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DECREASING ALLIED SUPPORT FOR ANTI-SOVIET
STRATEGIC EMBARGOES: A DEMONSTRATION OF
THE DECLINING HEGEMONY OF THE UNITED STATES

by

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B.A. May 1982, Old Dominion University

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ABSTRACT

DECREASING ALLIED SUPPORT FOR ANTI-SOVIET
STRATEGIC EMBARGOES: A DEMONSTRATION OF
THE DECLINING HEGEMONY OF THE UNITED STATES

Tracey A. Johnstone
Old Dominion University, 1986
Director: Mary Ann Tetreault

This thesis evaluates the declining hegemony of the United States over its allies since the end of World War II. Robert Gilpin and Robert Keohane's theories about the decline in U.S. hegemony are discussed as are the hegemonic theories of Gramsci as interpreted by Robert Cox. The three progressively hostile reactions of U.S. allies to U.S.-initiated embargoes against the Eastern Bloc are used to illustrate the decreasing control of the United States over the economic and strategic policies of its allies. The conclusion states that Ronald Reagan ignored historical trends and contemporary international politics when he decided to force U.S. allies to comply with his embargo against the Soviet Union's natural gas pipeline.

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Chapter One

Introduction

In December 1981, President Ronald Reagan imposed an embargo on U.S. technology to be used in the Soviet Union's natural gas pipeline to Western Europe. If this policy seemed familiar, it should have, for the Kennedy and Johnson administrations had imposed a similar embargo on wide-diameter pipe for use in the construction of the Soviet Union's crude oil pipeline to Western Europe in the middle 1960s. Reagan's embargo included not only U.S.-manufactured equipment, but equipment manufactured in other countries under U.S. licenses. The pipeline embargo comprised most of the punitive sanctions imposed on the Soviet Union for its role in the subjugation of the Solidarity labor movement in Poland. However, U.S. allies argued that what had started out as a punitive embargo was really a strategic one which did not serve European economic or strategic interests. Reagan found himself trying to implement a policy of the early 1960s in the 1980s, the difference in the two time periods being the fact that U.S. allies had grown independent enough to disregard the call for sanctions in the 1980s.

The United States has employed economic sanctions throughout its history. In 1807 President Thomas Jefferson imposed an embargo on all exports to defend U.S. neutrality

by denying England the opportunity to seize U.S. ships and seamen.¹ More recently, President Franklin Roosevelt placed an embargo on aviation fuel, machine tools, and scrap metal destined for Japan prior to World War II. However, the United States was in a position to force its allies to participate in economic embargoes to achieve strategic goals only after World War II. The United States secured allied cooperation in the strategic embargo against the Eastern Bloc from 1948 to 1953 and the Friendship pipeline embargo in 1963. But, it has become progressively more difficult for the United States to secure allied cooperation with strategic embargoes against the Eastern Bloc and its efforts to do so have met with declining success. This thesis will employ the theories of hegemonic dominance and decline of Realists Robert Keohane and Robert Gilpin and the Marxist Antonio Gramsci to explain the increased difficulty of the United States in securing allied cooperation with strategic embargoes.

Reagan's approach to the U.S. policy of "containment" of communism differed from those of his predecessors. The foreign policies of the Nixon, Ford, and Carter administrations were based on the premise that there were limits on the range of foreign policy issues the United States could deal with effectively.

Belief in the declining hegemony thesis guided the

¹Dumas Malone, Jefferson and His Time, vol. 5: Jefferson the President (Boston: Little, Brown and Company, 1974), pp. 482-483.

Nixon, Ford, and Carter administrations, and underlay policies like the Nixon doctrine, detente, and the rapprochement with China, all designed to project U.S. power abroad at the lowest possible cost.²

The Reagan presidency marked the end of presidential acceptance of the declining hegemony thesis and U.S. foreign policy changed dramatically. The Reagan administration acknowledged the decline in U.S. hegemony but saw the decline not as a result of long-term trends but ". . . in the programs of previous administrations."³ As a result of its unique interpretation of U.S. foreign policy from Nixon through Carter, the Reagan administration refused to behave as though any deterioration in U.S. influence over its allies' foreign policies had occurred. It acted as though the allies would accept U.S. leadership in the 1980s as they had in the 1950s and early 1960s.

Reagan administration officials thought that previous administrations had tried too hard to design policies that would garner support among U.S. allies. In contrast, it employed policies that served U.S. interests first and allied interests second, if at all. Nowhere was this unilateral approach more apparent than in the administration's economic policies. According to Henry Nau, who served from 1981-83 as senior staff member of the National

²Mary Ann Tetreault, review of War and Change in World Politics, by Robert Gilpin, and After Hegemony, by Robert Keohane, in American Political Science Review, forthcoming.

³Kenneth A. Oye, "International Systems Structure and American Foreign Policy," in Eagle Defiant, edited by Kenneth A. Oye, Robert J. Lieber and Donald Rothchild (Boston: Little, Brown and Company, 1981), pp. 4,5.

Security Council responsible for international affairs, Reagan used a "domesticist" approach to economics instead of the "globalist" approach of his predecessors. The "domesticist" approach ". . . rests on the simple proposition that the world economy is only as good as the economies that compose it."⁴ The domesticists see U.S. economic policies of the 1960s and 1970s as the source of international economic decay.⁵ But by the autumn of 1985 the toughness of the first Reagan administration was reversed and the second Reagan administration returned to the more conciliatory, globalist approach of the Nixon, Ford, and Carter years.

The international economic policies of the first Reagan administration were characterized by a devotion to the power of the free market and by their success. The primary exception to both of these characteristics is the Administration's attempt to impose an embargo on U.S. licensed equipment for use on the Soviet Union's natural gas pipeline to Western Europe. The economic policies of the Reagan administration ignored two major issues. First, the United States is the only Western state capable of overseeing the world economy. Second, international economics has a tendency to be a zero-sum game in that there are often winners and losers.

⁴Henry R. Nau, "Where Reaganomics Works," Foreign Policy No. 57(Winter 1984-85): 14.

⁵Ibid. p. 20.

Reagan's economic policies demonstrated the limits of the free market and undermined the appeal of his policies at the national level in allied states. The free market was only capable of solving the national economic problems of the United States, especially the financing of the U.S. budget deficit. The world economy was allowed to become distorted to further U.S. interests at allied expense.

Chapter two will discuss first the declining hegemony thesis and then the factors that brought about widespread perceptions of this decline. The hegemony theories of Gilpin, Keohane, and Gramsci will be used to explain the decline in U.S. influence over its allies. Gilpin sees military strength as the primary ingredient of U.S. hegemony while Keohane sees economic strength as its primary ingredient. To Gilpin, hegemony is coercive but to Keohane it is cooperative.⁶ Gramsci's hegemony, in its pure form, is one in which coercion has given way to consent.⁷

There are many factors that caused the decline in U.S. influence over its allies. The three factors surveyed in Chapter 2 are: the economic reconstruction of U.S. allies, the politics of dissent as practiced by French President de Gaulle, and the dramatic changes in energy markets in the early 1970s. These are singled out for discussion because

⁶Tetreault, forthcoming review.

⁷Stephen Gill and David Law, "Power, Hegemony and International Theory: Recessions and Restructuring in the Global Economy," paper presented at the 27th annual Congress of the International Studies Association, Anaheim, California, 29 March 1986, p. 5.

of their long-range effects on alliance relations. The economic reconstruction of the allies gradually translated into political independence as the United States lost its ability to offer economic rewards in exchange for political compliance. De Gaulle was the first major ally of the United States to question openly the role of the United States in Western Europe. The Yom Kippur War, and the changes in Middle Eastern petroleum markets that followed it, demonstrated that close association with the United States could actually be a political and economic liability for its allies.

Chapter three will discuss the three phases in the decline of U.S. hegemony as they relate to three embargoes the United States has directed against the Soviet Union. The United States sought allied cooperation in all three embargoes but encountered progressively greater allied resistance to participation in the embargoes each time. Table one traces the three phases in the U.S. relationship with its allies and the three embargoes. In the first phase, from 1945 to 1958, Western Europe and Japan were more dependencies than allies of the United States. The strategic embargo against exports to the Eastern Bloc took place during these years. The strategic embargo was really an accumulation of export controls that the United States was able to force upon its allies by threatening to suspend Marshall Plan funds in the event of a violation. By the end of this phase, the allies had become economically less

TABLE 1
 US - Initiated Embargoes of East - West Trade,
 1948 - 1982

	Economic/ Political event	Anti-Soviet Embargo	Allied Resistance Levels to embargo
1945- 1958	Economic Reconstruction of Western Europe and Japan	1948-1953 Strategic Embargo -- includes Eastern Europe	Very low -- Cooperation linked to Marshall Plan aid
1959- 1972	1958 De Gaulle becomes President of France	1962-1966 Embargo on pipe for Friendship crude oil pipeline	Moderate to High Chief pipe manufacturer, West Germany, supports embargo. Soviets turn down pipe contract with Britain.
1973-	1973 Change in oil markets	1981-1982 Embargo on equipment for Urengoi Natural gas pipeline	Extremely High Allied resistance forces cancellation of extra- territorial sanctions after 5 months

dependent on the United States. The second phase, lasting from 1959 to 1972, is characterized by increasing political independence within the alliance as a result of economic recovery and the political dissent of Charles de Gaulle. The Friendship pipeline embargo occurred during this phase. The allies did not really support this embargo but Germany, which had the biggest contracts to manufacture pipe for the Soviets, cooperated because it owed a political debt to the United States, while the other allies were not in a position to violate the embargo. The third phase, which began around the time of the 1973-74 Arab oil embargo, reflects a United States incapable of maintaining the international monetary regime it had created at Bretton Woods, and the subsequent loss of its control over the oil produced by the Third World suppliers of itself and its allies. As a result of the economic disarray arising from these events, along with allied disaffection over U.S. strategic policy in Vietnam and the Middle East, dissent within the alliance grew to major proportions and a number of U.S. allies established foreign policies at variance with those of the United States. The refusal of U.S. allies to cooperate with Reagan's embargo against equipment sales for the Urengoi gas pipeline embargo shows how greatly the cracks in the alliance visible during phase two had widened into chasms during phase three. The allied reaction to the imposition of the three embargoes evolved from one of compliance to defiance and demonstrates the diverging views between the

United States and its allies on appropriate uses of East-West trade as an element in United States-Soviet relations.

Chapter four discusses the success of the Reagan administration in reasserting the ideological hegemony of the United States and how, despite this reassertion, the pipeline embargo failed because it was a departure from this ideological framework. The Reagan administration's pipeline embargo was an aberration from the historical trends in U.S.-allied relations as well as an aberration from the Administration's economic policies. These policies demonstrated the necessity of multilateral cooperation in implementing policies effectively.

Chapter Two

The Declining Hegemony of the United States

The Declining Hegemony Thesis

The United States emerged from World War II as the world's foremost military, economic and ideological power. The United States was the world's most formidable military power because of its sheer size, its presence over most of the world, and its possession of the atomic bomb combined with the ability to deploy it. Economically, the United States had no rival. It had, by far, the largest GNP in the world and the highest standard of living. Just as important was the fact that the United States was not dependent upon foreign trade and was nearly self-sufficient in natural resources. Its chief rival, the Soviet Union, was substantially weakened by the war in that much of its industrial base had been destroyed and it had also lost over twenty million people. Still, the Soviet Union, because of its large size and the location of its troops at the end of the war, was also in a good position to extend its influence beyond its borders. The strong military position of the Soviet Union in Europe after the war forced the United States to accept the role it had been unwilling to take after World War I--that of hegemonic power. Robert Keohane and Joseph Nye define a hegemonic system as a situation in

which ". . . one state is powerful enough to maintain the essential rules governing interstate relations, and is willing to do so."¹ That the powers which had traditionally checked Soviet expansion in Europe, Great Britain, France, and Germany, were no longer in a position to do so also forced the United States into the role of hegemonic power.

The United States accepted the role of hegemonic power after World War II to prevent the expansion of communism into Western Europe by either Soviet invasion or internal dissent. To prevent Soviet expansion, the United States established a world order specifically designed to encourage the rapid economic growth of Western Europe. The United States decided to devote substantial economic resources to preserve its political supremacy because it believed that encouraging the economic growth of Western Europe was the most efficient way of ". . . restoring the balance of power . . . [and] of removing or at least mitigating the conditions that had made indigenous communism popular there in the first place."² In contrast, U.S. policymakers knew that the Soviet Union was not in a position to develop the economies of its allies. In fact, in some cases it did just the opposite, dismantling their factories and rebuilding them in the Soviet Union.

¹Robert O. Keohane and Joseph S. Nye, Power and Interdependence (Boston: Little, Brown and Company, 1977), p. 44.

²John Lewis Gaddis, Strategies of Containment (Oxford: Oxford University Press, 1982), p. 45.

The hegemonic reign of the United States differed from that of its predecessor, Great Britain, in that it did not apply economic or commercial criteria to determine which other states it would protect. The United States chose its allies according to political, not economic criteria. As the self-proclaimed leader of the "Free World" the United States pledged in 1947 to defend all democratic states from communist influence. Britain's allies, conversely, were chosen by economic criteria and were often commercially exploited in the same way the United States was exploited by Britain. Britain's 'allies' were most often chosen because of the raw materials they could provide to its industries. In doing so, Britain created an international division of labor.³ The United States, on the other hand, had a far more diversified economy and could afford to sacrifice economic for strategic goals. But frequently, the United States was able to satisfy both goals simultaneously.

. . . America's economic partners--over whom its hegemony was exercised . . . were also its military allies; but Britain's chief trading partners had been its major military and political rivals.⁴

Despite these differences, the United States and Great Britain, according to Robert Gilpin, were motivated by the fact that ". . . it was profitable to [exercise hegemonic leadership] The benefits to them of a secure status

³Robert Gilpin, War and Change in World Politics, (Cambridge: Cambridge University Press, 1981), p. 173.

⁴Robert O. Keohane, After Hegemony, (Princeton: Princeton University Press, 1984), p. 37.

quo, free trade, foreign investment, and a well-functioning international monetary system were greater than the associated costs." ⁵

In establishing a hegemonic system, the United States, unlike Great Britain before it, was aided by the fact that its economic partners were also its military allies. Even though the United States, and Italy, Germany, and Japan had been on opposing sides in World War II, the desire to contain Soviet influence outside their borders was something they all had in common. This situation made U.S. leadership attractive at a time when the world seemed to be dividing into spheres of influence led by either the United States or the Soviet Union. This fact, combined with the general desire for economic reconstruction, ensured that post-war regimes would be established on a consensual basis, unlike Britain's 19th century hegemonic system and the Soviet post war bloc system which were both coercive hegemonies.

Unlike Britain and the Soviet Union, the United States simultaneously pursued consensual and coercive hegemonies.⁶ The United States established a consensual system with its allies based on a number of international regimes, but the U.S. relationship with the Soviet Union was coercive because of the rivalry between the two powers. Here, the United

⁵Gilpin, p. 145.

⁶Mary Ann Tetreault, review of After Hegemony, by Robert O. Keohane, and War and Change in World Politics, by Robert Gilpin, in the American Political Science Review, forthcoming.

States used its military strength to force the Soviet Union to acquiesce to its position as was the case with the Berlin Airlift and the Cuban Missile Crisis.

