WALTER CRONKITE – IMAGE #20

Modern economies run on oil. If the oil supply is drastically reduced, misfortune follows quickly. This is what happened to the United States in the 1970s. For a long time, this nation had been the world's leading oil producer. American and European oil companies had discovered and developed the Middle Eastern oil fields early in the twentieth century, when much of the region was ruled by the British and French empires.

When Middle Eastern nations threw off the remnants of European colonialism, they demanded concessions for access to their oil fields. Foreign companies still extracted oil, but now they did so under profit-sharing agreements with the Persian Gulf states. In 1960 these nations and other oil-rich developing countries formed a cartel (a business association formed to control prices), which was called the Organization of Petroleum Exporting Countries (OPEC).

Conflict between Israel and the neighboring Arab states of Egypt, Syria, and Jordan caused leaders in the Middle East to politicize OPEC between 1967 and 1973. Following Israel's victory in the 1967 Six-Day War, Israeli-Arab tensions in the region grew closer to boiling over with each passing year.

Meanwhile, Americans were deeply unsettled by the economic downturn of the early 1970s. Every major economic indicator – employment, productivity, growth – turned negative. By 1973 the economy was in a tailspin. The economic malaise had at least three deeply rooted causes. First, the Johnson administration had attempted to pay for both the Great Society programs and the war in Vietnam without a major tax increase, generating larger federal deficits, a major expansion of the money supply, and price inflation. This inflation proved especially difficult to control. Second, by the late 1960s American goods faced stiff competition in international markets from emerging industrial powers – especially West Germany and Japan. No longer was American technological superiority unquestioned. Third, the American economy had depended heavily on cheap sources of energy. No nation was more dependent on the automobile and the automobile industry than the U.S., and no nation was more careless in its use of fossil fuels in factories and homes.

By the 1970s the U.S. had become heavily dependent on inexpensive imported oil, mostly from the Persian Gulf. Just as domestic petroleum reserves began to dwindle in the U.S. and American dependence on foreign sources increased, the nations of OPEC combined to use their oil as a political and economic weapon. In 1973 Egypt and Syria invaded Israel in the Yom Kippur War to regain territory lost in the 1967 conflict. Yom Kippur was, and is, the holiest day in the Jewish calendar. Israel prevailed, but only after being resupplied by an emergency American airlift, during which the U.S. sent massive aid to Israel after the devastating attack by the two Muslim nations.

Resentful of U.S. support for Israel, the Arab states in OPEC declared an oil embargo in October, 1973. OPEC announced that it would not sell oil to nations supporting Israel and

that it was raising its prices by 400 percent. Gas prices in the United States quickly jumped by 40 percent, and heating oil prices went up by 30 percent. Demand outpaced supply. Americans found themselves parked for hours in mile-long lines at gasoline stations for much of the winter of 1973 and 1974. Schools and offices closed down. Factories cut production. Moreover, the inflation rate took off as if fueled by all the oil not being delivered to the U.S. Oil had become a political weapon, and the vulnerability of the West, in particular the United States, stood revealed.

The United States scrambled to meet its energy needs in the face of the oil shortage. Just two months after the OPEC embargo began, Congress imposed a national speed limit of 55 miles per hour to conserve fuel. Americans began to buy smaller, more fuel-efficient cars, such as Volkswagens, Toyotas, and Datsuns (later called Nissans). Sales of Detroit-made cars (now nicknamed "gas-guzzlers") slumped. With one of every six jobs in the nation generated directly or indirectly by the auto industry, the effects rippled across the American economy. Compounding the distress was the raging inflation set off by the oil shortage. Prices of basic necessities, such as bread, milk, and canned goods, rose by nearly 20 percent in 1974 alone. One newspaper headline warned, "Things will get worse, before they get worse." The energy crisis caused many Americans to realize that the resources of the earth are not limitless.

The onset of the embargo contributed to an upward spiral in oil prices with global implications. The price of oil per barrel first doubled, then quadrupled, imposing skyrocketing costs on consumers and structural challenges to the stability of whole national economies. Since the embargo coincided with a devaluation of the dollar, a global recession seemed imminent. U.S. allies in Europe and Japan had stockpiled oil supplies and, thereby, secured for themselves a short-term cushion. But the long-term possibility of high oil prices and recession precipitated a rift within the Atlantic Alliance. European nations and Japan found themselves in the uncomfortable position of needing American assistance to secure energy sources, even as they sought to disassociate themselves from U.S. policy in the Middle East. The United States, which faced a growing dependence on oil consumption and dwindling domestic reserves, found itself more reliant on imported oil than ever before and having to negotiate an end to the embargo under harsh domestic economic circumstances that served to diminish its international leverage. To complicate matters, the organizers of the embargo linked its end to successful American efforts to bring about peace between Israel and its Arab neighbors.

Partly in response to these developments, the Nixon administration on November 7, 1973, announced Project Independence to promote domestic energy independence. It also engaged in intensive diplomatic efforts among its allies, promoting a consumers' union that would provide strategic depth and a consumers' cartel to control oil pricing. Both of these efforts were only partially successful.

President Nixon and Secretary of State Kissinger recognized the constraints inherent in peace talks to end the war that were coupled with negotiations with Arab OPEC members to end the embargo and increase production. But they also comprehended the linkage

between the issues in the minds of Arab leaders. The Nixon administration began parallel negotiations with key oil producers to end the embargo, as well as with Egypt, Syria, and Israel to arrange an Israeli pullout from the Sinai and the Golan Heights. Initial discussions between Kissinger and Arab leaders began in November 1973 and culminated in the First Egyptian-Israeli Disengagement Agreement on January 18, 1974. Though a finalized peace deal failed to materialize, the prospect of a negotiated end to hostilities between Israel and Syria proved sufficient to convince the relevant parties to lift the embargo in March, 1974.

The embargo laid bare one of the foremost challenges confronting U.S. policy in the Middle East, that of balancing the contradictory demands of unflinching support for Israel and the preservation of close ties to the Arab oil-producing monarchies. The strains on U.S. bilateral relations with Saudi Arabia revealed the difficulty of reconciling those demands. The American response to the events of 1973 and 1974 also clarified the need to reconcile U.S. support for Israel to counterbalance Soviet influence in the Arab world with both foreign and domestic economic policies.

The full impact of the embargo, including high inflation and stagnation in oil importers, resulted from a complex set of factors beyond the actions taken by the Arab members of OPEC. The declining leverage of the U.S. and European oil corporations that had previously stabilized the global oil market, the erosion of excess capacity of East Texas oil fields, and the recent decision to allow the U.S. dollar to float freely in the international exchange all played a role in exacerbating the crisis. Once the broader impact of these factors set in throughout the United States, it triggered new measures beyond the efforts of 1973 that focused on energy conservation and development of domestic energy sources. These measures included: 1) the creation of the Strategic Petroleum Reserve; 2) a national 55 mile-per-hour speed limit on U.S. highways; and, later, 3) the imposition by the Gerald Ford administration of fuel economy standards. It also prompted the creation of the International Energy Agency proposed by Kissinger.