll be on our knees begging him to do a tenth of the things he now does voluntarily at a heavy price." Kissinger dismissed as "an insult" a proposal from his aides that he dispatch an envoy to Tehran to try and gauge the Shah's thinking on oil prices, nuclear proliferation and other outstanding issues. When Under Secretary of State Joseph Sisco and other advisers shared their view that Iran's economy was "terribly overcommitted," and that a cutback in defense spending might not be a bad thing, Kissinger warned that the Shah "generally feels that our role in the world is declining, and he has to reassess," and that any Iranian decision to reduce cooperation "can't be helpful to American foreign policy." The Secretary still saw Iran as the essential building block of the Nixon Doctrine in the Persian Gulf, securing the free world's oil supply, propping up weak governments in Afghanistan and Pakistan, balancing the regional aspirations of Iraq and India, and providing a solid bulwark against Soviet ambitions.

Nonetheless, Kissinger accepted there was nothing he or the White House could do to help Iran generate higher oil revenues, nor was it in their interests to do so. Demand for

⁸ For a complete transcript of the January 12, 1976 meeting see: Secretary's Staff Meeting, Memorandum of Proceedings, January 12, 1976, 8:11 a.m., NSA, Washington, DC.

⁹ Ibid.

¹⁰ Ibid.

Iranian heavy grade fuel oil was low. High oil prices had destabilized the economies of U.S. trading partners and weakened the international financial system. Placing pressure on U.S. corporations risked political scandal. Ultimately, a slowdown in the pace of Iran's spending was desirable. Stability inside Iran was an issue. "We note, incidentally, that a decision by the Shah to slow the pace of his defense development program would have the positive aspect of permitting Iran's strained manpower and infrastructure to catch up with equipment procurements," he advised Ford.¹¹ It was now in the interests of the U.S. to see that the Shah had fewer resources (income from oil) to devote to spending on arms. At the same time, Kissinger advised Ford that a "damage-limiting effort" was essential to reassure the Shah that "our inability to be of assistance has not diminished our interest in maintaining and expanding our special relationship with Iran." At one time Kissinger would have had no trouble smoothing tensions with Iran. However, in the post-Watergate era he wielded less power. Ford was much more focused on teamwork, the economy, and managing the fallout from the oil shock. Foreign economic policy was the strong suit of men like Simon, Zarb and Greenspan. Ford's decision to purge his national security team the previous November recognized the growing unpopularity of detente and realpolitik in an election year, and further weakened Kissinger's ability to protect the Shah from his critics within the administration, in the Departments of Treasury and Defense, and in Congress.

Kissinger's memo to Ford proposed a course of action that ensured Iran would generate *lower* oil revenues so that the Shah had *less* money to spend on arms. Yet that was not what he told the Shah. In January and February 1976, Kissinger held at least two private meetings in London with Ansary in an effort to recalibrate U.S.-Iran relations, reassure the

¹¹ Memorandum From Henry A. Kissinger to the President, "Message for the Shah of Iran," February 11, 1976, National Security Adviser, Presidential Correspondence with Foreign Leaders, Box 2, Iran - The Shah (1) (2), GFPL, Ann Arbor, MI.

Shah of American goodwill, and look for ways to restore confidence between the two allies.¹² That was why Kissinger, in his second and final meeting with Ansary, pledged to help the Shah generate *higher* oil revenues to maintain *high* spending on arms.¹³

Kissinger's motives were complex. He had a habit of telling his interlocutors what he thought they needed to hear so that he could get what he wanted from them. Iran's fiscal crisis threatened to have profound flow-on effects for United States national security objectives and the array of covert military actions being undertaken in the developing world with the help of Washington's Persian gladiator. In the most notable instance, the Shah cited fiscal constraints as a reason to refuse an administration request to funnel aid to anti-communist guerrilla fighters in Angola. Even though Kissinger knew he could not help the Shah maintain current high levels of spending on arms, he also could not bring himself to admit that to the Iranian leader lest he lose confidence in the bilateral relationship. He apparently did not believe the Shah capable of hearing the truth, let alone dealing with its consequences. Consequently, the Shah felt no need to adjust spending patterns or reign in fiscal profligacy at home. He kept placing orders for more military equipment because he expected another bailout in the form of a future hike in oil prices. U.S. policy was "not always carefully coordinated, as you can see, because we're playing against ourselves," conceded Scowcroft.¹⁴ In fact, the National Security Adviser was not privy to the Secretary of State's private assurance to Ansary that the U.S. still favored a high level of spending on arms.

¹² The Kissinger-Ansary meetings were secret, so secret that knowledge of their existence was confined to a single memo written by one of Kissinger's aides to remind the Secretary of the commitments he made Ansary regarding U.S.-Iran relations. Cable 037659 from Under Secretary Robertson to Secretary Kissinger, "Your Breakfast Meeting with Ansary, February 15, 1976," February 16, 1976, L. William Seidman Files (WH Economic Affairs Office), Scowcroft, Brent (White House National Security Adviser), (1) - (2), Gerald R. Ford Library. Kissinger's declassified telephone transcripts also include conversations between Kissinger and Ansary in which the two principals discuss in very general terms the nature of their concerns. For example, see Telcon, "Kissinger, Ansary," January, 30, 1976, 3:30 p.m., NSA, Washington, DC.

¹³ Cable 037659 from Under Secretary Robertson to Secretary Kissinger, "Your Breakfast Meeting with Ansary, February 15, 1976," February 16, 1976, L. William Seidman Files (WH Economic Affairs Office), Scowcroft, Brent (White House National Security Adviser), (1) - (2), GFPL, Ann Arbor, MI.

¹⁴ Cooper, *The Oil Kings*, p. 300.

The extent of policy dysfunction revealed itself again when Ford interceded to ask Kissinger to request that the Shah not increase oil prices until the November 1976 presidential election was out the way.¹⁵ Ford's national security team had just agreed to a tougher approach to the Shah's insistent demands, even as his domestic political advisers searched for ways to relieve pressure on the economy and reduce unemployment in time for polling booths to open. In asking the Shah for a favor to help him out politically, Ford repeated Nixon's mistake of turning to the Shah to cut a deal and help his chances to win election. The risks were obvious because if the Shah agreed to the trade the two leaders would be indebted to each other. This naturally suited the purposes of the Shah. Cutting deals with the Shah was a temptation for American presidents because their Tehran back channels allowed for speed and flexibility. The Shah agreed not to seek a price increase in Bali, but rather postpone it until the end of year OPEC meeting to be held in Doha in the Persian Gulf. He anticipated that the anticipated higher price would finally allow Iran to meet its internal and external spending obligations and thus prevent a full-blown fiscal crisis.

The fiftieth anniversary of the founding of the Pahlavi dynasty in Iran in March 1976 marked a low point in the fortunes of the monarchy.¹⁶ The royal family and high-ranking government officials recognized the symptoms of discontent. The Shah's wife, Shahbanou Farah, compared the atmosphere to "an icy wind" and made her concerns public.¹⁷ At an international symposium held in Persepolis to consider the impact and future of Iran's economic changes and social reforms, she acknowledged before a leading group of internationally renowned economists, political scientists and social policy experts that the

¹⁵ Memorandum of Conversation, 3/30/76, "Ford, Kissinger," Box 18, National Security Adviser, GFPL, Ann Arbor, MI.

