# The United States, Britain and the Marshall Plan: an analysis of Anglo-American relations in the early post-war era[1]

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**Abstract**

This paper discusses United States foreign economic policy in the early post-World War II period, focusing on Anglo-American relations and the international oil industry. Contrary to popular opinion, these relations were not friendly, as one of the goals of US policymakers was to force the former power to relinquish key areas of strategic and commercial influence, such as the trading networks of the British Commonwealth and, more importantly, the oil regions of the Middle East. In particular, the paper analyzes US oil policy during the Marshall Plan. Though not questioning the Plan´s overall positive impact on European economic growth, the paper argues that, with regard to the oil industry, its primary objective was not to stimulate recovery but to secure a dominant role for US producers in the Middle East. Fears of the Soviet "menace" aside, this was perhaps the primary geopolitical objective of US officials in the early post-war era, for it would assure the country substantial control over the economic and military policies of her industrial competitors in Western Europe and Japan.

**Resumo**

Este artigo discute a política econômica externa dos EUA no período imediatamente após a Segunda Guerra Mundial (II Guerra), focando as relações anglo-americanas e a indústria internacional de petróleo. Ao contrário do que normalmente se pensa, essas relações não foram amigáveis. De fato, um dos objetivos principais de diplomatas norte-americanos foi forçar a Inglaterra a abrir espaço para empresas norte-americanas nos mercados das ex-colônias britânicas e, sobretudo, nas regiões petrolíferas do Oriente Médio. O trabalho analisa especificamente a política de petróleo dos EUA durante a implementação do Plano Marshall. Apesar de não questionar o impacto positivo do Plano em estimular a recuperação econômica européia, argumenta-se que, com relação à indústria petrolífera, o objetivo central do Plano foi garantir para produtores norte-americanos uma posição dominante no Oriente Médio. Na opinião de estrategistas americanos seria este, e não a contenção da "ameaça soviética", o maior objetivo geopolítico dos EUA após a II Guerra, pois concederia ao país um controle significativo sobre a estratégia econômica e militar dos seus concorrentes industriais no Japão e na Europa ocidental.

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[1] Artigo submetido ao "XII Encontro Nacional de Economia Política Brasil e América Latina no Capitalismo Contemporâneo: contradições e perspectivas do desenvolvimento"; Área 3: Economia Política, Capitalismo e Socialismo; Sub-Área: Capitalismo Contemporâneo e Socialismo; Commisão Científica: Profs. Rodrigo Teixeira e Paulo Balanço.

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## Introduction

In discussing Anglo-American relations after World War II, many authors portray it is a kind of benevolent affair, in which Britain, weakened by war and unable to defend the world from Soviet expansionism, passed the reigns on to the United States, strong and willing to assume responsibility for world peace and prosperity. The objective of this paper is to show that this was not the case, that, in fact, US officials, seeing themselves in a position after the war to wrest away key areas of commercial and strategic influence from Britain, did almost everything in their power to do so.

Part 1 discusses the financial aspects of US-British relations during and after the war, specifically Britain´s financial dependence on the US Treasury. US officials and members of Congress took advantage of this state of dependence in order to extract trade concessions from Britain as well as to ensure it would play a subordinate role in the world financial system. Part 2 explains how British financial dependence led to the "Anglo-American Oil Agreement", a memorandum of understanding signed between the US and Britain in 1944. The Agreement guaranteed an "open-door" policy for US oil investment in the Middle East, still under British influence at the time and already considered the world´s primary source of energy reserves. This discussion of the Agreement and the importance to the US of an "open-door" in the region, a policy goal since the 1920´s, allows us to understand oil´s role in the Marshall Plan, the subject of Part 3. In the opinion of American officials at the time, world hegemonic power implied control over world oil reserves, and thus securing control over Middle East oil was a crucial policy objective. This, we will see, is why these officials were willing to go to great lengths, so far as to jeopardize European economic recovery, to ensure that these reserves fell into US hands.

### Part 1: The Role of the Dollar and British Financial Dependence on the United States

The United States emerged from World War II as the world´s foremost economic and military power, a role Great Britain had previously occupied for at least over a century. Hobsbawn describes the US's relative economic strength in *The Age of Extremes* (1996):

> [W]ars were clearly good to the U.S. economy. Its rate of growth in both wars was quite extraordinary, especially in the Second World War when it grew at the rate of 10 percent per annum, faster than ever before or ever since...Probably the lasting economic effect of both world wars was to give the US economy a global preponderance during the whole of the…Twentieth Century…The wars, which strengthened it while, relatively or absolutely, weakening its competitors, transformed its economic situation.

