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HEGEMONIC COOPERATION IN THE POSTWAR ERA

Chapter 1 observed that Realist and Institutionalist theories were both able to account for the order that characterized the world political economy during the twenty years after World War II, but that they did so in very different ways. Institutionalism emphasized the role of shared interests created by economic interdependence and the effects of institutions; Realism stressed the impact of American hegemony. Both perspectives are valuable but incomplete. A synthesis of Realism and Institutionalism is necessary.

Part II sought such a synthesis at the theoretical level. Chapters 5 and 6 constructed a functional theory of international regimes on rational-choice foundations. This theory reaches some of the same conclusions as the Institutionalist position discussed in chapter 1; but it does so on a different basis—indeed, on the premises of Realism itself. Rational, self-interested actors, in a situation of interdependence, will value international regimes as a way of increasing their ability to make mutually beneficial agreements with one another. In chapter 7 I tried to show that this account gained further plausibility by relaxing the assumption of rationality, and that additional insights could be achieved by questioning the premise of egoism as well.

Part III, beginning with this chapter, also seeks to synthesize Realist and Institutionalist perspectives. In this Part, however, I do so not abstractly but by using the concepts of power, interest, hegemony, cooperation, and international regime to understand the international political economy of our own era. Chapter 8 shows the complementarity of hegemony and cooperation in the postwar period: American power helped to create cooperation, partly through constructing international regimes that could organize interstate relations along lines preferred by the United States. Chapter 9, which discusses the decline of hegemonic international economic regimes after the mid-1960s, demonstrates that the theory of hegemonic stability yields some valuable insights about this process; but the argument of this chapter also suggests the inadequacy of this or any other explanation that relies exclusively on changes in power to account for changes in patterns of cooperation. As the theory developed in Part II would have anticipated, international regimes have tended to persist longer than

they would have if the theory of hegemonic stability were correct. Chapter 10 shows that the newest major international economic regime linking the advanced industrialized countries—the International Energy Agency (IEA)—performs in a way that is consistent with the argument of Part II, although within a framework established by the structure of world power.

The Argument of This Chapter

Powerful states seek to construct international political economies that suit their interests and their ideologies. But as we have noted, converting resources into outcomes is far from automatic in world politics. Even the highly qualified neo-Realist position adopted in chapter 3, that hegemony can facilitate cooperation, therefore requires an answer to the question of how hegemons translate their resources, both material and ideological, into rules for the system. How does the hegemon construct international regimes that facilitate the "right kind" of cooperation from the standpoint of the hegemon itself? That is, how does hegemonic leadership operate?[1]

This question is posed by Realism's emphasis on power, so I begin my analysis there. But in explaining changes in the world political economy, I emphasize the economic sources of power discussed in chapter 3 rather than military force. Sufficient military power to protect an international political economy from incursions by hostile powers is indeed a necessary condition for successful hegemony. Since World War II the United States has maintained such power, pursuing a strategy of "containment" of the Soviet Union. In the shelter of its military strength, the United States constructed a liberal-capitalist world

[1] Fred Hirsch and Michael Doyle characterize hegemonic leadership as involving "a mix of cooperation and control" (1977, p. 27). Klaus Knorr has described a similar process with the term "patronal leadership," referring to a pattern characterized by a "reciprocal flow of benefits and the absence of coercion in the hold that the patronal leader has over his client states" (1975, p. 25). In his terminology, the U.S. establishment of the Marshall Plan "was the act of a patron state" (pp. 25-26). Although I agree with the substance of Knorr's argument, I prefer Hirsch and Doyle's phrase "hegemonic leadership" because it implies that coercion is still an element of control, even though it remains in the background. "Patronal leadership" seems to understate the extent to which a leading power, such as the United States after World War II, needs to dominate others and to expropriate resources. "Hegemonic leadership," when distinguished from imperial rule, conveys the combination of paternalistic redistribution and authoritative control that is the distinctive mark of a system of independent states dominated and led by a single power.

political economy based on multilateral principles and embodying rules that the United States approved. American leadership in the world political economy did not exist in isolation from NATO, and in these years each was reinforced by the other. European anxiety that the United States might withdraw its protection provided an incentive, especially for the German government, to conform to American wishes. Nevertheless, at least for the twenty or so years following World War II, what Richard N. Cooper (1972-73) has called a "two-track" system prevailed: economic issues were rarely explicitly linked to military ones in relations between the United States and its allies. American military power served as a shield protecting the international political economy that it dominated, and it remained an important factor in the background of bargaining on economic issues; but it did not frequently impinge directly on such bargaining. Thus, as argued in chapter 3, it is justifiable to focus principally on the political economy of the advanced industrialized countries without continually taking into account the politics of international security. Of course, it would be highly desirable, in another study, to analyze the linkages between economic and security affairs in more detail.

We explore in detail the characteristics of economic power resources in the postwar world, and how their distribution and use changed over time. But to answer our questions about the operation of hegemonic cooperation, we must also think about interests and institutions. Hegemonic leadership does not begin with a *tabula rasa*, but rather builds on the interests of states. The hegemon seeks to persuade others to conform to its vision of world order and to defer to its leadership. American hegemonic leadership in the postwar period presupposed a rough consensus in the North Atlantic area, and later with Japan, on the maintenance of international capitalism, as opposed to socialism or a pattern of semi-autarchic national capitalisms (Block, 1977). This consensus can be viewed, in Gramscian terms, as the acceptance by its partners of the ideological hegemony of the United States. Such acceptance rested, in turn, on the belief of leaders of secondary states that they were benefiting from the structure of order that was being created. There was thus a high degree of perceived complementarity between the United States and its partners. The United States sought to reinforce this sense of complementarity by creating international regimes that would provide specific benefits to its partners as well as reduce uncertainty and otherwise encourage cooperation.

Hegemonic power and the international regimes established under conditions of hegemony combine to facilitate cooperation. Hegemony

itself reduces transaction costs and mitigates uncertainty, since each ally can deal with the hegemon and expect it to ensure consistency for the system as a whole. The formation of international regimes can ensure legitimacy for the standards of behavior that the hegemon plays a key role in maintaining. In the areas of money and trade, where their allies' cooperation was necessary, American leaders therefore invested resources in building stable international arrangements with known rules. It made sense for the United States to bind itself, as well as others, in order to induce weaker states to agree to follow the American lead.