¹⁶ Eric Pace, "Troubled Iran Celebrates Reign of Shah's Father," *New York Times*, March 3, 1976.

¹⁷ Farah Pahlavi, *An Enduring Love* (New York: Miramax, 2004), p. 261.

people of Iran were “traumatized by the conflicting winds of tradition and change.”¹⁸ Others at the assembly warned of the “alarming” buildup of pressure within the political system and a ruling elite “vulnerable to popular disaffection.”¹⁹ In the summer of 1976, Farah described as “dangerous” the rapid exodus of rural migrants into cities where they faced social isolation, unemployment and destitution.²⁰

The Shah’s every step seemed dogged by misfortune. Iranians of all factions were offended by his unilateral decision to mark the Pahlavi jubilee by abolishing the country’s Islamic calendar and instituting a new imperial calendar. “Few regimes have been as foolhardy enough to scrap their own religious calendar,” wrote Abrahamian.²¹ The new Pahlavi calendar “allocated 2,500 years for the presumed length of the Iranian monarchy and another 35 years for Mohammad Reza Shah. Thus Iran jumped overnight from the Muslim year 1355 to the imperial year 2535.” Mass confusion ensued. The Shah also announced intrusive new measures designed to increase state control over Shi’a religious institutions, publications and teachings.²² A crackdown against anti-regime dissidents backfired when Ayatollah Abolhassan Shamsabadi of Isfahan died in a mysterious car crash.²³ The revered cleric’s funeral drew crowds estimated at 100,000 and generated widespread indignation against the Shah. A rumor took hold that SAVAK had disposed of the ayatollah in a clumsy effort to silence one of the regime’s leading religious critics. Increasingly, opposition to the regime coalesced around the mullahs, with religious conservatives agitating for a change in

¹⁸ Jane W. Jacqz, Editor, “Opening Address by Her Imperial Majesty The Shahbanou of Iran,” *Iran: Past, Present and Future* (New York: Aspen Institute/Persepolis Symposium, 1976), p. 9.

¹⁹ Eric Pace, “Iranian Aides and Scholars Stress Urgency of Social Reforms,” *New York Times*, October 10, 1975.

²⁰ Eric Pace, “Tehran Projects Face Challenges,” *New York Times*, June 6, 1976. This issue is explored more fully in Walter Elkan, “Education, Training and Skilled labor in Iran,” *Middle East Journal*, Vol. 31, No. 2, Spring, 1977, pp. 175-187; Farhad Kazemi, “Urban Migrants and the Revolution,” *Iranian Studies*, Vol. 13, No. ¼, pp. 257-277; and James G. Scoville, “The Labor Market in Prerevolutionary Iran,” *Economic Development and Cultural Change*, Vol. 34, No. 1, Oct., 1985, pp. 143-155.

²¹ Abrahamian, *A History of Modern Iran*, p. 152.

²² *Ibid.*

²³ Eric Pace, “A Mystery in Iran: Who Killed the Mullah?” *New York Times*, May 12, 1976.

leadership and demanding an end to reforms they denounced as anti-Islamic and inspired from abroad.

Gradually but perceptibly, Iranian society came unhinged. European jet setters still flocked to Tehran's nightlife and kept the discotheques and hotels full. Yet many young Iranians, traumatized by the disorienting, chaotic effects of western modernization, found solace in the mosques or retreated behind the veil. Alam visited Pahlavi University in Shiraz where, he told the Shah, he had been "rather alarmed to see so many of the girls wearing the veil."²⁴ Students continued to protest the Shah's policies. Alam urged him not to put too much pressure on the university presidents because they have "enough trouble as it is and are literally battling for survival...they are genuinely afraid of assassination by the terrorists." Even the Shah was impressed with the suicidal tenacity displayed by young guerrilla fighters who battled the security forces and preferred to swallow cyanide pills rather than submit.²⁵ Armed confrontations between the guerrillas and police left dozens dead, including innocent passersby caught in shootouts.²⁶ Helms doubted the Shah's version of an insurgency funded and inspired from abroad and suspected popular dissatisfaction with Pahlavi rule was behind the unrest.²⁷

Iran faced a fiscal crisis if oil prices did *not* increase in December 1976. The reverse was true for the economies of the Western industrialized world, where many economists and financial experts predicted that another big increase in fuel costs would push European governments into bankruptcy and force them to default on their debts to banks on Wall Street. Since early 1974, officials at the Departments of State and Treasury had closely watched as two separate sets of dominos, one geopolitical, the other financial, trembled under the impact

²⁴ Alam, *The Shah and I*, p. 483.

²⁵ Ibid, p. 461.

²⁶ See Joe Alex Morris Jr., "Police Kill 2 Terrorists in Downtown Tehran," *Los Angeles Times*, May 13, 1977, Eric Pace, "14 Reported Slain In Tehran Clash," *New York Times*, May 17, 1976, and, "Iran Violence Grows as Extremists Raided," *Christian Science Monitor*, May 21, 1976.

²⁷ Alam, *The Shah and I*, p. 489.

of rocketing oil prices. Two years later, they feared convergence between their worst case scenarios of geopolitical and financial collapse.

Fears of geopolitical contagion if oil prices increased went hand in hand with dire predictions of financial contagion. In the aftermath of the oil shock, oil consuming nations in the developed and developing world obtained loans at record rates to pay their bills.²⁸ Total international lending to governments by private commercial banks reached \$250 billion at the end of 1975, a substantial increase from the \$150 billion recorded in December 1973.²⁹ In just the first six months of 1976 the IMF lent more money to member countries than in any previous year in the Fund's history.³⁰ The countries most at risk of insolvency owed billions of dollars to big banks and lending institutions on Wall Street which included Bank of America and Chase Manhattan, thereby raising the prospect of defaults and an American banking collapse.³¹

The recent slump in consumer demand for oil did not change Simon's estimation of the danger of a financial crisis. The massive transfers of petrodollars that followed the quadrupling of oil prices in 1973 had been mostly handled by American banks. The flexibility they showed to international lenders and debtors helped avoid the worst case scenarios outlined by Ford, Kissinger and Simon in their doomsday speeches from September 1974. But the post-oil shock lending binge led to a second, potentially bigger, threat to the world economy. U.S. banks were "thrust into the role of the major suppliers of money to the world," a development that concerned banking analysts, government officials and members of Congress.³² For example, the banks had rushed to establish a presence in southern Europe,

²⁸ For analysis of the debt of developing countries in the 1970s following the oil shock, see Robert Solomon and Jeffrey Sachs, "The Debt of Developing Countries: Another Look," *Brookings Papers on Economic Activity*, Vol. 1981, No. 2, 1981, pp. 593-607.

²⁹ "IMF Aide Cites Banks' Role In Debt Problems Of Developing Nations," *Wall Street Journal*, April 30, 1976.

³⁰ Edwin Dale Jr., "IMF Loans in 6 Months Top Any Previous Year's," *New York Times*, July 13, 1976.

³¹ Clyde H. Farnsworth, "U.S. Banks' Bigger Role," *New York Times*, July 5, 1976.

³² *Ibid.*

a region whose banking sector had until now been closed to competition, but without undertaking adequate risk assessment.

