Showdown at Doha: The Secret Oil Deal That Helped Sink the Shah of Iran

Andrew Scott Cooper

What led to the calamitous drop in Iran's oil revenues in January 1977? Politics, religion, culture, and economics have been identified as factors contributing to the collapse of Iran's monarchy in 1979. But until now scholars have been unable to access documents that could shed light on the inner workings of the relationship between senior US officials and the Shah of Iran, whom Henry Kissinger lauded as "that rarest of leaders, an unconditional ally, and one whose understanding of the world enhanced our own."[1] The declassification of the papers of Brent Scowcroft, who worked in the Nixon and Ford Administrations, marks a significant milestone in our understanding of the origins of the Iranian Revolution. They reveal that in 1976 the US and Saudi Arabia colluded to force down oil prices, inadvertently triggering a financial crisis that destabilized Iran's economy and weakened the Shah's hold on power.

In the first nine days of January 1977, Iran's economy was battered by unusual turbulence in international oil markets. Hundreds of millions of dollars in anticipated revenue were erased by a sudden and precipitous drop in daily oil exports, while total oil production plunged 38% over the previous month.[2] Financial hemorrhaging forced the Shah's government to rewrite its budget, cancel new spending projects, freeze foreign aid programs, and take out a $500 million emergency loan from US and European banks.[3] The immediate cause of Iran's fiscal crisis was Saudi Arabia's bold decision to challenge an increase in oil prices agreed to by the rest of the Organization of Petroleum Exporting Countries (OPEC) at a December 1976 meeting in Doha, Qatar. The Saudi Oil Minister, Shaykh Ahmad Zaki Yamani, had announced that his government would offset the impact of the price hike by selling more of its own petroleum at a reduced price.[4] Yamani's threat to flood the market with cheap oil never came about, but OPEC's two-tiered pricing system remained in effect for six months and dealt Iranian

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1. Henry A. Kissinger, *White House Years* (New York: Little Brown & Company, 1979), p. 1261.

2. "Iran Reports Exports of Oil Decline 34.7%," *The New York Times*, January 12, 1977. In January 1977 daily oil exports fell 34.5% over daily oil exports for December 1976 — the equivalent of 2 million barrels of oil a day. The drop in total oil production was 38%. "How the Opec Fight Will Be Won," *The Economist*, January 15, 1977, p. 78.

3. "Iran Confirms Oil Output Slump," *The Times*, January 28, 1977 and "Shah Feels Pinch From Loss of Exports," *The Times*, February 18, 1977. For details of the bank loan see "Iran's Cabinet Agrees On a $500 Million Loan To Narrow Its Deficit," *The New York Times*, January 17, 1977.

4. Yamani went so far as to threaten an increase in Saudi production of 50%. "Yamani Says Saudis Can Raise Output of Oil By 50%," *The New York Times*, January 15, 1977.

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finances a grievous blow. The Shah's chief economists later confirmed that the government had never considered the possibility of a steep drop in oil prices and production.[5] It had overestimated oil revenues that never materialized and spent money it would now never see. But worse was to come. The government's attempt to restore fiscal order only compounded the crisis. Its harsh deflationary budget led to high unemployment and social unrest that "helped create a classic prerevolutionary situation."[6] The Shah's personal reaction to the Saudi action was telling. Muhammad Reza Pahlavi had been counting on higher oil prices to buttress Iran's anemic economy — and strengthen his hand — while he embarked on a highly risky course of political liberalization at home. "We're broke," he despaired on January 2, 1977. "Everything seems doomed to grind to a standstill, and meanwhile many of the programs we had planned must be postponed … It's going to be very tough."[7]

This year, 2008, marks the 30th anniversary of the outbreak of unrest in Iran that flared into revolution and ultimately led to the collapse of the *ancien régime*, the royal family's flight into exile, and the United States' loss of Iran as a strategic partner in West Asia and the Persian Gulf. While much scholarly focus has been on the internal political, cultural, economic, and social origins of the revolution, the role of state finances — and oil revenues in particular — in precipitating the catastrophe has received far less attention. The Iranian Revolution shares similarities with two other great revolutions: France in 1789 and Russia in 1917. All three upheavals were preceded by fiscal crises.[8] In Iran's case the dramatic revenue fluctuations of 1977 were acknowledged and duly noted at the time by Tehran-based foreign correspondents.[9] But the underly-

5. Hossein Razavi and Firouz Vakil, *The Political Environment of Economic Planning in Iran, 1971-1983: From Monarchy to Islamic Republic*, *Westview Special Studies on the Middle East* (Boulder and London: Westview, 1984), p. 90. Dr. Hossein Razavi served as a Bureau Director at the Plan and Budget Organization of Iran from 1976 through November 1981. Dr. Firouz Vakil worked at the Plan and Budget Organization of Iran from 1973-79. In exile they produced the definitive account of Iran's budgetary and financial procedures in the 1970s. Their slim volume is essential reading and scholars owe both authors a debt of gratitude.

6. Nikki 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), p. 177.

7. The Shah made his remarks to Asadollah Alam, his faithful Minister of the Imperial Court and confidante. Asadollah Alam, *The Shah and I: The Confidential Diary of Iran's Royal Court, 1969-1977* (New York: St. Martin's Press, 1991), p. 535.

8. For more information on the role state finances played in precipitating the French Revolution see Philip T. Hoffman and Jean-Laurent Rosenthal, "New Work in French Economic History," *French Historical Studies*, Vol. 23, No. 3 (Summer 2000); also Thomas J. Sargent, "The Macroeconomic Causes and Consequences of the French Revolution," Federal Reserve Bank of Minnesota, December 1991, http://www.minneapolisfed.org; and Eugene Nelson White, "The French Government and the Politics of Government Finance," *The Journal of Economic History*, Vol. 55, No. 2 (June 1995), pp. 227-255. Details about the pre-revolutionary financial crisis in Romanov Russia in 1916-17 can be found in Gregory M. Dempster, "The Fiscal Background to the Russian Revolution," *European Review of Economic History*, Vol. 10, pp. 35-50; Orlando Figes, *A People's Tragedy: The Russian Revolution 1891-1924* (London: Pimlico, 1996); and Robert Service, *A History of Modern Russia, From Nicholas II to Putin* (London: Penguin Books, 2003).

9. Among the more insightful journalists was Robert Graham, the Middle East correspondent for *The Financial Times* who was based in Tehran from 1975 to 1977. Robert Graham, *Iran: The Illusion of Power* (London: Croom Helm Ltd., 1978), pp. 99-100. Graham's book is still a key text for understanding the power dynamics of the Pahlavi state. Graham wrote that fluctuations in oil revenues

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ing rationale for Saudi Arabia's decision to torpedo the December 1976 OPEC oil price increase, and particularly the Ford Administration's role in that fateful decision, has not been explained until now.

The Scowcroft Papers include transcripts of conversations, memoranda, and correspondence between Presidents Richard Nixon and Gerald Ford, Secretary of State Henry Kissinger, cabinet secretaries, and foreign heads of state that revise traditional assumptions about Iran's "special relationship" with the US in the 1970s. They reveal sharp bilateral tensions over oil pricing and growing alarm in the White House over the Shah's refusal to heed concerns about the threat that high oil prices posed to the world economy. Far from being "America's Shah," the transcripts create a portrait of a tenacious ally who refused to comply with the wishes of two conservative Republican Presidents and officials including Secretary Kissinger, the Shah's chief admirer and the architect of America's strategic alliance with Iran in the 1970s. The President and his advisers were split over how to respond. Henry Kissinger warned his impatient colleagues against pressuring the Shah for fear that he would be replaced by an unfriendly "radical regime."[10] Finally, the documents offer riveting details of the extraordinary lengths President Ford went to in order to stop the Shah from raising oil prices at the OPEC meeting in December 1976. It turned out to be a Pyrrhic victory. Oil brought the Presidents and the Pahlavis together just as surely as it pulled them apart.

The Scowcroft Papers are discussed here within the context of five distinct periods of time. They span from July 1974, during the final days of Richard Nixon's presidency, continue through Gerald Ford's tumultuous tenure, and conclude in January 1977, as Ford and Kissinger prepared to leave office and hand over the reigns of power to President-elect Jimmy Carter.

JULY-AUGUST 1974: "WE CAN'T TACKLE HIM WITHOUT BREAKING HIM"

At 10:00 AM on Tuesday, July 9, 1974, Treasury Secretary William Simon sat down with President Richard M. Nixon in the Oval Office to go over the Secretary's forthcoming trip to the Middle East and Europe. Even though the Watergate scandal was in full flood, and Nixon was losing his fight to stay in office, the President was focused and engaged — though wary — when Simon steered the conversation towards Muhammad Reza Pahlavi, the Shah of Iran.

Bill Simon was a maverick within the Republican political establishment. Before coming to Washington he had been a partner in the prestigious Wall Street firm Salomon Brothers. Recruited to serve as Treasury Secretary George Schultz's deputy, Simon was appointed the administration's "energy czar" in 1973 and given the thankless job of alleviating the impact of the Arab oil boycott. Skyrocketing oil prices had

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in 1977 "severely affected" Iran's economy: "Oil had been expected to underwrite 78 percent of the government's five-year economic plan … the impact of such fluctuations in international demand was dramatic … Over $3.5 billion was pruned from expenditure and the revenues for the coming year were recalculated anticipating a 10 percent drop in over-all oil sales, and a reduced growth target of 13 percent."

