

THE OIL CRISES OF THE 1970S AND THE TRANSFORMATION OF THE GLOBAL ORDER

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SUMMARY/ARGUMENT

- The oil crises of the 1970s played a central role in the transformation of the global order in the late twentieth century. Disruptions in oil production and distribution in 1973-74 and again in 1978-80 led to sharp increases in oil prices, the restructuring of the global energy system, the end of the “golden age” of economic growth, and the creation of a privatized international financial order. The crises also had a significant impact on the global environment. Although the oil crises reflected and intensified the larger crisis of US/Western hegemony in the decade, they set in motion a series of changes that contributed to the collapse of communism, the reassertion of Western dominance in the Global South, and the transitory “unipolar moment” of reconstituted US global hegemony.

EVERYTHING, EVERYWHERE, ALL AT ONCE

- Oil Crises, Not Just the Oil Shock of 1973-74; Second Oil Shock, 1979-80; Countershock of 1985-86; (Very) Long 1970s
- Oil Crisis Defined as Disruptions in Supply and/or Sharp Price Changes. Different From Oil and Energy Crisis Defined in Terms of Scarcity/Running Out of Oil; Source of Confusion
- Global Context; Not Just US, Western Europe & Japan; Soviet Union & Eastern Europe; China; Global South
- All-Encompassing: Not Just Oil & Energy; International Monetary Order; North-South Relations; Environment
- Geopolitics, Regional and Global; Shifting Balances in Middle East; Interaction with the Global Cold War

THE OIL SHOCKS OF 1973-74 AND 1978-80

- Global Oil Market Conditions: Soaring Demand; Growing Importance of OPEC and Middle East Oil; Emergence of International Independents; Decline in Excess Capacity Outside Middle East; Peaking of US Production & Emergence of US as Major Importer
- 1973-74 Arab-Israeli War; Iranian Revolution; Intelligence Failures; Global Distractions (Cold War)
- Disruptions in Supply; 1973: Production Cuts; Embargoes; Actual Cuts in Supply; Around 15 Percent Drop in Consumption: OAPEC
- Disruptions in Supply, 1978-79: Revolutionary Turmoil; Contracts Disrupted; Stockpiling; Around 6 Percent Drop in Supply
- Price Increases; 1974-74: \$3.01 to \$5.11 to \$11.65; 1978-80: \$14.02 to \$36.83; OPEC
- Issue of Intervention; 1973-74; 1978-79

POLICY RESPONSES

- Responses Depended on How Problem Was Defined
- Problem 1: Concentration of Production & Excess Capacity in Middle East & OPEC
- Problem 2: Instability in the Middle East; Arab-Israeli Conflict; Internal Instability; Soviet Threat
- New Problem: Petrodollar Recycling
- Long-Term Problem 1: Economic & Security Concerns Take Priority Over Environmental Considerations; Path Dependence
- Long Term Problem 2: Balance Between Addressing Energy Poverty & Environmental Concerns

RESPONSES—OIL AND ENERGY MARKETS

- OECD Plan of Action
- Alternative Sources of Oil: Colder & Deeper; North Sea; Alaska; Gulf of Mexico; Soviet Union; China
- Alternative Sources of Energy; Coal; Natural Gas; Nuclear; Renewable (Hydro, Solar, Wind)
- Conservation/Efficiency; In Oil Use or Energy Use? Off-Shoring of Oil & Energy Intensive Processes
- Importance/Impact of Higher Oil Prices; Interaction Between Prices and Security; Between Prices & Consumption
- Impact: Rise of non-OPEC Production; Revival of Coal; Mixed Record for Nuclear; Limits on Use of Natural Gas; Neglect of Renewables; Mixed Record for Conservation & Efficiency; Jevon's Paradox
- Environment: More Energy & More Fossil Fuel Consumption; More Emissions