The U.S. economy was the presumed engine for economic recovery in the West. However, after favorable signs of growth in the spring of 1976, there followed a lull dubbed the “Greenspan Pause,” after Alan Greenspan, the Chairman of the President’s Council of Economic Advisers. Initially, Greenspan confidently predicted a strong economic recovery in the second half of 1976.³³ But over the northern summer rates of unemployment and inflation increased as consumer confidence declined.³⁴ The economic pause presented the Ford administration with two immediate challenges. At home, Ford faced the prospect of campaigning for election with the economy on the cusp of a double-dip recession. Overseas, a slowdown in economic growth in the United States contributed to a sharp fall in business confidence, fears of a second recession, and widespread speculation about a looming debt crisis. Governments and lending institutions focused on the end-of-year OPEC meeting in Doha. A big increase in the price of oil was projected to weaken the economies of the industrialized world.³⁵ “After a brief Indian Summer in which recovery trends seemed discernible, the outlook for the industrialized nations of the world now has turned to decline—and the worst pessimism since the 1930s,” reported *The Los Angeles Times*.³⁶ High oil prices driven by the Shah’s leadership of OPEC now threatened to tip the world economy back into recession, strain financial networks to breaking point, and possibly destabilize reformist governments in southern Europe.

The threads of the final crisis of the Ford presidency, with Iran at the center of administration concerns, came together over the summer of 1976. Two years after Kissinger fended off Simon’s efforts to open a dialogue on oil prices with the Saudis, Ford received a

³³ Edwin L. Dale Jr., “Economy Will Outperform Forecast, Greenspan Says,” *New York Times*, June 11, 1976.

³⁴ Edward Cowan, “Jobless Rate Up to 7.5% For June From May’s 7.3%,” *New York Times*, July 3, 1976.

³⁵ Don Cooke, “Portents of Gloom Seep Into Forecasts on Global Economy,” *Los Angeles Times*, November 21, 1976.

³⁶ *Ibid.*

high-level Saudi delegation led by Prince Abdullah bin Abdul al-Aziz-Saud, Saudi Arabia's second deputy prime minister, commander of the Saudi National Guard, and one of the triumvirate of brothers who held the keys to power in the Desert Kingdom. King Khalid's support for a price freeze, and Saudi efforts to negotiate the evacuation of foreign nationals from Beirut during the outbreak of civil war in that country, impressed White House officials and convinced them that the Saudis were finally ready to assert their voice in regional affairs and assist the U.S. role in the Persian Gulf. To the Prince, the President expressed his gratitude for Saudi willingness to listen to American concerns about high oil prices.³⁷ He learned that bilateral cooperation came at a high price. Abdullah demanded concessions in defense, increased arms sales and the Middle East peace process as Saudi priorities for deeper engagement on oil. Ford assured Abdullah that "after the election we will take action in accordance with the aims and principles we have in mind."³⁸ Shortly thereafter, the White House announced plans to sell thousands of new generation "smart" missiles and bombs to Saudi Arabia.³⁹ Over the past two years the U.S. had sold the Saudis \$6 billion in military equipment, second only to the amount purchased by Iran.⁴⁰ U.S. officials stressed that "the continuing build-up of Iran's armed forces was not a factor in the Saudi request."⁴¹ The Administration had little choice but to surrender its leverage over Saudi oil policy without having gained a written assurance from the Saudis that they would indeed take action to prevent oil prices from increasing when OPEC states met at Doha in December.

The NSC convened to discuss oil prices on September 23, 1976. Scowcroft and his colleagues assumed that the majority of OPEC members, starting with Iran, favored an end-

³⁷ Memorandum of Conversation, 7/9/76, "Ford, Kissinger, Saudi Deputy Prime Minister Abdallah bin Abd al-Aziz-Saud," Box 20, National Security Adviser, GFPL, Ann Arbor, MI.

³⁸ Ibid.

³⁹ Leslie H. Gelb, "U.S. Ready to Sell Missiles to Saudis," *New York Times*, August 1, 1976.

⁴⁰ Ibid.

⁴¹ Ibid.

of-year oil price increase in the double digits.⁴² The Shah had agreed to postpone the oil price increase scheduled for June until the November presidential election was out the way. The subsequent actions undertaken by Ford's national security team suggested that they either were not informed about this deal or else chose to disregard it. They decided to focus their attention on changing the oil policy of Iran, because of its political influence over other OPEC members, and Saudi Arabia because of its swing power as the biggest producer. The NSC accepted that it held only limited strategic leverage over either country. The Shah held a persuasive bargaining chip in the CIA bases in northern Iran. White House hands were also tied when it came to Saudi Arabia, though the possibility of restricting arms sales remained a possibility. Officials considered issuing a threat to withdraw the U.S. Army Corps of Engineers which was building the kingdom's military facilities and offering trade and investment incentives. None of the other measures considered was deemed practical, desirable or even legal. The use of force was not considered.

Gradually, the framework was established for a U.S.-Saudi pact to break OPEC from the inside, flood the markets with cheap oil, and dislodge the Shah of Iran as the cartel's most influential decision-maker. Through emissaries and letters, Khalid made his wishes known that he would support the U.S. position on oil prices in return for a White House commitment on increased arms sales, American acquiescence to Syria's occupation of Lebanon, and U.S. support for a tougher line against Israel on the politically charged issue of Jewish settlements on land captured from the Arabs in 1967.⁴³ Oil became the centerpiece of a grand bargain between the U.S. and Saudi leaderships to establish a new framework for cooperation and

⁴² "Strategy Paper for the President on December Oil Price Decision," Box 5, OPEC - National Security Adviser, NSC International Economic Affairs Staff Files, GFPL, Ann Arbor, MI.

⁴³ See Memorandum of Conversation, 8/30/76, "Ford, Kissinger, Senators Case and Javits" Box 20, National Security Adviser, Gerald R. Ford Library, and also Telegram 6093 From the Embassy in Jidda to the Department of State, September 8, 1976, 1000Z, Box 205, L. William Seidman Files (White House Economic Affairs Office, Brent Scowcroft (White House National Security Adviser), (1)-(2), GFPL, Ann Arbor, MI.

security in the Middle East. Saudi Arabia replaced Iran as the Ford administration's partner of choice in the Persian Gulf.

As U.S.-Saudi relations improved, the U.S.-Iran bilateral relationship deteriorated. On the eve of Kissinger's departure for Tehran in early August, Senator Hubert Humphrey's subcommittee of the Senate Committee on Foreign Relations issued a damning report on U.S. arms sales to Iran in which it described them as "out of control," and concluded that the Iranian military was now so dependent on U.S. technical support that Iran could not go to war "without U.S. support on a day-to-day basis."⁴⁴ The report warned that tens of thousands of Americans living in Iran were potential hostages if relations between Washington and Tehran ever broke down. Ford's Democratic challenger for the presidency, Carter, attacked as "cynical and dangerous" the administration's policy of "almost unrestricted arms sales" to Iran.⁴⁵ The Senate report injected U.S.-Iran relations and the causal relationship between oil prices and arms sales into the political arena.