10. Memoranda of Conversations, 8/3/76, folder "Ford, Kissinger, Scowcroft," Box 20, National Security Adviser, Gerald R. Ford Library.

induced a deep recession in the United States, and for that reason alone Bill Simon had the Shah of Iran squarely in his sights. The Shah's refusal to join in the oil embargo had earned him a reputation as a statesman. But he also had engineered the December 1973 Tehran Oil Agreement that saw oil prices quadruple within 12 months.[11]

Despite this, His Imperial Majesty Shah Muhammad Reza Pahlavi of Iran, Light of the Aryans, King of Kings, Shadow of God, occupied a special place in Richard Nixon's affections. The two men had known and admired each other for 20 years. Iran stood as America's centurion in West Asia, guarding the approaches to the Persian Gulf. It was a major oil producer and emerging as a military power in its own right. Iran's oil fields pumped 6 million barrels of oil a day,[12] its navy guaranteed the safe passage of 25 million barrels of oil a day from the Middle East to slake the thirst of Europe, Japan, Israel, and the United States,[13] and its superbly equipped armed forces served as a useful buffer between the USSR and the Persian Gulf. Following Great Britain's decision to withdraw its military presence in the Gulf by 1971, the Johnson and Nixon Administrations had agreed to arm the Shah and let Iran fill the vacuum left by the departing British forces. In November 1971, Washington acquiesced when the Shah breached international law and used force to seize three strategically placed islands at the entrance to the Straits of Hormuz — Abu Musa and the Tunbs. Iran was hailed in the American press as the "colossus of the oil lanes"[14] and for the rest of the Shah's reign the United States maintained only a token naval presence in the Gulf. A grateful Richard Nixon described the Shah as "our best friend."[15] Nixon's admiration was hardly driven by sentiment. On another occasion he said he wished "there were a few more leaders around the world with his foresight. And his ability to run, basically, let's face it, a virtual dictatorship in a benign way."[16] Gerald Ford's Vice President, Nelson Rockefeller, an old friend of the Pahlavi family, publicly compared the Shah to Alexander the Great and privately conceded that America's messy democratic institutions could benefit from the Shah's firm hand: "He'd soon teach us how to govern America."[17] In his diary, Asadollah Alam, the Shah's close confidante and Minister of the Imperial Court, recalled how Henry Kissinger "was full of praise for [the Shah], saying how much he wished President Ford could emulate his example."[18]

11. In 1973 the Iranian government's revenue per barrel of oil leaped from $1.85 to $7.00, and by the end of 1974 it was at $10.21 a barrel. Government oil revenues jumped from $2.8 billion in 1972/73 to $4.6 billion in 1973/74, and rocketed to $17.8 billion for 1974/75. See Razavi and Vakil, *The Political Environment of Economic Planning in Iran, 1971-1983*, p. 63.

12. Arnaud de Borchgrave, "Colossus of the Oil Lanes," *Newsweek*, May 21, 1973, p. 40.

13. "It Was Like Coming Home Again," *The New York Times*, July 29, 1973.

14. De Borchgrave, "Colossus of the Oil Lanes," p. 40.

15. National Security Adviser, Memoranda of Conversations, 7/9/74, folder "Nixon, William Simon," Box 4, Brent Scowcroft Papers, Gerald R. Ford Library.

16. Tim Weiner, *Legacy of Ashes: A History of the CIA* (New York: Random House, 2007), p. 368.

17. Nelson Rockefeller made his remarks on a visit to Iran in March 1976. The Rockefellers and the Pahlavis enjoyed warm personal relations. Alam, *The Shah and I*, pp. 476-477.

18. Alam, *The Shah and I*, p. 395. On another occasion Alam recorded Kissinger's effusive reply when he was informed that the Shah worked 13-hour days: "Which must surely make him the most diligent statesman in the entire world. An honor I'd previously reserved for myself. There's not a greater man around. I say this not to please you but because it happens to be true." Alam, *The Shah and I*, p. 500.

The Treasury Secretary began his July 9, 1974 talk by urging Nixon to do more to tackle the rising price of oil. "There are other more stringent things we could do," he said. Simon was convinced that if the Shah could be persuaded to reverse course the rest of OPEC would fall into line. He was puzzled that neither the President nor the Secretary of State had even asked the Shah to lower oil prices. Nixon said he already had pressed the issue of high oil prices with King Faysal of Saudi Arabia: "With [King] Faisal, I have raised it privately, and you can, that the oil prices can't go on. We want to explore what might be done, but they can do little if the Shah holds up prices. Kuwait the same."[19]

> Bill Simon: Is it possible to put pressure on the Shah?
> Richard Nixon: You are not going there [to Iran].
> BS: No. We thought we would make them sweat a bit while we were discussing goodies with the Arabs.
> RN: He is our best friend. Any pressure would probably have to come from me.
> BS: I wonder. He is the ringleader on oil prices, together with Venezuela. Without them, oil prices would be done … The situation is troublesome — there are a number of [oil] producers with a lot of money, nowhere to spend it, and the banks and financial markets are in trouble. Oil prices have created great instability in the international financial markets.[20]

Simon's tour of European and Middle Eastern capitals made headlines. In France he described Iran's monarch as "a nut … He wants to be a superpower. He is putting all his oil profits into domestic investment, mostly military hardware."[21] Simon's insult was calculated: He was sending a message to Saudi Arabia that he understood its concerns and was ready for business. For months, the famously cautious and secretive Al Sauds had been quietly reaching out to anyone who would listen in Washington. King Faysal was alarmed at the financial and political toll high oil prices had taken on Saudi Arabia's trading and investment partners in the West. Benefiting from the turmoil were Iraq, heavily subsidized by the Soviet Union, and Iran, whose oil income was paying for a massive buildup of conventional forces in the Gulf region. Both were old foes.

While in Saudi Arabia, Bill Simon struck up a friendship with Shaykh Yamani. The two men came up with the idea of auctioning off more than one million barrels of Saudi oil a day, calculating that this would roll oil prices back down to $7.00 a barrel.[22] The deal collapsed when the Shah found out and threatened to slash Iranian oil production in retaliation.[23] Simon now had what he considered irrefutable proof that the Shah was blocking sincere efforts to reduce oil prices. On July 30, 1974, he briefed Nixon on the results of his trip. He began by informing the President that time was running out if

19. Memoranda of Conversations, 7/9/74, folder "Nixon, William Simon," Box 4, National Security Adviser. Gerald R. Ford Library.

20. National Security Adviser, Memoranda of Conversations, 7/9/74, folder "Nixon, William Simon," Box 4, Brent Scowcroft Papers, Gerald R. Ford Library.

21. "Simon Calls Shah Quote 'Misleading'," *The Washington Post*, July 16, 1974.

22. "Nixon Let Shah Drive Up Oil Prices," *The Washington Post*, June 1, 1979.

23. "Saudi Arabia and Iran In Oil-Price Stalemate," *The New York Times*, September 10, 1974. King Faysal feared that any unilateral move on his part to force prices down would split OPEC and incite domestic pan-Arab extremism. The Shah's threatened production cut would have matched the amount of Saudi oil sold at auction.

a global economic disaster was to be averted.

> BS: [King] Faisal says he has gone as far as he can without our help. The Shah is threatening to cut production.
> RN: He is our good friend, but he is playing a hard game on oil.
> BS: Faisal asks your help with the Shah. There is an internal fight in Saudi Arabia between those who want price cuts and those who wish to keep production up. Faisal really wants our help with the Shah. In discussions with other Ministers I said Saudi Arabia has probably 150 years of production left, whereas Iran has only 15 years. Maybe Iran will build its industry and then when the oil runs out, they can get the oil back.
> RN: We have to see what we can do. I will have to meet and talk with the Shah.
> BS: The Shah has us. No one will confront him. The producer nations are locking in the consumers and keeping them away from us. [German Chancellor] Schmidt said: 'If the prices don't come down, I may have to move against the companies and deal with the producers myself'. This issue will ultimately require strong action by the United States.
> RN: Like what? This should be developed. We need discussion with you, Ken, Henry and Brent. Keep it small.
> BS: It is a terrible problem. I was not thinking so much of energy as balance of payments. I am worried about production cuts.[24]

Bill Simon genuinely believed he had a commitment from Richard Nixon to confront the Shah's appetite for higher oil prices.[25] Less than a week later, on August 3, 1974, a working group of senior Treasury and State Department officials met to hear Simon plead his case.[26] It was a discussion that Kissinger, in particular, did not want to have. His view was that high oil prices were the necessary price of stability in the Middle East.[27] *Foreign Policy* recently had published an article that reflected

24. National Security Adviser, Memoranda of Conversations, 7/30/74, folder "Nixon, William Simon," Box 4, Brent Scowcroft Papers, Gerald R. Ford Library.

25. Simon recalled that when Nixon learned about the collapse of the auction, "He clenched his fountain pen between his teeth, yanked off the cap and scribbled a note to himself on a scrap of paper. Simon understood it to mean that Nixon would contact the shah." See "Nixon Let Shah Drive Up Oil Prices," *The Washington Post*, June 1, 1979.

26. Present at the August 3, 1974 meeting were Treasury Secretary Bill Simon, Secretary of State Henry Kissinger, Arthur Burns, Chairman of the Federal Reserve, Robert Ingersoll, Deputy Secretary of State, Thomas Enders, Assistant Secretary of State for Economic and Political Affairs, and Brent Scowcroft, Deputy Assistant to the President for National Security Affairs.

27. Henry Kissinger has never fully explained the extent to which he knew in advance of the Shah's intention to raise oil prices in Tehran in December 1973. According to his biographer, Walter Isaacson, Kissinger "would later admit that he had assumed that the shah might hike oil prices by a dollar or two a barrel to pay for his new weapons." Walter Isaacson, *Kissinger: A Biography* (New York: Simon & Schuster, 1992), p. 563. Asadollah Alam recounted in his diary that the US Ambassador to Tehran, Richard Helms, was in fact tipped off in advance about the size of the price hike but misunderstood its true implications (See Alam, *The Shah and I*, pp. 348-356). Alam was almost certainly correct. The likeliest explanation was a failure by the Ambassador and the State Department to understand the basic economics of oil pricing. Helms apparently thought the price of a barrel of oil would go up to $7. In fact, $7 was the new *profit margin* for the oil producers. When Helms learned of his gaffe, Alam wrote in his diary, it "really put the wind up him." The Shah felt that US complaints about the size of the price increase were unfair. According to Alam, the Shah believed he had come

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Kissinger's outlook. Conservative monarchies like Iran were the "least likely to force a confrontation over American support for Israel" and higher oil revenues allowed the rulers of these essentially pro-American states to develop their economies, build their armies, and avoid social unrest.[28] Kissinger opened the August 3 meeting by stating the obvious:

> Henry Kissinger: You are saying the oil situation is unmanageable.
> BS: Yes. It will force a massive realignment — you can assess whether that is good or bad for us. Europe is becoming dependent on the Arabs for both oil and money.
> HK: You must also know there is a real chance for another Arab-Israeli war. Are the Saudis really prepared to cooperate in getting lower prices, and how far?
> BS: If production doesn't get cut, oil prices would drop by 30 percent. We would consider production cuts an unfriendly act, and for Iran, we could cut military supplies.
> HK: The first question is who would do the confronting — the U.S., or the U.S. and Europe and Japan? The second question is what happens after the opening round? I think Iran would be supported by Algeria and many others.[29]

Kissinger warned his colleagues about the danger of trusting the Saudis who "want to be our sole supplier so they can squeeze us when they want. … My conclusion is that we have to move with enormous care." He said that the US was not ready for a confrontation with the oil producers. "We have to be willing to use force … We have always made it a policy to react violently when provoked." He understood that everyone's patience was running out: "I, though, am prepared to talk privately to the Shah."[30] Federal Reserve chief Arthur Burns ended the meeting on a pessimistic note: "We are heading towards disaster in the industrial world. Withholding arms from Iran won't help."[31]

When Richard Nixon resigned the presidency five days later, Bill Simon's window of opportunity to confront the Shah and force oil prices down without a confrontation was slammed shut. Henry Kissinger, so determined to protect his turf at all costs, used the fallout from Watergate to buy the Shah two precious years. Yet as events would later show, Kissinger's short-term tactical victory over Bill Simon created enormous long-term problems for the new President, Gerald R. Ford, who was sworn in to office on August 9, 1974.