American leaders did not construct hegemonic regimes simply by commanding their weaker partners to behave in prescribed ways. On the contrary, they had to search for mutual interests with their partners, and they had to make some adjustments themselves in addition to demanding that others conform to their design. They had to invest some of their power resources in the building of institutions. In so doing, they encountered numerous frustrations. As William Diebold has reminded us, "we have no memoirs called 'my days as a happy hegemon' " (1983, p. 3). It is important not to exaggerate the ease with which the United States could make and enforce the rules. Yet the United States ultimately succeeded in attaining its crucial objectives, if not by one expedient, then by another. Frustrations on particular issues melded into a rewarding overall pattern of hegemonic cooperation. Simplistic notions of hegemony as either complete dominance or selfless, dedicated leadership hinder rather than promote historical understanding.

Although Henry Luce foresaw an American Century, the period of hegemonic cooperation premised on a common commitment to openness and nondiscrimination lasted only about twenty years. This era began in 1947, the year of the Truman Doctrine and the Marshall Plan. It was already fading on some issues by 1963, the year of the Interest Equalization Tax, the first attempt by the United States to protect the status of the dollar against the consequences of the open world economy that it had struggled to create. In oil and trade, the first signs of new selective protectionist initiatives had already appeared. Mandatory oil import quotas were imposed in 1959, and in 1961 the United States secured a Short-Term Agreement on Cotton Textiles, which led eventually to a series of restrictive agreements on textile fibers. On some issues, such as tariff reductions, the 1960s witnessed further liberalization. But by 1971, when the United States broke the link between the dollar and gold, it was clear that something fundamental had changed. Exact dating is arbitrary. In this chapter

we focus on the twenty years or so after 1947, and especially on the 1950s, to discover how hegemonic cooperation operated. Whichever date between 1963 and 1971 were chosen, it would still be clear that one of the most important features of American hegemony was its brevity.

At the end of World War II the United States was clearly the leading power in the world political economy, with respect to each of the resources discussed in chapter 3 as essential to hegemony: productivity in manufacturing and control over capital, markets, and raw materials. The United States used many of these resources after the war to gain what Albert Hirschman (1945/1980) has referred to as an "influence effect" of supplying something valuable to another country. Specifically, American influence rested on three major sets of benefits that its partners received from joining American-centered regimes and deferring to U.S. leadership:

1) *A stable international monetary system*, designed to facilitate liberal international trade and payments. This implied that the United States would manage the monetary system in a responsible way, providing sufficient but not excessive international liquidity.

2) *Provision of open markets for goods*. The United States actively worked to reduce tariffs and took the lead in pressing for the removal of discriminatory restrictions, although it tolerated regional discrimination by European countries and permitted the Europeans to maintain temporary postwar barriers during the period of dollar shortage.

3) *Access to oil at stable prices*. The United States, and American companies, provided oil to Europe and Japan from the Middle East, where U.S. oil corporations held sway, and in emergencies such as 1956-57 from the United States itself.

It is conventional to bracket trade and money together as the two crucial areas of the world political economy. American policymakers believed that they needed to build a consistent pattern of rules in international trade and finance. In particular, they thought that their efforts to construct a satisfactory international political economy based on nondiscrimination in trade depended on successful establishment of currency convertibility at stable exchange rates in international finance (Gardner, 1983). Trade and finance are traditionally regarded as the foundations of the Americanocentric world system, in part because in those areas the United States sought to establish international regimes characterized by formal agreements and institutional structures, and in part, I suspect, because until 1973 Americans took stable, cheap energy for granted.

It is less common to expand the trade-money pair to a trilogy including oil. Yet oil has been for decades by far the most important raw material involved in international trade, and it was particularly significant for economic recovery and growth in Western Europe and Japan after World War II. The open, nondiscriminatory monetary and trade system that the United States sought depended on growth and prosperity in other capitalist countries, which in turn depended on readily available, reasonably priced imports of petroleum, principally from the Middle East. In a material sense, oil was at the center of the redistributive system of American hegemony. In Saudi Arabia, and to a lesser extent in other areas of the Persian Gulf, major U.S. oil companies benefited from special relationships between the United States and the producing countries and from the protection and support of the American government. Most Middle Eastern oil did not flow to the United States, but went to Europe and Japan at prices well below the opportunity costs of substitutes, and even below the protected American domestic price. Even though the United States never established a formal international regime for petroleum, oil was of central importance to the world political economy.

During and after World War II the United States sought to construct formal international regimes not only in money and trade but also in oil. All three initial efforts to do so failed, at least in the short run. The United States reacted to the initial weakness of the International Monetary Fund (IMF) and the failure of the British Loan of 1946 by instituting the Marshall Plan, supporting the European Payments Union (EPU), then eventually reconstituting an international monetary regime with the IMF at its center. The United States compensated for the defeat of the International Trade Organization (ITO) by supporting the General Agreement on Tariffs and Trade (GATT). But, in oil, initial defeat at the hands of the Senate led not to a new multilateral accord but to increasing reliance by the U.S. government on the international oil companies and the international regime that they dominated. As we will see, domestic politics constituted a crucial factor affecting this outcome.

Since no international regime with broad membership was established in oil, this issue-area constitutes a challenge to the theories presented in Part II, which imply that a hegemonic power should seek to institute international regimes on an intergovernmental basis as a way of helping to control the actions of other states. Oil is the apparent exception that tests this rule. The fact that American leaders sought such a regime, and were only thwarted from establishing one by the

the executive branch—did indeed have the incentives that the theory predicts. Domestic politics, however, got in the way.

The historical discussion in this chapter begins with money and trade. Then we will consider, in detail, five episodes within the international political economy of petroleum. Four of these involved the international exercise of political influence: American efforts to control Arab oil between 1943 and 1948, which included plans for an Anglo-American Petroleum Agreement in 1943-45; the sterling-dollar oil problem of 1949-50; British and American intervention in Iran between 1951 and 1954, including the formation of the Iranian Consortium in the latter year; and the Emergency Oil Lift Program implemented by the United States in the wake of the abortive Anglo-French invasion of Egypt in 1956. Taken together, these cases demonstrate that the American dominance of international oil was neither an accident nor a product of absent-mindedness, but rather the result of careful strategic planning by both governmental and corporate officials, with the government often taking the lead. Furthermore, the control of oil was a major political resource for the United States in its dealings with Europe, as the aftermath of the Suez crisis showed.

American hegemony in petroleum politics rested on multiple sources of influence, including close political ties with the Saudi monarchy, the capacity to intervene in the domestic politics of Middle Eastern countries, military and technical aid provided to Iran, Saudi Arabia, and other oil-producing countries, the preponderant military strength of the United States in the Mediterranean, and—not least—the continued availability of excess petroleum production capacity at home. There was, however, a ghost at the feast: the shadow cast by the political influence in the United States of its own domestic oil industry. Members of the industry defeated the scheme for an Anglo-American Petroleum Agreement and provided the major stumbling-block to effective use of hegemonic power during the Suez crisis. The most debilitating effects of industry influence were felt through the Mandatory Oil Import Program instituted by the United States in 1959 and maintained until 1973: under the guise of protecting American security, this program "drained America first." We need to understand the origins of this program to understand how, even at the height of American power, the seeds of decay had been planted. The oil import program therefore constitutes our fifth case.