In 1945, the United States held roughly 75% of the world´s gold reserves and was responsible for 50% of world industrial production. It was the world´s largest exporter, importer and creditor nation, with a current account surplus of $11.5 billion, more than ten times the surpluses it had registered in the late 1930´s. Europe meanwhile, especially Britain, had been severely weakened by the war. The war destroyed 60% of Britain's commercial shipping fleet, leaving British exports in 1945 at one-third their 1939 level. To finance the war, the country sold off nearly 3 billion pounds sterling worth of foreign investment. The subsequent reduction in income earned abroad, a key component of the British balance of payments, led to a major decline in the Bank of England´s dollar and gold reserves. In *Sterling-Dollar Diplomacy* (1956), the American diplomat Richard Gardner writes: "Among the most far-reaching consequences of the 2nd World War were the changes it brought to the economic positions of Britain and the US. The contrast was almost complete."

For the European countries, one of the most important consequences of American power in the early post-war period was the centrality of the dollar as an international reserve currency and means of payment. The crucial role the dollar would occupy in the international monetary system for the remainder of the 20th century was confirmed in the signing of the Bretton Woods Accords in 1944, in which the U.S. along with 43 other countries (including the Soviet Union) agreed that the dollar´s value would be backed by U.S. gold reserves while the value of all other currencies would be held at a fixed value relative to the dollar. The wide use of the American currency created in Europe a pressing need to obtain the dollars necessary to pay for imports of commodities and capital goods produced in the United States, as well as to pay off debts piled up during the war.

Part of the reason the dollar assumed such a preeminent role in the post-war period is that many of the former world powers had become financially dependent on the US Treasury. Early on in the war, Britain and the other Allied Powers turned to the US for funding and supplies. In 1941 President Roosevelt signed the Lend-Lease Act, approving US$1 billion in aid to Britain. By the time the war was over, Britain had accepted some US$ 30 billion in Lend-Lease aid from the US[3].

Lend-Lease was not "aid" strictly speaking in that it was part of the US contribution to the war effort and also in that it came with strict conditions attached, the most important of which was that England could not "permit any export of Lend-Lease goods, articles made with Lend-Lease goods, or even 'substantially similar' articles", as stipulated in the Eden White Paper of 1941[4]. To maintain its influence over British trade policy, the US Congress prohibited the Bank of England from using Lend-Lease dollars to build up its dollar reserves. Gardner explains: "[U]ntil the very last months of the war the American Government exerted continuous pressure to keep British reserves to a figure not greatly in excess of US$ 1 billion." By forcing the British to, as Gardner put it, “scrape the bottom of the barrel”, Congress and the Treasury Department ensured the US would have maximum “bargaining power” to demand tariff reductions on American goods sold within the British Commonwealth, also known as the “sterling area” (composed of Britain, British territories and former colonies, all of which used the British pound as a primary means of payment).

After a severe dollar shortage in 1939, Britain created a system of “dollar pooling” in which Commonwealth countries deposited their export dollars in British banks. These dollars were then redistributed among the Commonwealth countries, with Britain allotting to itself the largest share. A rigorous system of monetary controls on the withdrawal of dollars from these accounts limited investor demands for currency conversion and forced all of the Commonwealth countries to reduce expenditures on US goods. In addition, England maintained a system of “imperial preference”, establishing preferential tariffs on goods produced within the sterling area. Intended to limit the drain of reserves from the dollar pool, these measures necessarily involved discrimination against products supplied by US companies.

British maintained exchange controls on dollar expenditures within the Commonwealth until December 1945, when it signed the “Anglo-American Financial Agreement”, consisting of a desperately-needed $3.75 billion dollar US loan. Despite British insistence that it could not afford to lift these controls, US officials would approve the loan only on the condition that Britain abolish imperial preference and the dollar pool. Britain had little choice but to accept. The US gave Britain one year to comply with the condition, after which it would have to make the sterling freely convertible. With regard to the dollar pool, the “Agreement” stated[5]:

The Government of the United Kingdom will complete arrangements as early as practicable and in any case not later than one year after the effective date of this agreement…under which immediately after the completion of such arrangements the sterling receipts from current transactions of all sterling area countries will be freely available for current transactions in any currency area without discrimination with the result that any discrimination arising from the so-called sterling area dollar pool will be entirely removed and that each member of the sterling area will have its current sterling and dollar receipts at its free disposition for current transactions anywhere.

With regard to US companies and investors, the “Agreement” stated:

> The Government of the UK...will not apply exchange controls in such a manner as to restrict...i) payments and transfers in respect of products of the US permitted to be imported into the UK or other current transactions between the two countries; ii) the use of sterling balances to the credit of residents of the US arising out of current transactions.

Dollar convertibility quickly turned into a disaster. As stipulated in the accord, England restored full convertibility for dollar transactions in July 1947. One month later, the British Treasury was forced to suspend convertibility, as it was overwhelmed by demands for currency conversion from US and other investors holding large sterling balances.