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down on the side of moderation — Iraq, Abu Dhabi, and Kuwait "were all pressing for $14" a barrel instead of the new price of $12.

28. Stephen D. Krasner, "The Great Oil Sheikdown," *Foreign Policy*, No. 13 (Winter 1973-1974), p. 133. As described by Krasner, "Falling prices would quickly bring the revenues of all of the producing countries below their current levels of expenditure … Destruction of the oligopoly could produce radical regimes, willing to risk petroleum revenues for political objectives, and opening possibilities for Russian penetration or military action by consuming states."

29. National Security Adviser, Memoranda of Conversations, 8/3/74, folder "Kissinger, Simon, Burns, Ingersoll, Enders," Box 4, Brent Scowcroft Papers, Gerald R. Ford Library.

30. National Security Adviser, Memoranda of Conversations, 8/3/74, folder "Kissinger, Simon, Burns, Ingersoll, Enders," Box 4, Brent Scowcroft Papers, Gerald R. Ford Library.

31. National Security Adviser, Memoranda of Conversations, 8/3/74, folder "Kissinger, Simon, Burns, Ingersoll, Enders," Box 4, Brent Scowcroft Papers, Gerald R. Ford Library.

Ford's first few months in office were tumultuous. They included Richard Nixon's resignation, Ford's controversial decision to pardon him, First Lady Betty Ford's bout with breast cancer, the Turkish invasion of Cyprus, ongoing crises in the Middle East and Vietnam, and the ever-present energy crisis. Ford relied heavily on his Secretary of State to guide him through the thicket of foreign policy. It was Kissinger who broached the topic of oil and the Shah in the Oval Office on Saturday, August 17. A transcript indicates he was worried about what Bill Simon and the Saudis were up to:

> HK: Simon wants a confrontation with the Shah. He thinks the Saudis would reduce prices if the Shah would go along. I doubt the Saudis would get out in front. Also the Saudis belong to the most feckless and gutless of the Arabs. They have maneuvered skillfully. I think they are trying to tell us — they said they would have an auction — it will never come off. They won't let us live with lower prices but they won't fight for them. They would be jumped on by the radicals if they got in front. The Shah is a tough, mean guy. But he is our real friend. He is the only one who can stand up to the Soviet Union. We need him for the balance against India. We can't tackle him without breaking him. We can get to him by cutting military supplies, and the French would be delighted to replace them.
> Gerald Ford: He didn't join the embargo.
> HK: Right. Simon agrees now, though. The strategy of tackling the Shah won't work. We are now thinking of other ways.
> GF: When the consumers get organized and we start dealing with the producers — if it worked as you wish — what would you do?
> HK: We are organizing the consumers. Then we are organizing the bilateral commissions to tie their economies as closely to us as possible. So we have leverage and the Europeans can't just move in in a crisis. We want to tie up their capital. When the Shah sees us organizing the consumers — he will see, if we don't do it in a way to appearing [sic] threatening to him. I should perhaps visit him in October, in connection with the Soviet trip, and talk about bilateral arrangements.
> GF: Does he want higher prices?
> HK: Yes. He has limited supplies. He knows the profit is higher on petrochemicals and that the Saudis get more from the companies in everything. We won't be in a position to confront the producers before the middle of 1975. We have got to get rolling.[32]

Kissinger had just made five extraordinary assertions. He accepted that the Shah was the key to lowering oil prices. He admitted knowing in advance that the Shah was planning additional price increases. He dismissed offers of help from the Saudis as not to be taken seriously. Except in the critical area of arms sales, the Secretary conceded that the US had lost strategic leverage over one of its most important allies. Crucially, Kissinger warned Ford that the Shah's regime was not as strong as it appeared; tackling the Shah over oil prices might actually "break him." Kissinger's aide, Winston Lord, reminded him of the fix they had got themselves into: "To some extent, arguments over oil prices can be kept 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]

32. National Security Adviser, Memoranda of Conversations, 8/17/74, folder "Ford, Kissinger," Box 5, Brent Scowcroft Papers, Gerald R. Ford Library.

is unlikely to be moved on the oil price issue."[33]

Three and a half years before the outbreak of revolution in Iran, and more than five years before the taking of American hostages in Tehran, the Nixon-Kissinger strategy of appeasing the Shah's appetite for high oil prices and sophisticated weaponry had backfired in a classic case of "blowback." Belatedly, the Secretary of State began to grasp what others had known for years: Muhammad Reza Pahlavi was an ardent Persian nationalist who deeply distrusted the motives of his American admirers. When Ford publicly called for a reduction in oil prices in September 1974, the Shah fired back with the memorable line, "No one can dictate to us. No one can wave a finger at us, because we will wave a finger back."[34] As one perplexed US intelligence official remarked at about this time of the proud 55-year-old King of Kings, whose throne had been restored in a 1953 CIA coup, "He *was* our baby, but now he has grown up."[35]

MAY-JUNE 1975: "A PARATROOP OPERATION IN SAUDI ARABIA"

The Shah was coming to town. In May 1975 Washington put the flags out for Muhammad Reza Pahlavi and Queen Farah. In his 34 years on the ruby-encrusted Peacock Throne, the Shah had graced the capital on nine previous occasions and met six American Presidents; Gerald Ford was the seventh. The captains and kings of American industry attended a lavish state dinner at which a scantily-clad Ann Margret performed a song-and-dance routine that *Time* magazine gushed "would have wowed them in Las Vegas to say nothing of Tehran … It was without question the most dazzling state visit that Washington had seen in years."[36] Andy Warhol attended the dinner; the Secretary of the Treasury and Mrs. Simon did not.[37]

The Shah held two private 90-minute meetings with Ford, Kissinger, and Brent Scowcroft. Before the first session on May 15, 1975 Kissinger described his friend the Shah in Nixonian terms as "a tough, unemotional, and able guy. He has a geopolitical view." Kissinger's briefing paper to the President explained the "exceptional importance" of the Shah's visit."[38] He urged Ford not to antagonize the Shah by raising the touchy subject of oil prices; the Shah's feelings might be hurt. "[T]he Shah is upset by Congressional and American public criticism of Iran's oil pricing policies … The one big bilateral problem we have is over oil prices."[39] Instead, Ford was advised simply to drop the subject — remarkable advice to give a man whose political fortunes had fallen into the trough of an oil-induced recession: "I see little point in your trying to argue

33. The emphasis on the final sentence is in the original document written by Winston Lord. Briefing Memorandum to the Secretary of State from S/P Winston Lord, Department of State, *Strategies for the Oil Crisis and the Scenario for September 28 Meeting*, September 21, 1974, p. 6, The National Security Archive: Iran: The Making of U.S. Policy, 1977-80.

34. "Shah Rejects Bid By Ford For Cut In Prices Of Oil," *The New York Times*, September 27, 1974.

35. "Kissinger to Press Shah On Oil Costs," *The Washington Post*, November 1, 1974.

36. "Friends Well Met," *Time*, May 26, 1975, p. 21.

37. The guest list for the White House state dinner was published in *The Washington Post*, May 16, 1975, p. B3.

38. Memorandum to President Ford from Secretary of State Henry Kissinger, "Strategy for Your Discussions with the Shah of Iran," May 13, 1975, p. 1.

39. "Strategy for Your Discussions with the Shah of Iran," p. 5.

with the Shah that prices were raised too fast and too much, inasmuch as he is utterly convinced of the correctness of what was done and easily takes umbrage at suggestions to the contrary."[40]

As the two men waited for the Shah to arrive, Kissinger again cautioned Ford against expecting any help on oil: "I would go over the energy thing. He will slap you down, but it would be good." Kissinger cryptically added, "Ask him about the Middle East. He is worried about Saudi Arabia. We told him we would support a paratroop operation in Saudi Arabia in a crisis. You could say you are aware of this contingency planning."[41]

A transcript of that day's summit shows the Shah and the Secretary of State engaged in rapt conversation. Ford and Scowcroft seemed to shrink in their presence like late arrivals at someone else's dinner party. The subject of oil did arise but in an entirely different context. Although Iran's oil prices were off the table, Saudi Arabia's vast reserves were not. The Shah said he was pessimistic about the ruling family's chances. Less than two months earlier, King Faysal had been assassinated by a young relative. The Shah had traveled to Saudi Arabia to take the measure of the new King, Khalid, and Crown Prince Fahd, who was really running the show. Apparently missing the irony of the moment, the Shah said he had lectured the Saudi royal family on their tolerance of corruption at court.