Hegemonic Cooperation in Finance and Trade

At a United Nations conference held at Bretton Woods, New Hamp-

to form an International Monetary Fund (IMF) and an International Bank for Reconstruction and Development (IBRD), later known as the World Bank. The IMF was the institutional center of a new international monetary regime, designed principally by British and American planners led by John Maynard Keynes and Harry Dexter White, that was to facilitate liberal trade and payments in the postwar world. U.S. leaders hoped that establishment of multilateral rules for the world economy—plans were also under way for an International Trade Organization—would make it unnecessary for the United States to provide large and continuing aid, or to intervene frequently to maintain financial equilibrium. Like Newton's deity—which set the celestial machinery in motion but which refrained from interfering in its operation—the United States, having established multilateralism, would return to the background and let the financial system operate smoothly through a combination of markets and international agreement.

Yet by 1947 it had become clear that the European economies were too weak for this vision of easy multilateralism to be realized. Indeed, the harsh winter of 1946-47 raised the specter of European economic collapse. Problems of internal reconstruction were compounded by an acute global shortage of dollars, which threatened to cripple world trade and certainly hampered the ability of U.S. firms to export their goods to countries desperately in need of them. U.S. officials worried about the possibility that economic distress in Europe could lead to attempts at autarchic national capitalism or even communism, both of which would be antithetical to American plans.

Responding to what it saw as a crisis, the Truman Administration changed its policy during the course of 1947 from one of demanding quick sterling convertibility (unsuccessfully attempted in the summer of 1947) on the basis of loans from the United States to provision of billions of dollars' worth of grant aid to Europe, under what became known as the Marshall Plan. This aid was administered by the Economic Cooperation Agency (ECA), which was much more sympathetic to European interests and policies than the Treasury, which had managed the relatively tough provisions of the British Loan of 1946. These new, bold measures overshadowed the young IMF, which "engaged in virtually no exchange operations during the early years of the Marshall Plan" (Gardner, 1956/1980, p. 303).

The United States thus turned from its intention of being a passive, rather tightfisted hegemon—able without much continuing effort to make and enforce rules for a liberal and nondiscriminatory world economy—to becoming an active and relatively openhanded one. Hegemony "on the cheap" no longer seeming realistic, the United States adjusted to European weakness by providing huge resources through the Marshall Plan. By doing so, it provided itself with the political leverage to achieve hegemonic cooperation in an operational sense. That is, the United States could use the influence provided by European reliance on its aid to take the lead in creating and maintaining a new set of post-Bretton Woods rules for the world financial system. Yet these rules had to take account of political and economic realities. As we have seen, they could not simply be imposed by the United States, nor could they simply be established and allowed to implement themselves. On the contrary, maintaining control of the rule-making process required a delicate and continuous combination of intervention and negotiation.

Not only did the American government have to negotiate with the Europeans, it also had to persuade Congress to appropriate the funds that would provide it with the means of influence. In this task it was greatly aided by the clumsiness of Soviet policy under Stalin, since the increasing perception of a Soviet military as well as political threat helped to rally support for President Harry Truman's program in Congress. Historians of various schools have emphasized the importance of the Cold War for the Marshall Plan. Truman is reported to have said that the Marshall Plan and the Truman Doctrine, which began the formal policy of containment, were "two halves of the same walnut" (LaFeber, 1972, p. 53). Later this symbiotic relationship continued as the post-Marshall Plan flow of dollars to Europe was maintained through rearmament programs after the beginning of the Korean War (Block, 1977, p. 107 and pp. 242-43, n. 91).

Along with their plans for a liberal international monetary regime, U.S. officials during World War II had also developed schemes for an International Trade Organization (ITO), which would institutionalize nondiscriminatory trade on a global basis. The first proposals for an ITO were developed by American and British negotiators in 1943 (Gardner, 1956/1980, pp. 103-109) and were nursed, largely by Americans, through a series of protracted and difficult negotiations, culminating in the Havana Conference held in early 1948. At Havana differences appeared on discrimination, on provisions for private capital movement, and on how broad a scope developing countries should have to impose quantitative restrictions on trade (Gardner, 1956/1980, pp. 361-68). Nevertheless, final agreement on the Charter was reached in March of 1948. The proposed ITO was carefully designed not to infringe on delicate issues of state sovereignty, but to be more flexible and ambiguous than a traditional legal system. "The coercive force of

the ITO legal system rested almost entirely in an escalated series of normative pressures—at root, the obloquy of having done something wrong," rather than on sanctions as such (Hudec, 1975, p. 30). But the ITO was given a "second-rate funeral," rejected by the U.S. Senate without even a vote (Hudec, 1975, pp. 53-54). American business objected to the lack of a complete ban on new preferences and quantitative restrictions, and to provisions that made allowance for economic planning and state trading (Brown, 1950, pp. 362-75). The U.S. Chamber of Commerce, in April of 1948, had demanded "positive declarations in behalf of the maintenance of private initiative and enterprise in world commerce" (Brown, 1950, p. 370). When such provisions were not adopted, organized American business interests opposed the ITO. As William Diebold says, the ITO was defeated because of "an investment code unwisely asked for by American business and then opposed by the same people" (1983, p. 6). Even at the height of American economic preponderance, resistance to U.S. liberalism by other countries and ideological cross-pressures at home destroyed prospects for what one of its chief architects called a "charter for world trade" (Wilcox, 1949).

Thus, by the end of the 1940s, the monetary and trade regimes designed during World War II were either ignored or in ruins. The IMF was inactive and the ITO was dead. Yet although the institutions envisaged by the wartime planners did not live up to the hopes of their inventors, the United States was able to achieve its essential purposes in other ways. As we have seen, the Marshall Plan provided Europe with dollars and the goods that only dollars could buy. At the same time, other institutional innovations appeared, designed to provide the nondiscriminatory liberalization that had been the goal of the IMF and the ITO.