Kissinger directed his fury at Republican members of the Senate Foreign Relations Subcommittee whom he knew had influenced the report's findings. He also urged Ford to rein in Simon and Rumsfeld once the election was out the way and described them as part of a "vicious anti-Iran campaign."⁴⁶ In a particularly dramatic statement, he warned the President that, "We are playing with fire. "We have thrown away Turkey and now Iran," he added, a reference to the arms embargo imposed on Turkey during the war with Greece over Cyprus. He said he feared that if "we get rid of the Shah, we will have a radical regime on our hands." Kissinger fretted that the anonymous slashing attacks from within the administration demoralized the Shah and emboldened his domestic foes. It looked as though the Ford

⁴⁴ "U.S. Military Sales to Iran," *A Staff Report to the Subcommittee on Foreign Assistance of the Committee on Foreign Relations, United States Senate*, July 1976 (Washington: GPO, 1976).

⁴⁵ Richard Bergholz, "President Defends Policies in Face of Carter Attack," *Los Angeles Times*, September 10, 1976.

⁴⁶ Memorandum of Conversation, 8/3/76, "Ford, Kissinger, Scowcroft," Box 20, National Security Adviser, GFPL, Ann Arbor, MI.

administration wanted to distance itself from its ally. Speaking to U.S. regional ambassadors gathered in Tehran, Kissinger inveighed against the Israelis and their neoconservative allies in Congress for damaging the U.S.-Iran bilateral relationship.⁴⁷ He said the Shah did not deserve their attacks and had never let the Americans down. “Whenever we have needed his help he has been willing to apply positive pressure to help, to send special messages or emissaries,” said Kissinger.⁴⁸ He criticized *Commentary* magazine, the neoconservative house journal, for trying to create the conditions for a new cold war, and said Israel’s supporters were so intent on cutting off all U.S. arms sales to Arab states in the Persian Gulf that they were quite prepared to end sales to Iran regardless of the consequences for U.S.-Iran relations. In the event, Kissinger’s final trip to Iran to meet the Shah failed to surmount policy differences on oil prices and arms sales. The heyday of state visits, red carpets and American and Iranian officials extolling each other’s virtues had long since passed. U.S.-Iran relations were at an impasse and a confrontation loomed over oil prices.

As part of its strategy to lobby oil producing governments, the NSC sent a lengthy letter from the President to the Shah in late October 1976, one week before Election Day in the United States, urging him not to seek a 15 percent increase in the price of oil. Earlier in the year, the Shah had agreed to postpone any increase until the election was out the way, but Ford did not refer to this verbal agreement in his letter of October 29.⁴⁹ Instead, he asked the Shah not to raise prices at all. He pointed out that the world economy remained too fragile to risk even a mild shock in the form of another increase in fuel costs. “Many countries have in fact virtually reached the end of their ability to borrow,” wrote the President. “Several important industrialized countries which are experiencing economic difficulties and the

⁴⁷ Memorandum of Conversation, 8/7/76, “Kissinger, Helms, Atherton, Eilts, Pickering, Oakley: Guidance for Ambassadors Eilts and Pickering,” 8:00 a.m. - 10:00 a.m., August 7, 1976, NSA, Washington, DC.

⁴⁸ Ibid.

⁴⁹ Letter to His Imperial Majesty Mohammad Reza Pahlavi, Shahanshah of Iran, From President Gerald R. Ford, October 29, 1976, Box 2, Presidential Correspondence with Foreign Leaders: Iran - The Shah (2), GFPL, Ann Arbor, MI.

attendant danger of political instability would encounter still more severe economic problems if faced next year with a new oil price increase.” An increase in prices now would “add major new strains to the international financial system and intensity pressure on both industrialized and oil-producing nations to provide balance of payments support. Thus, the fragile and uneven nature of the global economic recovery requires that responsible nations avoid action which would endanger it.” For the first time, Ford formally linked progress on arms sales to cooperation on oil prices, cautioning the Shah that “certain segments” of U.S. opinion opposed selling advanced aircraft and weaponry to Iran, and that without future arms sales relations between the two countries would be threatened. The Shah interpreted Ford’s remarks to imply that the administration was prepared to reimpose restrictions on arms sales to Iran.

The Shah’s letter of reply, dated November 1, was withheld by Ambassador Zahedi until the results of the election were known and Ford’s defeat to Carter was known.⁵⁰ The tone of his letter revealed why a delay was in order. The Shah pointed out that Iran had agreed to a price freeze earlier in the year at Ford’s request, even though such a move was against its own national self-interest. Although European countries faced a critical situation concerning their balance of payments, “this certainly does not justify our committing suicide by paying for their failure or inability to put their house in order by succeeding in making the necessary adjustments in their economy through domestic measures.” The Shah declared Ford’s efforts to reduce U.S. dependence on foreign oil a failure and blamed price increases for American commodities for Iran’s own financial troubles. He also issued a threat. “You are no doubt aware, Mr. President, of my deep concern for the need to maintain close cooperation between our countries,” he wrote. “However, if there is any opposition in the Congress and in other circles to see Iran prosperous and militarily strong, there are other sources of supply to

⁵⁰ Presidential Correspondence with Foreign Leaders, Iran - The Shah (2), “Letter from His Imperial Majesty the Shahanshah Aryamehr to President Gerald R. Ford,” Box 2, National Security Adviser, GFPL, Ann Arbor, MI.

which we can turn for our life is not in their hands.” He warned, “Nothing could provoke more reaction in us than this threatening tone from certain circles and their paternalistic attitude.” The Shah needed to urgently raise government revenues to meet Iran’s internal and external financial commitments. He remained convinced in his own mind that he had been a loyal friend and a firm defender of U.S. national security interests in the Persian Gulf.

The Shah’s hard line on oil prices, at least in public, obscured a behind the scenes debate among his military and civilian advisers about the wisdom of seeking a 15 percent increase.⁵¹ Iran’s top generals argued that a price rise was more than justified to recoup the exorbitant cost of imported US military equipment. The Shah’s civilian advisers were not so sure. Officials at the NIOC worried that another big price hike might suppress consumer demand for oil at a time when Iran’s petroleum revenues remained in a slump. They recommended a price increase of no more than 10 percent. The Shah chose to disregard their warnings, no doubt because he shared his generals’ anger at the way the Ford administration handled arms sales. Despite Washington’s protestations, the Shah still fully expected reciprocation from the American side. Kissinger had assured Ansary earlier in the year that the Ford administration still supported Iran’s high levels of spending on defense and would see to it that he generated the oil revenues to pay for them. The Shah never took seriously Saudi opposition to an end-of-year price rise. Over the years the Saudis had protested loudly in favor of price restraint but never summoned the courage to actually stand up to the rest of the cartel and exert their swing power.

The Shah faced the reality that Iran’s economy simply could not afford to lose billions of dollars in anticipated oil revenues. In October, the Shah grudgingly conceded for the first time that government expenditures exceeded receipts. The government announced its intention to cut costs, complete projects already under way, but halt others until the next

⁵¹ William Branigan, “Iran’s Military, Oil Chiefs Split Over Price Increase,” *Washington Post*, December 9, 1976.

spending plan got underway in 1978. Prime Minister Hoveyda dutifully launched a high-profile anti-corruption campaign and studied ways to eliminate waste. Yet oil money was the glue that held the regime's spindly legs in their upright position. Oil money bonded the throne to its stakeholders, the military, middle class, big industry, farmers and merchants. With less money to lubricate the system, and fewer opportunities to cash in on the oil boom, these groups were less invested in the success of the Pahlavi project. Even as the government called for economization the popular press kept up a drum beat of new big spending initiatives that promised better days ahead.⁵² Depriving the Shah of his oil money threatened to expose him as the quintessential emperor with no clothes.