STRUCTURAL CHANGES, 1970-1990

Table 1.2 Oil prices and production, selected years, 1970–90

	PRICE US\$	WORLD	UNITED STATES	SOVIET UNION	OPEC	SAUDI ARABIA
1970	1.80/12.70	48,075	11,297 23.4%	7,127 14.8%	22,523 46.8%	3,851 8.0%
1973	3.29/19.17	58,552	10,946 18.7%	8,664 14.8%	29,439 50.3%	7,693 13.1%
1974	11.58/55.47	58,671	10,461 17.8%	9,270 15.8%	29,281 49.9%	8,618 14.7%
1978	14.02/55.65	63,322	10,274 16.2%	11,531 18.2%	28,233 44.6%	8,554 13.5%
1980	36.83/115.68	62,942	10,170 16.2%	12,116 19.2%	25,569 40.6%	10,270 16.3%
1985	27.56/66.29	57,345	10,580 18.4%	11,870 20.7%	15,545 27.1%	3,601 6.3%
1986	14.43/34.08	60,176	10,231 17.0%	12,269 20.4%	17,891 29.7%	5,208 8.7%
1990	23.73/46.98	65,022	8,914 13.7%	11,403 17.5%	23,195 35.7%	7,106 10.9%

Source: *BP Statistical Review of World Energy*, 2022. Prices are dollars of the day/2021 dollars. Production in thousands of barrels per day.

GLOBAL ENERGY CONSUMPTION BY SOURCE, 1970-2019 (PERCENTAGES)

Year	Fossil Fuels	Low-carbon energy (Renewables + Nuclear)	Renewables	Nuclear
1970	94%	6%	5.6%	0.4%
1980	91.6%	8.4%	6%	2.4%
1990	88%	12%	6.4%	5.6%
2000	87%	13%	7%	6%
2010	87%	13%	7.8%	5.2%
2019	84.3%	15.7%	11.4%	4.3%

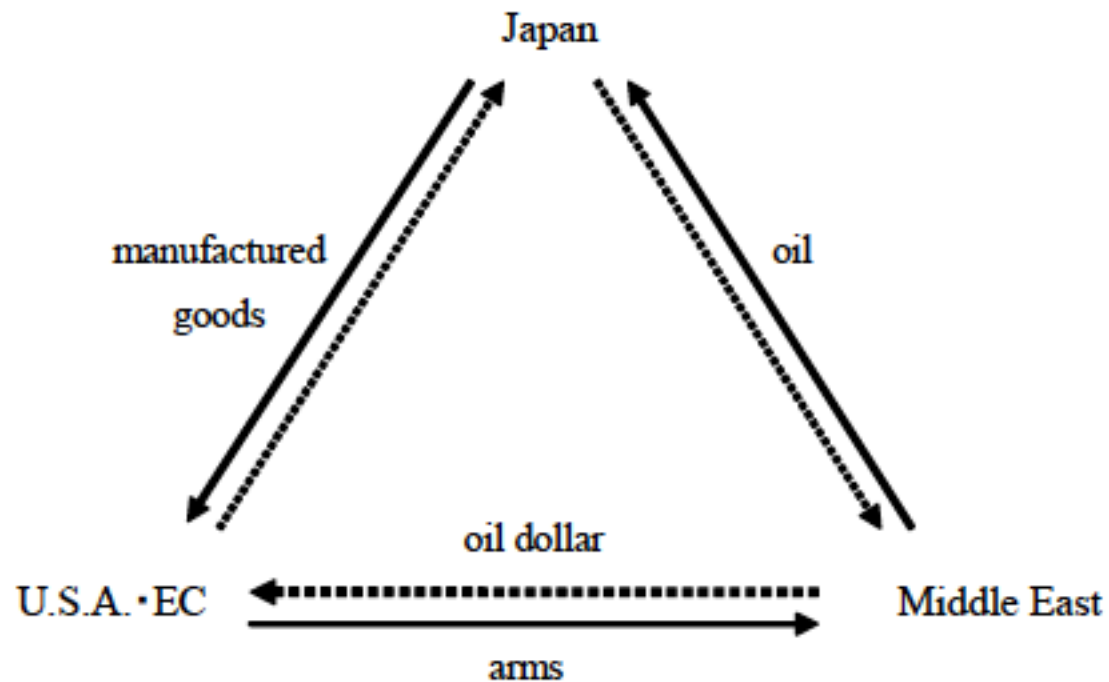
RESPONSES—MIDDLE EAST SECURITY

- Background: British Withdrawal; Vietnam War; Nixon Doctrine; Iran & Saudi Arabia or Iran & Israel
- Arab-Israeli Conflict; Kissinger & Israel; Peace Process; Deepening of US-Israeli Strategic Partnership; Focus on Egypt; US-Saudi Relationship
- Lesson of Iranian Revolution; Need for US Capability to Assume Direct Role in Ensuring Stability & Security in Persian Gulf
- Carter Doctrine; Background; Afghanistan; Global Context; Cold War & Oil; 3 Threats: Soviet Expansion; Dependence on Persian Gulf Oil; Instability in Middle East; Response: Military Build-Up; RDJTF; Basing Rights
- 1980s: Reagan Corollary; CENTCOM; Iran-Iraq War