With the pound and the British economy in such a fragile state after the war, one wonders why the US would insist so aggressively on liberalizing the country's capital account. One reason, discussed above, was the US desire to open the sterling area to US products. Another reason lies in US plans for the pound's role in the post-war international financial order. While insisting at the Bretton Woods negotiations on a preeminent role for the dollar (accomplished by way of rejection of British proposals for an International Clearing Union and other such mechanisms that would have forced trade surplus countries such as the US to make dollar reserves available to deficit countries), influential US Treasury officials believed that European economic recovery depended on the restoration of London as a regional financial center. (Prior to the 1930's, the British pound was the world's primary reserve currency and London banks ruled international capital markets.) Though US loans could provide the Europeans with the liquidity (dollars) necessary to continue purchasing US products, a stronger pound would be necessary to finance intra-European trade and permit more open financial and commercial policies in Europe, which would benefit the US as the world's largest exporter of goods and capital. Block (1977) describes these financial concerns with regard to Britain:

American policymakers knew that dollars would be scarce in the immediate postwar years. The dollars that did get into foreign, especially European, hands would be used to buy US goods, since the demand for goods in Europe would be much greater than the supply available locally. This meant that the dollar would be of little use over the short term for financing trade within Europe or between Europe and the Sterling Area. Only if the sterling was convertible, and the City of London returned to is role as a financial center, would it be possible to finance that trade…Hence a strong pound, free of exchange controls, was necessary to begin lifting the system of trade and exchange controls from the European economies.

That the US offered England much more in terms of aid and loans during the period under analysis than was made available to other European countries supports Block's argument that the strategy was to transform England and the pound sterling into "junior partners" in a world economic and monetary order dominated by US companies and the American dollar.

**Part 2: The Oil Agreement**

Signed in 1944, the "Anglo-American Oil Agreement" was never given the status of a formal "treaty" by the US Congress, which relegated the agreement to a "memorandum of understanding". Nonetheless, like the Financial Agreement, the accord is an important symbol of US post-war hegemony, as it opened up the world's most valuable oil regions to US investment.

As a result of its prior colonial expansion, Britain in the 1940's retained important geographical spheres of influence. The most important of these was the Middle East, already recognized for its tremendous oil potential. Prior to the Oil Agreement, the main obstacle to US investment in the Middle East was the already well-established British presence in the region. British companies enjoyed almost exclusive rights over oil exploration in several of the Middle East´s most promising oil regions, notably Persia (Iran), large parts of Mesopotamia (Iraq), Kuwait and Bahrain. Ever since the 1920's, US officials had tried, with only mixed success, to increase access for US oil companies to these key areas of British influence. The "Oil Agreement" eliminated this obstacle, as Britain, totally dependent on US aid, agreed to an "open door" policy on overseas oil investment, abdicating its rights of exclusivity in the Middle East.

It is difficult to exaggerate the importance of this abdication. After World War I, the Middle East was essentially divided up between France and Britain, with Britain controlling much of Persia and Mesopotamia and France assuming power over less valuable areas in Jordan and Anatolia (now part of Turkey). The US State Department looked upon this development with suspicion, complaining that the agreement violated "principles of equality" among the war allies. US officials feared the British were "using their political supremacy in the Middle East to establish economic supremacy in the world oil trade"[6]. Citing the long-term concession agreements (up to 60 years) Britain had signed with Kuwait and Bahrain (guaranteeing exclusive rights over oil exploration to "British citizens"), US oil executives in 1919 stated[7]:

> If under a protectorate or any other form of control…British and French interests…should be permitted to gain and maintain an exclusive right of development in Persia and in Turkey, to say nothing of the other oil-bearing lands embraced within the peace settlements…the results to the American petroleum industry might eventually prove to be disastrous.

Throughout the 1930's and 40's, the Roosevelt Administration made aggressive efforts to open the Middle East to US investment. Numerous documents and speeches dating from this period record official US concern with British "imperialism" and "dominance" in the Middle East. To combat this “dominance”, officials encouraged US companies to acquire oil concessions in the few areas of the Middle East where the British had little interest (such as Saudi Arabia), and at one point even pondered the creation of a government oil company, the Petroleum Reserves Corporation, to purchase oil concessions outside the US.

Why such concern for British “imperialism” in the Middle East, especially given the enormous oil reserves still available in the US? By the end of World War II, and perhaps well before, it had become clear to US officials that global economic and geopolitical power implied having access to and, indeed, control over world oil supplies. Discussing oil’s role in the war, Klare points out[8]:

> Although the nuclear strikes on Hiroshima and Nagasaki ended the war, it was the oil that fueled the armies that brought Germany and Japan to their knees. Oil powered the vast numbers of ships, tanks and aircraft that endowed Allied Forces with a decisive edge over their adversaries.

The war experience convinced State Department officials that the Middle East was a “stupendous source of strategic power”, indeed, “one of the greatest material prizes in world history”[9]. Regarding Saudi Arabia, Navy Secretary James Forrester expressed his opinion at the time that American corporations should detain complete control over the country’s oil reserves: “I don’t care which company or companies develop the Saudi reserves, but I believe it of the utmost importance that they be American.”

In addition to its impressive profit potential (due to the high quality of its oil and low production costs), geographically the Middle East was the natural supply source to Western Europe and Japan. Control over the region, thus, would give the US tremendous influence over the economic and military policies of virtually all the major participants in World War II.

