OIL AND TURMOIL
By
Dankwart A. Rustow
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Reviewed by

*Jacob Goldberg**

Americans need not be reminded that the price of gasoline at the pump and the price of fuel oil has increased four-fold since 1970. Americans also remember the queues at gasoline stations in 1973-74. *Oil and Turmoil* by Professor Rustow, Distinguished Professor of Political Science and Sociology at the Graduate School of the City University of New York, details, in easy to read narrative, the background and reasons for these events.

Oil and Turmoil begins with the creation of the mandates over Syria, Lebanon, Iraq, Palestine and Jordan after the First World War. For the two decades following the First World War, the U.S. assumed a hands-off policy toward the Middle East, leaving it to private groups, and particularly to the oil industry, to define U.S. policy. Arabian-American Oil Company (Aramco), a consortium of four American oil companies, received the concession to exploit Saudi Arabia's enormous oil reserves. British interests, through the Anglo-Iranian Oil Company, controlled production in Iran.

According to Rustow, prior to the Second World War, Western imperialism had begun to wane, nationalism took hold, and indigenous military rule replaced foreign military occupation. Although oil had been discovered in Egypt in 1909, in Iran in 1913, in Iraq in 1927, in Saudi Arabia in 1936, in Kuwait in 1946, Iran was the only meaningful producer of petroleum in 1946. Rustow describes in detail the early 1950's when Iran nationalized the existing British oil concession, and the U.S., supported a military coup which restored the Shah to power, enabling American oil companies to participate in the British concession. *Oil and Turmoil* discusses the refusal of the seven sisters (Exxon, Socal, Mobil, Gulf, Texaco, B.P. and Shell) to transport Iranian oil, and at the same time increased their production from other areas to make up for the Iranian shortfall. It was the unity of these seven companies against a solitary state that was a lesson which was not lost on OPEC two decades later.

Although the U.S., until the 1970's, generally took a passive attitude toward Middle East oil, the U.S. had a part in the success of OPEC, as the world's leading cartel. For example, the tax laws of the U.S. permitted American companies to take as a tax credit the royalty payments to Middle East countries. Thus, when these countries increased their royalty share to 50 percent — the American companies did not resist, because the amounts paid over could be taken as a tax credit. The result was a shift of tax revenues from the U.S. and Britain to Middle East governments, with oil becoming the channel for this transfer.

According to *Oil and Turmoil*, the biggest boost to the success of OPEC — and the biggest blunder on the part of the U.S. — came in 1959 when the National Security Council imposed the oil import quota program. With Libya and other countries coming onstream, by 1960, the posted price of oil was down to $1.80 a barrel, and sales were being made at $1.00 a barrel. This posed a threat to U.S. domestic

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producers. The rationale for the imposition of quotas was "national security and defense." Professor Rustow's answer is "[t]he lack of logic in such arguments is glaring" inasmuch as a gallon of domestic gasoline burnt today will not be available tomorrow in case of war. The oil import quota program added $50 billion to the cost of fuel.

By June 1973, the price of oil had increased to $2.90 a barrel from $1.27 in 1969. Then came the Yom Kippur war in early October 1973, which provided an opportunity for the OPEC countries to demand a four-fold increase in the price of oil to $11.65, including a cessation of sales by some individual Arab exporters to U.S., Portugal, Netherlands, Rhodesia and South Africa. This curtailment, with the publicized queue lines at gasoline stations, showed that the demand was relatively inelastic, and that prices could be increased. The result was that OPEC's oil revenues jumped from $23 billion in 1973 to $96 billion in 1974. A second upheaval occurred in the first half of 1979 when the Shah fled Iran, and Iranian production shut down. OPEC increased its prices dramatically, with the result that OPEC's oil income jumped from $124 billion in 1978 to $272 billion in 1980.

The U.S. is the leading consumer of oil and the leading importer of petroleum at a cost of one-third of the cost of all U.S. imports. Professor Rustow believes that the oil price controls from 1974 to 1981 aggravated our dependence on oil imports, because it allowed consumers to use oil at relatively cheap prices. On the other side, the value of domestic U.S. oil and gas reserves rose from $200 billion in 1973 to $2 trillion as of January 1, 1980. By mid-1981, because of conservation — smaller cars, the high cost of gas and fuel — our oil imports and consumption had been reduced to pre-1973 embargo levels.

Oil and Turmoil contains many more bits of interesting information, including the author's views on Middle Eastern politics. The story needs telling and Professor Rustow does a commendable job in his witty, yet penetrating, style. The book contains maps of the Middle East. The appendix has statistical tables showing oil reserves, prices, consumption, production, and military expenditures by the Middle East countries. There is also a useful index. All in all *Oil and Turmoil* is a worthwhile addition.