RECYCLING PETRODOLLARS

- Sharp Increase in OPEC Revenues: 1970, \$7.3 bill; 1980, \$275 bill.; Huge Investible Surplus; Problem of Highly-Liquid Short -Term Deposits; Fear of Political & Economic Manipulation
- US Policy; Supported by UK, FRG; Saudi Arabia; Limit Role of IMF; Maximize Role of Private Banks
- Distribution of OPEC Investments: Private Banks, 40%; Aid & Loans to LDCs, 18%; US Government Securities, 11%; Portfolio Investment in US; 7%; Investment in Other DCs, 15 %; IMF & /World Bank Facilities, 6%
- US-Saudi Special Financial Arrangements; Investment in US Debt; Oil Sales in Dollars
- Second Round of Intervention Threats; Kissinger; Tucker; Luttwak; Linked?
- Privatized International Financial Order; Privileged Position of Dollar
- Sugihara, Oil Triangle

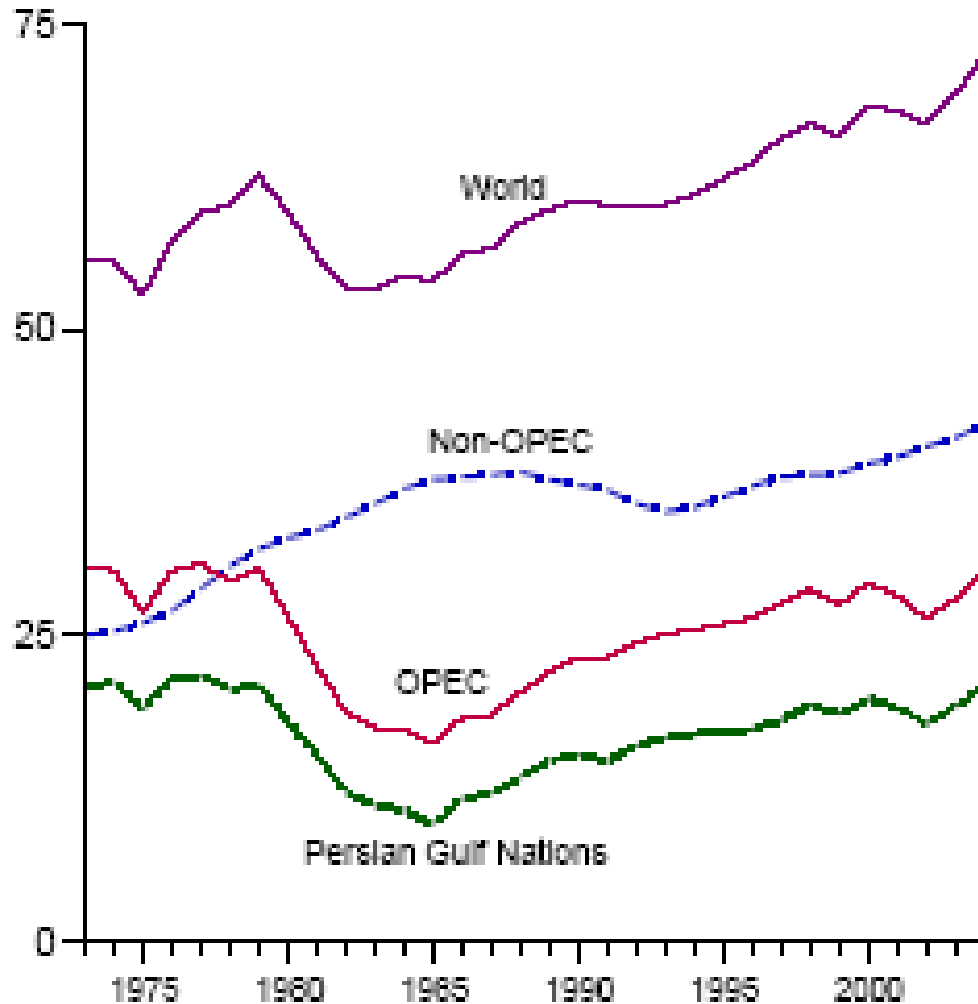
EAST ASIAN OIL TRIANGLE (Sugihara)