> Muhammad Reza Pahlavi: I spoke to the Saudis. I said, you don't need money, what you need is clean government.
> HK: They add 10 percent to every contract.
> MRP: That's the minimum. The French do 20 percent. I told [Crown Prince] Fahd this and he knows it. If they can't liquidate bribery and bring in non-family people, they will not remain stable.
> HK: Won't the non-family people overthrow them?
> MRP: No, they will bring them into the establishment.[42]

President Ford joined in the conversation by telling the Shah that Kissinger had broached the idea of seizing Saudi Arabia's oil assets if a crisis arose: "Henry told me what he told you we would do if there were a Qaddafi-like development in Saudi Arabia. I reaffirm it." The Shah seemed pleased to have Ford's personal assurance — "That is good" — and said he thought Egypt should be invited to join an invasion force. The Shah, who admired Egypt's President Anwar Sadat, was clearly anxious to discuss operational logistics: "So we must discuss in detail to what extent we get Egypt in. If it is totally non-Arab, there might be some resistance, but the extent of Arab participation is worrisome."[43] Kissinger wasn't so sure.

40. Memorandum to President Ford from Secretary of State Henry Kissinger, "Strategy for Your Discussions with the Shah of Iran," May 13, 1975, The National Security Archive: Iran: The Making of U.S. Policy, 1977-80.

41. Memoranda of Conversations, 5/15/75, folder "Ford, Kissinger," Box 11, National Security Adviser, Gerald R. Ford Library.

42. Memoranda of Conversations, 5/15/75, folder "Ford, Kissinger, Iranian Shah Mohammed Reza Pahlavi," Box 11, National Security Adviser, Gerald R. Ford Library.

43. Memoranda of Conversations, 5/15/75, folder "Ford, Kissinger, Iranian Shah Mohammed Reza Pahlavi," Box 11, National Security Adviser, Gerald R. Ford Library.

HK: I worry about an Egyptian army in Saudi Arabia. Political support is good; maybe a few troops.
GF: How good is the Saudi military?
MRP: Not very. It is small.[44]

On Friday, May 16, the President and the Shah were alone for a few minutes in the Oval Office. Kissinger was running late. Gerald Ford gingerly raised the taboo subject of oil prices. Politically, he had little choice; an American President could hardly avoid raising the subject of oil, with the so-called Emperor of Oil in the White House. The Shah did not bite. Kissinger entered the room and the topic changed to the Secretary's grand plan to help out the Shah, whose economy was in trouble. High oil prices had led to a slackening of demand in the West, something the Shah hadn't bargained on. Iran was stuck in recession too.[45] Kissinger had warmed to the Shah's idea of taking nearly a million barrels of surplus oil off his hands. Given Ford's own economic difficulties, also caused by high oil prices, the timing of Kissinger's initiative showed a remarkable lack of sensitivity.[46]

The second day's session covered a variety of topics, including instability in Pakistan: The Shah said he would occupy the Pakistani province of Baluchistan himself rather than allow India to seize it. The discussion moved on to the conflict over Cyprus between Greece and Turkey, two members of NATO. Kissinger and the Shah said they hoped to circumvent the congressional arms embargo imposed on Turkey by funnelling arms to Ankara through Tehran. Kissinger informed Ford that the United States was deliberately overcharging the Shah for military equipment so that the Shah "can send spares and we can replace them." The Shah said he worried about news of the deal leaking out: "But your people must keep their mouths shut … We need your people to keep quiet on the spare parts deal." When the President drew the meeting to a close he

44. Memoranda of Conversations, 5/15/75, folder "Ford, Kissinger," Box 11, National Security Adviser, Gerald R. Ford Library. Also, Memoranda of Conversations, 5/15/75, folder "Ford, Kissinger, Iranian Shah Mohammed Reza Pahlavi," Box 11, National Security Adviser, Gerald R. Ford Library.

45. The Shah and his officials understood that in Iran, economic difficulties and social unrest often went hand-in-hand. He had good reason to want to stabilize Iran's finances as quickly as possible. One month after the Monarch's visit to the Ford White House, antigovernment riots broke out in the religious city of Qom. In hindsight, these demonstrations were a prelude of what was to come. "Iranian Riots Reported As Militants Fight Changes," *The New York Times*, June 11, 1975.

46. Iran was producing 700,000 barrels of oil a day surplus to requirements. Kissinger proposed a secret barter scheme by which the Iranians would sell the oil at a fixed price to the US in return for Treasury notes to be redeemed for the purchase of American goods. The oil would be stored in an emergency reserve, ready for the next embargo. It was critical that Iranian oil production stay at full capacity; a decrease would tighten the market and drive prices even higher. When Kissinger later pitched the idea to him, Alan Greenspan, Ford's Chairman of the Council of Economic Advisers, liked the idea. "That breaks the OPEC price structure," Greenspan mused. "It will have a devastating impact on OPEC." There was just one problem. "It would have to be at Saudi expense, and they wouldn't like it … If we could keep Iran at full production it puts severe pressure on the Saudis." It was a daring but ultimately unworkable scheme and came to nothing. Resistance, notably, came from the office of Treasury Secretary Bill Simon. National Security Adviser, Memoranda of Conversations, 6/16/75, folder "Kissinger, Alan Greenspan, Under Secretary Robinson," Box 12, Brent Scowcroft Papers, Gerald R. Ford Library.

cordially thanked the Shah for coming: "Henry has told me if I wanted to talk to someone who had an objective view of the world, it was you. I have confirmed that." On his way out the Shah replied, "I hope you win the election."[47]

The next day, Saturday, May 17, 1975, the roof fell in. Speaking at a farewell news conference only a few blocks from the White House, the Shah announced that he would seek yet another increase in the price of oil. Iranian officials in the royal party bandied around figures as high as 35%.[48] "AMERICA BOWS LOW AS THE SHAH PAYS A VISIT," read one headline.[49] But although Gerald Ford stayed silent in the face of the Shah's remarkably ill-timed snub, the men around him did not. They decided to take action. And for one man in particular, Treasury Secretary Bill Simon, action couldn't come soon enough.

JULY-SEPTEMBER 1976: "RUMORS ARE SPREADING THAT WE ARE IN COLLUSION"

In the year since the Shah's fateful visit to Washington much had changed in US relations with Iran. A battle royal had broken out within the administration over the Shah's perceived disloyalty. Of more immediate concern was the Shah's stated intention of seeking a 20-25% jump in oil prices for 1977. A fragile economic recovery had taken hold in the United States in 1976 and Gerald Ford's economic advisers, especially Alan Greenspan, the Chairman of the Council of Economic Advisers, beseeched the President to draw a line in the sand. They calculated that another substantial OPEC oil price increase would reduce America's GNP and lead to higher job losses and a renewed bout of inflation.[50] A price jump of the magnitude envisioned by the Shah could bankrupt Great Britain, France, and Italy, collapse fledgling democracies in Spain and Portugal, and trigger a banking crisis at home. The world economy simply could not absorb another big oil price increase at this time.

Bill Simon sensed the tide was turning in his direction; finally, after two years, Saudi Arabia was coming in from the cold.[51] The timing couldn't come fast enough for the Saudis. The death of King Faysal in 1975 had brought to power a generation of men determined to use Saudi oil power as strategic leverage in improving rela-

47. Memoranda of Conversations, 5/16/75, folder "Ford, Kissinger, Iranian Shah Mohammed Reza Pahlavi," Box 11, National Security Adviser, Gerald R. Ford Library.

48. "New Oil Price Rise Expected By Shah," *The Washington Post*, May 18, 1975.

49. "America Bows Low As the Shah Pays a Visit," *The Washington Post*, May 22, 1975.

50. The administration's economic arguments against another OPEC oil price increase were contained in a briefing paper cabled to the Tehran embassy and dated December 2, 1976. EB/ORF: PKBulletin: MW, 12-2-76, *Subject: Impact of Another Oil Price Increase*, National Security Archives, IV C(I) 36.

51. In the meantime, Bill Simon had assiduously cultivated his Saudi connections. After he left politics he told Jeffrey Robinson, the biographer of Shaykh Ahmad Yamani, that "some of the best memories that I have of a very, very exciting four and a half years spent in government, in all the posts I held, well, the relationship I had with Yamani ranks right at the top … You know he stayed at my home in Mclean (Virginia). He even did my horoscope for me." Simon conceded that the two men went out of their way to keep Henry Kissinger off their trail. "We used to correspond quite regularly as far as confidential messages were concerned. We used what we call 'back channel' messages. They didn't go through the State Department. It was more private that way." Jeffrey Robinson, *Yamani: The Inside Story* (London: Simon & Schuster, 1988), p. 203.

tions with the US. They were determined to do everything they could to win the confidence of American policymakers and diplomats. And they genuinely feared the Shah of Iran's intentions towards them. The only way to restrain Iran's military buildup was to reduce the Shah's ability to spend money freely. However, another factor may have come into play. Someone had tipped off the Saudis about the Kissinger-Shah plan for Iran to occupy Saudi Arabia and seize its oil assets in the event of political unrest in the Kingdom. Shaykh Yamani reportedly confronted US Ambassador to Saudi Arabia James Akins with the explosive allegations. Yamani began by describing the Shah as "highly unstable mentally." He accused Washington of deliberately building up the Iranian military with the goal of taking over "the Arabian littoral … But if Iran should succeed in occupying part of the Arabian coast, it would find only smoking ruins, and the Western oil consumers would face catastrophe." Akins, who knew nothing of the Shah's conversations with Ford and Kissinger, assured Yamani not to worry; the whole idea was "sheer madness."[52] Yamani also reportedly told Akins that "if the shah departs, we could have a violent, anti-American regime on our hands in Tehran."[53]

At 10:30 AM on Friday, July 9, 1976, Ford and Kissinger received a senior delegation of Saudi officials led by Prince ʻAbdullah bin ʻAbd al-ʻAziz Al Saud. The President expressed his thanks to the Saudis for "the strong position that your government took on oil prices." At the most recent meeting of OPEC oil ministers in Bali, Shaykh Yamani had stalked out rather than accede to another price increase. The rest of OPEC agreed to freeze oil prices for a further six months until the next meeting in Doha, Qatar, in December. Yamani's dramatic gesture earned the gratitude of a President struggling to restore economic confidence during a rough presidential campaign season. Ford understood that the Saudis expected something in return:

> GF: As I am sure you know, we are doing our utmost to be helpful to the political settlement in Lebanon and we want to move as rapidly as possible to a settlement in the Middle East as a whole.
> Prince Abdullah: The dilemma we are in is that rumors are spreading that we are in collusion. As you are aware, these rumors are spread by enemies of us both — the Communists.[54]

The Prince candidly reminded the President that his government had taken an enormous risk in standing up to the rest of OPEC over high oil prices. The Saudis hoped for, and expected, American assurances of friendship and support. ʻAbdullah urged more US assistance to Anwar Sadat of Egypt and presented a laundry list of complaints about Libya's Colonel Muʻammar Qadhafi, the presence of Soviet bases in Somalia, and the unpredictable King Husayn of Jordan. The President was more than happy to oblige: "Let me assure you that after the election we will take action in ac-

52. Akins' account of his conversation with Yamani — it was written down in memorandum form and relayed to Washington — surfaced 13 months later, in *The Washington Post*, in a column written by Jack Anderson. "Saudis Suspect an Iran-U.S. Plot," *The Washington Post*, September 17, 1976. Anderson's relationship with Bill Simon is discussed in Footnote 51.