Arguing that the US should take steps to retain influence over Japan during its post-war economic recovery, the top State Department official George Kennan once remarked: “If we in the Western world could work out controls…adept enough…to have power over what Japan imports in the way of oil and such other things as she has got to get from overseas, we would have veto power on what she does in the military and industrial field.”[10]

Writing in *Foreign Affairs*, the political scientist Robert Tucker[11] explained in 1980 precisely what Kennan had perceived back in the 1940´s, that the Middle East is “the indispensable key to the defense of the American global position.” The region´s “intrinsic importance”, said Tucker, derives from Western Europe´s (as well as Japan’s) near total dependence on its energy reserves, without which "economic life would come to a sudden halt". Perhaps it is a testament to the savvy of Kennan and the like that they recognized the "veto power" accruing to the country whose corporations, be they public or private, controlled these resources.

The Oil Agreement notwithstanding, US officials realized in the early post-war years that American control over Middle East oil reserves was far from a sure thing. Oil, thus, remained a sensitive issue in 1948 when the US government approved the Marshall Plan for Europe.

**Part 3: The Marshall Plan and the Sterling-Dollar Oil Conflict**

The Marshall Plan is a colloquial term for the European Recovery Program (ERP), created by the Truman Administration to grant and administer funds to 17 European countries between 1948 and 1952.[12] Four countries, England, France, Germany and Italy, received the bulk of the Marshall Plan funds (around 67%), with the rest distributed among Norway, Austria, Ireland, Greece and other smaller countries.

Despite the expectations of some economists that the European economies would recover in the absence of major government intervention, by 1947 it had become clear that the situation in Europe was not only not improving but getting decisively worse. The persistence of recession across the region, as well as the massive capital flight from Britain following the Financial Agreement, demonstrated to US leaders the need for more drastic policies.

US policymakers devised the Marshall Plan for two main reasons. The first was that a European recovery would sustain demand for American products, crucial given the huge increase in US industrial capacity during the war. Hogan (1987) explains: "[Truman] offered the Marshall Plan as an alternative to a massive expansion of defense expenditures and the collapse of European export markets, which together would bring economic depression and sweeping new controls over labor, industry, and agriculture." In 1945 State Department official William Clayton noted[13]:

> Today we are exporting over $14 billion worth of goods a year. We simply can´t afford after this war to let our trade drop off to the two or three billion figure it hit in 1932 during the depression…we will probably have to sell $10 billion worth of goods a year abroad if we want to have relatively high level employment…In other words, we have got to export three times as much as we exported just before the war if we want to keep our industry running at somewhere near capacity.

A European recovery was also seen as necessary to avert anti-capitalist social revolution, not only in Europe but perhaps even the US itself, as the future Secretary of State Dean Acheson suggested in 1944: "We cannot go through another ten years like the ten years at the end of the Twenties and the beginning of the Thirties, without having the most far-reaching consequences upon our economic and social system."[14] Acheson added: "The important thing is markets. We have got to see that what the country produces is used and is sold under financial arrangements which makes its production possible…You must look to foreign markets."

From the outset, Congress strove to ensure the Economic Cooperation Administration (ECA), the agency created to administer the ERP, would be run not by "diplomats" or "civil servants" but by businessmen intent on promoting US industry. To avoid the influence of "civil servants", Congress established the ECA as an independent agency, meaning it did not take orders from the State Department. As Senator Arthur Vandenburg described, the ERP was conceived as a "bipartisan public-private partnership in which essentially private leaders would make operational decisions and collaborate with their public counterparts in the formulation of policy. The administrator…would be recruited from the private sector and run his agency like a 'business enterprise'."[15] Indeed, the first director of the ECA, Paul Hoffman, was the chief executive of the Studebaker Corporation, then one of the largest automobile manufacturers in the US.

Petroleum and petroleum products (crude oil and oil products such as gasoline and diesel fuel) accounted for a large part of the dollar expenditures of the Marshall Plan countries. In addition to the dollar's role as an international means of payment, American companies were major players in the international oil industry, dominating oil production (US companies supplied roughly half of Europe´s crude oil consumption), shipping, refining and distribution. After 1945, US companies also dominated the oil supply and services industry, responsible for engineering services and for manufacturing the equipment needed for oil exploration, drilling and extraction. Though operating through European subsidiaries, the American companies needed to convert a large part of their revenues denominated in European currency into dollars in order to remit profits, amortize debt and pay salaries to their American employees. Painter sums up well Europe´s predicament: "In short, if Europe were to meet its energy needs with imported oil, it would need dollars to pay the bill."[16].

Like their American counterparts, the European oil companies were themselves a source of dollar drain for the Marshall Plan countries, especially the large multinationals Royal Dutch Shell (Shell), owned by British and Dutch investors (including the Dutch government) and the Anglo-Iranian Oil Company (AIOC, later known as British Petroleum), controlled by the British government. Shell and AIOC needed dollars not only to import oil and capital goods from the United States, but to pay taxes and royalties to foreign governments in the oil-producing regions.