THIRD OIL SHOCK

- Rise in Non-OPEC & Non-Middle East Oil Production
- Decrease in Demand for Oil; Higher Prices; Fuel Switching; Conservation; Recession; Debt Crisis
- Impact on Price of Natural Gas
- OPEC as Cartel; Requirements for Successful Cartel; Market Share; Obstacles to Entry; Discipline (Solidarity)
- US Policies; Reagan Victory School (RSV) Claims; Natural Gas (Pipelines); Oil Prices (Pressure on Saudi Arabia)
- Saudi Policy; Initial Cuts to Support Prices; Fall 1985, Switch to Netback Pricing; Emphasis on Volume
- Counter-Shock: Collapse of Oil Prices: 1980 \$36.83; 1986 \$14.43

OIL PRODUCTION, 1973-2004



GLOBAL SOUTH

- OPEC & Third World “Project”
- Oil As the Exception; Difficulty of Organizing Commodity Producers; Requirements for Successful Cartel; Market Share; Barriers to Entry; Shared Interests
- Impact of Higher Oil Prices on Non-Oil Exporting Developing Countries; Direct & Indirect
- OPEC Aid to (Some) LDCs
- US & Western Efforts to Split Third World; Kissinger Double Dealing
- Increasing Divisions in Global South
- Second Oil Shock & Debt Crisis; Deepens Divisions

ENERGY AND THE END OF THE EVIL EMPIRE

- Soviet Oil & Gas Production; Importance to Soviets; Soviet Allies
- Soviet Energy Supplies & Eastern Europe; Price; Volume
- Impact of Oil Shocks/Higher Oil Prices; On Soviets; On Eastern Europe
- Soviet Dilemma; Forego Hard Currency Earnings; Instability in Eastern Europe
- Eastern Europe & Debt Crisis
- Impact of Third Oil Shock; Gorbachev Plans; Collapse of Communism; in Soviet Union; in Eastern Europe; Reagan Victory School Claims; Correlation is Not Causation

ENVIRONMENTAL IMPACT

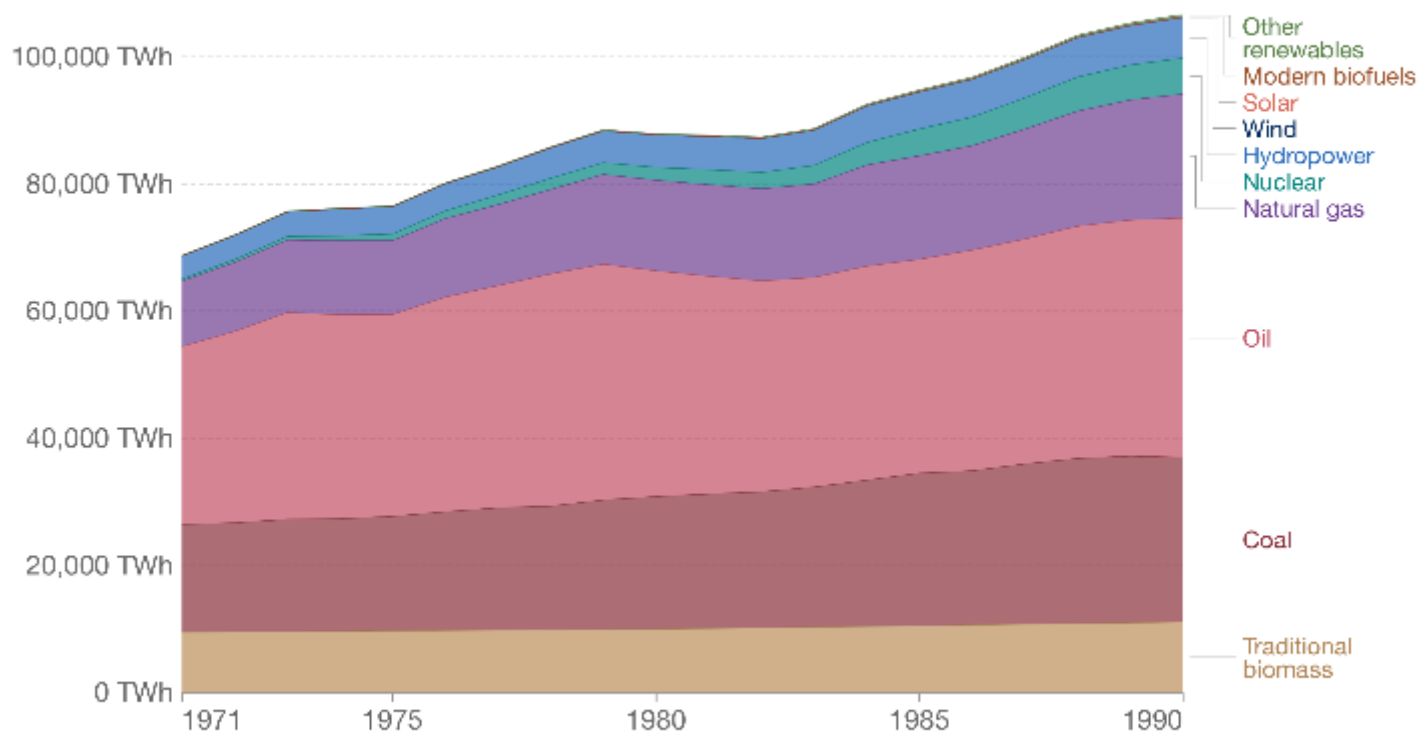
- Pollution; Localized Sacrifice Zones; Green House Gas Emissions & Global Warming
- Impact of Oil Shocks on Oil Consumption; Higher Prices Lead to Less Consumption, Directly & Indirectly (Recessions & Slower Economic Growth)
- High Oil Prices & Increased Consumption of Other Energy Sources, Especially Coal; Lag in Nuclear Plants Coming Online; Restrictions of Natural Gas Use; Environmental Impact of Hydro
- No Decline in Overall GHG Emissions; Possible Slowing of Rate of Growth in Increase in GHG Emissions (Ross)
- Impact in Global South Different From Impact in Developed Countries; Energy Poverty Issue