53. "Kissinger Cleared Iran's Oil Gouge," *The Washington Post*, December 5, 1979.

54. National Security Adviser, Memoranda of Conversations, 7/9/76, folder "Ford, Kissinger, Saudi Deputy Prime Minister Abdallah bin Abd al-Aziz-Saud," Box 20, Brent Scowcroft Papers, Gerald R. Ford Library.

cordance with the aims and principles you have in mind."[55]

The Shah was not oblivious to the Saudi charm offensive. "What are they up to?" he asked Asadollah Alam, whose diary recorded the following exchanges. "Either they're being incredibly naïve or else they've embarked on a devious scheme of their own which we've yet to latch on to."[56] Both men wondered if Kissinger's star was waning. "Expressed my doubts as to how much we can rely on Kissinger's goodwill to fix oil prices," wrote Alam. "[His Imperial Majesty] admitted he too was unsure."[57] He was puzzled by Saudi motives — freezing or reducing oil prices would cut their income. "Those bloody Americans," mused the Shah. "They imagine they can get their own way, by manipulating the Saudis, and relying on their vast oil supplies."[58]

In Washington, Kissinger understood that a dangerous tipping point had been reached in US-Iran relations. Intelligence reports and economic analysis damaging to the Shah had been leaked to the *Washington Post*, whose muckraking columnist, Jack Anderson, gleefully published them verbatim; Bill Simon's fingerprints were all over it. In one instance, Anderson published — three weeks beforehand — verbatim extracts of a Treasury Department report harshly critical of the Shah.[59] Ford's decision to drop Nelson Rockefeller from his campaign ticket reinforced the Shah's growing isolation in the capital. Perhaps even more damaging to the Shah's position was the powerful enemy he had made out of Donald Rumsfeld, President Ford's new Secretary of Defense. Like his predecessor, James Schlesinger, Rumsfeld had grave doubts about the extent of the US commitment in Iran. On January 19, 1976, Rumsfeld met in a private dining room at the Pentagon with General Hassan Toufanian, Iran's chief arms procurement officer. Toufanian charged — correctly as it turned out — that the Pentagon was deliberately inflating the cost of American weapons to balance the costs of importing oil from Iran. Voices were raised, insults were exchanged, and Rumsfeld cut loose. He blamed Iranian corruption for cost overruns and warned, "Don't try and get around me. Remember, Kissinger and I have to approve all exports." US-Iranian defense relations throughout the rest of the year were described by one top Pentagon source as "raw, it's awfully raw, more than anyone dares show." Rumsfeld had since joined Bill Simon and the growing chorus of senior administration officials who suspected the Shah's motives and wanted to see his strategic, financial, and military designs brought under control.[60]

55. National Security Adviser, Memoranda of Conversations, 7/9/76, folder "Ford, Kissinger, Saudi Deputy Prime Minister Abdallah bin Abd al-Aziz-Saud," Box 20, Brent Scowcroft Papers, Gerald R. Ford Library.

56. Alam, *The Shah and I*, p. 396.

57. Alam, *The Shah and I*, p. 4.

58. Alam, *The Shah and I*, p. 434. Robert Graham observed that the Shah "continually underestimated the Saudi position" and its ability as the largest oil producer to enforce pricing. See Graham, *Iran: The Illusion of Power*, p. 100.

59. See "OPEC Challenged on Oil Price Rise," *The New York Times*, May 31, 1975. In the case of *The Washington Post*, Jack Anderson's column served as a well-known dumping ground for officials in Washington, including those in the White House, Pentagon, and CIA, to leak information embarrassing to rivals, as well as settle scores against opponents and test public opinion in advance of controversial policy proposals. The Shah was an avid reader of *The Washington Post* and he could hardly have missed the pointed and personal nature of the leaks directed against him.

60. Richard T. Sale, "Arms Quarrels Strain US-Iran Ties," *The Washington Post*, May 13, 1977, p. 1.

To compound matters, on July 31, 1976, the Senate Foreign Relations Committee issued a blunt report warning of the dangers of unrestricted arms sales to Iran and savaging Kissinger's credentials as a strategist: "There is little evidence that the President and the secretary-of-state have recognized the far-reaching foreign policy implications of the U.S.-Iranian military relationship."[61]

On August 3, 1976, the Secretary of State confronted the President about what he clearly believed was an effort by cabinet officers to discredit and destabilize the Shah of Iran. Kissinger's tone was one of deep frustration and concern:

> HK: As you know, I am going to Iran tomorrow. It couldn't be a worse time. Treasury and Defense are going after the Shah. Simon is going around saying the Shah is dangerous and shouldn't have exotic weapons. And [Deputy Secretary of Defense Robert] Ellsworth and Defense are viciously anti-Iranian.
> GF: The Shah is a good friend. He didn't go along with the [1973 oil] embargo. We aren't going to be stampeded by the newspapers.
> HK: You can't do anything before November, but between Treasury and DOD they are on a vicious campaign.
> GF: I will talk to Don [Rumsfeld] because I think Iran is very important to us.
> HK: We are playing with fire. We have thrown away Turkey and now Iran. Anyway it will be rough in Iran. But if we get rid of the Shah, we will have a radical regime on our hands.[62]

Kissinger flew to the Shah's Caspian palace and publicly stated America's commitment to the Pahlavi regime. At their joint press conference, the Shah asked if the US could afford to "lose" Iran as a strategic partner.[63] Kissinger promptly announced that the Ford Administration would approve an additional $10 billion in new weapons purchases to Iran as part of a massive five year, $50 billion trade deal.[64] Even as Gerald Ford's Treasury and Defense Secretaries counseled caution on Iran, the Secretary of State defied them by taking steps to deepen America's commitment to the Shah and his increasingly brittle regime. Kissinger returned to the Oval Office on August 13 and denounced the Shah's critics.[65] The Secretary repeated his earlier call for the President to reorganize the Departments of Treasury and Defense:

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61. Don Oberdorfer, "Study Says Nixon OKd Unrestricted Iran Arms sales," *The Los Angeles Times*, August 2, 1976, p. A1.

62. National Security Adviser, Memoranda of Conversations, 8/3/76, folder "Ford, Kissinger, Scowcroft," Box 20, Brent Scowcroft Papers, Gerald R. Ford Library.

63. "Shah Cautions U.S. Against Arms Cut," *The New York Times*, August 7, 1976.

64. "U.S. Support of Shah of Iran Reinforced By New Pledges During Kissinger's Visit," *The Wall Street Journal*, August 9, 1976.

65. In the third volume of his memoirs, *Years of Renewal*, Henry Kissinger described "the affectionate comradeship" he enjoyed with Treasury Secretary Bill Simon: "It was all the more remarkable because we had serious differences about strategy and were both experienced defenders of our bureaucratic turf." At the same time, the Scowcroft Papers make plain that Kissinger wanted Simon out as Treasury Secretary when he twice urged Gerald Ford to reorganize his cabinet following the 1976 presidential election. In *Years of Renewal* Kissinger praises Simon's personality ("Buoyant, infinitely energetic, and charming") while dismissing his strategic prowess. He was indeed concerned that Simon was placing too much pressure on the Shah and too much trust in the Saudis. Henry Kissinger, *Years of Renewal* (New York: Simon & Schuster, 2000), pp. 669-672.

> HK: In Iran, I don't think we realize what our domestic politics do to these people. This Humphrey [US Senate] report was a disaster. We have no better friend than the Shah. He is absolutely supportive.
> GF: What is [Senator Hubert] Humphrey doing?
> HK: He now feels badly. But he has Ellsworth's former staff assistant who did the study and Bob [Ellsworth] is anti-Iranian. Then the Jews want to stop arms sales to the Middle East and there is an anti-arms sales binge on the Hill.[66]

Kissinger's alarm may have been at least partly motivated by what he knew about troubling events inside Iran in 1976, where celebrations marking the 50th anniversary of the Pahlavi dynasty had been greeted with widespread antipathy.[67] Since the early 1970s, Iran's universities had been in an almost constant state of unrest, while urban terrorists targeted high profile official targets and American personnel and installations with alarming frequency.

As early as October 1974, a confidential CIA analysis concluded that "The Shah's ambitious domestic development program and arms build up are creating domestic economic problems. The large outlays (as well as enormous capital inflow) have caused prices to rise sharply."[68] It noted an increase in urban unemployment as unskilled rural laborers flocked to the cities for work. Iran's oil production surplus, combined with its overheated domestic economy, had contributed to a sharp recession in 1975-76. In February 1976, the Shah had asked Kissinger if the Ford Administration would place pressure on US oil companies "to increase their purchases of Iranian heavy crude oil." He threatened to "revise his foreign policy" if help was not forthcoming. Henry Kissinger always has maintained that the Shah's purchases of US weapons did not hurt Iran's economy.[69] But when he advised President Ford not to approve the Shah's request for help he demonstrated his understanding of the linkage: "We note, incidentally, that a decision by the Shah to slow the pace of his defense development program would have

66. National Security Adviser, Memoranda of Conversations, 8/13/76, folder "Ford, Kissinger, Scowcroft," Box 20, Brent Scowcroft Papers, Gerald R. Ford Library.