As shown below, however, the European (mainly British) oil companies on average demanded much fewer dollars for their day-to-day operations than the American majors, creating a significant difference for the Marshall Plan countries between "dollar oil", that is, oil and oil products supplied by the American companies, and "sterling oil", supplied by Shell and AIOC.

Citing the scarce supply of dollars, the British Treasury in 1949 introduced measures that set off what became known as the "sterling-dollar oil conflict". First, it reduced import licenses for oil purchased from American oil companies within the sterling area. Then it barred US companies from selling products in exchange for sterling in countries outside the sterling area. To enforce this measure, the British Treasury made it illegal for British banks to transfer sterling from accounts based outside the Commonwealth to the British accounts of American oil companies. Finally, in December, the British Ministry of Fuel and Energy declared that as of January 1950, Commonwealth countries (including England) would reduce their consumption of dollar oil from 13 million metric tons to 9 million metric tons.

Indeed, in 1949 Shell and AIOC held an estimated 4 million metric tons of excess oil reserves and refining capacity, precisely the amount by which consumption of US-supplied oil was to be reduced. The basic idea, thus, seemed very sensible: to take advantage of Shell and AIOC's excess capacity and replace unnecessary expenditures on dollar oil with sterling oil.

The US oil companies, backed by the State Department, lobbied heavily to eliminate these restrictions, contending that the measures amounted to "discrimination". The British Treasury countered by pointing out that American companies demanded a much greater quantity of dollars for their operations than the Europeans, a claim supported by Horst Mendershausen, an employee of the Federal Reserve Bank of New York at the time and author of "Dollar Shortage and Oil Surplus" (1950). Mendershausen´s calculations substantiate Britain´s claim that the American companies were a much larger source of dollar drain than the European companies. According to Mendershausen, a barrel of oil sold by US companies in the Sterling Block (the collection of countries, including those of the British Commonwealth, that traded primarily in British pounds) resulted in a demand for conversion roughly 4 times greater than a barrel sold by the Europeans. Mendershausen writes:

> [I]t is true that 'sterling company' oil costs Britain dollars and so does 'dollar company' oil. But the latter seems to cost on the average nearly four times as much per barrel…assuming that $260 million of sterling company oil could be sold for dollars in 1950 as expected, the net dollar outlay of all sterling-company oil would be as low as one-fifth of the gross cost of *dollar oil*, per unit. This seems to be the essence of Britain´s case against dollar-company oil on balance of payments grounds.

Mendershausen emphasizes that the British exchange policy was not intended simply to promote the British companies[17]:

> [R]ather than a commercial conflict cloaked in national balance of payments arguments, this is an international balance of payments conflict that is turning the agents of international commerce from shared expansion toward a fight over restricted markets. To follow a policy of dollar saving naturally means to encourage the foreign competitors of American business.

For Mendershausen, the dollar oil conflict stemmed from 2 basic problems. One was the scarcity of dollars in Britain, which forced the British Treasury to find ways to save on its dollar bill. The second was the excess supply of oil in the international market, due to the fall in demand after World War II and successful oil exploration in the Middle East and the Dutch colonies. This, Mendershausen explains, made an orderly distribution of world oil markets impossible for the multinational oil giants, forcing them into competition with each other to find buyers for their increased oil reserves.

Mendershausen points out further that England´s dollar-saving measures should have come at no surprise to the Americans, given the physical destruction caused by the war and the loss of competitiveness of British exports. Mendershausen adds that were it not for US financing and loans, England would have been forced to impose restrictions on dollar oil well before 1949.

The British restrictions on US oil companies had an immediate impact. According to State Department calculations in May 1950, dollar oil was being substituted by sterling oil at a rate of 135,000 barrels per day (b/d), equivalent to 9% of US production abroad. Furthermore, due to the reduction in sales, the Arabian-American Oil Company (Aramco), a joint-venture between Standard Oil of California, Texaco, Standard Oil of New Jersey and Socony-Vacuum, had reduced oil production in Saudi Arabia. Given the weakness of the Saudi regime, US officials and oil executives feared a reduction in Aramco´s production would upset the Saudis lead to invitations for the European companies to invest in the kingdom.

In an effort to convince the British to reverse their policies, the US companies promised to convert no more than 50% of their sterling revenues into dollars, as well as purchase more goods and services produced within the Commonwealth. The British government refused these proposals, explaining that the mere accumulation of sterling balances by the American companies creates "continuous pressure for conversion, direct or indirect, and the existence of additional balances of this kind, even when effectively blocked, impairs the strength of the sterling."[18]

According to the British Treasury, the only way in which American sales could surpass the 9 million metric ton ceiling in the sterling area would be if the companies increased their purchases of goods and services in the sterling area with dollars. That is, the companies would not simply have to agree to purchase more sterling-area products; they would have to exchange dollars in order to do so. This proposal makes very clear that the British objective was to preserve its dollar supply. As for the American companies' desire to sell outside the sterling area (in the "sterling block"), the British government again stood firm, arguing: "[The difficulties experienced by the Americans] are merely one aspect of the dollar shortage which, as long as it persists, cannot fail adversely to affect US exports generally. The United Kingdom is not responsible for this shortage and cannot afford any dollar burden in order to assist the US oil companies."[19]

Having failed to convince the British, the US companies turned to the American government for support. Indeed, as mentioned above, the oil companies already had strong public support, not simply because of the many US politicians with ties to the oil industry but, more importantly, because of the recognition among government officials that the US oil concessions abroad, and above all in the Middle East, were of supreme economic and geopolitical importance. Maintaining these concessions meant securing stable sources of demand for the oil produced within them, hence the importance of defending US access to European consumers.