To support its consensual hegemony, the United States established several international economic and military regimes⁷ such as the North Atlantic Treaty Organization for strategic purposes and the Bretton Woods system to regulate international finance. In a sense, ". . . a kind of unequal bargain was struck, in which the Americans traded support for West European reconstruction and recovery for the right to 'direct operations' in the emerging cold war."⁸ During the first decade of the Cold War, the United States was able to employ economic levers to ensure that its allies would follow its leadership on issues where initially they might have disagreed. The refusal of the United States to acknowledge that allied compliance with its political demands can no longer be effected through the application of economic leverage has grown to be a major source of tension within the regimes operating under U.S. leadership. The recent pipeline embargo provides an excellent example of the changing relationships within the Western alliance as the hegemonic power of the United States declines.

⁷Stephen Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables," International Organization, 36 (Spring 1982): 187.

⁸Michael Smith, "Atlanticism and North Atlantic Interdependence: The Widening Gap?" in Interdependence on Trial: Studies in the Theory and Reality of Contemporary Interdependence, ed. R.G. Barry Jones and Peter Willetts (New York: St. Martins Press, 1984), p. 187.

The regimes the United States established after World War II can be put into two categories: economic and military. According to Robert Keohane, "powerful states seek to construct international political economies that suit their interests and their ideologies."⁹ That is exactly what the United States did when it presided over the formation of several international organizations and regimes such as the United Nations, the International Monetary Fund (IMF), the World Bank, the Bretton Woods system of international finance, the General Agreement on Tariffs and Trade (GATT), the North Atlantic Treaty Organization (NATO), the Southeast Asian Treaty Organization (SEATO), and the Consultative Group Coordinating Committee (COCOM). The IMF, the World Bank, and the Bretton Woods financial system were primarily economic regimes, but they played an important ideological role as well. For example, the IMF and the World Bank made funds available for the reconstruction of Western Europe and Japan only under strict conditions. "The Bretton Woods institutions provided more safeguards for domestic social concerns like unemployment than did the gold standard, on condition that national politics were consistent with the goal of a liberal world economy."¹⁰ Strategic organizations like NATO and SEATO were designed to discourage or repel Soviet military aggression in Western

⁹Keohane, p. 136.

¹⁰Robert W. Cox, "Gramsci, Hegemony and International Relations: An Essay in Method," Millennium 12(No. 2, 1983): 172.

Europe and Asia, respectively. COCOM was the bridge between the two groups of institutions in that its purpose was to prevent the Soviet Bloc from acquiring the high technology developed in the free market of the West and using it for military purposes.

The post-war regimes also represented an ideological consensus. With the exception of the United Nations, the only universal organization established as part of the post war international order, these institutions were intended to control the expansion of communism. NATO and SEATO were supposed to combat the military threat of communism while the IMF, the World Bank, and Bretton Woods were geared to preventing the rise of indigenous communist movements within states by promoting economic development. The United States had the support of its allies in the formation and operation of these regimes because the military, economic and political threat from the Soviet Union seemed very real not just to itself but to its allies as well.

The United States exerted a strong influence on the activities of all these organizations; it had complete control over none of them. In the IMF, U.S. dominance is assured by the IMF's one-dollar-one-vote rule rather than the one-country-one-vote rule characteristic of organizations such as the United Nations. As the United States is the largest contributor, it has the largest number of votes and the ability to veto all resolutions.¹¹ Conversely, the U.S. position in COCOM is very weak because all decisions

must have unanimous approval to be implemented. However, the unanimity rule did not hamper COCOM in its early years because being uncooperative within COCOM could have endangered the flow of U.S. funds to member states. Congress, through the Battle Act, had the right to cut off Marshall Plan funds to any country found violating COCOM export controls.¹² Thus, while U.S. strength might not always have been controlling, it was always formidable. "In every social system the dominant actors assert their rights and impose rules on lesser members in order to advance their particular interests."¹³ and this is what the United States did.

Even had the United States not decided to finance post-war allied economic reconstruction to the extent that it did, economic theory predicts that it would still have lost its economic and technological advantages over Western Europe and Japan, though perhaps at a slower rate. "As many observers have noted, there is a historical tendency for the military and economic techniques of the dominant state or empire to be diffused to other states in the system"¹⁴ Robert Keohane referred to this pattern when he said,

¹¹Keohane and Nye, p. 79.

¹²Bruce W. Jentleson, "Khrushchev's Oil and Brezhnev's Natural Gas Pipelines," in Will Europe Fight for Oil? ed. Robert J. Lieber (New York: Praeger, 1983), p. 36.

¹³Gilpin, p. 36.

¹⁴Gilpin, p. 176.

"hegemonic powers have historically only emerged after world wars; during peacetime weaker countries have tended to gain on the hegemon rather than vice versa."¹⁵ V. I. Lenin's law of uneven development also describes this trend in the British and American hegemonies. This law, according to Robert Gilpin, states ". . . that because capitalist economies grow and accumulate capital at differential rates, a capitalist international system can never be stable."¹⁶ The Realists' law of uneven growth is similar to Lenin's law of uneven development except that it recognizes that states are motivated by the desire to increase their security rather than their profits.¹⁷ It is possible, however, to reconcile these two theories. According to Robert Keohane, "reflection on wealth and power as state objectives soon yields the conclusion that they are complementary."¹⁸ Although as goals wealth and power are complementary, as policy pursues they compete for a finite amount of money. Thus, the goals of wealth and power are also in conflict because "the diversion of resources into military consumption undercuts both military and economic investment."¹⁹ Some analysts believe that its military "investments" have undercut the long-term economic strength of the United

¹⁵Keohane, p. 9.

¹⁶Gilpin, p. 77.

¹⁷Ibid., p. 94.

¹⁸Keohane, p. 22.

¹⁹Oye, p. 11.

States, which has consistently spent a greater percentage of GNP on military goods and services.²⁰

The economic reconstruction of Western Europe and Japan and the containment of communism were not the only U.S. goals for the post-war order. It also hoped to create institutions that would embody its normative preferences, and to induce its allies to support its policy goals.

According to Robert W. Cox, such an order is:

. . . a social structure, an economic structure, and a political structure; and it cannot be simply one of these things but must be all three. World hegemony, furthermore, is expressed in universal norms, institutions and mechanisms which lay down rules of behavior for states and for those forces of civil society that act across national boundaries. . . .²¹

Hegemony without the establishment of supporting regimes is little more than imperialism. Regimes are ". . . sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations."²² Regimes serve several purposes. They ". . . embody the rules which facilitate the expansion of hegemonic world orders; (2) they are themselves the product of the hegemonic world order; (3) they ideologically legitimate the norms of the world order; (4) they co-opt the elites of peripheral countries and (5) they absorb counter-hegemonic ideas."²³ Presiding over a

²⁰Ibid., p. 9.

²¹Cox, "Gramsci," pp. 171-172.

²²Krasner, "Structural Causes," p. 186

²³Cox, "Gramsci," p. 172.

world order supported by regimes is easier and less expensive than maintaining an empire. The alternative is to use coercion which is economically inefficient and ultimately politically self-defeating.

As recently as the early 1960s, the United States was often able to persuade its allies to cooperate with policies they did not necessarily support. The United States was also capable of forcing the Soviet Union to back down from superpower confrontations as was the case during the Cuban Missile Crisis. But the necessary tradeoff of maintaining superiority in both of these spheres caught up with the United States in the 1960s. High levels of military spending not only detracted from capital investment but also failed to keep the United States 'ahead' of the Soviet Union: the United States gained nothing on the Soviets as a result of the Vietnam War. Indeed, the Vietnam War actually eroded ideological consensus with the Atlantic alliance because the NATO allies thought that the United States was diverting too many of its military resources toward Asia.²⁴

According to Robert Gilpin, "the expansion of a state and of its control over the system may be said to be determined in large measure by a U-shaped cost curve."²⁵ Economies of scale make the initial phases of expansion

²⁴Lawrence Freedman, "The United States Factor," in Soviet Strategy Toward Western Europe, ed. Edwina Moreton and Gerald Segal (London: George Allen and Unwin, 1984), p. 92.

²⁵Gilpin, p. 107.

progressively less expensive until a point is reached when diminishing returns prevail. Although the cost of financing the economic recovery of Western Europe and Japan declined as these states rebuilt their industries, the cost of global containment of communism increased, especially after the Eisenhower years which were marked by high levels of anti-communist rhetoric and low military budgets. But U.S. policies cannot be evaluated solely on an economic basis. The United States would probably have been more willing to continue supporting the international financial system and the overwhelming financial burden arising from the containment of communism if these policies had continued to produce the benefits to the United States that they had in the 1950s and early 1960s.

By the early 1970s the dominance of the United States in most the regimes it had established after the war had diminished. In the United Nations, both the voting bloc led by the United States and the one led by the Soviet Union lost much of their control over the General Assembly to the swelled ranks of newly independent Third World countries. The United States cast its first veto in the security council in 1970 because it did not have enough allies to vote down resolutions in the Security Council without it. In COCOM, the growing economic independence of the allies made it more difficult for the United States to force them to comply with U.S. policies through the economic leverage of the Battle Act. The United States had lost its monopoly

on the development of high technology and its allies preferred more lenient export standards. U.S. influence in defense regimes also declined in the 1960s. In SEATO, for example, U.S. allies refused to comply with a U.S. request to send more troops to Vietnam in 1965. Within NATO, on the other hand, the United States sought to give its allies a greater role in their own defense. This policy was known as the Nixon Doctrine and its goal was to make Western European states bear a larger portion of the financial burden of their own defense.

The United States retained more of its influence in regimes whose operations were tied to the dollar. "the dollar, good or bad, still dominates the world of international finance."²⁶ The International Monetary Fund and the World Bank are still dominated by the United States because it is the biggest contributor to each organization. On the other hand, the United States was forced to abandon the Bretton Woods monetary system because U.S. trade deficits had eroded the value of dollars at the fixed rate of exchange, placing unfulfillable claims on the gold stocks that were supposed to back them.²⁷

Allied Economic Recovery

After World War II, the United States helped to finance the economic reconstruction of Western Europe and

²⁶Susan Strange, "Cave! hic dragones: a Critique of Regime Analysis," International Organization 36(Spring 1982): 483.

²⁷Keohane and Nye, p. 83.

Japan through direct aid, such as the Marshall Plan (26 billion dollars from 1946 to 1955), and indirectly by encouraging private industry through tax breaks to invest in these countries. As has been stated, the goals of the United States were strategic as well as economic. U.S. policymakers believed that economic growth was the surest means short of military intervention to protect governments sympathetic to the United States from communist takeovers such as those which had threatened Italy and Greece.²⁸

The United States contributed to the dramatic recovery of its allies not simply through economic measures but also by guaranteeing their security. This guarantee enabled the allies, especially Japan, to spend money on industrial capital investment that would normally have been directed toward defense. According to Keohane and Nye this aid was not without its price:

European and Japanese governments . . . relied on the United States for military protection, and on economic issues they realized that they had to reach accommodations with the United States²⁹ if they were to recover from wartime destruction.

For the United States, providing its allies with military protection pursued long-range strategic goals at the expense of long-range economic ones. From 1960 to 1979, the United States allocated an average of 7.4 percent of its GDP to military expenditures. Among its allies the next highest

²⁸Theodore Draper, Present History (New York: Vintage Books, 1984), p. 123.

²⁹Keohane and Nye, p. 182.

allocation was the United Kingdom's 5.4 percent. During this same period the United States had an average annual economic growth rate of 3.6 percent while West Germany and Japan had growth rates of 3.9 and 8.5 percent, respectively. See table 2. The United States appears at a disadvantage in statistics on economic production and growth rates because of the very low initial levels of production possible in Western Europe and Japan given the total devastation they suffered as a result of the war. Thus, although the U.S. share of gross world product declined from 39.9 percent in 1950 to 33.9 percent in 1960 and 30.2 percent in 1970 while the European Economic Community's share of gross world product increased from 16.1 percent to 17.5 and 18.4 percent and Japan's economy recorded the highest rate of expansion (with 1.5, 2.9 and 6.2 percent)³⁰ is deceptively alarming. However, justifiably disturbing trends are also visible. The relative labor productivity of U.S. employees compared to employees in the rest of the world declined from 2.77 in 1950 to 1.45 in 1977.³¹ The United States increasingly found itself at a disadvantage in economic productivity as allied economic recovery progressed because its prewar industrial base, especially in heavy industry, was outperformed by Western European and Japanese industries, built after the war with the benefit of wartime

³⁰Oye, p. 8.

³¹Keohane, p. 36.

TABLE 2

Allocation of Gross Domestic Product
Average Percentages 1960-1979

	<u>United States</u>	<u>United Kingdom</u>	<u>West Germany</u>	<u>Japan</u>	<u>Soviet Union</u>
Annual Growth Rate	3.6	2.5	3.9	8.5	4.1
Military Spending	7.4	5.4	3.9	.9	14.0
Fixed Capital Formation	17.6	18.4	24.1	32.7	28.7

From: "International Systems Structure and American Foreign Policy," by Kenneth A. Oye. In Eagle Defiant edited by Kenneth A. Oye, Robert J. Lieber and Donald Rothchild. Boston: Little, Brown and Company, 1983.

technology.³² But the United States was also responsible for some of its own economic decline as U.S. policymakers insisted on pursuing the economic and political goals of rebuilding Western Europe, containing communism, and maintaining high domestic consumption rates simultaneously.

Most analysts agree that the United States has not retained the same degree of economic advantage over its allies as it held after the war. However, there is debate among analysts on when this trend actually began. According to historian Theodore Draper the first signs of decline appeared in 1958. In 1958 U.S. imports increased dramatically, exports fell and gold stocks declined by 2 billion dollars. "It was also the year the American balance of payments went into a permanent state of deficit."³³ Another disturbing trend of the late 1950s was the accelerated decline in U.S. reserves. U.S. reserves (in dollars) had a value of nearly 23 billion in 1949 and 16 billion in 1957. By the end of 1960 this total had dropped to 7 billion. The trends of 1958 were so ominous that in 1959 Eisenhower sent an emissary to Western Europe to request that the allies lower their protective tariffs against U.S. goods. This mission was unsuccessful, in part because the United States understated the problem to avoid any damage to U.S. prestige in Europe.³⁴ Nineteen

³²Charles F. Doran, Myth, Oil, and Politics, (New York: The Free Press, 1977), p. 162.

³³Draper, p. 84.

sixty-five was another pivotal year. Not only were the trends of 1958 continuing, but they were also intensified by the expansion of the U.S. role in Vietnam. "The war convulsively accelerated and intensified a downward trend that was already evident but that could have been less costly and more controllable in a more normal period."³⁵ Johnson's decision to finance the war through deficit spending fueled inflation on both sides of the Atlantic. Through inflationary policies the United States was forcing its allies to help finance the execution of a war few of them supported.³⁶ This policy added to the growing opposition to the war in Europe and dissolved European support for the United States as an economic leader.

Gaullism

The election of Charles de Gaulle as president of France in 1958 brought to power the first West European leader who consistently challenged the role of the United States in Western Europe. De Gaulle wanted Europe to assert itself as an alternative center of power to the United States and the Soviet Union. De Gaulle's attitude originated in his belief that the United States could not be relied upon to defend Europe. He was also troubled by what he saw as heavy-handed attempts by the United States to

³⁴ Ibid.

³⁵ Ibid., p. 85.