On the financial side, the United States, led by the ECA, pushed for a European Payments Union (EPU), which was agreed upon in the late summer of 1950. The EPU was an institutional response to the shortage of dollars that was restricting trade and hampering economic recovery: it complemented the Marshall Plan by reducing the need for dollars and increasing the efficiency with which scarce resources were used. The first reaction of governments to the dollar shortage had been some two hundred bilateral agreements negotiated by European countries in the first two years after the war. Although these arrangements were preferable in terms of efficiency to straight barter deals, they distorted trade by virtually requiring bilateral balancing of accounts. A multilateral payments union could improve efficiency by summing up each country's surpluses and deficits vis-à-vis other members of the

group and arriving at a single figure. Thus if Germany had a surplus with France but a deficit of equal size with Italy, while France had a similar surplus with Italy, these accounts could be balanced on a multilateral basis, whereas strict bilateral balancing would require distortion of trade patterns (Patterson, 1966, pp. 75-83). In the language of chapter 6, the EPU drastically reduced the transaction costs associated with financing intra-European trade.

The United States proposed the EPU and succeeded in getting it established over British opposition, going so far as to indicate at one point that it was willing to support the EPU with dollars even if several countries opted not to join (Triffin, 1957, p. 166). American enthusiasm for the EPU was accounted for partly by its superior economic efficiency compared to bilateral arrangements, but it was also seen as a way of promoting intra-European trade as a step toward eventual European participation in a liberal world economy. "The EPU was the key element in what was seen as a gradual evolutionary process that would take Europe from bilateralism to full multilateralism" (Block, 1977, p. 100). Although it was a financial arrangement, the importance of trade was underlined by the fact that the EPU was coupled with a Code of the Liberalization of Trade, sponsored by the Organization for European Economic Cooperation (OEEC), which provided for almost immediate elimination of most quantitative import restrictions covering intra-European trade (Mikesell, 1954, p. 130). The United States and its European partners both recognized that trade and payments had to be liberalized together, if this were to be done successfully at all.

In the short term, however, the EPU did not promote liberalization. On the contrary, it legitimated discrimination against American exports, which was encouraged both by the shortage of dollars and the availability of the EPU's multilateral clearing arrangements within Europe. And the EPU provided no guarantees that the European system would dissolve into the global multilateralism that the United States desired. The Treasury Department grumbled about this on the grounds that the EPU would lead to new vested interests that would support a continuation of its controls: "Europe would become a high inflation area, largely insulated from trade with the United States" (Block, 1977, p. 101). Opposition to the EPU was also strong in the IMF (Patterson, 1966, pp. 113-19). But, in the absence of a positive program of their own, the pessimists could not prevail.

Subsequent events justified the confidence of the optimists. The EPU did not foster inflation, and when European economies became strong enough to move toward currency convertibility in the middle of the

decade, it was dissolved. On the whole, one authority holds, the EPU and associated trade arrangements "probably did facilitate the movement toward convertibility and nondiscrimination in trade" (Patterson, 1966, p. 111).

The most remarkable aspect of the Marshall Plan and the EPU is that the United States gave up its usual demands for reciprocity. Marshall Plan aid consisted of grants, not loans: the European countries had to get together to ask for the money on the basis of an agreed plan, but they did not have to reciprocate American benefactions. Similarly, the EPU was an agreement made on the basis of faith in the future, rather than in return for a direct *quid pro quo* by the Europeans. In 1950 Europe had little to give except promises of good faith; insistence on a fair exchange in the short term would have meant no agreement at all. So the United States farsightedly made short-term sacrifices—in giving financial aid and in permitting discrimination against American exports—in order to accomplish the longer-term objective of creating a stable and prosperous international economic order in which liberal capitalism would prevail and American influence would be predominant. Perhaps American leaders, like Marshall Sahlins's "stone-age economists" whom we encountered in chapter 7, expected that receipt of unrequited gifts would create "a diffuse obligation to reciprocate" on the part of the recipients. Surely some of them also felt empathy for Europe's plight. Whatever their motivations, American leaders saw that risks had to be run to make progress, but the extent of these risks was limited by the enormous resources at the disposal of the U.S. government. For the foreseeable future, the combination of European need for American military protection and the dollar shortage would give the United States a great deal of continuing leverage over the evolution of European policies. The United States could take the long view precisely because it had the power to shape the future. Awareness of its hegemony was therefore the foundation on which American generosity rested.

It is important to recognize that the U.S. policies put into effect most dramatically with the Marshall Plan in 1947-48, and followed later by the EPU, represented an attempt to achieve long-standing American aims in new ways, rather than an abandonment of earlier policy objectives. As Fred Hirsch and Michael Doyle have pointed out (1977, pp. 31-32):

> The United States—by providing massive additional *financing* and accepting trade and payments liberalization by *stages*—saved rather than abandoned its earlier objective of ultimate multilaterialism in 1947-48. Such a policy was then possible because of the fundamental characteristic of the international political economy of the time: United States leadership on the basis of only qualified hegemony. The strategy, as is well known, was a major success: the moves toward progressive regional liberalization, undertaken by European economies that were strengthened by the aid injections, paved the way for a painless adoption of multilateralism at the end of the 1950s, with the moves to currency convertibility and the ending of trade discrimination against dollar imports.

If there was change in the 1947-48 period, particularly in U.S. willingness to finance European recovery and to tolerate European discrimination against American exports, there was also continuity. After the failure of the U.S. Senate to ratify the ITO, the American government sought to achieve the same nondiscriminatory and liberalizing objectives through the General Agreement on Tariffs and Trade (GATT), which had been envisaged as merely a provisional arrangement until the ITO could be established. GATT had been negotiated and signed in 1947 as a temporary agreement that incorporated the draft Commercial Policy Chapter of the ITO as it then stood, with some differences reflecting the predominant role of the major powers at the GATT conference and the lessened need, as compared with the ITO conference, to make concessions to less developed countries. Owing to its presumed temporary nature, governments only accepted GATT provisions "provisionally," and GATT was not made into a formal international organization. The General Agreement refers neither to GATT as an organization nor to the concept of membership (Dam, 1970, p. 335).

Despite its inauspicious beginnings, GATT was remarkably successful during the 1950s, being transformed from a mere multilateral agreement providing for "joint action" by its Contracting Parties into the centerpiece of a new international trade regime. It remained highly informal, in a successful effort to avoid running afoul of the U.S. Congress's sensitivity to international organizations designed to liberalize trade. Indeed, the spelling of Contracting Parties in capital letters "was to be the sole indication of a collective identity. Every other hint of organizational existence was ruthlessly hunted down and exterminated" (Hudec, 1975, p. 46). GATT proceeded to operate not on the basis of centralized decisionmaking and enforcement, but with the aid of workable informal procedures based on the "sense of authoritative certainty" possessed by key participants. They knew what they had meant when the rules were written, even if the rules them-

selves were ambiguous! This sense of certainty "gave GATT administrators both the confidence and the community support needed to interpret GATT law in a manner that would bring out the basic policies and objectives underlying the written text" (Hudec, 1975, p. 103). A small but highly competent and imaginative secretariat was created under the leadership of Eric Wyndham White. Except when domestic politics interfered—as, most markedly, in agricultural trade policy—the United States was highly supportive of GATT's efforts to facilitate liberalization.