In Washington, patience with the Shah ran out. In October, at the height of the discussions over oil, the Shah admitted to an American television interviewer that the Iranian secret police SAVAK spied on Iranian exiles living in the United States.⁵³ The disclosures shocked public opinion and forced Kissinger to launch a State Department investigation.⁵⁴ The Iranian Foreign Ministry issued a carefully worded statement that warned of retaliatory action if the Ford administration tried to punish or expel Iranian intelligence personnel based in the United States.⁵⁵ Helms sent Kissinger a cable on November 7 to emphasize that the Shah was deadly serious about his threat of reprisal.⁵⁶ The Iranian leader wanted the White House to turn off the investigation. "The statement serves notice," Helms wired Kissinger, "that any restraints imposed upon, or actions taken toward, Iranian representatives in the United States would be reciprocated here."⁵⁷ This was a clear reference to the activities of CIA employees working out of Embassy Tehran and in the secret listening posts strung along

⁵² For example, the headlines in Tehran's English-language *Kayhan International* newspaper showed the extent of the government's promises in late 1976: See *Kayhan Weekly International Edition*, Vol. IX, Vol. 448, Saturday, December 4, 1976, and *Kayhan Weekly International Edition*, Vol. IX, No. 450, Saturday, December 18, 1976.

⁵³ Arthur Unger, "Mike Wallace Interview: Incisive Look at the Shah," *Christian Science Monitor*, October 21, 1976.

⁵⁴ "U.S. Queries Iran on Snooping Here," *Washington Post*, October 29, 1976.

⁵⁵ Jack Anderson, "Shah's Threats to Kissinger Revealed," *Washington Post*, July 31, 1979.

⁵⁶ Ibid.

⁵⁷ Ibid.

the northern border with the Soviet Union. The Shah's decision to use the CIA listening posts as leverage revealed the extent to which he saw himself as isolated and on the defensive.

During this period of bilateral tension, the CIA invited its colleagues from the NSC, the Departments of State, Treasury and Defense, the Defense Intelligence Agency, the Army, Navy, Air Force, and the Joint Chiefs of Staff to a special seminar to review U.S. intelligence gathering capabilities in Iran.⁵⁸ The CIA was not concerned about its electronics eavesdropping installations on Iran's northern border, but rather what U.S. officials knew or assumed was going on within Iran. CIA officials viewed the Shah's refusal to cooperate on oil pricing as proof of a deeper structural problem in bilateral relations and possible evidence of an intelligence failure.

The seminar was the first opportunity most officials from different agencies and offices who worked on Iran had to compare notes. Their concerns were revealing. The NSC representative complained that private U.S. defense contractors behaved as cowboy contractors and evaded U.S. law. The Pentagon official appealed to the CIA to help them learn more about Iran's military preparedness. One of Kissinger's own staffers asked if anyone knew anything about the royal succession. In fact, those in the room quickly realized they could not answer even the most basic questions about the Shah, conditions inside Iran, or the US-Iran relationship. "Washington does not have a clear perception of the Shah's long-range objectives," concluded David Blee, the CIA's National Intelligence Officer for the Middle East and the official who summarized the discussion for his superiors. "For example, why is he acquiring such a vast array of sophisticated military hardware? The Shah states that adequate defenses against Communist-equipped Iraq are precautionary, yet the placement of new bases suggests other interests."⁵⁹ The seminar raised the possibility that the Shah's

⁵⁸ Memorandum for Ambassador Edward S. Little, Chairman, Human Resources Committee, Central Intelligence Agency, *Iran: The Making of US Policy, 1977-80*.

⁵⁹ Ibid.

intention might be to invade Saudi Arabia and other Persian Gulf states and seize their oil wealth.

The CIA seminar findings concluded that policy towards Iran had become too personalized and secretive. This was an implicit criticism of Kissinger, who hoarded information, sidelined the Shah's critics within the administration, and refused to listen to their opinions. Indeed, Kissinger dominated Iran policymaking to such an extent that virtually no one else in the U.S. government, including his own senior staff, had the vital information they needed to do their jobs. Some of the participants in the CIA forum expressed concern that the Shah was too removed from the realities of ordinary life in Iran. "In this regard, it is particularly important to know what subjects are withheld from the Shah and the degree to which reports to him are doctored by his subordinates. To what extent do such practices warp his perspective, isolate him, and imperil his regime?"⁶⁰ Seminar participants unanimously agreed that the time had come for Helms and his staff to enter into a dialogue with the Shah's domestic critics: "While it is a politically difficult and sensitive matter for Embassy officials to meet with identified opponents of the Shah, the Mission should have the widest possible range of contacts."⁶¹ Their policy recommendation that U.S. diplomats and intelligence officials in Iran open lines of communication to opposition figures signaled a sea-change in official U.S. attitudes towards relations with Iran.

At the Defense Department, Rumsfeld and the Joint Chiefs of Staff considered the results of their own intelligence assessment on US-Iran relations, this one in the form of a survey of arms sales undertaken by David Ronfeldt, an analyst at the Rand Corporation.⁶² Ronfeldt set himself the task of answering two very basic questions, questions that no one at CIA or State had so far thought to ask: How did we get here? Where do we go from here?

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² David Ronfeldt, Working Note: "U.S.-Iranian Arms Transfer Relationships: A Historical Analysis to May 1972 (U), Prepared for the Office of the Assistant Secretary of Defense (International Security Affairs), N-9586-ISA (Rand Corp: Santa Monica, October 1976). *Iran: The Making of US Policy, 1977-80*.

The United States, Ronfeldt concluded, had stumbled into a strategic trap of its own making by surrendering its leverage over its ally. The superpower had created a “superclient” and to the point where Iran’s shah, not America’s president, managed the terms of the relationship. U.S. officials had naively underestimated the Shah’s policy of “aggressive nationalism” and his desire to simultaneously lure the U.S. into deeper engagement in Iran while moving Iran “still further away from an image of excessive dependence on the United States.” The U.S., having lost sight of its policy objectives, and having lost control of its programs, now found itself trapped in Iran.

In his analysis, Ronfeldt delivered a scathing review of the Nixon Doctrine which set up the Shah and other Third World dictators as regional gladiators: “In recent years the U.S. Government is frequently accused of favoring, if not of imposing, dictatorial rule in client states. The presumption is that dictators are somehow more subservient to U.S. interests. However, in the case of Iran and probably other countries this view seems inaccurate.” America’s multi-billion dollar investment in Iran made it “a potential hostage” to the Shah’s ambitions with the added risk that the US could be drawn into a future war fought by the Shah on his terms. The report severely criticized the approach taken by Kissinger’s State Department which encouraged and signed off on unrestricted arms sales on Tehran as a way of recycling Iranian petrodollars. Given what the Defense Department was now dealing with, “there is little evidence that State’s policies have indeed protected, much less enhanced, U.S. influence and leverage.” Iran was totally unprepared for life after the Shah and a successor regime could turn out to be virulently anti-American. The Shah had so far resisted American efforts to broaden his political legitimacy. Nor would he do so until such time as he experienced “a major failure of leadership...” Although the Shah had not yet experienced such a failure, his ambitious goals raised the likelihood of “notable disorganization and disarray” in coming years.