³⁶ Mary Ann Tetreault, Revolution in the World Petroleum Market, (Westport, Conn.: Quorum Books, 1985), p. 176.

influence the politics of Europe. These concerns moved de Gaulle to say [in 1951] that "the Atlantic Alliance, as it is applied, suppresses our independence without really protecting us."³⁷ He believed that the United States was neither trustworthy nor qualified enough to make decisions in the best interest of Europe in general or France in particular. Thus, he felt that Western Europe had to pursue its own political goals. His ideal was a Europe independent of the two major powers that would look toward France for leadership. Referring to the attitudes of de Gaulle, Simon Serfaty said "There is a certain dose of Americanophobia in the foreign policy of the Fifth Republic."³⁸

De Gaulle had greater influence on European attitudes toward the United States than any other individual of the nineteen sixties or seventies. From the day he came into office in 1959 to the day he left in 1969, de Gaulle's personal vision was the foreign policy of France. This policy was not the result of cabinet-level discussions or conferences to devise long term strategies but rather the result of decisions de Gaulle made with little or no consultation. Writing in 1927, De Gaulle said that a leader must ". . . possess something indefinable, mysterious . . . remain impenetrable to his subordinates, and in this way

³⁷ Hubert Miles Gladwyn, De Gaulle's Europe; or Why the General Says No (London: Secker and Warburg, 1969), p. 48.

³⁸ Simon Serfaty, France, De Gaulle, and Europe: The Foreign Policy of the Fourth and Fifth Republics Toward the Continent (Baltimore: Johns Hopkins University Press, 1968), p. 120.

keep them in suspense." This attitude, combined with his belief in ". . . not crystalizing in words that which the future is going to demonstrate," kept all those who had to deal with him in the dark on what his next move would be.³⁹

De Gaulle's training for public office was not in politics or diplomacy, but in the military. In World War I he served in the army and was a prisoner of war. During World War II de Gaulle left France for England before the surrender of France because the senior officer of the army, General Maxime Weygand, supported the capitulation of France to Germany. From London de Gaulle organized French forces to fight with the allies.⁴⁰ He led the French forces that eventually helped liberate Paris from the Germans in the Second World War. As a military leader de Gaulle was not one for negotiation or compromise and these characteristics went with him into politics. He believed that "intransigence pays off."⁴¹ De Gaulle often told French negotiators to adopt positions which were not to be compromised. This pattern is demonstrated by the fact that at one time or another France boycotted meetings of NATO, SEATO, the EEC, the WEU, and the IMF.⁴²

³⁹Herbert Luthy, "De Gaulle: Pose and Policy," Foreign Affairs 43(Summer 1965): 561.

⁴⁰Milton Viorst, Hostile Allies: FDR and Charles De Gaulle, (New York: The Macmillan Company, 1965), p. 17.

⁴¹W.W. Kulski, De Gaulle and the World: The Foreign Policy of the Fifth French Republic, (Syracuse: Syracuse University Press, 1966), p. 15.

⁴²Edward A. Kolodziej, French International Policy

De Gaulle's contempt for the United States intensified during the Second World War. He believed that as the major representative of France he should have been given the full diplomatic treatment accorded to Churchill by Roosevelt. But U.S. officials did not think de Gaulle represented the French army or the French people.⁴³ A recent study confirms Roosevelt's suspicions about de Gaulle's political base by asserting that despite de Gaulle's claim to lead a "France of 40 million resisters," it has been estimated that ". . . fewer than two percent of the French population participated in any active resistance to the Germans, a figure which includes 130,000 deportees."⁴⁴ He also felt that Roosevelt's policies were designed to perpetuate U.S. influence over Europe after the war. Roosevelt ". . . had little faith in the capacity of the French to look after their own affairs."⁴⁵ De Gaulle also resented the fact that Roosevelt also did not support French determination to preserve its colonial system.

One important source of conflict that De Gaulle saw between himself and U.S. policymakers arose from the fact that U.S. foreign policy was preoccupied with ideologies

Under De Gaulle and Pompidou, (Ithaca: Cornell University Press, 1974), p. 53.

⁴³Viorst, p. 75.

⁴⁴Douglas Porch, review of The Purge: The Purification of French Collaborators After World War II, by Herbert Letterman, in The Washington Post, Book World, 6 July 1986, p. 11.

⁴⁵Ibid., p. 17.

while de Gaulle believed that his was based on the relations of states. De Gaulle contended that states would always outlast ideologies so realist foreign policies would always be superior to ideological policies. Peter the Great, de Gaulle liked to say, would probably not have conducted the Soviet Union's role in the Second World War very differently than the Soviet government did, a sentiment few Americans would have shared. The differing approaches of de Gaulle and the United States toward ideology are illustrated best by each one's policy toward the People's Republic of China in the early 1960s. The United States refused to recognize the People's Republic of China because of ideology: it was a communist country. De Gaulle, on the other hand, chose to recognize Communist China because a state of 700 million people simply could not be ignored.⁴⁶

Another prominent and controversial characteristic of de Gaulle's approach to foreign policy was his attitude toward the purpose and utility of alliances. According to de Gaulle, alliances were but one of many means of executing foreign policy and, like other means, were expected to enhance, not limit, French foreign policy options. As one analyst put it, "French standards alone, not those of other states, would measure the utility of an alignment or

⁴⁶Jean-Baptist Duroselle, "De Gaulle's Designs for Europe and the West," in Changing East-West Relations and the Unity of the West, ed. Arnold Wolfers (Baltimore: Johns Hopkins Press, 1964), p. 185.

alliance."⁴⁷ The evolution of de Gaulle's attitude toward NATO illustrates this point. In the immediate post-war world, the purpose of NATO, to most states, including France, was to deter Soviet aggression. It did not take long for de Gaulle's attitude to change, however.

De Gaulle's discomfiture with NATO was two-fold. The first was organizational and the second was logistical. De Gaulle simply did not believe in belonging to an organization of which France was not the leader. Soviet military intervention in East Germany in 1952, and Poland and Hungary in 1956 demonstrated the Soviet Union's difficulty in maintaining control over its own allies without the added burden of invading Western Europe. Consequently, he believed that NATO's structures and strategies ought to change as well. As de Gaulle saw it, the Soviet Union was more concerned with controlling the citizens of its Eastern European satellites and dealing with Communist China than with thoughts of invading Western Europe. Later, he said in his memoirs, "what madness it would be for Moscow, as for anyone else, to launch a global conflict which might end . . . in wholesale destruction! But if one does not make war, one must sooner or later make peace."⁴⁸ But U.S. perceptions of the Soviet threat had not changed a great deal since the war. De Gaulle remembers of his meetings

⁴⁷Kolodziej, p. 47.

⁴⁸Charles de Gaulle, Memoirs of Hope: Renewal and Endeavor, trans. Terence Kilmartin (New York: Simon and Schuster, 1970), p. 201.

with Eisenhower that, "the President of the United States was chiefly preoccupied by the question of his country's relations with Soviet Russia. For him, whatever happened anywhere in the world was considered exclusively in relation to this problem."⁴⁹

The leaders of the other Western European states, according to de Gaulle, were not so enlightened as he by the evolution of world events because, "everything for them was subordinated to the desire for American protection. They saw things as they had been fifteen years before. We saw otherwise."⁵⁰ But as the allies saw it, the Soviet invasion of Hungary, the Berlin Crisis and, later, the Soviet invasion of Czechoslovakia, demonstrated that the Soviets were willing to use force when they thought it was necessary, proving that their fears were not unfounded. De Gaulle thought that the other West European states were looking in the wrong direction for protection from the Soviet Union. De Gaulle said that the NATO strategy of responding to a Soviet invasion of Western Europe with nuclear weapons was flawed because the United States was not likely to risk Soviet nuclear retaliation directed toward the United States over a war in Europe.⁵¹

De Gaulle disagreed with the U.S. position on just about every major foreign policy issue of the 1960s: the

⁴⁹ Ibid., p. 211.

⁵⁰ Ibid., p. 199.

⁵¹ Draper, p. 67.

Vietnam War, the Nuclear Non-Proliferation Treaty, the role of NATO, the admission of Great Britain into the European Economic Community, the diplomatic recognition of Communist China, and the Arab-Israeli conflict. But the greatest source of tension between de Gaulle and the United States arose from De Gaulle's perception that the United States stood in the way of his goal of a united Europe. As early as 1944 he had said that "the unity of Europe could be established in the form of an association including peoples from Iceland to Istanbul, from Gibraltar to the Urals." While he later moderated his definition of who would be included in a united Europe, his vision of its organization remained the same: France should replace the United States as the leader of Europe. De Gaulle was always very blunt about this. In 1948 he said "France must assume the duty and dignity of being the center and keystone of a group, whose arteries are the North Sea, the Rhine, and the Mediterranean."⁵²

De Gaulle's vision of Europe never changed from that he discussed in 1948. His plan for a united Europe never worked out because in the process of establishing policies independent of the United States he alienated most other European leaders as well. Even if these leaders had agreed with de Gaulle's policies and tactics, they were not interested in subjecting themselves to his 'leadership.' As C.L. Sulzberger expressed it, there were, "gaping distinc-

⁵²Kulski, pp. 192-194.

tions between what he and his allies respectively hold to be reality."⁵³

The irony in de Gaulle's contempt for U.S. policies was that France would ultimately be protected by the United States in the event of a conflict. De Gaulle appreciated this fact and interpreted it as an opportunity to pursue an independent foreign policy. The other irony in de Gaulle's relationship with the United States was that, despite over a decade of what U.S. policymakers saw as constant provocation, the two countries never seriously clashed. According to Henry Kissinger, "The ironical aspect of the dispute is that both protagonists profess the same objectives. France and the United States avow the goal of European unity."⁵⁴ Even de Gaulle's condemnation of the U.S. role in Vietnam (which was seen by U.S. officials as detrimental to troop morale) did not cause any significant changes in the relations between the two states. Indeed, to whatever extent that relations did degenerate, they were completely rejuvenated as a result of the election of Richard Nixon as president in 1968.⁵⁵ De Gaulle thought that Nixon would approach foreign policy with more pragmatism than had previous administrations.

⁵³C.L. Sulzburger, "De Gaulle II-Quest for 'Reality,'" New York Times, 18 December 1963, sec 1, p. 40.

⁵⁴Henry Kissinger, The Troubled Partnership, (New York: McGraw-Hill Book Company, 1965), p. 32.

⁵⁵Guy de Carmoy, "The Last Year of De Gaulle's Foreign Policy," International Affairs 45(No. 3): 427.

Although it took a while, Western Europeans eventually learned to appreciate many of de Gaulle's attitudes toward foreign policy. After France withdrew from the NATO command structure, for example, the French military did not deteriorate, France did not become a communist country, and the Soviet Union did not overrun Western Europe. France's daring move made other Western European leaders realize that it was possible to be more independent of U.S.-defined standards of international behavior than they had previously thought. Western Europeans learned to accept de Gaulle's attitudes on the evolution of the Soviet threat; they just needed more time to become convinced.

Although Western European nations do not generally look toward France for leadership, they have followed its lead in expressing their own political identities apart from the United States. The loss of U.S. political influence in European affairs has been a trend that the United States has had a hard time coming to terms with. According to former Japanese Foreign Minister, Kiichi Miyazawa, today there is a special "need for America to acknowledge the plurality of interests of the allies and accept its consequences" ⁵⁶ That the United States has not been able to accept the reality of a new, multi-polar, Atlantic Alliance has been another major source of tension in the recent pipeline dispute.

⁵⁶Giovanni Agnelli, "East-West Trade: A European View," Foreign Affairs 58(Summer 1980): 1018.

The Revolution in World Petroleum Markets

Few incidents demonstrated the diverging economic and strategic interests of the United States and its allies as clearly as the Organization of Petroleum Exporting Countries' (OPEC) price increases of the early 1970s and the Organization of Arab Petroleum Exporting Countries' (OAPEC) petroleum embargo of 1973. These events put the United States on the defensive because its allies believed that U.S. policies had triggered both the petroleum price increases and the petroleum embargo. The embargo seemed to demonstrate that alliances with the United States could be security liabilities under some circumstances and, as a result, rearranged many countries' foreign policy priorities. Suddenly, strategic, or "high politics," issues had to share the attention of policymakers with "low politics," or economic issues. This shift was accentuated by the fact that many people did not associate the strategic aims behind the embargo with its economic results. The embargo also instigated the last major attempt by the United States to assert control over its allies through the formation of an international regime.

The embargo threatened the legitimacy of U.S. economic leadership in the Western Bloc because U.S. foreign and domestic economic policies were seen as major sources of the OPEC oil price increases. Nixon's abandonment of the Bretton Woods system of fixed exchange rates in 1971 had allowed the value of the dollar to fall compared to the

value of most other hard currencies. Because most of the world's petroleum is sold for dollars, the purchasing power of petroleum revenues dropped with the dollar. This situation prompted OPEC to insist on the revision of contracts governing oil sales. The devaluation of the dollar in February 1973 resulted in a twelve percent increase in OPEC prices.⁵⁷ U.S. allies believed that the sudden transformation of the United States into the world's largest oil-importing country in 1973 was responsible for the deterioration in the global oil supply and demand balance, which had supported repeated increases in oil prices even before the embargo.⁵⁸

The OPEC embargo and the production cutbacks that accompanied it were generally credited with creating the stagflation that plagued most OECD economies in the 1970s and the years immediately afterward.⁵⁹ The extent to which the embargo is held responsible for these economic trends varies widely, but, according to Charles F. Doran, ". . . whatever the true rate, the inflationary consequences have been both real and substantial."⁶⁰ The embargo also brought benefits to some members of the OECD, chief among them being the United States. The United States was, (and still is),

⁵⁷Tetreault, Revolution in Petroleum, p. 31.

⁵⁸Ibid., p. 151.

⁵⁹Paul Hallwood and Stuart Sinclair, Oil, Debt and Development: OPEC in the Third World (London: George Allen and Unwin, 1981), p. 26.

⁶⁰Doran, p. 12.

seen as the safest place to hold money outside of Switzerland, so a large proportion of the profit petroleum exporters made during this time were invested in the United States, in essence providing the United States with long-term loans.⁶¹ The United States also benefited economically from bilateral transactions with oil producers. Iran, for example, made massive arms purchases from the United States with its swelled petroleum revenues. In fact:

. . . the close relationship between the United States and Iran gave rise to rumors that the United States had colluded with Iran to raise OPEC oil prices in 1973 in order to cripple economic rivals in Europe and Japan or, variously, to funnel money to Iran, enabling it to engage in an extensive military build-up without having to rely on U.S. foreign aid.⁶²

That the United States was in such a position to be one of the beneficiaries of the change in oil markets in the early 1970s demonstrated the differing economic interests of the United States and its allies in the Middle East. Another benefit was the rush to develop North American and North Sea oil--Britain too was a beneficiary of the oil revolution.

The Middle Eastern policies of the United States and its allies had been in conflict on several occasions. In the 1956 Suez Canal Crisis it was the United States that supported the Arabs against Israel, France and Britain. Although the United States and Britain had been on the Israeli side during the Six Day War in 1967, Britain's

⁶¹Ibid., p. 160.