If the failure of the ITO reflected the difficulties of securing a formal international agreement that could command support in the United States, the success of GATT was indicative of the conditions facilitating successful hegemonic cooperation. GATT had an appropriate institutional design, which stressed reduction of uncertainty and decentralized coordination rather than centralized rule-enforcement. This helped the organization to avoid damaging symbolic struggles about its authority relative to that of member governments. In addition, GATT benefited from the resourcefulness of U.S. officials, the extent of American power, and the value of the ideological consensus that existed among the liberally oriented governments solidly established in Europe after 1947. GATT's effectiveness in the 1950s suggests how hegemonic cooperation can work.

The United States was willing not only to support European efforts at trade liberalization, but to pressure reluctant European governments to go farther, faster. One of the most striking examples of hegemonic leadership for this purpose is provided by American efforts, dating from 1949, to persuade its reluctant European partners to give most-favored-nation treatment to Japan. From the autumn of 1951 onward Japan sought, with American support, to be allowed to join GATT. The struggle was long and difficult: Britain in 1951 even opposed allowing Japan to send an official observer to GATT; in 1953 it was finally agreed that Japan could participate in GATT without a vote; and in 1955 Japan became a Contracting Party. Even then other members that accounted for 40 percent of Japan's exports immediately invoked Article 35, making GATT's nondiscrimination provisions inapplicable to their relations with Japan. For a decade the United States helped Japan persuade other GATT members to disinvoke Article 35; this was accomplished for all major trading partners by the mid-1960s.

American policy was based on a combination of political and economic calculations. If Japan were to prosper, it would need to trade with other industrialized countries; hence American markets must be open to Japanese exports. Given this politically determined necessity,

discriminatory restrictions imposed on Japan by other nations would result in a heavier burden placed on the United States: goods not imported by others would have to be absorbed by the American market. Since the United States, as leader, was resolved to keep Japan in the American-led system, it had strong incentives to persuade or pressure its allies into helping out. "Free world interest" combined with U.S. interests to mandate a strategy of liberalization and incorporation of Japan into the European–American political economy (Patterson, 1966, pp. 271-305).

The American campaign against discrimination was rendered ambiguous by the fact that the United States supported the creation of the European Economic Community (EEC) in 1958. The existence of the EEC, of course, entailed discrimination by the Community against exports from outsiders, including the United States. Nevertheless, both for political reasons and because of a belief that European integration would contribute to economic growth and therefore to world trade, the United States endorsed this process. Indeed, at least until the end of the 1950s it was widely believed that the EEC would, on balance, contribute to lower trade barriers, although during the 1960s increasing concern was expressed about the possibility that the European Community would lead as much to protectionism and discrimination as to liberalization (Patterson, 1966, pp. 181-88). Eventually EEC policy, particularly its association agreements with other countries, led to a number of new disputes about discrimination that became increasingly acrimonious in the early 1970s and 1980s under the pressure of economic stagnation and structural changes in world production and trade. But until at least the mid-1960s the American policy of allowing a great deal of scope for European integration, even at the expense of immediate liberalization, seemed to be a clear success.

On the monetary side, the late 1950s and the early 1960s were also years of apparent triumph and high expectations for the future. After 1958 the international monetary regime established at Bretton Woods finally began to operate as it had been meant to by its founders. European currencies became formally convertible into dollars, and the IMF became the central international organization in a par-value international monetary regime. The dollar was linked to gold at a fixed price of $35 per ounce, and the currencies of other countries belonging to the regime were pegged to the dollar at fixed rates of exchange. Exchange rates could be altered, supposedly after consultations in the IMF, but they rarely were (although the requirement of consultation was more avoided than honored). The certainty provided by the par-value system seemed to contribute, along with

the GATT-centered trade regime, to the growth of world trade, which was remarkably rapid during this period. Both in money and in trade, the twin American goals of liberalization and nondiscrimination had been achieved, not through simple implementation of the Bretton Woods blueprint, but through an incremental and nonlinear process involving "two steps forward, one step back." In the years after 1958 international economic cooperation flourished within the framework of hegemonic regimes.

Hegemonic Cooperation in Oil

The major theme of our first four oil cases is the efficacy of American action. The United States had so many resources—economic, political, and military—that it was able to attain its essential objectives even without establishing a formal multilateral regime. In oil, the United States was so predominant that it could implement cooperation on essentially its own terms. Thus a Realist analysis of the search for wealth and power and the role of hegemony in creating rules is fundamental to an understanding of these cases.

A contrast to this emphasis on the American government's power is provided by the importance of domestic politics, which constrained the U.S. government and eventually helped to undercut the material basis for American leadership. This discordant note was first sounded with the failure of the attempt to establish control over Middle Eastern oil supplies through an international regime, under provisions of the Anglo-American Petroleum Agreement. It swelled to a crescendo with the unilateral enactment of Mandatory Oil Import Quotas in 1959, which in the long run eroded rather than bolstered U.S. power. The fragility of hegemonic cooperation—reflected in the fact that it lasted for a score of years rather than for a century—can be accounted for in good measure by the refusal of domestic interests to adjust, or to sacrifice, for the sake of the long-term power position of the United States.

Neither of these themes would come as a surprise to Realist analysts. Despite the degree to which the oil cases conform to Realist expectations, however, the themes of Part II, though muted, are not irrelevant even here. Cooperation as I have defined it took place: it was compatible with hegemony and arose from real or potential discord, which itself stemmed from international economic interdependence. The lack of reliance of the United States on international institutions in the oil area until 1974 indeed shows that hegemony can substitute for international regimes. But the evidence indicates that the U.S.

government had some incentives earlier to form international regimes, although pressures to do so may have been lower than in money and trade. The United States sought in 1944-45 to create what would have amounted to an intergovernmental petroleum cartel with the United States as senior member and Britain as its junior partner. This was only thwarted by domestic opposition. As we will see in chapters 9 and 10, the United States moved to construct a consumers' oil regime after the crisis of 1973-74, which revealed the decline of U.S. power in oil. By then, however, this could no longer be done on its own terms.