Decisions taken years earlier by Nixon and Kissinger meant that Ford lacked the ability to exert pressure on the Shah to compromise on the oil prices. Kissinger's argument that Middle East petrodollars could be recycled to benefit the domestic U.S. economy was exposed as a fallacy. Higher oil prices had not reduced U.S. oil dependency and higher prices had not increased western security in the Persian Gulf, strengthened the region's conservative pro-American monarchies or enhanced America's strategic objectives. Instead, high oil prices had damaged western economies and overheated the economy of Iran. "It seems to have taken the defeat of the Ford administration, the near-bankruptcy of Italy and England, the seemingly unsolvable dislocations of international trade and payments—with no end in sight—to jolt US policy makers from their theory that OPEC's price rises would somehow pay off for the United States," observed *The Los Angeles Times*.⁶³ One of Ford's economics advisers explained, "How can you run a rational international system when equilibrium means a \$40 billion deficit for the whole world against three oil producers with a population less than New York's?"⁶⁴ The Shah's refusal to heed U.S. appeals for restraint on oil prices paved the way for the White House to secure an agreement with the Saudis to break OPEC from the inside and essentially mount a hostile takeover of the cartel. It was a move that ensured Khalid replaced the Shah as OPEC's most influential decision-maker and exposed Iran's overextended economy to the predations of the global oil markets.

The December 1976 showdown between the United States and OPEC over high oil prices was paradoxically a harsh reminder that despite the best efforts of the Nixon and Ford administrations to promote fuel efficiency and encourage energy conservation, the U.S. economy was more exposed than ever to the actions of Middle Eastern oil producers. Imports of crude oil increased four percent in three years.⁶⁵ Efforts by the Nixon and Ford

⁶³ Don Cooke, "Portents of Gloom Seep Into Forecasts on Global Economy," *Los Angeles Times*, November 21, 1976.

⁶⁴ "In the Shadow of a New Global Slump," *Time*, November 29, 1976, 33.

⁶⁵ "Fiddling Dangerously While the Fuel Burns," *Time*, December 20, 1976, 37.

administrations to impose energy savings had failed to make a significant dent in consumption. Kissinger's original objective had been to break OPEC without hurting Iran's economy which he knew to be vulnerable to sudden fluctuations in the oil markets. But the collapse of the bilateral oil discussions meant there was still no mechanism in place to shield Iran's primary revenue stream from sudden market turbulence.

Saudi Arabia's decision in December 1976 to challenge OPEC's pricing structure and undermine the majority decision to raise the price of oil by 15 percent in 1977 was by far the most radical intervention in the oil markets ever attempted by a major oil producer.⁶⁶ The Saudi decision to lift the ceiling on its domestic oil production, breaking ranks with OPEC's fixed quota system, signaled how determined they were to challenge the Shah's political grip over the cartel's oil pricing decisions. Their rebellion dislocated not only the oil markets, but also the economies of producers whose economies depended on their ability to ensure prices stayed high. The Saudi decision offered price relief to western consumers even as it threatened to drive the hawks from the market and their economies to the wall.

Saudi Arabia's intervention in the oil markets raised questions about its motives. Publicly, the Saudis offered two justifications. They acted to avert a Communist takeover of Western Europe and specifically cited Portugal, Spain and Italy as countries on the brink of collapse.⁶⁷ They made it clear that future cooperation on oil pricing and production would be linked to the future of the Middle East peace process. "We expect the West, especially the United States, to appreciate what we did," Yamani pointedly remarked to reporters at the end of the Doha summit. He described the "strong link between oil and politics which existed way back in the past and will exist way out in the future."⁶⁸ It was an observation that prompted *The New York Times* to comment that until now US officials had "insisted that

⁶⁶ Roger Vielvoye, "Split in Opec Brings Two-Tier Oil Price Rises of 5% and 10%," *The Times*, December 17, 1976.

⁶⁷ "Saudis Kept Oil Down For Political Reasons," *Times of London*, December 30, 1976.

⁶⁸ Joe Alex Morris Jr., "Oil Price Rise Will Hold at 5%, Saudi Official Says," *Los Angeles Times*, December 18, 1976.

United States policy kept oil and politics distinct and that American attitudes on the Middle East were not influenced by oil issues.” That now changed. Saudi linkage of peace and oil prices “has raised all sort of possibilities for future American diplomacy, but it also carries with it the possibility of tragic misunderstandings if the anticipated moves by the Carter administration next year fail to produce significant results.”⁶⁹ The Saudis also moved against OPEC to restrain Iran’s military buildup. A flooded oil market, they calculated, would disrupt the supply of petrodollars the Shah relied on to acquire military equipment and nuclear technology from the West.⁷⁰

Iran had the most to lose from a two-tier, flooded oil market. The giant petrostate urgently needed money to pay off foreign loans which were overdue; now it was set to lose billions of dollars in government revenues from lost oil exports.⁷¹ Choking off Iran’s revenue stream meant fewer funds available to lavish on schools, housing, health, forestry, public works, food subsidies and military equipment. Iran’s income from petroleum made up 85 percent of government receipts.⁷² In the run up to the OPEC meeting the big oil companies had rushed to stockpile crude supplies fearing another big price increase after the New Year. They were reluctant to take sides in the oil war and were especially wary of antagonizing Iran because the Shah made it clear he would never again do business with customers who cancelled their existing purchase orders. The oil companies preferred to winnow down their existing inventories and hold back on placing new orders. Companies not already locked into deals with Iran rushed to sign up with the Saudis. The result of the confusion in the market was that in the first nine days of 1977 Iranian oil production plunged 38 percent below its

⁶⁹ Bernard Gwertzman, “Saudis Linking Oil to Price,” *New York Times*, December 18, 1976.

⁷⁰ Oil industry analysts described the Saudi maneuvering at Doha as part of “a well-conceived framework that will direct the oil as precisely as possible for maximum impact,” by which they meant it would retard Iran’s ability to spend money freely. Steven Rattner, “Saudis Picking New Oil Customers; Higher Output Seen Aimed at Iran,” *New York Times*, January 13, 1977. *Washington Post* columnists Evans and Novak reported with great confidence that Crown Prince Fahd had acted because he saw the urgent need “to slow down neighboring Iran’s rapid economic and military development. Jim Hoagland and J. P. Smith, “‘Coincidence of Objectives’ Ties Saudis, U.S.” *Washington Post*, December 20, 1977.

⁷¹ “No First-Round Knock-out,” *The Economist*, February 17, 1977.