⁶²Tetreault, Revolution in Petroleum, p. 212.

position changed soon thereafter, leaving the United States as Israel's major ally. The Yom Kippur War in 1973 demonstrated the divisions in allied policies toward the Middle East. The changes in petroleum markets as a result of the war isolated the United States on economic issues in addition to its isolation on strategic issues. The Washington Energy Conference was an attempt by the United States to alleviate the economic sources of tension in the alliance and it laid the groundwork for the establishment of the International Energy Agency. According to Henry Kissinger, the purpose of the IEA was ". . . to promote the cohesion of the industrialized democracies in the field of energy, which in turn made a major contribution to improving the bargaining position of the consumers."⁶³ The Washington Energy Conference and the establishment of the IEA have also been interpreted as a U.S. attempt to reassert control over the foreign policies of its allies. In reality, the IEA was both. According to Robert Keohane:

. . . the United States proposed the establishment of an international energy agency in 1974 to help cope with the shift of power over oil to producing countries, it did so to deal with the economic consequences of higher oil prices and to reinforce its own political influence. Effective international action to alleviate economic distress seemed impossible without American leadership; conversely, U.S. influence and prestige were likely to be enhanced by leading a successful collective effort to ensure energy security.⁶⁴

⁶³Henry Kissinger, Years of Upheaval, (Boston: Little, Brown and Company, 1982), p. 921.

⁶⁴Keohane, pp. 22-23.

Despite U.S. urging that the oil importing countries act together, the United States negotiated bilateral contracts with oil producers after the conference that were much larger and more profitable than the arrangements made earlier by some of its allies and which the United States had condemned forcefully at the conference.⁶⁵ The disparity between its pronouncements and its actions undermined the U.S. bid for leadership in energy policy. The differences in the import dependencies of the members of what would later be called the International Energy Agency and the varying costs of alternative energy sources to the members also impeded cooperation among the members.⁶⁶

Politically, the United States lost a great deal of prestige as a result of the events in the Middle East. The Yom Kippur War in October of 1973 widened the political division between the United States and its allies over Middle East policy that had begun as a result of the Six Day War in 1967. By 1973, ". . . many of its [U.S.] OECD partners regarded any identification with American foreign policy positions on the Arab-Israeli conflict as directly threatening to their oil supplies."⁶⁷ The 1973 embargo led the Japanese and some Western European governments to take the Arab side, leaving the United States and Holland on the

⁶⁵Doran, p. 102.

⁶⁶Richard C. Weisberg, The Politics of Crude Oil Pricing in the Middle East, 1970-1975, (Berkeley: Institute of International Studies, 1977), p. 24.

⁶⁷Tetreault, Revolution in Petroleum, p. 151.

Israeli side. The relationship between the political goals of the embargo and the higher prices that accompanied it was lost on many in the United States who

. . . saw the embargo as an OPEC attack on consumers intended to raise oil prices, rather than as a political move by Arab countries to change U.S. policy toward Israel. This confusion made OPEC look more powerful, but it also enabled policymakers to ignore the relationship between the embargo and American foreign policy.

Conclusions

The relationship between the United States and its allies has evolved through three stages since the end of World War II. For the first ten years after the war U.S. allies in Western Europe and Japan were more dependencies than allies. In the second stage, from 1956 to 1973, Western Europe and Japan, as a result of their economic growth, evolved into allies from dependencies and began to pursue independent foreign policies. The third stage, beginning in 1973 and continuing through today, is characterized by diverging economic and political interests between the United States and its allies, and the attempt by U.S. allies to disassociate themselves from some U.S. policies.

The hegemony of the United States over its allies differed from that of its hegemonic predecessor, Great Britain, and that of its hegemonic contemporary, the Soviet Union, in that it was a system designed not to perpetuate but rather to dissolve itself.

⁶⁸Ibid., pp. 239-240.

If the authority of the United States appears to have weakened, it is largely because the markets and their operators have been given freedom and license by the same state to profit from an integrated world economy. If Frankenstein's monster is feared to be out of control, that looks to non-Americans more like a proof of Frankenstein's⁶⁹ power to create such a monster in the first place.

In the ten years following World War II, "Europeans accepted American leadership, encouraged it, even cultivated it."⁷⁰

During this period the United States gave Western European states 26 billion dollars for economic reconstruction, making them more dependencies than allies. The United States was the only country capable of supplying Western Europe and Japan with the funds for reconstruction. The Soviet Union could not perform this service for its allies and in some cases it actually exploited them.

The second phase in U.S.-allied relations marked the beginning of diverging economic and strategic interests. During this period U.S. allies began to pursue individual foreign policy objectives and just as important, other states, most notably the Soviet Union, began to treat them as autonomous states with legitimate interests of their own.⁷¹ The two trends that encouraged the growing political independence of U.S. allies were their economic growth and the development of the Soviet Union's nuclear capability.

⁶⁹ Strange, "dragones," 483.

⁷⁰ Jacques Freymond, "Prospects and Designs for the West," in Changing East-West Relations and the Unity of the West, ed. Arnold Wolfers (Baltimore: Johns Hopkins University Press, 1964), p. 215.

⁷¹ Draper, p. 67.

In a sense, economic development made independence possible while the Soviet Union's development of nuclear weapons seemed to make it necessary for them to become more independent of the United States. U.S. allies came to perceive that the United States and the Soviet Union were unwilling to compromise their own safety while that of Western Europe was negotiable.

During this phase the United States began to lose its control over many of the post-war regimes it helped establish. As has been stated, one of the purposes of the hegemonic establishment of international regimes is to absorb or dilute counter-hegemonic movements.⁷² However, in some cases, countries representing these movements gained sufficient control over the post-war institutions that the United States no longer had the controlling interest. The membership of the United Nations became swelled with newly independent third-world countries who had not been included in the post-war economic recovery of the United States and its allies.⁷³ The economic recovery of U.S. allies cut into U.S. domination of technology and with it went U.S. control over COCOM. The post-war economic system established by the United States became a source of conflict as the interdependence led to strains between the United States and its allies. Another source of friction arose from the fact that

⁷²Cox, "Gramsci," p. 172

⁷³Nathan Godfried, "Bridging the Gap Between Rich and Poor," (Westport, Connecticut: Greenwood Press, forthcoming).

Western Europe recovered from the devastation of the war so quickly and that the United States expected Europe to ". . . bear more of the material burden in steering the world economy" ⁷⁴ The United States gave up its economic leadership role in 1971 when the Nixon administration abandoned the Bretton Woods system of international finance.

The abruptness with which the Nixon administration went off the gold standard in 1971 demonstrated that the United States had lost control of an international financial system based on the stability of the dollar This structural change altered beyond recognition ⁷⁵ America's economic relationship with its allies.

It was also during this time that the United States lost some of its strategic hegemony over its allies and the Soviet Union. The coercive hegemony of the United States over the Soviet Union deteriorated as the Soviet Union developed its own nuclear weapons and the capability to deploy them by means of long distance bombers or inter-continental missiles. The United States lost some of its strategic control over Western Europe with the departure of France from the integrated military command of NATO, and it gave more of this control away when the Nixon administration insisted Europe play a greater role in its own defense. ⁷⁶

The United States lost its economic hegemony over its allies as early as the late 1950s, by some estimates, but this decline did not really affect the implementation of

⁷⁴Smith, The Uncertain Alliance, p. 24.

⁷⁵Draper, p. 86.

⁷⁶Ibid., p. 30.

either pipeline embargo because, as far as the United States was concerned, the embargoes were strategic rather than economic policies. For this reason it was in the interest of U.S. allies to cast the pipeline negotiations as a purely economic issue, while the interests of the United States were better served by emphasizing the strategic aspects of the pipeline contracts. The different attitudes of the United States and its allies toward the degree of linkage between economic and strategic goals has been the focus of conflict in the two U.S. pipeline embargoes. The U.S. was accused by its allies of trying to use linkage to translate its military power into the economic sphere of issues. Although some U.S. allies such as Britain and France have developed their own nuclear capabilities, the large size of the U.S. military in both conventional and nuclear weapons makes the United States strategically much stronger than its allies. The high political cost of using nuclear weapons and the revolutions in world oil markets in the 1970s decreased the utility of military weapons in favor of economic ones. The increased utility of economic weapons made obtaining economic security that much more important than it had been. This is why the allies saw the pipeline embargoes (particularly the second) as detrimental to their economic security.

In the third phase of U.S.-allied relations, which began in 1973 and continues through today, U.S. allies pursue foreign policies independent of the United States.

Nowhere is this trend more apparent than in policies toward the Middle East and energy security. The United States, has traditionally been less dependent upon Middle Eastern energy sources than its allies, who have been forced to adopt more pro-Arab stances to ensure the continuity of their energy supplies.

Chapter Three

Three Anti-Soviet Embargoes

President Reagan's 1981 attempt to impede the construction of the Soviet Union's natural gas pipeline to Western Europe was a source of tremendous controversy between the United States and its allies. Like the Kennedy administration before him, Reagan prohibited the use of U.S. supplies and technology in the construction of the pipelines and demanded that our allies do the same. The two presidents' reasons for the embargoes were similar: to prevent the Soviets from selling oil or gas to obtain hard currency, and to reduce the possibility of dependency relationships developing between the Soviet Union and Western European states. The main difference between the implementation of the two embargoes was that the first was undertaken with lukewarm support from U.S. allies while the second was greeted with almost uniform hostility by these same states. The inefficiencies of the Soviet energy industry and the formidable tasks of having to drill through permafrost and transport the oil and gas thousands of miles combined with the importance of energy exports in the acquisition of hard currency have made embargoes on energy-related equipment an attractive policy for U.S. administrations since World War II. The United States has

implemented three major embargoes that have indirectly or directly affected the Soviet energy industry. The first was the strategic embargo which, among other items, included the wide-diameter steel pipe that is used in the drilling and transportation of oil and gas. The other two embargoes were undertaken to impede the construction of Soviet energy pipelines.

The Oil and Natural Gas Industries of the Soviet Union

The Soviet Union's energy industries are its most important civilian industries, yet they have traditionally been grossly inefficient in exploration, extraction and production in comparison to those of most market economies. The Soviet economic system is not solely responsible because inefficiency was the rule prior to the Revolution. However, the Soviet system has exacerbated this problem. The Soviet Union has been able to tolerate these inefficiencies because it has the largest oil and gas reserves in the world. The size of Soviet reserves has given them a large margin for error and waste that other countries cannot afford. In addition to oil and gas, the Soviet Union also leads the world in the production of: petroleum, pig iron, steel, cement, cotton, manganese, tungsten, chromium, platinum, nickel, lead, timber and coal.¹ Because these mineral resources are highly coveted in both Western and Eastern Europe, their export provides the Soviet Union with its

¹Marshall I. Goldman, The Enigma of Soviet Petroleum, (London: George Allen and Unwin, 1980), p. 4.

greatest source of foreign currency. Oil and gas account for sixty percent of the Soviet Union's hard currency receipts.² The Soviets planned the construction of the Urengoi pipeline in the 1970s when the increasing value of energy made such an expensive project not only possible, but profitable as well. The construction of these pipelines often requires technology that only Western European nations can provide, so, barter agreements are made to exchange technology and equipment for oil and gas. That these transactions cannot be conducted in a vacuum, free of Cold War politics, is one of the subjects of this study.

Natural resources have been one of the Soviet Union's major industries and sources of foreign currency throughout this century, and today is no exception. The Soviet Union is the world's largest producer of petroleum and leads the world in exports of natural gas.³ Although the Soviet Union has the largest reserves of both these commodities, this statement must be qualified because much of these reserves is inaccessible. A large and increasing percentage of these reserves are found in remote areas of Siberia. Drilling through the permafrost that covers much of Siberia is a challenge that can only be met successfully with the assistance of Western technology. Once the machinery is acquired, the ability to drill through permafrost is an

²"Oil Exports Rise Again," Petroleum Economist 52(February 1985): 58.

³"DIA: Soviets Will Meet Energy Targets," Oil and Gas Journal 79(21 September 1981): 94.

artform that no one has managed to master efficiently.⁴

These problems are compounded by the fact that it is difficult to find people willing to work under such conditions, even for the Soviets. Monetary bonuses have proven ineffective in enticing more labor, and forced labor has also proven to be ineffective.⁵

Recent trends indicate that the Soviet oil industry is having some trouble. In the early 1980s the Soviets had difficulty in meeting quotas set in the Five-Year Plan and exports to Eastern Europe were cut. According to the Petroleum Economist:

Soviet success in boosting exports against considerable odds is the reward of a vigorous conservation and gas substitution programme implemented throughout the East Bloc, and reflects a persistent, market-oriented trading policy.⁶

Getting to the oil and gas through permafrost and transporting it to where it is needed requires technology and equipment the Soviet Union does not have. The West, which has the needed technology and equipment, would like a share of the gas in exchange for the technology. These sound like the perfect circumstances under which a trade could be made, but politics has often gotten in the way.

In both the early 1960s and late 1970s, the source of most of the international commotion has been the sale of

⁴Goldman, Enigma, p. 122.

⁵"Labour Shortages and Problems," Petroleum Economist 47(July 1980): 311.

⁶Petroleum Economist, "Oil Exports," p. 58.

wide-diameter steel pipe to the Soviet Union. According to Marshall Goldman, "Soviet pipe imports are worth fussing about, because their magnitude in some recent years, for both drilling and pipeline, has been large."⁷ Imported pipe is used for both rotary drilling rigs and pipelines. The overwhelming percentage of the pipe, however, is used for the creation of the pipelines. In the case of oil,

to drill effectively using conventional techniques, the driller must have good-quality pipe. The pipe must be able to withstand the increasing tension and pressure as the drilling goes deeper. With the poor-quality steel pipe, breakdowns of cracked pipe, and tool-joint failures are endemic.

This is the catch plaguing the Soviet oil and gas industries. The use of poor-quality pipe leads to a great deal of time wasted in repairs. Unfortunately for the Soviets, they have neither the technology nor facilities to manufacture the high-quality pipe that other industrialized states take for granted. Another reason that the Soviets cannot manufacture high-quality pipe is inherent in their present system of industry. "As long as the Soviet system places stress on quantity rather than on quality of production, the Soviet manager has little or no incentive to produce the highest grade of steel."⁹ It is not within the Soviet system to use some innovation to solve the problem. As Marshall Goldman relates it, "innovation was disruptive

⁷ Goldman, Enigma, p. 36.

⁸ Ibid.

⁹ Ibid., p. 37.

and therefore to be discouraged."¹⁰ The difficult conditions under which the Soviets are forced to extract their oil and gas combined with the inefficiencies of the Soviet system make embargoes on energy equipment attractive to the United States.

The Strategic Embargo

Between 1947 and 1953 the United States forced its allies to participate in a series of embargoes against the Soviet Union and other members of the Eastern Bloc. These embargoes are collectively known as the Strategic Embargo.

The strategic embargo was employed during the first phase of U.S.-allied relations from 1945-1958. The policy which became known as the strategic embargo was really a series of separate pieces of legislation that restricted the flow of East-West trade. According to Lorraine Lees:

By late 1947 the departments of State and Commerce, along with the National Security Council (NSC), decided that America's commitment to the European Recovery Program, and the Soviet bloc's resistance to it, necessitated a reorientation of America's trade policies. The government therefore resolved that henceforth it would prohibit the shipment to the Soviet Union and its satellites of critical commodities that were in short supply or had military potential.

The embargo began when the U.S. Department of Commerce issued two new export regulations in December 1947 and January 1948. The first tightened destination controls on materials in short domestic supply and the second made

¹⁰Ibid.