Mendershausen notes that the companies actively sought the support of the US Congress : "Since the entry of these companies into the foreign field in the past and their expansion there during and after the war (World War II) were prompted and supported by the US government, they now appeal to Congress, the State Department, and ECA, for support and for measures that would make it costly for Britain to follow its announced course."

Testifying before Congress in 1945, the oil executive and State Department consultant Charles Rayner explained:

> The Department of State has…taken the position that the public interest of the United States requires maximum conservation of domestic and nearby reserves and large-scale expansion of holdings in foreign oil reserves by United States nationals. It has, therefore, actively supported the efforts of United States petroleum interests to secure and to consolidate concessions abroad.

On Capitol Hill, animosity towards the British "currency discrimination" was intense, as American politicians such as Texas Senator Tom Connaly vilified the British government for its "hostile" policies. In 1950, Connaly and several other Congressmen suggested to President Truman that he suspend the Marshall Plan for England until the country eliminated its exchange restrictions on US oil companies. Connaly declared: "[T]he proposed policy of the British government to require its Dominions to substitute ‘sterlingized’ oil for *dollar oil*…is a British act of hostility directed at our economy, when the US is making stupendous gifts to Britain.”

Congress’s anger reflects another element of the dollar oil conflict, which was the need to protect domestic oil producers (known as “independents”) from low-cost oil imports. Due to the reduced demand in Europe in the late 1940´s, multinationals such as Jersey, Socal and Gulf cut the price of oil imported from their production fields in the Middle East in order to increase sales in the US. The result was a dramatic increase in domestic consumption of Middle East oil. While domestic production increased 8% between 1947 and 1950, Middle East production rose 109%. In fact, in 1949 oil production in the US fell as the Texas Railroad Commission (the state’s regulatory body for oil production) ordered production cuts to keep oil prices high.

Table 1 shows the rapid increase in US imports between 1945 and 1949. 75% of these imports came from 6 multinational oil companies, all active in the Middle East.

**Table 1: US Oil Production and Oil Imports (Million Metric Tons)**

| | US Production | Imports | Imports/US Production (%) |
|---|---|---|---|
| **1945** | 250.5 | 15.6 | 6.2 |
| **1946** | 253.7 | 18.7 | 7.4 |
| **1947** | 272.6 | 21.8 | 8 |
| **1948** | 296.2 | 25.7 | 8.7 |
| **1949** | 273 | 32.5 | 11.9 |

Source: Mendershausen

The increased imports provoked a reaction not only from domestic producers but from the Armed Forces, concerned that lower-cost oil from abroad would reduce incentives to invest in domestic oil production. Lower domestic production, army officers argued, would put the US at a disadvantage in the event of another major war.

Had there been no pressure inside the US to limit oil imports, the British measures to save on its dollar bill would probably not have caused much alarm. However, the independents and the Armed Forces were powerful constituencies who were able to block further increases of imports into the US. The European market was the only alternative.

As explained above, however, the US could not simply shove dollar oil down Europe’s throat. A severe dollar shortage existed in all of Western Europe, requiring dollar-saving measures identical to those adopted by Britain. The Marshall Plan thus emerged as a solution to America’s oil problems, for if the Europeans could not afford to buy dollar oil, then the US government (or rather, the US taxpayer) would supply them with the dollars necessary to do so.

And this is precisely what the US government did. Though few recognize the importance of oil to the Marshall Plan, its importance to the program is unquestionable. Roughly 10% of Marshall Plan funds were allocated to oil and oil products, more than 70% of which was supplied by only three US companies: Jersey (48,8%), Caltex (14%) and Socony-Vacuum (9,2%). In keeping with Section 112 of the ECA Act of 1948, which stipulated that "the procurement of petroleum and petroleum products…shall to the maximum extent practicable be made from petroleum resources outside the US", 71% of the oil supplied through the Marshall Plan came from two regions (37% from Latin America and the Caribbean and 36% from the Middle East). Given that the first major discoveries in the Middle East took place only in the late 1920 and 1930´s (Kirkuk – Iraq – in 1927, Agha Jari – Iran – in 1938), it is a testament to both the productivity of the oil fields and the desire of US companies to find markets for this oil that such a substantial portion of Marshall Plan oil came from this region. The extensive use of ECA funds to bolster the sales of US multinational oil production even elicited a remark from ECA director Paul Hoffman, who noted that, because of the ECA, the Europeans had remained "good customers of the American oil industry"[20].