67. Those closest to the Shah noticed a distinct darkening of the popular mood in Iran in 1976. Queen Farah was a perceptive observer of the Iranian political scene: "[A] murmur of discontent began to make itself heard throughout the country … I was aware of a certain malaise." The dynastic celebrations were held on March 21, 1976: "Particularly on that day I felt that something had changed between the people and the monarchy. I could feel it in my bones, like an icy wind." Farah Pahlavi, *An Enduring Love: My Life With the Shah* (New York: Miramax Books, 2004), pp. 258-261.

68. CIA Confidential Document, *Iran: An Overview of the Shah's Economy*, 1974-10-16, National Security Archive Doc. IV B-3. The CIA review of Iran's economy is heavily redacted.

69. In 1982 Henry Kissinger wrote, "There have been many falsehoods about America's relationship with the Shah … In the perspective of a decade, the Shah's overthrow had little to do with his purchases of military equipment." Henry Kissinger, *Years of Upheaval* (Boston: Little Brown & Company, 1982), pp. 667-670. In retirement Kissinger has mounted a spirited defense of the Nixon and Ford Administration policies towards Iran in the 1970s. It is a curious fact, however, that no photograph appears of the Shah of Iran in any of Kissinger's three volumes of memoirs, though they are lavishly illustrated. The Secretary of State is shown in the company of virtually every world leader of any consequence from 1969-1977, and Iran's emperor was at the pinnacle of power at that time. Gerald Ford's 454-page memoir is equally revealing for what it *doesn't* say. Despite the attention and time he devoted to matters related to the Shah, oil, and Iran, Ford omits all mention of Muhammad Reza Pahlavi and his country except for a single reference to Iran made in passing. Gerald R. Ford, *A Time to Heal* (New York: Harper & Row, 1979), p. 244.

the positive aspect of permitting Iran's strained manpower and infrastructure to catch up with equipment procurements."[70]

Throughout 1976, the number of officials in Washington who doubted the Shah's motives was growing on both the left and the right. OPEC's next meeting was set for mid-December in Doha, Qatar. Both oil producers and oil consumers saw it as a showdown between the price hawks led by Iran and the dovish Saudis. The President decided to throw his lot in with the Saudis. On Friday, September 17, 1976, Ford met with a second Saudi delegation. He explained that Western economies were gradually coming out of recession "but any increase [in the price of oil] this December or for '77 would be extremely damaging, not only for the United States, but even more so for our industrial colleagues who are in a much more fragile situation … It would be disastrous to push the world economy back to the recession of last year."

Prince Saud, the Foreign Minister, assured him that King Khalid "is just as determined as last summer not to have an increase [in the price of oil]. But it will be difficult, and it will depend heavily on what you can do with Iran and Venezuela. His Majesty has said at least he will refuse more than a modest increase, and will categorically refuse anything beyond 5 percent." He reiterated to Ford that restraining prices would depend on his ability to "get support from Iran and Venezuela … but without that, it will be extremely difficult." Ford said he would do everything he could to veto legislation in the Congress that might hold up arms sales to the Saudis. He promised movement on a Middle East peace settlement and said he would apply pressure on Iran to moderate its stance over oil prices.[71]

In the letter he wrote to the Shah dated October 29, 1976, Gerald Ford warned him in the strongest possible terms of the consequences of raising oil prices again. He dismissed the Shah's argument that oil prices should reflect rising inflation in the West. He warned that an increase now would be disastrous for the world economy because "the balance of payments situation of many countries remains critical, while that of less fortunate energy deficient developing countries is truly desperate. Many countries have in fact virtually reached the end of their ability to borrow." Higher oil prices could "add major strains to the international financial system" and tip the global economy back into recession. Ford made it clear that he had lost patience with the Shah's truculent attitude. The sale of F-16 fighter jets "and other military equipment" to Iran was at risk. And he observed that "Iranian support for an OPEC decision to increase the price of oil at this time would play directly into the hands of those who have been attacking our relationship."[72]

The task of hand-delivering the letter to His Imperial Majesty on October 31, 1976 fell to US Ambassador Richard Helms, who had known the Shah for decades, and who presumably understood the implications of what he was about to do. Helms wired a short but dramatic telegram back to Washington attesting to the unhappy nature of his meeting with the Shah, to whom he had read the riot act:

70. National Security Adviser, Presidential Correspondence with Foreign Leaders: Iran — The Shah, Box 2, Gerald R. Ford Library.

71. National Security Adviser, Memoranda of Conversations, 6/16/75, folder "Ford, Saudi Arabian Foreign Minister Prince Saud bin Al-Saud," Box 21, Brent Scowcroft Papers, Gerald R. Ford Library.

72. National Security Adviser, Presidential Correspondence with Foreign Leaders: Iran — The Shah, Box 2, Gerald R. Ford Library.

> His Majesty and I held rapid-fire debate for about 10 minutes on various facets of crude oil price increase issue. Please assure the President that whatever the outcome of the December OPEC meeting, I took pains to insure that His Majesty is fully aware of the American position, American views, and American reasons for not wanting to see another price increase in the near future.[73]

For more than three decades Muhammad Reza Pahlavi had ruled Iran. He had survived war, military occupation, meddlesome prime ministers, exile, treacherous allies, assassins' bullets, palace intrigue, Communist subversion, and countless coup attempts. He had outlived and outlasted De Gaulle, Mao, and Churchill. He had drawn lessons from the fate of American allies like South Vietnam's Ngo Dinh Diem and tried to be both indispensible *and* untouchable. He felt he had been a good friend to America. His letter of reply reflected a proud Emperor's deep sense of anger and humiliation at being reprimanded by a lowly Ambassador. It was dated November 1, 1976, but Iran's Ambassador in Washington was apparently instructed not to deliver the letter until final confirmation came through that Gerald Ford had lost the 1976 presidential election. The letter's contents show why.

It opened with, "Dear Mr. President." The Shah began by lecturing the American President on his country's unhealthy addiction to cheap oil. He refused to take the blame for economic difficulties in the West attributed to high oil prices. The "failure or inability" of Great Britain and France "to put their house in order by succeeding in making the necessary adjustments in their economy through domestic measures" did not justify "our committing suicide" by cutting oil prices. He pointed out that the Ford Administration's energy independence program had been a failure. Then he did something quite remarkable. He issued a pointed threat to the President of the United States, saying that "if there is any opposition in the Congress and in other circles to see Iran prosperous and militarily strong, there are many sources of supply to which we can turn, for our life is not in their hands. If these circles are irresponsible it is hopeless, but should they be responsible, they will certainly regret their attitude to my country. Nothing could provoke more reaction from us than this threatening tone from certain circles and their paternalistic attitude."[74]

NOVEMBER-DECEMBER 1976: "I WANT TO HAVE NO CONFRONTATION"

The "special relationship" between Washington and Tehran had reached the brink. Henry Kissinger's policy of coddling the Shah had done neither Muhammad Reza Pahlavi nor Gerald Ford any favors. Both men now faced each other as antagonists. Worse, by delaying the inevitable, Kissinger had only strengthened the Shah's hand and left Ford with just a few harrowing policy options — none of them attractive, all of them high-risk. A sense of crisis was building. In late November 1976 Arthur Burns, Chairman of the Federal Reserve, told Ford and Rockefeller that he was "very worried" about the possibility of OPEC approving a double-digit price increase at its

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73. State Department Telegram, For the Secretary From the Ambassador, October 31, 1976, The National Security Archive: Iran: The Making of U.S. Policy, 1977-80.

74. National Security Adviser, Presidential Correspondence with Foreign Leaders: Iran — The Shah, Box 2, Gerald R. Ford Library.

December summit in Doha. He wondered if Ford shouldn't head a delegation to the Middle East to plead his case for a price freeze. Kissinger was appalled by the naiveté of the idea, reflected in this exchange on November 23, 1976:

> HK: It would be humiliating for you to go. You would have to come back with no price increase if you were not to be humiliated. I feel the same way though less so about the Vice President's going. If you really feel strongly, he could go … You could call in the Ambassadors.
> GF: I want to be well prepared, with the facts on the economics, political support, etc.
> HK: On the economics, you have a tough agreement with the Shah. He will show how we jacked military prices up 80 percent over the past few years. The best is the political argument — that you will have to blast them for an increase and that they shouldn't put themselves in a bad light when they need our help in the Middle East. Burns is irresponsible for making a recommendation like that.
> Brent Scowcroft: He is concerned about the world financial impact.
> HK: I agree with that, just not his prescription for dealing with it. Maybe we could get [the price increase] postponed. I would call in the Saudi first. [Iranian Ambassador] Zahedi, of course, is such a fool. What he will report will bear no relation to what you tell him.[75]

Saudi Arabia's Ambassador 'Abdullah 'Ali Alireza was invited to the White House on Monday, November 29, 1976. Ford outlined Burns' doomsday scenario. The only beneficiaries from economic chaos would be the Soviet Union and the forces of political radicalism. "In Portugal we have been working hard to get a moderate government operating and eliminate Communist influence," he pleaded. "A deterioration in this economic situation could reverse the progress we have made. In Italy there are grave economic problems, which if the present government can't solve, it will undoubtedly bring Communists into the government. Great Britain is now trying to negotiate an IMF loan to stabilize its currency. While it is not directly related, the Australians have just devalued."[76] He made it clear that if Saudi Arabia wanted a strategic partnership with the US it had to start acting like an ally. With friendship came responsibilities:

> GF: I have fought hard for Saudi Arabia and supported the closest of relations between us … But it is difficult when the American people see a price increase which does such damage around the world. I want to help, but when my economists tell me of the jeopardy a price increase could put the world economy recovery in, I want to work with you to deal with this problem … I know it is a very difficult problem for the King and I know he is working toward our common goal, but I hope you will communicate to him my deep concern about the economic and political problems we face … We have the prospect of a substantial world economic recovery right now, but it is very fragile in a number of areas and I am afraid it could be destroyed.[77]

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75. National Security Adviser, Memoranda of Conversations, 11/23/76, folder "Ford, Kissinger, Scowcroft," Box 21, Brent Scowcroft Papers, Gerald R. Ford Library.

76. National Security Adviser, Memoranda of Conversations, 11/29/76, folder "Ford, Saudi Ambassador Ali Alireza," Box 21, Brent Scowcroft Papers, Gerald R. Ford Library.