¹¹Lorraine Lees, "The American Decision to Assist Tito, 1948-1949," Diplomatic History 2(Fall 1978): 408.

export licenses mandatory for all commercial shipments to Europe. These regulations were written in obscure language in that the Soviet Union and Eastern Europe were never mentioned and they were enforced sporadically.¹² In Europe these regulations were seen as a U.S. attempt to impede the Anglo-Soviet trade and financing agreement signed in December 1947. The Department of Commerce mentioned for the first time the value of the regulations in restricting exports to the Eastern Bloc after the communist takeover in Czechoslovakia. In May 1948, exports were grouped into three categories: munitions, atomic energy, and industrial/commercial. "There were three types of embargoed goods --those totally embargoed, those permitted in limited quantities, and those to be kept under surveillance."¹³

In March 1948 the Mundt amendment gave the Marshall aid administrator the right to suspend U.S. exports to countries receiving aid that were exporting goods to ". . . any non-participating European country . . . ," meaning the Eastern Bloc.¹⁴ The Export Control Act of 1949 gave the president the authority to unilaterally prohibit the export of goods from the United States to any country.¹⁵ Later

¹²Gunnar Adler-Karlsson, Western Economic Warfare 1947-1967, (Stockholm: Almqvist and Wiksell, 1968), p. 22.

¹³Angela Stent, From Embargo to Ostpolitik, (Cambridge: Cambridge University Press, 1981), p. 32.

¹⁴Adler-Karlsson, p. 23.

¹⁵Bruce Jentleson, "East-West Energy Trade and Domestic Politics," International Organization 38(Autumn 1984): 633.

that year the United States and its allies established the Consultative Group-Coordinating Committee (COCOM) to administer the strategic embargo. During the Korean War export controls became more strict because of the Mutual Defense Assistance Control Act of 1951, known as the Battle Act, which called for the cancellation of Marshall Plan aid to countries that violated U.S. export controls.¹⁶

The components of the strategic embargo were resented by Western European leaders because their unilateral implementation inherently implied that the United States did not think that they were either capable of making their own strategic decisions or that they could not be trusted to do so in the best interests of the Western Alliance. The embargo also angered European leaders because it ignored traditional European trade routes. Yet the Western European leaders cooperated with the strategic embargo in its initial years because the value of U.S. aid to Europe, most of it in the form of grants, far outweighed the value of trade with the Eastern Bloc (see table 3). The end of Marshall Plan aid to Western Europe in 1953 also marked the end of European participation in the strategic embargo.

The Friendship Crude Oil Pipeline

In 1958, President Eisenhower agreed to remove wide-diameter steel pipe from COCOM's list of items whose sale was prohibited to the Eastern Bloc. Just eight years earlier, a State Department survey of goods embargoed by

¹⁶Ibid., pp. 40-43.

TABLE 3

U.S. Aid to Western Europe Compared
to East-West Trade 1949-1955

	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
England							
Exports to Eastern Europe	108.9	72.1	44.7	43.0	43.4	69.5	103.1
Imports	148.5	176.8	265.8	234.7	206.6	206.5	294.1
Total U.S. Economic Aid	1613.6	957.8	287.9	388.2	564.3	370.5	141.5
France							
Exports to Eastern Europe	64.6	35.0	38.6	38.7	51.1	74.1	126.4
Imports	71.6	33.5	53.8	57.3	41.1	67.3	83.3
Total U.S. Economic Aid	1313.2	716.1	781.2	748.0	1505.3	769.0	501.9
Italy							
Exports to Eastern Europe	56.8	61.6	65.1	55.7	58.1	57.2	58.4
Imports	76.8	59.9	72.9	84.7	46.6	63.3	67.0
Total U.S. Economic Aid	684.1	404.2	333.5	266.0	520.8	375.3	325.1
Western Europe							
Exports to Eastern Europe	832.4	653.3	745.9	742.5	790.9	973.8	1100.1
Imports	1011.7	812.9	1009.8	995.4	908.7	1039.4	1357.9
Total U.S. Economic Aid	6276.0	3819.2	2267.8	1349.1	1264.9	636.6	466.4

Source: Trade figures from matrix. Aid figures from U.S. Foreign Assistance from International Organizations, July, 1, 1945-June 30, 1961(revised). Agency for International Development Statistics and Reports Division. In Gunnar Adler-Karlsson, Western Economic Warfare 1947-1967, (Stockholm: Almqvist and Wiksell, 1968).

COCOM had included "all basic specialized equipment for the exporation, production and refining of petroleulm and natural gas."¹⁷ Wide-diameter steel pipe was used in drilling for petroleum and gas and was, therefore, on COCOM's list of banned goods. As the inclusion or exclusion of an item on COCOM's list of embargoed goods required the unanimous consent of all members, Eisenhower's consent was needed to remove wide-diameter pipe from the COCOM list. Eisenhower's decision to remove pipe from the list of banned goods was based primarily on two factors. The first was that liberalizing trade controls would improve relations with U.S. allies by expanding the market for their products. The second reason was that the Commerce Department calculated that the United States had 77 percent of the world's production capacity for pipe over 24 inches in diameter. Eisenhower had no way of knowing the Commerce Department had miscalculated its pipe construction estimates. He was confident enough of its judgement that he relaxed the controls on the pipe despite the fact that the Soviet Union announced it was embarking on the construction of an oil pipeline 5,750 kilometers long.¹⁸ One year later, the United States would prohibit the sale of U.S. wide-diameter steel pipe to the Soviet Union.

The "Friendship" crude oil pipeline and the wide-diameter pipe used to build it did not become important

¹⁷Jentleson, "Khrushchev's Oil," p. 36.

¹⁸Ibid., pp. 40-43.

issues until 1961, when the Executive Commission of the Common Market recommended that all member states restrict their purchases of Soviet petroleum. This recommendation was made in July in response to the construction of the Berlin Wall. The recommendation was rejected by Italy and was never implemented. In March of 1962, the Assembly of the Common Market again tried to restrict energy imports from sources that could not guarantee "long-term stability of supply." This too was rejected by Italy.¹⁹

In order to obtain from western states the wide-diameter pipe needed for the line, the Soviets agreed to barter oil for pipe. Some of the strongest opposition to the deal came from oil executives who were concerned that the massive size of the potential exports would disrupt the oil market and its price structure. Oil industry executives were both convinced and concerned that the increases in Soviet exports would not just be temporary, but would displace their sales in West European markets for many years to come.²⁰

The oil executives did not need to worry for the European Economic Community and the Kennedy administration were willing to do it for them. According to George Ball, an undersecretary of state for economic affairs in the

¹⁹ Arthur Jay Klinghoffer, The Soviet Union and International Oil Politics, (New York: Columbia University Press, 1977), p. 217.

²⁰ J.H. Carmical, "Common Market Seeks Oil Policy," New York Times, 4 March 1962, sec. 1, p. 1.

Kennedy and Johnson administrations, "early in the Kennedy administration, the president assigned me the task of trying to obstruct the building of the so-called Friendship Pipeline that would bring Soviet oil into Western Europe."²¹ The European Economic Community's Parliamentary Assembly also opposed the pipeline. J.H. Carmical reported in the New York Times that, "the European Common Market is hammering into shape a concerted fuel policy designed to curb sharply the flow of Soviet oil" into Western Europe. The EEC was concerned that the influx of large amounts of cheap Soviet oil had great potential to disrupt European oil and coal markets. The EEC also feared that additional Soviet oil supplies to western markets would discourage the expansion of the Western European oil industry.²² It is interesting to note that while the United States and the EEC Parliamentary Assembly were against the pipe-for-oil trade, individual countries were very much in favor of it. Great Britain, Italy (which vetoed the EEC's efforts to control imports of Soviet oil) and West Germany in particular would have preferred to see the deal carried out for economic reasons.

Whenever East-West trade is being discussed, the subject of political leverage always comes up. The question of leverage is not a new one. "Ever since Lenin remarked

²¹George W. Ball, "On Cutting Pipelines--And Our Own Throat," Washington Post, 11 March 1982, p. A29.

²²J.H. Carmical, "Soviet Oil Drive Watched in West," New York Times, 21 January 1962, sec. 1, p. 1.

that he would gladly supply capitalist countries with the rope to hang themselves, political leverage through trade has been a Soviet goal."²³ Khrushchev's statement, "We will bury you," did nothing to alleviate these tensions. This was the case with the pipeline embargoes in both the early 1960s and the late 1970s.

In the early 1960s the prospect of the Soviet Union gaining political and economic leverage as a result of a petroleum-for-pipeline deal was a controversial issue on both sides of the Atlantic. The potential leverage the deal would have given the Soviet Union over Western Europe was one of the EEC Parliamentary Assembly's main points in objecting to the deal. According to Carmical, "The principle objections by the Assembly to importing Soviet oil are that the supply could be cut off at the whim of the Soviet Government and that it would be disruptive of existing markets."²⁴ On the other side of the Atlantic, Kenneth B. Keating, a Republican senator from New York, was in agreement with the assembly. He told the U.S. Senate Internal Security Committee in 1962 that the Soviet Union uses its oil to ". . . exert important economic leverage over the policies. . . ." of NATO. He went on to say that Soviet oil is, ". . . sold at prices determined by political rather than economic considerations, accompanied by

²³ John F. Burns, "Soviets Speeding Pipeline Deal," New York Times, 6 August 1981, p. D15.

²⁴ Carmical, "Soviet Oil Drive," p. 1.

propaganda, technicians and all the prerequisites of a Communist marketing system."²⁵

The Soviet Union's oil pricing policies were the main topic of concern in the early 1960s. The Soviet Union made its first major post-war push into the world oil market in 1956 when the Suez Canal was blocked. The Soviet Union promptly cancelled its contracts to some countries (such as Israel) to pursue European markets. Like any other entrepreneur trying to expand into new markets, the Soviets offered their oil at a price lower than the world price. Soviet energy pricing policies have been a source of East-West controversy ever since.²⁶ Critics point to the disparity between the higher prices charged for petroleum within the Eastern Bloc and the lower prices charged to hard currency customers. The higher prices charged members of the Eastern Bloc (prior to the world price increases of the early 1970s) were cited as evidence of the way the Soviet Union treated captive markets. The comparatively lower prices, or alternative methods of payment such as barter, charged to under-developed countries such as India, for example, and to buyers who would pay in hard currency were seen as attempts to disrupt world energy markets and create dependency relationships subject to Soviet political

²⁵Carmical, "Common Market," p. 1.

²⁶U.S., Congress, Senate, Committee on the Judiciary, Soviet Oil in the Cold War, by Halford L. Hoskins and Leon Herman, Committee Print, (Washington, D.C.: Government Printing Office, 1961), p. 4.

leverage.²⁷

However, when comparing the difference in soft and hard currency prices for goods it is important to keep in mind the differences between the two kinds of currency. Soft currencies serve no purpose outside the Eastern Bloc because they are non-convertible. For this reason, soft currencies cannot purchase most of the things the Soviet Union wants from the West. High technology, General Electric turbines, and grain must be purchased with hard currency. There are enough disadvantages in trading for soft currency that some Eastern Bloc states insist on receiving hard currency in exchange for some of their products going to the Soviet Union.²⁸

When the Soviet Union made its first major push into world petroleum markets after the Suez Crisis, they entered new markets through lower prices. For example, in 1957, the average price of Soviet oil in the world market was \$2.06 a barrel, whereas the average prices for Middle East and Venezuelan oil were \$2.79 and \$2.92, respectively.²⁹ In 1955 the Soviet Union exported 116,000 barrels a day to the West. By 1960 this figure had risen to 486,000 barrels a day. Despite the fact that Soviet exports accounted for only four percent of world sales, many in the petroleum industry blamed the Soviet Union for the decline in the

²⁷ Ibid., p. 6.

²⁸ Goldman, Enigma, pp. 103, 104.

²⁹ Hoskins and Herman, p. 4-6.

posted price of petroleum in 1959 and 1960.³⁰ As the Soviets saw it, they were just trying to recapture that fourteen percent of the European market which had been theirs prior to World War II.³¹ The Soviets are in a no-win situation when participating in Western markets because higher prices to Western consumers are seen as exploitive while higher prices to the Eastern Bloc are seen as an example of how the Soviets treat a captive market. As a result Western consumers, especially those in the United States, have been hesitant to rely upon the Soviet Union for a large percentage of energy imports.

One month after the Cuban Missile Crisis, the United States attempted to impose an embargo on all steel pipe with a diameter of nineteen inches sold to the Soviet Union.³² That politics were going to prevail over economics in the early 1960s was confirmed when NATO recommended that its members discontinue the sale of wide-diameter pipe to the Soviet Union in November 1963. The United States had initially planned to impose its embargo under the auspices of COCOM, but the British promised to veto the measure. The embargo was then undertaken by NATO where a unanimous vote was not needed.³³ According to George Ball, getting Britain

³⁰Stent, Embargo to Ostpolitik, p. 98, and Goldman, Enigma, pp. 23, 70.

³¹Robert E. Ebel, Communist Trade in Oil and Gas, (New York: Praeger, 1970), p. 83.

³²Jentleson, "Khrushchev's Oil," p. 45.

³³Stent, Embargo to Ostpolitik, p. 102.

and West Germany to support the embargo ". . . took relentless arm-twisting" ³⁴

The purpose of NATO's embargo was to impede the construction of the Friendship crude oil pipeline. When completed, this line would have connected Soviet oil fields to refineries in Eastern Europe. Robert E. Ebel quotes NATO officials as saying that the embargo ". . . was undertaken 'in the military interests of the alliance.'" Because the pipeline extended into several Eastern European countries, western security analysts believed that the fuel could be used to power Warsaw Pact military forces. ³⁵

The most heated debate as to whether to support or reject the embargo took place in West Germany. German Chancellor Konrad Adenauer was Europe's most vocal supporter of the embargo, in large part because he owed a political debt to the Kennedy administration. Soviet leader Nikita Khrushchev, and East German leader Walter Ulbricht, had made speeches threatening the status of West Berlin, implying that West Berlin was in territory belonging to East Germany. Kennedy's firm stance in favor of a free West Berlin at the Vienna Summit 1961 with Khrushchev ". . . was of fundamental importance to the Adenauer government and the West German people" Seven months after West Germany agreed to participate in the embargo, Kennedy visited West Berlin to reaffirm his support for a free West Berlin and made his

³⁴Ball, "Cutting Pipelines," p. A29.

³⁵Ebel, p. 185.

famous "Ich bin ein Berliner" speech. "Adenauer and the CDU could soar on the rest of this wave in the face of strong domestic opposition to the embargo."³⁶

Another political debt Adenauer owed the United States was the result of the Franco-German Treaty of Friendship and Cooperation in January of 1963. The West German reason for signing the treaty, according to Alfons Dalma, was that, "the defense of Germany's political interests seemed to be in better hands with De Gaulle than with Kennedy, while there was no change in the belief that the interests of German security . . . could only be taken care of by the power . . . of the United States."³⁷ The treaty was seen by conservatives on both sides of the Atlantic as an anti-United States gesture. Coming on the heels of the French rejection of British membership in the EEC, France and Germany were asserting their independence from the Anglo-Saxons who, in their view, had been dominating the alliance since the war. Both must also have been aware that they were expressing this unity at a time when relations between the United States and Britain were at their most tense since the war. "Nevertheless, in the first months of 1963 there was considerable German-U.S. tension, and the Adenauer regime felt constrained to placate the U.S.

³⁶Jentleson, "Khrushchev's Oil," p. 56.

³⁷Alfonse Dalma, "The Risks of a Detente Policy to Central Europe," in Changing East-West Relations and the Unity of the West, ed. Arnold Wolfers (Baltimore: Johns Hopkins University Press, 1964), p. 106.

government."³⁸ The pipeline embargo provided Adenauer with this opportunity.