GLOBAL ENERGY CONSUMPTION BY SOURCE, 1970-1990

Global primary energy consumption by source

Our World
in Data

Primary energy is calculated based on the 'substitution method' which takes account of the inefficiencies in fossil fuel production by converting non-fossil energy into the energy inputs required if they had the same conversion losses as fossil fuels.



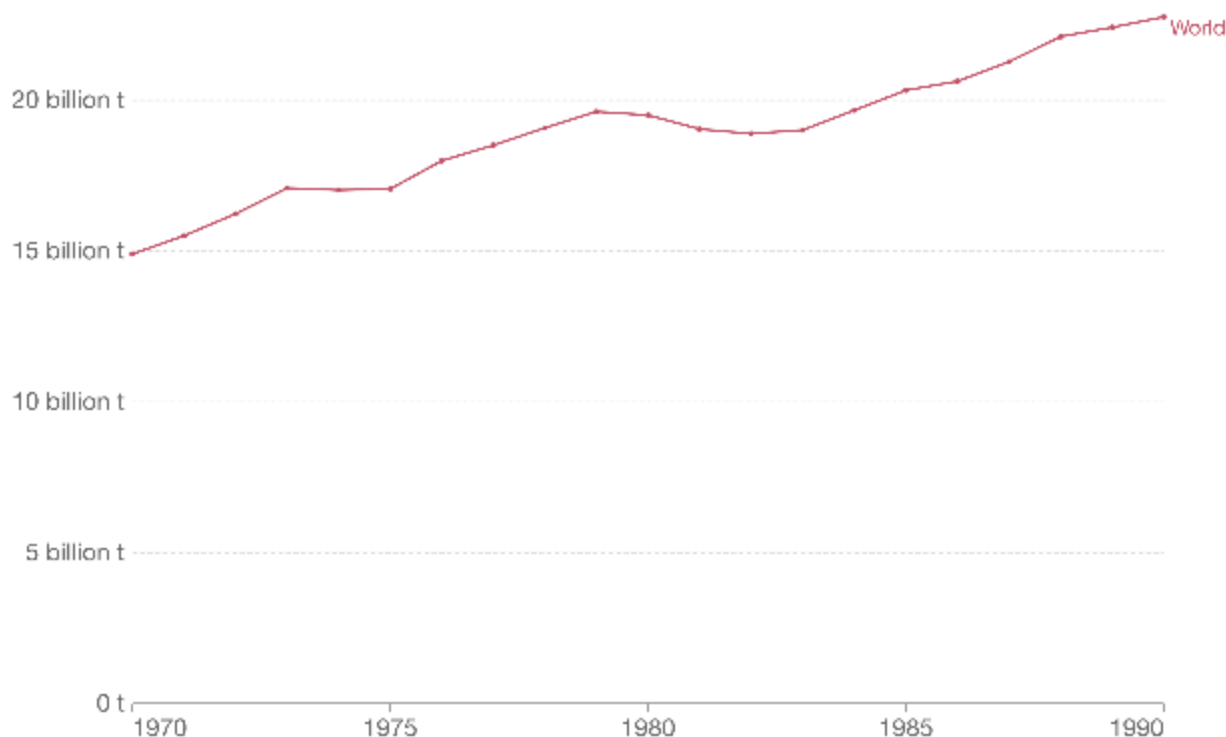
Source: Energy Institute Statistical Review of World Energy (2023); Vaclav Smil (2017)
OurWorldInData.org/energy • CC BY