77. National Security Adviser, Memoranda of Conversations, 11/29/76, folder "Ford, Saudi Ambassador Ali Alireza," Box 21, Brent Scowcroft Papers, Gerald R. Ford Library.

The Ambassador said his government was sympathetic but had to move with great care. "We will do everything we can without breaking OPEC," he said. "But if you could bring pressure on other members it would be helpful. If through your good office you can persuade other producers." This was a clear reference to Iran, the cartel's political heavyweight. He thanked Ford for going to bat for the Saudis over the Maverick missile system and for resisting efforts in Congress to halt arms sales to Saudi Arabia. These efforts had been appreciated. But his government had another concern: Israel's activities in southern Lebanon: "I hope you will restrain the neighbor to the south. Without Syrian troops in the area, the guerrillas will have free reign."[78]

President Ford said he desired a similar outcome: "We are working with the Israelis on that point and I am hopeful that the Lebanese situation can be resolved." He concluded the meeting by promising to put in a good word with Governor Carter: "I will impress on my successor the importance of our two countries working together for our common objectives."[79]

On Friday, December 3, Kissinger told the President that he had good news: the Shah had come around. "I think the Shah has the message. He is talking 10% now, so I would guess it would be 7-8%." He agreed with Ford's suggestion that the Iranian Ambassador come in for a talk "just so we keep the record straight."[80] But Ford's meeting with Iranian Ambassador Ardeshir Zahedi on December 7, 1976 went badly. Kissinger, who was inextricably absent from both ambassadorial meetings, once again had underestimated the Shah. The transcript of the Ford-Zahedi conversation bristles with tension and barely disguised rancor; it also reveals that Kissinger had in fact asked the Iranians to put off all talk of an oil price increase until the results of the 1976 presidential election were known. Zahedi pointed out to the President that the Shah already had delayed raising oil prices once this year; he could hardly afford to do so again:

> GF: There is unanimity among my advisers that the world economic health is not good. Any increase in the price of oil would have a serious impact on the world financial structure.
> Ambassador Zahedi: There will be an increase. What would be moderate?
> GF: The only way we can reassure the world economy is to have no increase.
> AZ: That is not possible.
> GF: I am telling you the facts. Any increase would jeopardize the economy and no increase would be a shot in the arm. The next best thing would be a delay. Is that possible?
> AZ: Now, it is almost impossible. If it were done early in the fall — when Secretary Kissinger and I were joking about it — if you had asked for March, it would have been easy. But Secretary Kissinger said wait until after the election. I know how you spoke up for Iran [during the presidential campaign] and the Shah is deeply grateful. I don't believe any of the OPEC countries would agree to a delay because it would look like they were forced to.

78. National Security Adviser, Memoranda of Conversations, 11/29/76, folder "Ford, Saudi Ambassador Ali Alireza," Box 21, Brent Scowcroft Papers, Gerald R. Ford Library.

79. National Security Adviser, Memoranda of Conversations, 11/29/76, folder "Ford, Saudi Ambassador Ali Alireza," Box 21, Brent Scowcroft Papers, Gerald R. Ford Library.

80. National Security Adviser, Memoranda of Conversations, 12/3/76, folder "Ford, Kissinger," Box 21, Brent Scowcroft Papers, Gerald R. Ford Library.

> GF: That's why I asked you to come in quietly. I want to have no confrontation, and that is why this meeting is private. You say a delay or no increase is out of the question. Start with the Nigerian 40 percent. That would be catastrophic.[81]

Alan Greenspan joined the meeting. He explained to Ambassador Zahedi that the price increases of 1973 "were very destabilizing … It was possible to accommodate as well as we did because there was considerable lending flexibility, both among borrowers and lenders. Now, however, the flexibility has vanished. The international financial structure is stretched thin." Another big increase in oil prices could collapse business and investor confidence and fatally weaken the banking system. Ford added, "Any increase adds to the danger of a financial crisis, to failure in some governments, even to the danger of a military crisis."[82] The Ambassador said it was too late; they should expect a price increase of no less than 10%.

A cheerful Saudi Ambassador 'Abdullah 'Ali Alireza returned to the White House on Tuesday, December 14, bearing good news. The opening ceremonies of the OPEC meeting in Doha would be getting under way in a few hours. He wanted the President to know that his government was on board: the Saudis would not allow the price of oil to increase by more than 10% "and [we] are hoping for 6 or 7 percent. But with the attitude of the oil companies, a 5 percent increase is built in."[83] Ford expressed his deep gratitude.

The Saudis went even further than they promised. Yamani announced that his government wanted no price increase at all for 1977. With the exception of the United Arab Emirates, the other members of OPEC ignored him and unanimously approved a 10% increase in the price of oil for January 1977. This was to be followed by a further 5% increase at mid-year, meaning a combined 15% increase in oil prices for the coming year. Yamani stunned delegates with his response: Saudi Arabia would undercut the price offered by its competitors and boost its own domestic output from 8.6 million to 11.6 million barrels of oil a day. He made it clear that the Saudis, the world's biggest producer and exporter of petroleum, finally had become masters of their own house.[84] "Yamani went into the OPEC meeting intending to stick it to Iran," one US observer noted approvingly. "'We'll show the Shah who is boss of OPEC,' is what he was thinking."[85] At least in public, the Saudis may have had another audience in mind:

81. National Security Adviser, Memoranda of Conversations, 12/7/76, folder "Ford, CEA Chairman Greenspan, Iranian Ambassador Ardeshir Zahedi," Box 21, Brent Scowcroft Papers, Gerald R. Ford Library.

82. National Security Adviser, Memoranda of Conversations, 12/7/76, folder "Ford, CEA Chairman Greenspan, Iranian Ambassador Ardeshir Zahedi," Box 21, Brent Scowcroft Papers, Gerald R. Ford Library.

83. National Security Adviser, Memoranda of Conversations, 12/14/76, folder "Ford, Saudi Ambassador Ali Alireza," Box 21, Brent Scowcroft Papers, Gerald R. Ford Library.

84. The Saudis implemented a token 5% price increase. Thus their announcement in Doha signaled to the oil industry that Saudi petroleum would be sold at a price that was 10% cheaper than that of the other producers. See "Saudi Arabia's Oil Minister Urges A 6-Month Price Freeze For OPEC," *The New York Times*, December 15, 1976; "OPEC Is Likely To Lift Prices 5% to 10% If Mood of Moderation At Oil Talks Lasts," *The Wall Street Journal*, December 16, 1976; "Oil Cartel Sharply Split Over Issue of Price Hike," *The Los Angeles Times*, December 16, 1976; "Split In Opec Brings Two-Tier Oil Price Rises of 5% and 10%," *The Times*, December 17, 1976; "Saudi Arabia Flexes Its Economic Muscle, And the World Reacts," *The Wall Street Journal*, December 20, 1976.

85. "The Strain on OPEC," *Newsweek*, January 24, 1977, p. 47.

President-elect Jimmy Carter. "We expect the West, especially the United States, to appreciate what we did," Yamani bluntly told reporters as he flew out of Doha.[86]

JANUARY 1977: "WE MUST TIGHTEN OUR BELTS IF WE ARE TO SURVIVE"

In the Oval Office on January 4, 1977, Gerald Ford and Henry Kissinger looked ahead to their last few weeks in office. Kissinger was pleased with the outcome in Doha: "We should also get credit for what happened to the OPEC prices. I have said all along the Saudis were the key. Only they can raise production to make it stick. Our great diplomacy is what did it."[87] Ford made no comment.

The country most impacted by the cartel's inability to settle its price dispute was Iran. By late 1976 the Pahlavi regime faced a severe cash and credit crunch. Following the dramatic oil price increases of 1973, when Iran's treasury was flush with billions of surplus petrodollars, Shah Muhammad Reza Pahlavi had made the risky decision to pump oil revenues back into Iran's economy rather than invest them offshore.[88] In economics, as in foreign affairs, the Shah was a gambler. He was enamored with the "Big Push" theory which stipulated that developing countries could modernize their economies within a generation by spending their income rather than saving it. This fashionable concept fit perfectly with the Shah's imperial ambitions. In January 1974 he announced that within ten years Iran's standard of living would equal that of West Germany: Iran's forced march towards the Shah's "Great Civilization" got underway.[89] His high-risk strategy depended on Iran maintaining a high price for its oil and the government's ambitious Fifth Plan, which laid out spending patterns and priorities for the period 1973-78, was wholly determined on that basis. Overspending by Iran's military and government agencies was not only tolerated, but encouraged: by the spring of 1975 Iran was "was spending well in excess of its oil revenues; $30 billion worth of commitments had been made against $21 billion in revenues."[90]

In the heady days of early 1974, little thought was given to the very real possibility that global demand for high oil prices might slacken, leading to a slump in demand for Iran's oil. That, of course, is exactly what happened. Western economies hit by rocketing fuel costs slid into recession in 1974. Falling demand for oil and increased conservation

86. "Oil Price Rise Will Hold at 5%, Saudi Official Says," *The Los Angeles Times*, December 18, 1976.

87. Memoranda of Conversations, 1/4/77, folder "Ford, Kissinger," Box 21, National Security Adviser, Gerald R. Ford Library.

88. Analysis of the Shah's involvement in developing Iran's short- and long-range economic planning and fiscal policies, and his embrace of the "Big Push" economics theory, are discussed in Jahingir Amuzegar, *The Dynamics of the Iranian Revolution: The Pahlavis' Triumph and Tragedy* (Albany: State University of New York, 1991), Chapter 11, pp. 171-192 and Razavi and Vakil, *The Political Environment of Economic Planning in Iran, 1971-1983*, Chapter 4, pp. 61-99.

89. The Shah made his comments to Germany's *Der Spiegel*. The interview attracted widespread interest in the West. It was distributed in the United States by *The New York Times* Special Features and published in a variety of newspapers, including *The Washington Post* as "The New Power of Oil: An Interview With the Shah of Iran," *The Washington Post*, February 3, 1974.