Although Adenauer agreed to support the embargo in November 1962, the Bundestag did not debate the embargo until March 18 the next year. Adenauer, citing national security, was the embargo's most vocal supporter in West Germany. But despite the lobbying efforts of the United States, Adenauer, and his party, there were not enough votes in the Bundestag to support the embargo. Supporters of the embargo avoided losing the vote by walking out, leaving an inadequate number of members in the chamber to conduct a vote. Therefore, the German government supported the embargo only by default.³⁹ The London Times summarized the situation:

If the Government's handling of the issue from the start was incompetent, it had little alternative but to take the stand it did. Because of what NATO means to German security and because Germany cannot afford to contradict the United States in this matter, the more so after the misunderstandings of the Franco-German treaty, it had to give an example, even in isolation, of unqualified support for a NATO decision.⁴⁰

It was significant that there was so much opposition to the embargo because "until 1969, [the election of Willy Brandt, a Socialist] the FRG's autonomy in foreign policy was

³⁸Stent, Embargo to Ostpolitik, p. 96.

³⁹Ibid., p. 107.

⁴⁰"Decision Expected by June on Dr. Adenauer's Successor," Times, (London), 20 March 1963, p. 11.

restricted, and it had to heed to Washington."⁴¹

Germany's support of the embargo was an important victory for the United States because the embargo could not have succeeded without it. According to Bruce Jentleson, Germany was to 1960s wide-diameter pipe production what Saudi Arabia is to OPEC today.⁴² In all, West Germany was responsible for over two-thirds of the Soviet Union's imports of pipe. For example, West German exports of wide-diameter pipe expanded from 3.2 thousand tons in 1958, to 255.4 thousand tons in 1962. In the month prior to the embargo, three German manufacturers of pipe signed a contract with the Soviet Union for 163,000 tons of steel pipe worth twenty-eight million dollars.⁴³ The contract was cancelled despite the fact that it had been signed prior to the imposition of the embargo.⁴⁴

Although Britain produced only a small amount of pipe, convincing Britain to support the embargo proved to be far more difficult for the United States than convincing Germany had been. Relations between the United States and Britain had been tense as a result of the Skybolt missile affair and the failure of the United States to persuade De Gaulle to permit Britain to join the European Economic Community. The

⁴¹ Stent, Embargo to Ostpolitik, p. 94.

⁴² Jentleson, "Khrushchev's Oil," p. 47.

⁴³ Stent, Embargo to Ostpolitik, p. 101.

⁴⁴ "NATO Oil Pipes Ruling 'Not Binding,'" Times (London), 4 April 1963, p. 10.

U.S. decision not to produce the Skybolt missile undermined Britain's international prestige because the missile was to have served as Britain's independent nuclear deterrent.⁴⁵ The skybolt affair demonstrated Britain's dependence on the United States for its security. The failure of the United States to convince France to let Britain join the EEC demonstrated U.S. political weakness in Western Europe. In addition to these sources of disappointment and resentment, Britain and the United States had developed very different attitudes toward East-West trade in the 1950s. Winston Churchill, who had never been accused of being "soft on communism" said in 1954:

The more the two great divisions of the world mingle in the healthy and fertile activities of commerce, the greater is the counterpoise to purely military calculations. Other thoughts take up their place in the minds of men.⁴⁶

Britain also had economic reasons for opposing the embargo. First, the British wanted to diversify their energy sources. Britain lost 60% of its interest in the National Iranian oil industry in 1951 and the concession was reorganized in 1953-54 following the reinstatement of the Shah. Although Britain retained substantial Middle Eastern oil interests, there were signs that its control might be slipping. Several of the major western oil companies operating in the the Middle East had cut their prices in 1959 and 1960 to make their products more competitive with

⁴⁵Jentleson, "Krushchev's Oil," p. 56.

⁴⁶Ibid., p. 57.

Soviet petroleum exports. Because these companies had cut posted prices without consulting their host governments, five of the countries that had been slighted formed the Organization of Petroleum Exporting Countries, OPEC in September 1960. Still, ". . . the United States assumed that as a nation with a major stake in the profitability of Middle Eastern oil, Britain would not act in any manner that would increase the competition from Soviet oil."⁴⁷

Britain also opposed the embargo because its South Durham Steel and Iron Company had signed a pilot contract with the Soviet Union for 300 tons of steel pipe. Located in an area of high unemployment, the South Durham Steel and Iron Company was Britain's only manufacturer of wide-diameter steel pipe. The United States had tried to discourage the signing of the contract by promising that U.S. oil companies would purchase 10,000 tons of the pipe from South Durham. The British were looking for a purchase of 50,000 tons but the U.S. oil companies involved refused to buy that much because they had doubts about the quality and price of the steel. The Soviets eventually came to the same conclusion and no contract was signed.⁴⁸

Britain voted in favor of the NATO resolution to embargo pipe sales to the Soviet Union on the assumption that it was non-binding. (Italy's vote in favor of the embargo had had similar qualifications). Even if the

⁴⁷ Ibid., p. 47.

⁴⁸ Ibid., pp. 47, 48.

resolution had been mandatory, the British government insisted that it did not have the authority to prevent such transaction and it was unwilling to take the special measures required to cancel the contracts.⁴⁹

The embargo on pipe sales to the Soviet Union was not very effective in that contracts already in force were permitted to be carried out to their conclusion. As a result of this loophole, 1.1 million metric tons of pipe, or enough to construct about four thousand kilometers of pipeline, had been sent to the Soviet Union by the end of 1965. It is estimated that the pipe acquired during the embargo fulfilled over forty percent of the requirements of the Soviet Union for its 1959-1965 Seven-Year Plan. Additional pipe was also supplied throughout the embargo by Sweden. The Soviets actually received enough pipe to complete the Friendship line, but much of it was diverted to the construction of natural gas lines. In all, the embargo delayed the completion of the Friendship pipeline for only one year.⁵⁰

The embargo proved to have had its greatest impact on the Soviet pipe industry. In order to compensate for decreasing amounts of forty-inch pipe, Soviet factories which normally produced small pipe were converted to the production of large pipe. This adjustment resulted in a

⁴⁹"NATO Friction Over East-West Trade," Times, (London), 25 March 1963, p. 8.

⁵⁰Stent, Embargo to Ostpolitik, p. 104.

nationwide shortage of pipe in the nineteen to thirty-inch size.⁵¹ Referring to the embargo, George Ball quotes the Soviet ambassador to the United States, Anatoly Dobrynin, as saying, ". . . you forced my country to do what we should have done long before--build a mill to make wide-diameter pipe."⁵²

As a result of an assessment of the Soviet Union's improved pipe-manufacturing capabilities, NATO lifted the embargo on pipe sales in November 1966. That the main target of the embargo, the Friendship pipeline, was near completion also influenced the decision. NATO officials said:

As NATO's aim is not to place obstacles to East-West trade of goods which no longer have strategic significance, the council has decided that the current and prospective value of the embargo for the alliance no longer warrants its maintenance.⁵³

The Reagan Administration's Embargo
on Equipment for the Urengoi
Natural Gas Pipeline in 1981-1982

The second embargo on Soviet pipeline equipment took place in what Chapter two defined as the third phase of U.S.-allied relations. As such, the embargo contradicted two of the most important political trends of the late 1960s and early 1970s: West Germany's Ostpolitik and the U.S. Detente. Ostpolitik and Detente are called trends here because both existed in different forms in the early 1960s.

⁵¹Ebel, p. 185.

⁵²Ball, "Cutting Pipelines," p. A29.

⁵³Ebel, p. 1020.

The Ostpolitik and Detente practiced by Adenauer and Kennedy were very different from those practiced by Brandt and Nixon. Adenauer tried to pursue Ostpolitik without recognizing the Oder-Neisse line while Kennedy pursued Detente while the United States still had strategic superiority over the Soviet Union. During the 1960s Western Europe dramatically increased the value of its trade with the Soviet Union.

This trend would not have been possible if the allies were still dependent on U.S. aid, for the United States has never participated in the economic integration of the Eastern Bloc to the extent that Western Europe has. Indeed, scholars in West Germany and the Soviet Union ". . . have claimed that Brandt's Ostpolitik was the result of pressure from German big business, especially the export-dependent steel industry" ⁵⁴ These scholars fall into the trap of Lenin's theory of uneven development in that they assume that all politics in the West are motivated by profit when in reality the West German government's policy was motivated by politics and not the business community. However, Willy Brandt has stated that economic factors played an integral role in his decision as foreign minister to alter the course of Ostpolitik. He explained the role of economics in changing Ostpolitik when he wrote

I do not disguise that I was also motivated from the outset by concrete economic considerations. Even as Foreign Minister I told the Bundestag that our

⁵⁴ Stent, Embargo to Ostpolitik, p. 173

policy must be focused on the problems of existence in an immediate sense as well; we had to safeguard employment and open up new fields of economic opportunity.⁵⁵

In implementing its policy of detente, the United States was motivated by politics just as West Germany had been with Ostpolitik, and as in the case of West Germany, trade relations with the Soviet Union played an integral role in detente. Although the value and volume of U.S. trade with the Soviet Union never rivaled that of West Germany, the role of commercial relations was an important one as shown in table 4.

From the U.S. point of view, increased trade would serve as a way to defuse tension between the two blocs by building, ". . . in both countries a vested economic interest in the maintenance of a harmonious and enduring relationship."⁵⁶ Nixon and Kissinger also hoped that increased trade would give the Soviets a greater stake in the preservation of the international system.⁵⁷ "A second and probably more important reason, [for the expansion of trade with the Soviet Union] was the fact that a strategy of pure denial had deprived the United States of opportunities to use its economic strength towards a greater degree of influence on Soviet behavior."⁵⁸ The Soviets were motivated

⁵⁵Ibid., p. 176.

⁵⁶Jentleson, "East-West Energy Trade," p. 644.

⁵⁷Gaddis, p. 314.

⁵⁸Herbert Wulf, "East-West Trade as a Source of Tension," Journal of Peace Research 19(No. 4, 1982): 304.

TABLE 4

EXPORTS OF MANUFACTURED PRODUCTS TO THE USSR
(millions of dollars)

	<u>1970</u>	<u>1972</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
U.S.A	83.1	102.4	656.6	423.7	586.0
BRITAIN	219.5	202.3	796.4	950.9	908.3
JAPAN	327.7	492.4	2359.5	2607.8	3091.5
FRANCE	257.0	271.9	1772.7	1793.3	1179.0
F.R.G.	412.6	699.4	3474.5	3904.5	2877.3
ITALY	292.3	256.7	1165.0	1176.3	1151.0

source: U.S. Department of Commerce from U.N. Series D Trade Data. In "Quantification of Western Exports of High Technology Products to the U.S.S.R. and Eastern Europe," pp. 53-55. by John A. Martens. In The Politics of East West Trade. Gordon Smith, ed.

by the opportunity to improve their economy through imports of grain and technology.⁵⁹ In a sense, increased trade between the United States and the Soviet Union was an indirect means to achieve other goals for the United States but, to the Soviets, increased trade in and of itself was a major goal of detente.

The inability of the Soviet Union to expand petroleum production during the early 1970s encouraged it to concentrate on importing oil and gas technology from the United States to update its notoriously out-dated equipment. As a petroleum exporter the Soviet Union was one of the key beneficiaries of the oil revolution of the early 1970s. The Soviet Union encouraged OPEC's decision to embargo the United States and Holland both because an embargo would damage the economies of the western states and because it would give the Soviets the opportunity to raise their oil prices. The fact that the Soviets had supported the imposition of the embargo made it difficult for them to take market shares away from OPEC countries. Still, the Soviets managed to profit from the petroleum embargo. For example, the United States imported 7.5 million dollars worth of Soviet oil in 1972. In 1973 this total jumped to 76.2 million dollars and 37.3 million dollars in the first two months of 1974.⁶⁰

The embargo also made the Soviet Union appear more

⁵⁹Gaddis, p. 314.

⁶⁰Klinghoffer, p. 175

reliable as a petroleum exporter. As Reagan's secretary of state, Alexander Haig put it, "The [Soviet] pipeline had its genesis in the oil shortage of 1973 and the second explosive increase in energy costs imposed by OPEC in 1979."⁶¹ Just a decade earlier the Soviets were seen as a cause for the formation of OPEC by oil producers. After the embargo, many importers considered the Soviets a partial answer to the power of OPEC. The Soviet Union's image as a reliable supplier was further enhanced by political instability in the Middle East.⁶² Also, the price increases that preceded and accompanied the embargo made energy extraction in Siberia financially more feasible.

The Second Pipeline Embargo

In 1978 the Soviet Union announced plans to build a system of pipelines to transport natural gas to Eastern and Western Europe. Transfer stations on Czechoslovakia's borders with West Germany and Austria would divert gas to Western Europe. According to the original plans the line was to begin on the Yamal peninsula, north of the Arctic Circle, but was shifted to Urengoi which is further south, for logistical reasons. Cost estimates for the entire project hovered around fifteen to twenty billion dollars. The high cost of construction was attributed to the fact that the line has to pass through eight hundred kilometers

⁶¹Alexander M. Haig, Jr., Caveat, (New York: Macmillan Publishing Company, 1984), p. 253.

⁶²Jentleson, "East-West Energy Trade," p. 646.
of permafrost, several dense forests, the Ural Mountains and

over approximately seven hundred rivers.⁶³

The Soviet Union could not have picked a better time to build and finance such a project. The petroleum price increases of the late 1970s and the Gulf War encouraged most states to diversify their energy suppliers. The Soviet Union was also able to take advantage of the deteriorating economic situation in Western Europe. Unemployment was at record post-war rates in many West European countries, such as Germany.⁶⁴ Also, "most of the bidders for the compressor contracts (the largest single item in the deal) were in varying degrees of financial trouble."⁶⁵ For example, AEG/Telefunken, a German company, was on the verge of bankruptcy. Scotland's John Brown engineering was recording heavy losses and France's Creusot-Loire lost an average of four billion dollars a year from 1977 to 1980. These companies and their employees needed the Soviet contracts very badly, and the Soviets were not unaware of this point.⁶⁶

The Soviet Union was able to obtain export credits and pipeline equipment at prices often below that of the market because of a change in their negotiating style. In the

⁶³B.A. Rahmer, "Rising Output of Natural Gas," Petroleum Economist 46(April 1979): 163.

⁶⁴John Tagliabue, "Bonn Needs the Business Even More Than the Gas," New York Times, 16 August 1981, sec. 4, p. E3.

⁶⁵Thane Gustafson, Soviet Negotiating Strategy, (Santa Monica: The Rand Corporation, 1985), pp. 5, 6.

⁶⁶Ibid.

past, the Soviets had always negotiated their gas-for-pipe contracts through a single Western financial consortium and a single Western supplier. In mid-1980 the Soviets discontinued this approach and began to negotiate with creditors and suppliers on an individual basis. This approach encouraged competitive bidding among the potential contractors.⁶⁷

The Carter administration regarded European involvement in the project with ". . . muted skepticism . . ." but decided against opposing European participation.⁶⁸ The Administration did, however, suspend all export licenses for oil and gas equipment destined for the Soviet Union as a response to the Soviet invasion of Afghanistan. "But then, after a few months, the policy of approving all oil and gas exports was reintroduced."⁶⁹

Ronald Reagan first expressed his concern that Western Europe was putting itself in a position to become too dependent upon Soviet energy exports at the 1981 allied economic summit in Ottawa.⁷⁰ Reagan would probably have liked to have imposed the embargo then but he did not have an adequate reason (as far as he was concerned) to implement the embargo until the imposition of martial law in Poland.