US opposition to Refinery Expansion in Europe

ECA officials recognized that selling US oil products in European markets required more than a subsidy program. To ensure demand for the American companies, the ECA also had to limit the growth of European refining capacity.

Refinery expansion was the key to reducing Europe's dollar expenses on oil and oil products. With its industrial park destroyed by the war, much of Western Europe was forced to import not only crude oil from American companies but more expensive oil products such as gasoline, diesel and kerosene. To eliminate this source of dollar drain, the Marshall Plan countries proposed to use the funds to build refineries run by European companies. This would allow them to reduce expenditures on American-supplied oil products as well as crude oil. Since the large US companies were vertically-integrated, the existence of more American-owned refineries in meant more imports of crude oil produced by these same companies. This resulted in a greater outflow of dollars from European central banks. An increase in European-owned refining capacity, thus, would allow the Marshall Plan countries to reduce their purchases of US-supplied oil, improving their balance of payments.

Painter explains that the "world shortage of dollars created considerable pressure" for refinery expansion in Europe[21]:

> As long as there was a shortage of refinery capacity in the Eastern Hemisphere…Western Europe would be forced to rely to a certain extent on dollar refined products if not crude oil. Thus the refinery expansion program of the Marshall plan countries was also of key importance to the future positions of sterling and dollar oil.

Soon after the conception of the Marshall Plan, the Organization for European Economic Cooperation (OEEC), made up of officials from the recipient countries, was created to propose investment projects to the ECA. In 1948, the OEEC submitted a development proposal to the ECA that included significant funds for the acquisition of refining equipment. The ECA´s chief oil consultant Walter Levy, a man with extensive ties to the American oil industry, called the OEEC´s proposal “ambitious” and informed the OEEC that the ECA would not discuss refinery investments until it came up with a more “reasonable” and “coordinated” proposal. Levy insisted on limiting the use of ECA funds to purchase petroleum equipment. Painter explains: “Levy and the oil people in ECA opposed aiding the expansion of the European oil industry, arguing that this would harm U.S. oil companies operating overseas”.

Several ECA officials opposed Levy, arguing that “the general interest of European recovery took precedence over the special interests of oil companies”. Nonetheless, Levy, with critical support from the State Department and the US military, succeeded in restricting ECA investment in oil production and refining equipment, justifying this policy with the claim that the “the loss of markets for US-owned foreign oil would jeopardize the security of the concessions held by US companies in Latin America and the Middle East”[22]. The State Department concurred, citing a “vital United States interest in American-owned foreign oil”.

*The Economist* argued the ECA oil program amounted to “charity”, noting that, without heavy investments in refineries, specialized equipment and other industrial installations, the Marshall Plan would do little to solve the main problem it was intended to fix, which was Europe´s balance of payments deficit:

> American assistance will certainly be needed for many years to come, but it will be far healthier and more effective if it takes the form of assistance in removing the deficit than of charity in meeting it. There is a sense in which Marshall aid creates the dollar deficit…so long as European purchasing power in world markets is buttressed by Marshall dollars, the chances of recovery and restoration of equilibrium become slimmer.

Nevertheless, US officials insisted that ECA funds must not be used in a way that would harm American oil producers. Testifying before Congress in 1949, ECA oil director O.E. Bransky explained that the presence of “British and Anglo-Dutch” oil companies presented “special problems" for the financing of refinery expansion in Europe[23]: "[W]e have had to consider the implications of this [refinery] program upon the broader United States national interest, including our desire for strategic reasons to maintain American-owned concessions abroad." Though accounting for 60% of world oil demand, US oil consumption had not grown enough in 1946 and 1947 to absorb the oil production of US majors operating in the Middle East and Latin America. Furthermore, as explained above, further imports of Middle East oil into the US was out of the question. Thus, it was "essential that ECA do its best to prevent a degree of overexpansion that, because of the dollar shortage, would seriously reduce the market outlets for American-owned oil and thus jeopardize American-owned concessions in foreign lands." (Effects, p.523)

The OEEC returned in 1949 with a much less ambitious refinery program. The organization suggested allowing an expansion of refinery capacity sufficient to allow European companies to supply Western Europe, leaving the world market outside of this region to the US companies. Recognizing that, once the refineries were built, European governments would have every incentive to save dollars by imposing tariffs or quotas on dollar oil, the ECA only tentatively accepted the new proposal, stating that it was opposed to any kind of "currency discrimination" or any kind of "undesirable commercial restrictions" used to promote sales of non-American oil companies. Bransky clarifies:

We determined—and this is the cornerstone of our position—that we would not finance any expansion whether in Europe or overseas unless the resulting output could be sold without continued resort to currency discrimination, exclusive bilateral agreements, or other such arrangements.