⁷² Nicholas Cumming-Bruce, “Shah Feels Pinch From Loss of Exports,” *Times*, February 18, 1977.

level for the same period the previous month, or the equivalent of 2 million barrels of oil a day, as new orders dried up.⁷³ In just five days the National Iranian Oil Company reported that new customers dramatically reduced their Iranian oil purchases.⁷⁴ Income from oil for the month of January dropped to \$460 million from the previous year's \$672 million.⁷⁵ By one estimate the country lost \$20 million a day. "We're broke," the Shah admitted in private.⁷⁶ The price gap between Saudi and Iranian heavy crudes was now 7 percent, more than enough enticement for Iran's wavering customers to take their business elsewhere.⁷⁷ Big drops in Iranian oil production had happened before. The difference this time was that production in January 1977 was lower than even a year earlier when Iran's output had all but collapsed in the face of falling consumer demand in the West. Other oil producers such as Kuwait also experienced a sharp decline in orders and production. But Kuwait had not banked its entire fortune on a crash industrialization program of the sort that left its neighbor's economy permanently slaked for fresh infusions of petrodollars.

Iran's economy was seriously damaged by the stand-off. The Shah's government imposed a spending freeze.⁷⁸ It also received foreign loan assistance from an international banking consortium.⁷⁹ The defense forces were also forced to reduce spending on new weapons systems.⁸⁰ The Shah admitted that a flooded market "will affect our economic plans, our military plans, our military buildup, and especially our foreign aid program...I am worried somewhat about internal developments. If we do not have the amounts of money we thought we would have, it will slow down a bit."⁸¹ His reference to "internal developments" was in reference to the obvious linkage between oil revenues and political stability. The Shah's inner

⁷³ "How the Opec Fight Will Be Won," *The Economist*, January 15, 1977.

⁷⁴ "Iran Reports Exports of Oil Decline 34.7%," *New York Times*, January 12, 1977.

⁷⁵ Parviz Raein, "Exports Drop Since Iranian Price Increase," *Washington Post*, January 12, 1977.

⁷⁶ Alam, *The Shah and I*, p. 535.

⁷⁷ "How the Opec Fight Will Be Won," *The Economist*, January 15, 1977.

⁷⁸ Ibid.

⁷⁹ "Iran's Cabinet Agrees on \$500 Million Loan to Narrow its Deficit," *Wall Street Journal*, January 17, 1977.

⁸⁰ Ibid.

⁸¹ Ronald Taggiasco, "Tough Talk on Oil, Arms Investments," *Business Week*, January 24, 1977.

circle panicked. “We have squandered every cent we had only to find ourselves checkmated by a single move from Saudi Arabia,” Alam wrote the Shah. “Your Majesty, we are now in dire financial peril and must tighten our belts if we are to survive.”⁸² To his diary, Alam confided that, “We have been thwarted over oil prices and the prospect for our future relations with the USA is bleak indeed...”⁸³ The sharp drop in Iranian oil revenues came at the worst possible time for the economy. The Iranian government’s five-year development plan lacked flexibility to adjust to sudden fluctuations in revenues. Those who ventured onto the streets of South Tehran in the summer of 1977 were struck by the sullen atmosphere on the streets and the large numbers of young men standing around waiting for something to do. Many of the men had come from the countryside to find work or seek a better life for their families, but the economic slowdown halted new building construction and led to high job losses.

The Ford administration’s efforts to break OPEC without harming Iran’s economy failed because the NSC mistakenly believed Iran’s economy had rebounded from the recessionary conditions of 1975 and could comfortably sustain a modest loss in income from oil revenues. Their miscalculation had grave implications for Iran’s economy. The “oily legs” of the Pahlavi regime began to melt away. The crisis was intensified by the efforts of Prime Minister Hoveyda, and his successor, Jamshid Amuzegar, to sharply reduce government spending as part of an austerity drive that unintentionally shook middle class confidence in the regime’s ability to manage the economy and left many thousands of people unemployed.⁸⁴ Iran’s destabilized, oil-dependent economy undermined the legitimacy of the Shah’s rule, weakened the foundations of the monarchy, and intensified popular grievances.

By the end of Ford’s term in office the key issue of the oil supply severely strained U.S.-Iranian relations. The impasse over oil policy translated into a confrontation over Iran’s

⁸² Alam, *The Shah and I*, p. 537.

⁸³ Ibid.

⁸⁴ Keddie, *Roots of Revolution*, p. 177.

leadership of OPEC. If there was a sense of inevitability about this scenario, it was because Iran was a major oil producer whose economy relied on high oil prices to ensure domestic tranquility, whereas the U.S. was a major oil consumer whose economy, and the economies of its major trading partners, were threatened by the actions of Iran and other members of OPEC. The Shah refused to back down in the dispute because he understood that giving in to U.S. pressure would lead to accusations of puppetry, but also because he knew that Iran's overextended economy could not afford a loss of oil revenues. The Shah's political survival was at stake. He simply had no room to maneuver. Ford's political future was also on the line in 1976, and he also believed himself to be boxed in by events. From the perspective of the White House in an election year, domestic political concerns clearly took priority over appeasing a foreign leader whom many policymakers and domestic critics believed had gone too far with the concessions granted in Nixon's first term. Kissinger's critics within the administration won the battle to force fiscal restraint on Iran, a country whose leader they viewed with growing distrust and whose nationalist and nuclear ambitions had, at least from their perspective, led to an imbalance in relations, and severely damaged U.S. national security and economic security interests.

The U.S. had no choice but to accept the Shah's oil policy so long as Saudi Arabia, OPEC's biggest producer, refused to force a confrontation with Iran and Arab producers. By 1976 the Saudis felt more confident about their status and signaled a desire to enter into a long-term energy alliance with the U.S. They concluded that oil held the potential to leverage U.S. handling of the Middle East peace process and relations with Israel. Saudi cooperation offered policymakers in Washington their first real opportunity to break OPEC from the inside, challenge the Shah's leadership of the cartel, and deliver it into moderate hands. From their perspective, the U.S.-Saudi oil coup against Iran's leadership of OPEC was a success. After 1976 the Saudis dominated OPEC's oil pricing policies and made strenuous efforts to

ensure affordable energy supplies to the U.S. in return for security guarantees and military protection. The Ford administration wrongly assumed that Iran's economy was more than capable of absorbing a revenue loss in 1977. It would be left to the incoming Carter administration to deal with the consequences of the impact of oil price decreases on Iran's overheated economy and the Shah's faltering grip on power. The oil weapon had proved to be a double-edged sword that destroyed the autocrat's dynasty and the U.S.-Iranian partnership.

Conclusions

FATEFUL CONSEQUENCES

Within a month of the Shah's departure for exile on January 16, 1979, more than one million Iranians poured into the streets of Tehran to acclaim Ayatollah Khomeini on his return from exile. Khomeini's arrival coincided with the fall of the last royalist government. The world's first Islamic Republic monarchy replaced the Pahlavi dynasty. The new regime executed or exiled many Pahlavi loyalists. Stringent religious laws governed every aspect of Iranian life. Diplomatic relations between Washington and Tehran abruptly ended in November 1979 after pro-Khomeini zealots invaded the grounds of the U.S. Embassy and embassy staff, only releasing them after 444 days of captivity on the same day Reagan was sworn in as president in January 1981.