⁶⁷ Ibid., p. 3.

⁶⁸ Jonathan Stern, "U.S. Controls and the Soviet Pipeline," Washington Quarterly 5(Autumn 1982), p. 53.

⁶⁹ William Root, "Trade Controls that Work," Foreign Policy 56(Fall 1984): 66.

⁷⁰ Wulf, p. 301.

When Reagan announced the sanctions against the Soviet Union in December of 1981, his opening sentence was, "The Soviet Union bears a heavy and direct responsibility for the repression in Poland."⁷¹

Reagan's pipeline embargo had two phases. The first phase, announced in December 1981, prohibited the export of U.S.-manufactured pipeline equipment to the Soviet Union. This ban included components used in European machinery that was manufactured in the United States. The best demonstration of the problems this policy created among the allies surrounds the use of General Electric rotors to be used in the turbines for the forty-one compressor stations. Reagan even tried to persuade GE's European associates to not use twenty-three turbines exported prior to the imposition of the embargo. The embargo cost General Electric a contract to build pipeline equipment worth 175 million dollars and forced GE's European associates to search for replacement parts. Replacing the rotors would have been difficult because the only company capable of manufacturing them, the French firm Alsthom-Atlantique, was already working at capacity. The next alternative, that of replacing the GE rotors with Rolls Royce rotors would have required redesigning the entire turbine and would have eliminated the German firm, AEG-Kanis, from the project.⁷²

⁷¹U.S. President, Public Papers of the Presidents of the United States (Washington, D.C.: Office of the Federal Register), Ronald Reagan, 1981, p. 1185.

⁷²Stein, pp. 63, 64.

The allied response to Reagan's embargo was uniformly hostile. British Prime Minister Margaret Thatcher said, "I think it is harmful ultimately to American interests because so many people will say there is no point in making a contract to secure materials, machinery and equipment from the U.S. if at any time they can just cancel that contract." And later, "It is not in their interests, nor ours to prevent these contracts being fulfilled."⁷³

To defuse tensions between the United States and its allies, Reagan sent then under secretary of state for security assistance, science and technology, James L. Buckley, on an explanatory mission to Western Europe in March 1982. Instead, Buckley ended up discussing limits on allied export credits to the Soviet Union. Export credits to the Soviet Union later comprised most of the discussions on East-West trade at the Versailles allied economic summit.⁷⁴

In June of 1982 Reagan reaffirmed that "The objective of the United States in imposing the sanctions has been and continues to be to advance reconciliation in Poland." He was forced to admit, however, that "little has changed concerning the situation in Poland; there has been no movement that would enable us to undertake positive,

⁷³John Tagliabue, "Mrs. Thatcher Faults U.S. on Siberia Pipeline," New York Times, 2 April 1982, p. 1.

⁷⁴Stein, p. 65.

reciprocal measures."⁷⁵ Reagan's sanctions entered their second phase when he expanded them to ". . . include equipment produced by subsidiaries of U.S. companies abroad, as well as equipment produced abroad under licenses issued by U.S. companies."⁷⁶ All oil and gas equipment and technology, regardless of the date that it was licensed to the subsidiary or the date that the subsidiary had permission from the Department of Commerce to export to the Soviet Union was covered by the embargo.⁷⁷

The economic and political climate of the early 1980s provided the Soviets with the ideal environment for negotiating the contracts and credits for the construction of their natural gas pipeline. Politically, the failure of the United States and its allies to coordinate their response to the Soviet invasion of Afghanistan exposed the differences among their approaches to relations with the Soviet Union that the Soviets were able to take advantage of in the pipeline negotiations.⁷⁸ After the petroleum price increases of 1979 West European banks were lending on

⁷⁵U.S., President, Public Papers of the Presidents of the United States (Washington, D.C.: Office of the Federal Register), Ronald Reagan, 1982, p. 798.

⁷⁶Ibid.

⁷⁷Dresser Industries, Inc., and Dresser (France) S.A., v. Malcolm Baldrige. Memorandum of Points and Authorities in Support of Plaintiff's Motion For a Preliminary Injunction, pp. 60, 61.

⁷⁸Gustafson, pp. 5, 6.

liberal terms to encourage the recycling of petrodollars.⁷⁹ The terms of credit were so favorable that the Soviets negotiated for an envelope of export credits worth two to three times the value of the pipeline.⁸⁰ In reality, the terms were not as favorable as they appeared because some companies exporting pipeline components simply charged that much more to make up for the low interest rates charged the Soviets.⁸¹ West European credits to the Soviet Union essentially comprised the discussion of the pipeline at the Versailles economic summit in June 1982.⁸²

The expansion of the sanctions was particularly infuriating to the allies because it came just two weeks after the Versailles economic summit. Reagan had not expressed an intention at the summit to expand the sanctions to any of the allies. According to a German spokesman, Reagan's actions actually contradicted ". . . what was agreed on and discussed" ⁸³ German spokesman Klaus Bolling said that his country did not believe in embargoes ". . . because we do not expect them to have any effect."⁸⁴ German Chancellor Helmut Schmidt elaborated on this when he

⁷⁹Ibid., p. 8.

⁸⁰Ibid., p. 17.

⁸¹Ibid., p. 18.

⁸²Haig, Caveat, p. 309.

⁸³Tagliabue, "Mrs. Thatcher Faults U.S.," p. 4.

⁸⁴Bradley Graham, "West Germany Criticizes U.S. Extension of Soviet Pipeline Ban," Washington Post, 22 June 1982, p. A13.

said, "next to China, the Soviet Union is the one country in the world least dependent on trade and economic exchanges with the West."⁸⁵ As was the case in the earlier embargo, securing the support of West Germany was vital because Germany was the Soviet Union's largest contractor involved in the construction of the pipeline and in this case was also in a position to be the largest market for the natural gas. Reagan's political arguments failed to detract Germany from the economic benefits of participating in the construction of the pipeline as well as becoming its largest market.

On 30 June, the British government encouraged British subsidiaries of U.S. companies to ignore the embargo. Reagan responded by briefly reviewing the current situation in Poland and then reaffirming his reasons for imposing the embargo.

We tried to persuade our allies not to go forward with the pipeline for two reasons. One, we think there is a risk that if they become industrially dependent upon the Soviet Union for energy--and all the valves are on the Soviet side of the border--that the Soviet Union can engage in a kind of blackmail when that happens.

The second thing is, the Soviet Union is very hard pressed financially and economically today. And they...can perceive [sic] anywhere from 10 to 12 billion dollars a year in hard cash payments in return for the energy when the pipeline is completed.

Reagan also expressed his concern that Soviet hard currency

⁸⁵Bradley Graham, "Schmidt Assails Reagan on Pipeline Issue," Washington Post, 26 June 1982, p. A24.

receipts would be used in the Soviet military build-up.⁸⁶

Part of the problem that West European leaders had in accepting Reagan's arguments against the pipeline was that Reagan's reasons seemed to change to fit the situation and often contradicted previous statements. Reagan's reasons for encouraging allied participation in the embargo were, in the order that he gave them:

- 1) To punish the Soviets for their role in the subjugation of the Solidarity labor movement.⁸⁷
- 2) To prevent Europe from becoming economically dependent upon the Soviet Union.⁸⁸
- 3) To deny the Soviets a major source of hard currency which could be used to finance their military build-up.⁸⁹

So what started out as a punitive embargo gradually evolved into a strategic embargo.

Reagan's first argument against the pipeline, that it would make Western Europe economically dependent on the Soviet Union, did not discourage West European leaders from participating in the pipeline. They believed that the Soviets were not in a position to force them to buy more gas than they wanted. In fact, Western European leaders were more concerned about diversifying their energy sources than catering to the United States. The Arab oil embargo had demonstrated the dangers of over reliance on a single region

⁸⁶U.S., President, 1982, pp. 831, 832.

⁸⁷U.S., President, 1981, p. 1185.

⁸⁸U.S., President, 1982, p. 831.

⁸⁹Ibid., pp. 831, 832.

for energy supplies.⁹⁰ According to former Secretary of State Alexander Haig, one of the main reasons Europeans were confused by the U.S. imposition of the embargo was that they were actually following the advice of previous U.S. administrations to diversify their energy supply sources. As Haig put it:

Earlier American administrations had actually encouraged the pipeline as an alternative to Middle East energy sources. For us to reverse course on grounds of security made sense only if we were prepared⁹¹ to point out alternatives to the project.

Henry Kissinger had been the driving force behind the establishment of the International Energy Agency one of whose purposes was to encourage members to diversify energy sources. U.S. arguments against the pipeline were also seen as hypocritical since the United States had itself imported seventy-three million dollars worth of Soviet oil during the Arab oil embargo. West European leaders also felt that the United States was asking them to make disproportionate financial sacrifices since U.S. trade with the Eastern Bloc is only a small fraction of that of Western Europe. For example, "the total annual value of American industrial exports to the U.S.S.R. was \$300 million,"⁹² while the total value of contracts held by the British engineering

⁹⁰Angela Stent, "Economic Strategy," in Soviet Strategy Toward Western Europe, ed. Edwina Moreton and Gerald Segal (London: George Allen and Unwin, 1984), p. 213.

⁹¹Alexander Haig, letter to Tracey A. Johnstone, 11/22/83.

⁹²Haig, Caveat, p. 256.

firm, John Brown, Ltd., for the manufacture of pipeline components totalled \$400 million. As Haig saw it:

It would be very damaging to Britain if John Brown, Ltd., failed to fulfill the contract. Similar situations applied in France and Germany and other allied countries. Yet the United States had not mentioned the possibility of suspending wheat shipments to the Soviet Union.⁹³ There was a lack of symmetry in burden sharing.

The Europeans generally thought that the gas contracts with the Soviet Union made good economic sense. This was especially the case with the Federal Republic of Germany. Half of West Germany's domestic gas has a high sulfur content, so it must undergo a complex refining process before it can be used. Another fifteen percent of German gas reserves contains excessive levels of nitrogen and must also be put through an elaborate chemical process before it can be used.⁹⁴ German domestic gas also has a lower heating value than Soviet gas. As a result, West Germany imports twenty percent of its natural gas from the Soviet Union.⁹⁵ This puts total West German energy dependence upon the Soviet Union at only 5-6 percent. The chief source of concern here, according to the United States is that this dependency is understated because it is heavily concentrated

⁹³Ibid.

⁹⁴Stefanie Lenway and Eric Paul Thompson, "Trading With the Adversary: Managed Interdependence in East-West Energy Trade," paper presented to the annual convention of the American Political Science Association, Washington, D.C., 2 September 1984, p. 16.

⁹⁵Ibid., p. 10.

in some of the major industrial areas.⁹⁶ The Germans counter that many of these risks have been offset. Munich, they like to point out, gets over eighty percent of its gas supplies from the Soviet Union. But half of this gas is sold to consumers capable of switching to alternative fuels, another eight percent of consumers could get gas from underground storage facilities, and still another thirteen percent could get gas from domestic sources.⁹⁷

West European leaders also stress that the risks associated with the pipeline apply to both sides. It is the Soviet Union that has taken the economic risk in building the pipeline, investing Soviet capital and not European funds. The pipeline does not have any practical alternative uses. At best it could be disassembled at great cost to be used elsewhere within the Eastern Bloc.⁹⁸ Thus, it represents sunk costs that would yield few or no dividends should the Europeans choose to take their business elsewhere.

West European leaders also did not agree with Reagan's second reason, to punish the Soviets for their role in Poland, because Europeans do not believe in linking economic and political events when dealing with the Eastern Bloc (see below). A related reason why western leaders did not see the utility of imposing an embargo on the gas pipeline to retaliate for the imposition of martial law in Poland is

⁹⁶Stein, p. 75.

⁹⁷Lenway and Thompson, p. 22.

⁹⁸Ibid., p. 5, 6.

that they did not think the embargo could bring martial law to an end. They saw the situation in Poland as an excuse to impose the embargo rather than as a problem whose solution might be found through the imposition of economic sanctions.⁹⁹

Reagan's third argument, that hard currency receipts would support the Soviet economy and could ultimately be used for military purposes, contradicts his first argument against the gas deliveries. The more Reagan stressed the value of the hard currency earnings to the Soviets, the less probable it appeared that its customers would be subject to oil and gas cut-offs. The Soviet Union currently earns over sixty percent of its hard currency from petroleum sales¹⁰⁰ and seventy-eight percent of its hard currency from all energy sales.¹⁰¹

The magnitude of the Soviet Union's hard currency receipts was already a contentious issue between the United States and Western Europe since the resumption of U.S. grains sales to the Soviets. One of Reagan's first acts when he came into office was to lift the grain embargo against the Soviets that President Carter had imposed. Reagan's reason for continuing these sales during the pipeline embargo was that the grain cost the Soviets hard currency, while gas sales would replenish Soviet hard

⁹⁹Wulf, p. 301.

¹⁰⁰Petroleum Economist, "Oil Exports," p.58.

¹⁰¹Stent, "Economic Strategy," p. 212.

currency reserves. But from the perspective of the West Europeans, the United States was trying to rationalize its refusal to part with one of its largest trade categories with the Soviet Union.

On 13 November, 1982, Reagan canceled the second phase of sanctions that affected the foreign subsidiaries of U.S. companies and charges were dropped against subsidiaries that were violating the embargo. According to Reagan, the sanctions were lifted because the United States and its allies had reached an agreement on a coordinated policy toward the Soviet pipeline.¹⁰² In reality, the embargo had failed. The fact that the United States' closest ally, Great Britain, was prepared to violate the embargo illustrated the failure of the policy. To pursue the embargo would not have been worth the price of its damage to the Western Alliance.

This controversy illustrates that one of the main differences between the trading environment of the early 1960s and early 1980s was the change in attitudes toward issue linkage. In the early 1960s economic and strategic policies were believed to work together to achieve compatible goals. Even then, however, the United States and Western Europe had different approaches to the use of linkage. According to John Hardt of the Library of Congress, "To the Europeans, the norm is the extension of the benefits of normalized trade. Penalties are viewed as

¹⁰²Jentleson, "Khrushchev's Oil," p. 55.

the subsequent withholding of benefits."¹⁰³ To the United States, the norm is the denial of benefits; the extension of benefits, such as most-favored-nation status, is the exception. It is often difficult to distinguish between positive and negative linkages. According to Angela Stent, "linkage, like beauty, is often in the eye of the beholder, and the same lever can be interpreted as either positive or negative depending on the particular perceptions involved."¹⁰⁴

Europeans generally do not like to link trade and other foreign policy issues where East-West trade is concerned. Linkage has had a much more eventful history in the United States. Every president since the 1950s has employed linkages between economics and foreign policy in U.S.-Soviet relations. The Soviet Union has been an attractive target for linkage for three main reasons. First, trade between the Soviet Union and the West has generally been asymmetrical in that the West has usually imported raw materials from the Soviets and exported finished products to them in return. U.S. trade with the Soviet Union does not fit this pattern in that grain accounts for over half of the value of U.S. exports to the

¹⁰³U.S., Congress, Senate, Committee on Foreign Relations, Premises of East-West Commercial Relations, Committee Print, (Washington, D.C.: Government Printing Office, 1982), p. 8.

¹⁰⁴Stent, Embargo to Ostpolitik, p. 10.