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

measures in the United States, Europe, and Japan led to a worldwide petroleum glut that triggered sharp downturns in the Gulf states. Iran in particular was hit hard by the softening oil market. The Shah's "Big Push" ran into difficulties: the injection of tens of billions of petrodollars into a majority illiterate society and developing economy caused widespread distortions and disruptions. By 1976 Iran's cities were hit hard with food shortages, power blackouts, and transportation bottlenecks. Unskilled young Iranians from rural areas flocked to the cities in search of work; much of what they saw and experienced turned them against the regime. With the consumer price index doubling each year, inflationary pressures led to added strains on the economy and for individual Iranians.[91] By June 1975, when rioting broke out in the theological city of Qom, inflation was reckoned to be higher than 20%.[92] The government responded by imposing price controls and censoring its own inflation index.[93] Two months later inflation surpassed 30%.[94]

It was against this depressing socioeconomic backdrop that Muhammad Reza Pahlavi decided in 1976 to ease up on press censorship and curtail the activities of SAVAK, the security police. With his health failing, Iran's economy in shambles, and relations with his American allies deteriorating, the Shah may have felt that he had no choice. The Pahlavi state, running out of money and grappling with an economy described by the Shah's own Planning and Budget Organization as "out of control," was literally banking on the outcome of the December 1976 OPEC meeting in Doha to help Iran pay its bills, meet its external obligations, and maintain social services.[95] Doha represented a lifeline and bridge for the Shah during a challenging transition period. The Shah, no less than President Ford, had become a hostage to the fortunes of the oil market. It was little wonder, then, that the American and Saudi decision to torpedo the Doha summit and inadvertently cut the Shah's financial lifeline dealt such a grievous psychological blow. The Ford Administration, which had gone to great lengths to calculate the damage an increase in the price of oil would inflict on the American economy, apparently never attempted to measure the possible impact on the Shah and Iran's economy if the price rise did *not* go ahead. It was a stunning intelligence oversight, and one whose consequences became almost immediately apparent in Niavaran Palace in Tehran.

The collapse of the Doha summit, and the Saudi decision to undercut the price of Iranian crude *and* boost its output to try to flood the market, rushed the Iranian economy to the precipice. Iran's leaders had little time to react even as they appeared to grasp what

91. Ellis, "Iran's Race to Modernize Before the Oil Runs Out." Iran was hit by two types of inflation driven by "a shortage of goods relative to demand and steadily rising prices for the nation's burgeoning imports."

92. For an account of the Qom riots see Eric Pace, "Iranian Riots Reported as Militants Fight changes," *The New York Times*, June 11, 1975. Iran's 20% inflation rate was reported by the Associated Press and published in "Drop in Oil revenue Cited," *The New York Times*, June 17, 1975.

93. Razavi and Vakil, *The Political Environment of Economic Planning in Iran, 1971-1983*, pp. 88-89. The government's price control campaign infuriated the business community. An estimated 8-10,000 merchants and industrialists were arrested and charged with "profiteering." The price controls created further distortions in the economy.

94. Razavi and Vakil, *The Political Environment of Economic Planning in Iran, 1971-1983*, p. 82.

95. Indeed, according to economists Razavi and Vakil, Iran's economy was "out of control" as early as 1975. Government efforts to cool down the economy only made matters worse. Razavi and Vakil, *The Political Environment of Economic Planning in Iran, 1971-1983*, p. 83.

was happening. As the new year of 1977 dawned, Iran's daily oil sales plunged an estimated 2 million barrels a day.[96] Court Minister Asadollah Alam, the Shah's closest aide, made the following bleak observation in his diary: "We have squandered every cent we had only to be checkmated by a single move from Saudi Arabia."[97] In a letter to the Shah dated January 16, 1977, Alam painted a bleak year ahead: "Your Majesty, we are now in dire financial peril and must tighten our belts if we are to survive."[98] In early February, Prime Minister Amir Abbas Hoveyda confided to Alam that "he senses an atmosphere of unease in the country, though he can't tell exactly what's at the root of it."[99] By April Alam saw "Dreadful portents everywhere."[100] A month later he recorded the Shah's displeasure at reading a German news report describing an Iran that was "close to boiling point."[101] In London, *The Times* editorialized that Iran's economy showed signs of skidding "towards total chaos, and there were dangerous symptoms of social unrest."[102]

By March 1977, the government's Fifth Plan had all but been abandoned; its optimistic estimates, goals, and charts rendered "inoperable."[103] In addition to a freeze imposed on government spending, the abrupt decline in Iran's oil revenues forced the regime to mount a sweeping review of arms purchases from the United States. Prestige projects, such as the proposed naval base in Chahbahar, were shelved.[104] In August 1977 the Shah replaced Prime Minister Hoveyda with his Oil Minister, Jamshid Amuzegar. That summer Iran's unofficial inflation rate was calculated at between 30 and 40%, while industrial production declined by an estimated 50%.[105] The new Prime Minister's bold attempt to cool the economy created its own problems. Amuzegar's harsh deflationary program, which included cutting subsidies to such powerful interest groups as Iran's mullahs, threw many unskilled laborers out of work, angered many Iranians, and panicked the middle classes.[106] Foreign correspondents in Tehran during this period re-

96. "Iran reports Exports of Oil Decline 34.7%," *The New York Times*, January 12, 1977, p. 66.

97. Alam, *The Shah and I*, p. 537.

98. Alam, *The Shah and I*, p. 537.

99. Alam, *The Shah and I*, p. 538.

100. Alam, *The Shah and I*, p. 539.

101. Alam, *The Shah and I*, p. 541.

102. "Growing Pains in Iran," *The Times of London*, January 5, 1977, p. 13.

103. Amuzegar, *The Dynamics of the Iranian Revolution: The Pahlavis' Triumph and Tragedy*, p. 180.

104. Eric Pace, "Iran Said To Review Arms Buying In U.S. Because of Oil Lag," *The New York Times*, February 9, 1977.

105. Joe Alex Morris Jr., "Is It For Real? New Broom Stirs Lots of Dust in Iran," *The Los Angeles Times*, October 7, 1977. In the same article former Prime Minister Hoveyda is quoted as saying of the post-1973 Big Push, "We went too fast."

106. Prime Minister Jamshid Amuzegar's predecessor, Amir Abbas Hoveyda, was executed in the upheaval that followed the revolution. Hoveyda's brother, Fereydoun Hoveyda, then Iran's Ambassador to the United Nations, recalled in his memoirs that "Amuzegar put a squeeze on credit and made spectacular cuts in public spending." Amuzegar's enthusiasm for budget cutting extended to "the funding that my brother had made available for religious purposes, amounting to about eleven million dollars a year. This money, charged against the secret budget of the Prime Minister, was used to finance the upkeep of the country's mosques and Koranic schools, as well as for other expenses … These grants were for the benefit of all the clergy, including the supporters of Khomeini." Unlike the wily Hoveyda, Jamshid Amuzegar had no populist instincts. Fereydoun Hoveyda, *The Fall of the Shah,* Translated by Roger Liddell (New York: Wyndham Books, 1979), p. 84.

marked on the large numbers of young, unemployed males walking around the streets of Tehran.[107] Unemployment figures for Iran in 1976-77 were incomplete and unreliable, but a subsequent study of Iran's pre-revolutionary labor market by James Scoville concluded: "By the late 1970s, the urban labor market was a shambles. Unskilled migrants had been pouring into the cities, especially Tehran; manufacturing jobs had failed totally to keep pace; the number of unemployed and underemployed had soared. Several million unemployed and grossly underemployed, many of them recent migrants, were roaming the streets of Iran's cities. In such a context, the world recession and changing development policy had disastrous effects."[108] Historian Nikkie Keddie writes, "The sudden growth in unemployment, especially among the unskilled and semiskilled, and this, coming after rising expectations, helped create a classic pre-revolutionary situation."[109] Nor did the end of OPEC's two-tier pricing system in July 1977 provide much solace. Although Saudi Arabia had largely failed in its attempt to flood the market, it did manage to pump enough oil to keep prices flat for the rest of the year.

The showdown at Doha between Iran and Saudi Arabia also marked a turning point in America's complex relations with both conservative monarchies and the end of the Nixon-Kissinger "two pillar" strategy of defending the Gulf from radical subversion. Iran had been replaced in America's affections by the more compliant Saudis. The Shah's refusal to bend in the months leading up to Doha, and the Saudis' willingness to sacrifice profits and prestige within the Arab world, earned the gratitude of the Washington foreign policy establishment. A flurry of articles appeared in America's major dailies with the sort of headlines that had once applied to Iran under Muhammad Reza Pahlavi. "SAUDI ARABIA COMES OF AGE,"[110] declared *The Los Angeles Times*. *The New York Times* described Shaykh Yamani as the "Talleyrand of the Oil World" and informed its readers that a new power had come of age in the Middle East: "SAUDI INFLUENCE IS GROWING."[111] An American with "deep roots" in Saudi Arabia declared forcefully that the desert kingdom "is the best goddamn base we have ever had."[112] Within a remarkably brief period of time, the Saudis had eclipsed Iran as America's most loyal ally in the Gulf.

107. Throughout 1976 and 1977, foreign correspondents for *The Financial Times*, *The Times of London*, *The New York Times*, *The Washington Post*, *The Los Angeles Times*, and *The Christian Science Monitor* all contributed reports remarking on the destabilizing impact of high inflation and high unemployment in Iranian cities. But many of their bylined articles were relegated to their respective newspapers' business pages instead of the world news pages that would have garnered more attention from diplomats in Tehran and policymakers back in Washington, DC. It is worth considering for a moment that had decision-makers back in Washington considered the political and socioeconomic ramifications of what they were reading in their newspapers' business pages, they may have reacted to events in Iran in a different context.

108. James G. Scoville, "The Labor Market in Prerevolutionary Iran," *Economic Development and Social Change*, Vol. 34, No. 1 (October 1985), pp. 52-53.

109. Keddie, *Roots of Revolution: An Interpretive History of Modern Iran*, p. 177.

110. Joe Alex Morris, Jr., "Saudi Arabia Comes of Age in Arab Politics," *The Los Angeles Times*, February 2, 1977.

111. Flora Lewis, "Saudis Influence Is Growing," *The New York Times*, January 30, 1977.

112. Paul Martin, "Getting Stronger, 'The Best Base America Has Ever Had' in Saudi Arabia," *The Times*, February 21, 1977.