GLOBAL CO2 EMISSIONS, 1970-1990

Annual CO₂ emissions

Carbon dioxide (CO₂) emissions from fossil fuels and industry¹. Land use change is not included.

Our World
in Data

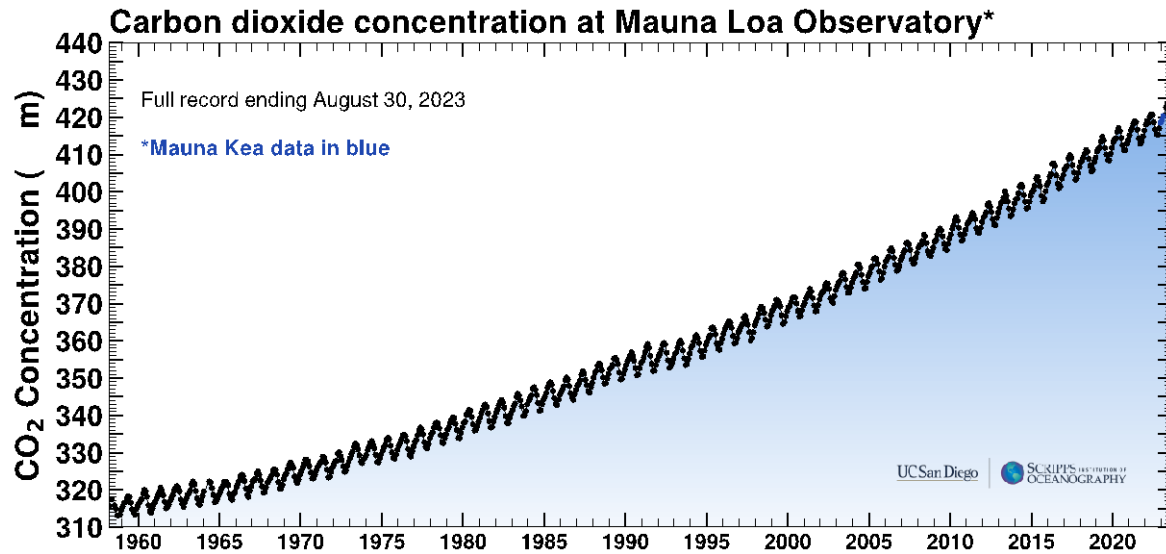


Source: Global Carbon Budget (2022)

OurWorldInData.org/co2-and-greenhouse-gas-emissions • CC BY

1. Fossil emissions: Fossil emissions measure the quantity of carbon dioxide (CO₂) emitted from the burning of fossil fuels, and directly from industrial processes such as cement and steel production. Fossil CO₂ includes emissions from coal, oil, gas, flaring, cement, steel, and other industrial processes. Fossil emissions do not include land use change, deforestation, soils, or vegetation.

KEELING CURVE



MIXED LEGACY

- Oil & Energy: What Changed & What Stayed the Same? Ownership; Geographical Distribution of Production & Consumption; Energy Mix
- International Financial Order; Neoliberalism & the Dominant Role of the Dollar; Privatization of International Development Finance
- Global South; Containment of the Third World Project; Growing Diversity/Divisions; Debt Crisis & “Lost Decade;” Energy Poverty
- Geopolitics: Regional; Peace Process in Middle East; Aspirations & Reality; Security of the Persian Gulf; Carter Doctrine; Dual Containment; & Two Wars With Iraq
- Geopolitics: Global; End of Cold War, Collapse of Communism, & Disintegration of Soviet Union; Continuing Power of Nationalism
- Environment: Failure to Come to Grips with Unsustainable Economic Model; Focus on More Energy Production; Neglect External Costs; Oil & Overall Energy Production & Consumption & Global Carbon Emissions All Increase