Controlling Arab Oil, 1943-1948

Before World War II the United States had sought to secure access by American companies to concessions in areas dominated politically by Britain and France. Under the Red Line Agreement of July 31, 1928, American firms (linked together in the Near East Development Corporation) received a 23.75 percent share in the Turkish Petroleum Company, with concessions in areas now controlled by Turkey, Syria, and Iraq. Within the "Red Line Area," which included the Arabian peninsula, members of the Turkish Petroleum Company (later the Iraq Petroleum Company) were required by the agreement "to refrain from obtaining concessions or purchasing oil independently in any part of what was construed to have been the old Ottoman Empire" (Anderson, 1981, p. 18). This was part of a network of agreements made in the 1920s to restrict supply of petroleum and ensure that the major companies, working together, could control oil prices on world markets.

During the 1930s a number of significant oil discoveries were made. The most important of these for oil markets in that decade took place in East Texas in 1930, but from a long-term international standpoint the most significant find occurred in 1938, when oil in commercial quantities was discovered in Saudi Arabia by the California Arabian Standard Oil Company, or Casoc (later to become the Arabian American Oil Company, or Aramco), a jointly owned subsidiary of Standard Oil of California (Socal) and the Texas Company (Texaco). In 1940 these fields produced only 5 million barrels of oil, but by 1941 both the companies involved and the Saudi monarchy recognized that the area's petroleum reserves might be enormous.

After the United States had become a belligerent in World War II, the question of how to exploit Saudi oil for the war effort became a matter of immediate concern for American military planners. Yet by 1943 concern about future domestic oil shortages, and information

about the vastness of Saudi reserves, led civilian officials to pay attention to the problem of how to ensure continued postwar American control of the Saudi concession. At first, American suspicion centered on its close ally, Britain. Casoc executives "became convinced that the British were devising all sorts of schemes to deprive them of their concession" (Stoff, 1980, p. 57). The company "employed the British bogey time and again" in its dealings with the Department of State (Miller, 1980, p. 50). King 'Abd al-'Aziz of Saudi Arabia "subtly fanned those fears to increase his chances for financial support," although "nowhere in the accessible British archives is there any evidence of a British plan in the 1940s to actually displace the American concessionaire" (Anderson, 1981, p. 40).

On the initiative of the State Department, supported by Socal and Texaco, President Franklin D. Roosevelt declared Saudi Arabia eligible for American Lend-Lease assistance in February 1943. Socal and Texaco had proposed, in return for Lend-Lease, that their joint venture, Casoc, would create an oil reserve in Saudi Arabia whose contents would be made available to the U.S. government at prices below those on the world market. Following approval of Lend-Lease, the State Department's Committee on International Petroleum Policy, chaired by Economic Advisor Herbert Feis, proposed the formation of a Petroleum Reserves Corporation. The PRC was to acquire option contracts on Arabian oil. After the State Department made this suggestion, however, Interior Secretary Harold Ickes and representatives of the military services (particularly the Navy) proposed that the PRC directly acquire reserves by purchasing all of Casoc's stock. This plan was approved by Roosevelt in late June 1943.

The Secretary of the Interior and representatives of the military, with the reluctant acquiescence of the State Department, had persuaded the President to create a Petroleum Reserves Corporation that would own huge quantities of Saudi oil. Such a plan was sure to be opposed by major corporations, yet little regard was paid to their interests. The PRC's board of directors was to consist of the secretaries of state, interior, war, and navy, without private-sector participation; the right to manage the reserves was to be allocated not necessarily to Socal and Texaco (although they were to be given preference), but to those companies submitting the best bids. As Anderson comments, "the audacity of the overall plan was possibly reflective of the mood of wartime Washington" (1981, p. 55).

Negotiations between Ickes and the presidents of Socal and Texaco had apparently reached tentative agreement on sale of a one-third interest in Casoc to the government, when pressure was brought to

bear by Standard Oil of New Jersey (now Exxon) and Socony-Vacuum (now Mobil). John Brown of Socony indicated that "his company and others in the foreign field didn't like the idea of government competition" (Anderson, 1981, p. 64). Fearing that he would lose a struggle on this issue, and that it would undermine his political position, Ickes broke off his talks with Socal and Texaco, covering his tracks by claiming that these companies had refused to negotiate in good faith with the government.[2] The PRC later attempted to make arrangements for a government-owned pipeline from the Persian Gulf to the Mediterranean, a scheme that was also blocked by competitors of Socal and Texaco (Anderson, 1981, pp. 78-83, 96-102).

Failure of the PRC brought to the fore another idea, which had been discussed in the State Department during 1943 and which Ickes had embraced as well: the negotiation of a petroleum agreement with Great Britain. The heart of the original agreement, worked out in the summer of 1944, was a provision for an International Petroleum Commission, which would have recommended " 'production and exportation rates for the various concessions in the Middle East . . . [to prevent] . . . the disorganization of world markets which might result from uncontrolled competitive expansion.' "[3] In other words, it would have established what amounted to an Anglo-American cartel, fifteen years before the founding of OPEC. The major international firms supported this conception, provided that they would be furnished with immunity from antitrust prosecution; if it granted this exemption, the government would be achieving for them what they had long sought in world markets through informal collusion and more or less secret agreements. The proposed petroleum agreement was a bold plan for a formal international oil regime dominated by the United States. The fact that it could have been used as a device to exploit poorer and weaker states—consumers as well as producers of oil—reminds us that cooperation is not necessarily benign.

The proposal for an Anglo-American Agreement had to be submitted

[2] Ickes managed to confound a generation of historians about the reasons for the collapse of his negotiations with Casoc, by not only lying to Congressional committees but by altering the minutes of relevant government-industry meetings and even including an incorrect account in his "secret diary," later published. Anderson (1981, pp. 56-67) shows on the basis of Ickes's personal confidential diary (not designed for publication) that it was Ickes who broke off the negotiations under pressure from Socony and other oil companies. For a brief discussion, see Keohane, 1982c.

[3] Anderson, 1981, p. 95, quoting a memorandum by John A. Loftus of the Petroleum Division, Department of State, November 9, 1944.

to the Senate as a treaty, owing to insistence on that point from the outset by members of the Foreign Relations Committee. There it came up both against a formidable coalition of interests and against mainstream American ideology. The plan for an intergovernmental cartel "ran counter to the vested interests of the American independents, the antitrust philosophy of the Department of Justice, the laissez-faire ideology of a remnant of New Deal opponents, and State's own longstanding practice of not supporting one domestic interest group over another" (Anderson, 1981, p. 96). Furthermore, the scheme ran afoul of a fierce bureaucratic battle for the control of oil policy between Harold Ickes and the dominant forces in the State Department, and suffered from the aftermath of the intense controversy engendered by the Petroleum Reserves Corporation scheme.