Soviet Union.¹⁰⁵ Second, the Soviet Union was thought (and still is) to be weak economically and, therefore, more vulnerable to economic warfare. Reagan referred to this rationale when he extended the sanctions to include subsidiaries of U.S. companies: "the Soviet Union is very hard pressed financially and economically today. They [sic] have put their people on a starvation diet...while they poured all their resources into the most massive military buildup the world has ever seen."¹⁰⁶ U.S. policymakers have traditionally been tempted to impose economic sanctions on the Soviet Union on the theory that their sanctions will be the ones that bring about the economic collapse of the Soviet Union. Third, the United States tends to over-estimate Soviet talents at reverse-engineering and the finding of alternative uses of high technology. Just because the Soviets import silicon chips from the West does not mean that they are capable of manufacturing their own chips or that they can adapt them to other uses.¹⁰⁷

The United States practices, essentially, two forms of linkage. Henry Kissinger defined them:

¹⁰⁵ John Hardt, "Long-Term Agreement (LTA): Some Considerations for Agricultural Trade," in The Politics of East-West Trade, ed. Gordon Smith (Boulder, Colorado: Westview Press, 1984), p. 147.

¹⁰⁶ U.S., President, 1982, pp. 831-832.

¹⁰⁷ Gordon Smith, "The Future of East-West Trade," in The Politics of East-West Trade, pp. ed. Gordon Smith (Boulder, Colorado: Westview Press, 1984), pp. 22, 23.

In our view, linkage existed in two forms: first when a diplomat deliberately links two separate objectives in a negotiation, using one as leverage on the other; or by virtue of reality, because in an interdependent world the actions of a major power are inevitably related and have consequences beyond the issue or region immediately concerned. Yet in foreign policy there is no escaping the need for an integrating conceptual framework. A conceptual framework--which 'links' events is an essential tool.¹⁰⁸

An example of the use of the first kind of leverage was the U.S. threat to decrease grain sales to the Soviet Union if they attempted to interfere with the Middle East peace process in early 1974. President Nixon also ". . . encouraged U.S. agricultural exports to the Soviet Union as a reward for apparent Soviet pressure on Hanoi to be forthcoming on the Vietnam peace plan."¹⁰⁹

In an effort to translate its unchallenged military power into the economic sector, the United States has tried to turn economic issues into security issues, or at least tried to force its allies into considering the two sets of issues as one. This is what Kissinger calls linkage ". . . by virtue of reality" ¹¹⁰ in his second definition.

Leverage is the threat to employ linkage to force another state to comply on an issue. Leverage is just as important an aspect of East-West trade in the 1980s as it

¹⁰⁸ Henry Kissinger, Years of Upheaval, (Boston: Little, Brown and Company, 1982), pp. 129-130.

¹⁰⁹ Abraham S. Becker, Economic Leverage on the Soviet Union in the 1980s, (Santa Monica: The Rand Corporation, 1984), p. 31.

¹¹⁰ Kissinger, Years of Upheaval, pp. 129-130.

was in the 1960s. The Arab oil embargo of 1973 demonstrated not simply that it was important for energy importers to diversify their sources of energy but also that energy trade could be a powerful weapon. The Economist expressed its respect for economic sanctions and its fear that the Soviet Union would use gas sales for political purposes when it said that Albania and China both learned that "The Kremlin can turn off the oil taps just as abruptly as the charm."¹¹¹ But the Economist does not point out that neither Albania nor China is a hard currency country. The Soviets have been reluctant to embargo Eastern Europe for fear that it would cause economic and political unrest.¹¹² According to Arthur Jay Klinghoffer, "the Soviets' oil relations with West European states tend to be on a purely commercial basis; their use of oil politics is rare. . . . In fact, it is the West European states that have more often introduced the political element" ¹¹³

The Soviets have employed a passive form of leverage against their Western suppliers when they want to exert influence over their policies. For example, in the early 1950s the Soviet Union took advantage of a fishery dispute between Iceland and the United Kingdom to become Iceland's

¹¹¹"Europe's Neck in a Noose," Economist, February 21, 1981, p. 13.

¹¹²Ed A. Hewitt, Energy Economics and Foreign Policy in the Soviet Union, (Washington, D.C.: The Brookings Institution, 1984), p. 212.

¹¹³Klinghoffer, p. 212.

primary market for fish. They used petroleum to pay for the fish and, as a result became Iceland's leading supplier of petroleum. More recently, the Soviets diverted the port of entry for their grain imports from Rotterdam to Antwerp and Hamburg when the Dutch turned down a Soviet request to open a consulate in that city.¹¹⁴

Soviet spokesmen have been frank about the political implications of Western European gas purchases from their country. Genrikh Trofimenko, a Soviet spokesman, said that Western Europe's gas purchases were an attempt to ". . . liberate itself from the octopus of U.S. foreign policy." But this also constrains the Soviets in that any attempt to make political capital of the gas exports through an embargo would negate many of the political benefits resulting from the gas purchases.¹¹⁵

Conclusions

The three phases of U.S.-allied relations have all had corresponding embargoes initiated by the United States. In the first phase of U.S.-allied relations the United States, through COCOM, implemented the strategic embargo where all exports to the Eastern Bloc were placed in three categories: goods whose sale to the Eastern Bloc was forbidden, goods permitted to be sold to the Eastern Bloc in limited quantities, and those goods that were permitted to be sold to the

¹¹⁴John Van Oudenaren, The Urengoi Pipeline: Prospects for Soviet Leverage, (Santa Monica: The Rand Corporation, 1984), p. 11.

¹¹⁵Ibid.

Eastern Bloc but were kept under surveillance. These controls were especially tight during the Korean War. The death of Stalin and the end of Marshall Plan aid to Western Europe in 1953 helped end the strategic embargo. Some economists saw the embargo as counter-productive in that it forced Eastern Europe to become economically dependent on the Soviet Union. Because of the Battle Act, and the desire for Marshall Plan funds, U.S. allies had no choice but to cooperate with this embargo.¹¹⁶

The first pipeline embargo was implemented in the second phase of U.S.-allied relations. Because the allies were more independent of the United States economically they were in a position to contest this embargo. The allies cooperated with the NATO embargo because they employed their own interpretations of the stipulations of the embargo and, in the case of West Germany, felt they owed a political debt to the United States.

The 1981 pipeline embargo was implemented in the third, and current phase of U.S.-allied relations. The United States unilaterally imposed this embargo on its allies because it no longer controlled all the technology involved and because the desire by West European NATO members to diversify their energy sources would have prevailed in a vote to embargo the pipeline equipment. The allies demonstrated their political and economic independence from the United States in some cases, such as

¹¹⁶Stent, Embargo to Ostpolitik, pp. 31-33.

Great Britain, by ordering their companies to disobey the U.S. order. By 1981 the United States was no longer in a position to force its strategic views on its allies.

Chapter Four

Conclusions

The allied reaction to the three U.S. strategic embargoes of the Soviet Union illustrates the progressive divergence of interests among members of the Atlantic alliance. In the years following the Second World War, the countries of Western Europe were more economic and strategic dependencies of the United States than full allies. They depended upon the United States to finance their economic reconstruction and defend them from Soviet takeover during this first post-war phase. Economic reconstruction gave the countries of Western Europe the opportunity to interpret and respond to world events independently of the United States. During the second phase of alliance relations the United States lost its major source of economic leverage, the Marshall Plan. The allies began to form their own strategic policies also. The Suez Crisis illuminated the extent of the differing strategic attitudes among the allies. De Gaulle became the first allied leader to question openly the qualifications of the United States to make strategic decisions for Western Europe. In reference to the East-West rivalry, he said, ". . . if one does not make war, one must sooner or later make peace."¹ The United States and its

¹De Gaulle, p. 201.

allies continued to have different approaches to economic and strategic issues in the third phase of Atlantic alliance relations including a widely divergent set of foreign policy priorities. An important area of divergence was energy security, because Western Europe had been hurt by the 1970-74 changes in petroleum markets more than the United States.

An anti-Soviet strategic embargo occurred during each of the three post-war phases in alliance relations. During the first phase, the allies cooperated with the 1948-1953 strategic embargo to ensure the continued flow of massive financial aid from the United States. By the 1960s when the United States tried to force its allies to participate in the embargo on equipment for the Friendship pipeline, its allies had begun to develop their own perspectives on international issues. This evolution is reflected in the fact that while the United States was able to convince its allies to participate in the embargo, they did so according to their own interpretations of its parameters. In the third phase the United States was forced to back down from its coercive stance as a result of pressure from the allies it had attempted to force into participating in the 1981-1982 embargo.

By the time Ronald Reagan took office in 1981, the United States had almost run out of regimes that could dilute the dissenting opinions of its allies. Indeed, a number of these regimes had been transformed into inter-

national forums to express allied dissent. The decline in U.S. influence in these international regimes did not inconvenience Reagan as he seldom consulted U.S. allies on decisions affecting them and requiring their cooperation anyway. This was the case with the pipeline embargo and other international economics policies. According to Miles Kahler, Reagan's approach to relations with the allies represented, a ". . . new California Gaullism . . ." ²

The inability of the United States to obtain even half-hearted support for its third phase embargo demonstrated the relative decline in U.S. power and leverage with respect to its allies and the decay of many post-war hegemonic regimes. Working within established regimes would have required compromises the Administration was unwilling to make on both the pipeline embargo and in economic policies generally. According to Henry Nau, an aversion to global management is a tenet of Reagan's domesticist approach to international economics. Reagan believes that the military and economic power of the United States are not reflected proportionately in most regimes. According to Henry Nau, ". . . U.S. power in the international marketplace, exploited effectively and enhanced through noninflationary policies, remains much greater than its power at the bargaining table--a fact that frequently

²Miles Kahler, "The United States and Western Europe: The Diplomatic Consequences of Mr. Reagan," in Eagle Defiant, eds. Kenneth A. Oye, Robert J. Lieber, and Donald Rothchild (Boston: Little, Brown and Company, 1983), p. 302.

irritates U.S. allies."³ The Administration justified its unilateral approach by asserting that the best thing the United States could do for the world economy was to correct the imbalances in its own economy. In keeping with this strategy, the Reagan administration, unlike the Kennedy administration, made no effort to implement its embargo under the auspices of an international organization such as COCOM or NATO. Allied governments were not consulted until after the sanctions had already been announced, and a U.S. emissary was sent to Europe on an explanatory tour.

Allied resistance to Reagan's attempt to force them to cooperate with his policies derives, in part, from an acceptance of de Gaulle's position that the United States could not be relied upon to decide which policies were in Europe's best interest. The changes in world petroleum markets generally injured Western European states while they generally added to U.S. power, confirmed the accuracy of de Gaulle's analysis with respect to many international economic issues in addition to energy. Reagan's attempt to discourage allied participation in the Soviet pipeline project was yet another confirmation of the idea that the United States was incapable of determining what policies best served allied interests.

Part of the Administration's problem in convincing the allies to participate in the embargo was that the embargo exposed contradictions in the Administration's international

³Nau, p. 22.

trade policies. The most important was the contradiction between Reagan's advocacy of free markets and his attempt to control trade in non-military goods with the Eastern Bloc. U.S. allies also saw the embargo as impeding European efforts to turn the world energy market into a freer one. The contradictions between free market principles and the embargo was, ironically, a major impediment to allied participation: the economic philosophy of the Reagan administration had great appeal not only in the United States, but in other countries as well. The attraction of "supply side" economics arose, in part, as a result of ". . . the perceived failure of Keynesian policies to achieve a combination of both low inflation and unemployment rates" and because, as a result of the increased integration of Western economies and the internationalization of financial capital, Keynesian policies required more international coordination than monetarist or "supply side" economics to be effective.⁴

As a spokesman for "supply side" economics Reagan acquired a large international constituency. According to Craig Murphy and Enrico Augelli, this constituency included the "organizational bourgeoisie" of LDCs, members of the international managerial class found in multinational corporations and the bureaucracies of developed countries that felt their economies were being strangled by the

⁴Gill and Law, pp. 7, 34.

maintenance of state-run welfare systems.⁵ Reagan's attitudes toward the ". . . justice of accumulating wealth in this world can be just as appealing to a Nigerian contractor or a Korean factory manager as they are to a Texas Jaycee."⁶ This international constituency provided Reagan with the basis for asserting a Gramscian, or ideological, hegemony over U.S. allies based on his free market, supply side values.

But the embargo contradicted Reagan's support for the free market. Reagan's constituents knew that world petroleum markets had rarely been free in that prices were usually set by someone, yet they still hoped to apply market mechanisms to solve some of their energy problems. In the late 1970s and early 1980s, world energy markets tightened as a result of the Iranian Revolution. Reagan's international constituents were anxious to reduce their dependence on Middle Eastern oil exporters by diversifying their sources of energy. Soviet energy sales provided U.S. allies with an opportunity to do just that. The allies were unwilling to subordinate this goal to those behind Reagan's renewal of the Cold War. To these businessmen and bureaucrats, the diversification of energy sources, combined with the opportunity to participate in large construction contracts with the Soviet Union, were more important goals.

The pipeline embargo also demonstrated the Reagan

⁵Augelli and Murphy, p. 9

⁶Ibid., p. 10

administration's disregard of the energy security situation in Western Europe. The Soviet pipeline embargo seemed to be the only aspect of the international economy that Reagan did not want to leave to the free market during his first term. The Europeans, on the other hand, wanted to use Soviet gas imports in a supply side strategy to diversify their energy sources and force Middle Eastern oil and gas to be more competitively priced. Ronald Reagan did not see it this way. Despite his decision to ensure U.S. energy security by relying on free markets, his policies toward European energy security seemed the exact opposite: under normal market conditions, when there was no shortfall in supply, Reagan's pipeline embargo could have effectively discouraged competition among European suppliers in a free market. However, in the event of a crisis, when IEA stocks are to be distributed, Reagan insisted that market forces be permitted to prevail, and that scarce supplies be allocated to those that can pay for them. In a time of crisis Europeans would prefer to rely on the diversification of resources than strategic reserves.

The Reagan administration's international energy policy looked like an attempt to restore a coercive, 1950s-style U.S. hegemony in the 1980s. Perhaps it was the realization by members of the Reagan administration that Japan and Western Europe would oppose an embargo that prompted them to impose export controls unilaterally without any consultation with those affected by the sanctions. If

so, Reagan should have suspected that the damage to allied relations would outweigh damage to the Soviet economy. Instead, the embargo was a case of Ronald Reagan following de Gaulle's policy of ". . . not expressing in words that which the future will demonstrate."⁷

The pipeline embargo outlined the boundaries of the "Reagan Revolution" in world politics. The embargo failed because U.S. allies were no longer willing to devise their foreign policies solely in reference to strategic competition with the Eastern Bloc. One of Reagan's major mistakes was trying to coerce the allies into participating in a total embargo rather than negotiating with them to implement less far-reaching sanctions the allies might have been willing to support. The Reagan administration was, however, more interested in playing a the role of the hegemonic power than in ensuring that its policies would be supported by its allies. Because of the failure of unilateral U.S. policies, such as the embargo, during the first Reagan administration, the second administration has been characterized by more frequent returns to multilateral approaches to international issues. The arranging of the "G-5" meeting of allied finance ministers by Treasury Secretary James Baker is an example of the administration's simultaneous acknowledgment that free markets need some regulation and that the best way to regulate them is through multilateral bargaining. The embargo may have demonstrated

⁷Luthy, p. 561.

to the Reagan administration that policies formulated with the cooperation of U.S. allies avoid a great deal of trans-Atlantic acrimony and have a higher probability of success than the unilateral approaches employed by the first Reagan administration. In an era when U.S. power to coerce its allies has declined, it must rely increasingly on cooperative measures to gain allied support.

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