The overthrow of the Shah's regime led to a great deal of reflection in Washington on the extent of American responsibility for inadvertently hastening the Shah's overthrow. "All the billions we had spent there only exacerbated conditions and contributed to the rise of a fundamentalist regime implacably opposed to us to this day," said Colin Powell in an interview conducted while he was Secretary of State. Powell took from the Iranian episode the lesson that the United States should never again "rely too heavily on a leader or a regime that might not enjoy the support of its people."¹ The precepts of the Nixon Doctrine were quietly abandoned. In the aftermath of the Shah's downfall, the Nixon Doctrine gave way to the Carter Doctrine's pledge to defend the Persian Gulf against Soviet intrusion and the Reagan Doctrine's "rollback" strategy directed against Soviet-allied regimes. If Nixon's most powerful "gladiator," the Shah of Iran, could not adequately defend U.S. interests in West

¹ Mann, *Rise of the Vulcans*, 89

Asia, there seemed little point assuming others could do the job elsewhere. A return to cold war dogma reasserted the U.S.'s claims as a superpower instead of relying upon undependable partners.

A shared commitment to defend the Persian Gulf and secure regional oil lanes resulted in a close strategic partnership with Iran in the 1970s. Geopolitical, ideological, economic and personal factors produced and shaped the relationship. The Nixon administration's most immediate foreign policy concern in 1969 was to end the war in Vietnam without weakening its ability to project global power. It relied on surrogates in Iran and elsewhere to take up the burden of their own defense. Nixon's longstanding personal relationship with the Shah, a leader he respected, led him to lift policy restrictions which had once restrained the Shah's nationalist ambitions and ensured U.S. leverage over Iranian foreign, military, strategic, and economic policy.

The intrusion of external forces and unforeseen events created problems for the relationship. These included the energy crisis, Watergate, the October War, the Arab oil embargo and the oil shock, convulsions which challenged the assumptions of leaders and policymakers in both countries. For the Nixon administration, battered by political scandals, and weakened militarily and internationally by Vietnam, national security priorities had to give priority to issues related to energy security, oil dependency and the determination of oil producers, organized as OPEC and OAPEC, to take control of their oil resources. The Nixon administration viewed the rise of these transnational entities as threatening and an alarming loss of control over economic and geopolitical affairs. Whereas the U.S. reacted against anti-colonial nationalism and commodity producers, the Shah saw in OPEC the perfect vehicle to drive up oil prices essential to finance Iran's industrial and military expansion. He believed Iranian political stability, and hence his regime's survival, depended on the ability to generate

wealth, thus straining his American partnership and exposing the contradictory goals between Iran and the United States.

The Shah's decision to exploit U.S. weakness in the mid-1970s, and take a leadership role in OPEC, led him to overreach. Oil prices soared to levels well beyond anything the Nixon administration had envisioned or considered acceptable. Economic dislocation and disruption directly challenged U.S. power and destabilized the economies of the industrialized West, while the economies of radical Arab producers aligned with the Soviet Union gained new wealth and power. After Nixon's departure, the Ford administration failed to develop a coherent strategy to counter OPEC in 1974-75 as geopolitical considerations became inextricably entangled with foreign economic policy, producing discord between the Treasury Department, which urged action against Iran, and the State Department, which defended the Shah and insisted that the key to resolving the crisis lay with Saudi Arabia, OPEC's biggest oil producer.

Iran's domestic situation placed constraints on the Ford administration's ability to act forcefully to resolve the oil crisis. Iran's mid-1970s "petro-boom" placed enormous strain on the domestic economy and its military buildup alarmed friends and neighboring states. The Shah responded to the increase in domestic tensions by the use of the secret police and the imposition of a one-party state, measures which only added to the popular discontent. The State Department feared that placing too much pressure on the Shah's regime over oil prices risked its collapse, and might deprive Iran of the ability to buy sufficient U.S. arms to counter the Soviet threat. Faced with the difficulties of reconciling economic, strategic, geopolitical and political interests, the Ford administration found no easy solution to a dilemma that did not involve damaging relations with Iran and weakening the Pahlavi regime. The debate over the appropriate U.S. response engaged not only leading figures in the Ford administration but also became a part of a growing ideological challenge to the policies of detente from

emerging neoconservatives, anti-communists, hawks and liberals concerned about human rights.

The inability of the U.S. and Iran to resolve differences on oil prices, arms sales and nuclear cooperation in 1974-75 stemmed from their refusal to compromise on core economic and geopolitical policies. It also reflected their different understanding of national priorities. The oil prices which propped up the Pahlavi regime threatened NATO allies in southern Europe and overextended financial institutions. The arms sales process became entangled in corruption scandals. The refusal of the U.S. to enter into bilateral nuclear cooperation increased the Shah's suspicions that senior U.S. policymakers were not prepared to entrust their country's national security to his guardianship. Those who emerged on top in the debates within the Ford administration doubted the Shah's intentions, his ambitions, and his leadership abilities.

Aside from the high-level maneuvering and personal diplomacy, neither Iran nor the United States could control the powerful forces destabilizing the world economy in the mid-1970s. As Iran's overheated economy veered out of control, fueling social and religious unrest, the Shah adopted a shriller nationalist tone in his dealings with the United States, a trend which alienated U.S. policymakers and increased the potential for a damaging confrontation over oil prices. To an increasing extent, the economic malaise in the United States led the Ford administration to consider ever more drastic measures to try and regain a measure of control over Middle East oil which they identified as a leading cause of geopolitical instability. When Saudi Arabia offered to help the U.S. break OPEC from within by flooding the markets with cheap oil, the Ford administration concluded that the impasse in relations with Iran left it with no real alternative but to proceed with the Saudi oil "coup" against the Shah's leadership of the cartel. U.S. policy succeeded in placing OPEC in moderate hands for more than a generation but at fearful cost to Iran's economy and political

structures. By the end of 1977, with its main revenue stream diminished, Iran's economic crisis had contributed to the revolutionary upsurge which doomed the Shah.

Beyond the parameters of this case study, there are broader points to be made and lessons to be learned about the U.S.-Iran relationship in the 1970s. It was a period that coincided with a series of challenges to a global bipolar power structure which had defined the contours of international relations for more than twenty-five years. If the nuclear stand-off between the United States and Soviet Union could be likened to a "frozen" conflict radiating out from the central European heartland, decolonization and democratization acted as heating agents to thaw the periphery. The breakup of the old European empires, including Portugal's in 1974, coincided with the rise of states such as Iran and Saudi Arabia which sought to translate mineral and resource wealth into economic, military and political power. Working collectively through transnational entities such as OPEC, they used their assets as leverage to extract concessions from great powers and consumers alike. To a degree that alarmed the U.S., the American economy became dependent on the actions and goodwill of oil producers, thereby revealing limits on American power, and exposing a loss of control and inability to enforce the imperial will on former clients and lesser powers. The once stable economic system of the old postwar order had begun to be replaced by a new more volatile economic arrangement. Economic insecurity, exemplified by high inflation and unemployment, translated into domestic political problems for western leaders. The Nixon and Ford administrations felt compelled to develop foreign economic policies that did not necessarily accord with geopolitical priorities or ideological commitments. Efforts by U.S. leaders to restore the perception of global power came at a high cost in the case of Iran and required a shift towards Saudi Arabia, which set in train yet more conflicts over oil, the Persian Gulf and Israel. Perhaps the most unforeseen trend from this period came at the end of the decade when the fall of the Shah ushered in a new form of Islamic militancy and theocratic states.

The 1970s, riven by economic, geopolitical and religious-based disorder and asymmetric conflict, marked the transition between a world dominated by cold war alliances and what was to replace it.

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