The interests of independent domestic oilmen were particularly threatened. They feared that "the pact might open the American market to cheap foreign petroleum" (Krasner, 1978a, p. 204). Despite the frequent denials of this intent by government officials, the apprehensions of the oilmen were justified: an essential purpose of the agreement was to reduce the drain on Western Hemisphere oil reserves by developing Middle Eastern resources for marketing in Europe, and perhaps even in the United States. As Acting Petroleum Advisor James Sappington wrote on December 1, 1943, for security reasons "It was advisable that Middle Eastern oil be developed to the maximum and that supplies in this hemisphere be . . . conserved." He even remarked that "if Middle Eastern oil should enter the United States to meet the postwar need for oil imports, the result should be a further conservation of the reserves" of the Western Hemisphere.[4]

Opposition to the 1944 draft took institutional expression with a demand for radical revisions formulated in December by the Petroleum Industry War Council, representing the industry. In conjunction with the opposition of Senator Tom Connally of Texas, Chairman of the Foreign Relations Committee, this demand led the State Department to withdraw the agreement for reconsideration. It was eventually renegotiated with the industry, and then with the British, to meet industry objections. The resulting agreement, renegotiated under Ickes's

[4] "Memorandum on the Department's position," folder "Petroleum Reserves Corporation Activities, 7/3/43-1/1/44," box 1, records of the Petroleum Division, Record Group 59, National Archives (cited by Anderson, 1981, p. 78, n. 27). The head of the Petroleum Division in 1945, John A. Loftus, expressed similar views to those of Sappington. See Loftus memo, May 31, 1945, National Archives, decimal file 1945-49, Box no. 5849, file no. 841.6363/5-3145.

leadership, would have restricted the role of the International Petroleum Commission to the preparation of reports and estimates, excluded the U.S. industry from regulation, and relied entirely on voluntary compliance. As a result, the State Department became lukewarm toward the agreement. State was strong enough to delete the antitrust immunity clause, over Ickes's resistance; but this change meant that the major international companies now lost interest in it. Thus the agreement was rendered virtually meaningless by renegotiation. By late 1944 or early 1945 the precarious pro-agreement coalition of Ickes, the State Department, and the international oil majors had collapsed under pressure from the domestic industry. Only the shadow of a public international agreement remained. This "orphan," as one State Department official characterized it in 1946 after Ickes's departure from the government, was never ratified by the Senate.[5]

The United States had failed to secure Saudi oil through direct government ownership or to achieve broader control over Middle Eastern petroleum through an Anglo-American agreement. Initiative thus passed to the companies, supported by the Department of State. In 1946 Socal and Texaco found themselves with prolific oil fields in Saudi Arabia and a joint venture, now named Aramco, operating there with a skilled production team; but they also faced large demands for capital and uncertain markets for the huge quantities of oil that could be produced. Standard Oil of New Jersey, by contrast, was chronically short of crude and concerned about being excluded from the richest, lowest-cost concession in the world. Moved by the business conservatism of their leaders, and over the strenuous objections of other company officials (at least in Socal), Socal and Texaco decided, in early 1946, to invite Jersey to purchase a share in Aramco. Eventually, Socony was also asked to participate, and arrangements were made for a 30 percent purchase in Aramco by Jersey and a 10 percent participation for Socony.[6]

[5] This account follows Anderson (1981) rather than Miller (1980) or Stoff (1980), for reasons given in Keohane, 1982c. The "orphan" phrase, which appears in a memo of February 1946 from Clair Wilcox to Will Clayton, is cited by Stoff, p. 193, and Anderson, p. 130.

[6] The issue of which corporation took the initiative was obscure in the literature until the publication of Anderson's book. It has long been known that high executives of Socal opposed the deal, on the grounds that Saudi oil would allow the company to expand rapidly at the expense of competitors if the latter were not allowed into Saudi Arabia. The staff of the Federal Trade Commission (U.S. Senate, 1952) and a Senate subcommittee on multinational corporations (U.S. Senate, 1975) both claimed that

Yet to consummate this deal it was necessary somehow to nullify the restrictions of the Red Line Agreement of 1928, which required that the partners in the Iraq Petroleum Company (IPC) only produce or purchase oil within the Red Line area through the IPC. By 1946 the IPC companies were Anglo-Iranian (23.75 percent), Shell (23.75 percent), Companie Françaises des Petroles (23.75 percent), Socony (11.875 percent), Jersey (11.875 percent) and the Gulbenkian interests (5 percent). Socal and Texaco, not being members of the IPC, were not restrained from producing in Saudi Arabia, but Socony and Jersey were. For these companies to join Aramco would constitute a violation of the Red Line Agreement.

The story of how Jersey and Socony maneuvered to dissolve the Red Line Agreement is a fascinating tale of international legal intrigue. In early negotiations, Shell assured the American companies that it would participate in drafting new arrangements for IPC, and Jersey placated Anglo-Iranian with an agreement to purchase large amounts of Iranian and Kuwaiti oil from it, over a twenty-year period, and to construct a new pipline (never built) from Abadan to the Mediterranean. Companie Françaises des Petroles (CFP) and Gulbenkian posed more serious problems. Fortunately for the American companies, however, during World War II CFP and Gulbenkian had operated within Nazi-controlled territory and had in 1940 been construed by a distinguished British barrister as having become "enemy aliens," thus rendering the Red Line Agreement null and void. This served as a sufficient pretext in 1946 for Jersey and Socony to argue that the agreement was legally dissolved and to open negotiations for a new agreement free of the restrictive clauses of the earlier one.[7]

Not surprisingly, CFP objected strenuously. Not only were its leaders presumably insulted by being labeled "enemy aliens" as a result of the defeat of France; they feared that the effect of the Aramco deal

negotiations were initiated by Jersey and Socony. John Blair (1976, p. 39) even went so far as to suggest that Socal sold its share because the Rockefeller family, which also controlled Jersey and Socony, put its interests above those of the corporation itself. Anderson's evidence (1981, pp. 144-45) that it was Socal and Texaco that took the initiative, moved by the risk-avoidance preferences of their top executives, refutes these speculations.

[7] The essentials of this story are in Anderson, 1981, ch. 5. See also U.S. Senate, 1952; U.S. Senate, 1974b, appendix 2; U.S. Senate, 1975, ch. 2; and Blair, 1976. For the draft contract between Jersey and the Anglo-Iranian Oil Company, see National Archives (Record Group 59, Box 4231, file no. 800.6363/1-2847), material dated December 20, 1946, with a covering letter from a Jersey official to the head of the Petroleum Division of the Department of State, indicating that this contract was the basic document in the transaction.

would be to reduce production from Iraq, where CFP shared an interest. CFP therefore sought participation in Aramco itself, along with Jersey and Socony. In addition, the French government protested strongly, holding the U. S. government responsible and threatening to take direct action in France against Jersey in retaliation for its actions.[8]

CFP's demand for participation in Aramco was blocked by King 'Abd al-'Aziz of Saudi Arabia, who declared that he would not agree to the sale of any part of Aramco to a non-American firm (Anderson, 1981, p. 155). Nevertheless, the State Department, which had been following the intercompany negotiations closely, recognized the seriousness of French protests. In February 1947 Paul Nitze, Deputy Director of the Office of International Trade Policy, suggested that the issue could be resolved without dissolving the Red Line Agreement and antagonizing the French, if Jersey sold its interest in IPC to Socony and entered Aramco alone.[9] Jersey and Socony, however, rejected this proposition.

The terms worked out among the IPC members dissolved the Red Line Agreement but gave the French the right to draw larger shares of oil from IPC production than their proportionate holdings in IPC would have allowed and involved a commitment by Jersey and Socony to support increased IPC production. Protracted negotiations took place with Gulbenkian, who reportedly told John C. Case of Socony that he simply would not respect himself unless he "drove as good a bargain as possible." Gulbenkian's ace in the hole was the fact that he had filed suit in London, threatening to open the complex affairs of IPC to the public; the day before arguments were to begin, the suit was settled out of court.[10]

[8] See dispatches of January 14 and 20, 1947, from the Embassy in London to the State Department (Record Group 59, Box 4231, file no. 800.6363/1-1447 and 800.6363/1-2047).

[9] Memo from Paul Nitze to Will Clayton, February 21, 1947 (National Archives, Record Group 59, Box 4231, file no. 800.6363/2-2147).

[10] Anderson, 1981, p. 159. The Church subcommittee alleged in 1975 that "although Exxon and Mobil eventually reached an IPC settlement the French never forgave the Americans for keeping them out of Saudi Arabia" (U.S. Senate, 1975, p. 55). No evidence, however, is adduced for this assertion, and no trace of it appears in Anderson's account. Indeed, certain pieces of evidence suggest the contrary. The Embassy in London reported on March 14, 1947, that the French seemed to like the idea that they could purchase more than their regular quota of oil from the IPC (Record Group 59, Box 4231, file no. 841.6363/3-1447). On May 29, 1947, the Embassy reported satisfaction in London and said that "the only cloud on the I.P.C. horizon at the moment is the difficulty the major partners are having with Gulbenkian" (Record Group 59, Box 4231, file no. 800.6363/5-2947).

This episode illustrates several important points about hegemonic cooperation. First, although cooperation in the sense of mutual policy adjustment was eventually achieved, the process of achieving it was certainly not a harmonious one. Cooperation arose from the reality and prospect of discord. Second, the difficulties of cooperation in this case reflect in part the absence of agreed-upon institutions to establish a framework for bargaining. Indeed, the desire of the United States and of U.S. companies to destroy the old regime of the IPC led to the struggle in the first place.

The eventual success of U.S. attempts to control Arab oil also illustrates the fact that hegemony was a real phenomenon, even if American officials, continually seeking to solve more and more difficult problems, often had trouble achieving their objectives. The negotiations with Britain for an Anglo-American Petroleum Agreement were not as difficult as the internal bargaining within the United States. In the Red Line negotiations, the British, French, and Gulbenkian could all be brought to agreement through a combination of threats to break the old arrangements and promises to pay off partners who would cooperate in the desired restructuring of Middle Eastern holdings. Hegemonic cooperation as we have defined it occurred, although no formal international regime was brought into being.

The compatibility of hegemony and cooperation indicates once again that international cooperation does not depend on substantive equality among states. To emphasize the "inequality of nations" (Tucker, 1977) is not to foreclose prospects for mutual adjustment of policy, although it does imply that different, and unequal, adjustments will be made by the powerful and by the weak. Indeed, it could be argued that cooperation in the postwar period depended on the prior establishment of U.S. dominance. This was true in oil. After the brusque actions of American companies and the American government to abrogate the Red Line Agreement had ensured American supremacy in Saudi Arabia, the United States deigned to assure Europe that it would receive ample oil supplies, at least as long as European governments continued to defer to U.S. leadership. Likewise, in financial and commercial policy, the United States had ensured its predominance over Britain before it switched to providing positive incentives for cooperation through the aid programs of the Marshall Plan. Britain's reserves were kept within a range sufficient to allow it to finance its wartime purchases, but too small to give Britain financial independence after hostilities had ceased, and strong efforts were made to persuade Britain to agree to dismantle the discriminatory trade barriers that had been

sure continued after the war, most notably in connection with negotiations for the British Loan of 1946 (Gardner, 1956/1980, pp. 188-207). As in petroleum policy, establishment of dominance preceded the distribution of economic benefits.

The frustrations that faced American policymakers in the oil issue-area resulted less from the efforts of other countries than from the nature of American politics and society. This did not mean that the ultimate objective of securing Arab oil supplies had to be abandoned—on the contrary, it was achieved—but rather that the vehicles for U.S. policy had to be adapted to the realities of American society. Plans for government ownership, or for intergovernmental control of production and prices, were abandoned in favor of support for the expansion of private corporations abroad and for their transnational political strategies. The nature of hegemonic cooperation in oil—*ad hoc* rather than highly institutionalized—was shaped both by the opportunities abroad for extension of national power and expropriation of wealth and by the constraints engendered by capitalism and pluralist politics at home.

The Sterling-Dollar Oil Problem

Even during the war the British government anticipated a shortage of foreign exchange in the postwar years and insisted, in negotiations on a petroleum agreement, on "the right of each country to draw its consumption requirements, to the extent that may be considered necessary, from the production in its territories or in which rights are held by its nationals."[11] In 1949 Great Britain decided to take such measures to save on dollar costs by discriminating against American-owned oil companies, contrary to agreements reached between the British government and U.S. companies in the 1920s and 1930s. British measures not only affected imports into the United Kingdom but also reduced sales of American firms in countries such as Argentina and Egypt, with which Britain made barter agreements, providing oil in return for other goods. The British government in addition, in the spring of 1949, ordered British bankers

> to refuse to transfer funds in payment for American-supplied oil from sterling balances in London of countries outside the sterling

[11] Memorandum, "The Petroleum Division," October 1944, p. 35 (Box 48, Harley Notter files, National Archives, Record Group 59. Cited in Anderson, 1981, ch. 3, n.