Between 1948 and 1951, the ECA contributed US$ 24 million to the expansion of refinery capacity in Europe, a pitiful sum compared to the US$ 1.2 billion (total Marshall Plan aid was a little over US$ 12 billion) used to pay for sales of oil and oil products supplied by US companies.[24]

Table 1 below shows that through February 1950, the ECA financed or promised financing for only 8.7% of the total refinery projects planned in Europe:

**Table 1: Existing and Projected Refining Capacity in Marshall Plan Countries, by nationality of refiners (thousands of barrels per day)**

| | US | England | Other | Total |
|---|---|---|---|---|
| Existing Refineries (1948) | 120 | 205 | 160 | 485 |
| Completed Expansion Projects | 190 | 280 | 100 | 570 |
| ECA | 0 | 90 | 25 | 115 |
| non-ECA | 175 | 35 | 35 | 245 |
| undetermined | 15 | 155 | 40 | 210 |
| Planned Capacity Expansion (1953) | 95 | 65 | 100 | 260 |
| Total Expansion | 405 | 550 | 360 | 1.315 |
| % of Expansion Financed by ECA | | | | 8.7% |

Source: Mendershausen.

Obs.: 2 refineries in France, owned by Standard Oil and Socony-Vacuum, received ECA financing to increase their complexity, but not total capacity. Thus, these investments are not included in Table 1.

The ECA´s efforts to dissuade the Europeans from investing in refining capacity provided an important service to the major US oil companies, as Bransky noted in his congressional testimony[25]:

> [H]ad there been no Marshall Plan, these countries would have had to give an even higher priority to the expansion of nondollar crude-oil production and refinery capacity. In other words, the less dollars they had, the more they would have spent on petroleum equipment. Very few dollars would have been spent on the purchase of oil from American companies and the dollar expenditure for oil would have been reduced very rapidly as nondollar oil became available.

**Part 4: Concluding Remarks**

A theme underlying the analysis above is that the United States' rise to power in the early post-war era was not a benevolent "changing of the guard"[26], but a kind of power-grabbing affair. The US government exploited British and, in general, European economic dependence to ensure American predominance in the international oil industry after World War II. A common assumption of history textbooks and much scholarly analysis is that US foreign economic policy after World War II was marked, from the very beginning, by fear of Soviet expansionism. Regarding US commercial interests and oil policy, however, we have seen that policymakers in the 1940's were concerned not with Soviet but British "domination" of the sterling area and the oil resources of the Middle East. Being too weak to defend the remnants of its empire, Britain was forced to open these spheres of influence to US exporters and oil investment. The analysis of oil policy during the Marshall Plan offers a striking example of how this basic goal applied not only to Britain but to all of Europe. As the editors of *The Economist* pointed out in 1949, given the role of petroleum expenditures in weakening Europe's balance of payments, US officials jeopardized the success of the Marshall Plan, and European recovery as a whole, by attempting to limit the growth of European-owned refining capacity. This is the extent they were willing to go to ensure the American oil giants' market share in Europe.

It would be a mistake to conclude, however, that US foreign economic policy during the Marshall Plan reflected simply the influence of powerful business constituencies such as the oil lobby. Though true in part, this conclusion leaves out an important nuance. Top US strategists in the early post-war period did not seem particularly interested in promoting the interests of this or that oil company. The declarations of Acheson and Kennan, for example, suggest that they were concerned with the security of America's "economic and social system", meaning, it seems, the preservation of the US as the world's wealthiest capitalist power. Thus the State Department´s recognition of the "stupendous strategic power" of Middle East oil resources, discussed in part 2, does not refer to the profits oil companies could reap from them but to the "veto power" these resources would give the United States over the choices her Western European and Japanese rivals might make in the "military and industrial field". This seems to be one of the basic lessons of US foreign policy in the mid-to-late 1940's, which is that US motives cannot be explained away by simplistic references to the "Soviet menace" or to the influence of "special interest groups". Fantastic as they may seem to some, broader issues, such as an interest in creating a world economic order beneficial to the US corporate sector as a whole (the "capitalist class"), must be considered.

## Footnotes

1. Gardner (1956), p. 172.
2. Gardner (1956), p. 173.
3. Gardner (1956), p. 389.
4. "Multinational Oil Corporations and US Foreign Policy (1975)", Report to the Committee on Foreign Relations, United States Senate, January, p. 35.
5. "Multinational Oil Corporations and US Foreign Policy", p. 35.
6. Klare, M. (2001), "The Geopolitics of War", *The Nation*, November 5.
7. Cumings, B. (1990), The Origins of the Korean War (vols. I e II), Princeton University Press. See also Richman, S. (1991), "'Ancient History': US Conduct in the Middle East Since World War II and the Folly of Intervention", Cato Institute Policy Analysis, August.
8. Schwarz, B. (1996), *Atlantic Monthly*, June.
9. R. Tucker, "The Purposes of American Power", *Foreign Affairs*, Winter 1980/81, vol. 59, issue 2.
10. In fact, what was known as the "Marshall Plan" effectively ended in the middle of 1951, after which the ERP became part of the Mutual Defense Assistance Program, created at the outset of the Korean War.
11. Block, F. (1977), Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present, pg. 40.
12. Block, p. 41.
13. Hogan, p. 107.
14. Painter, D.S. (1984), "Oil and the Marshall Plan", *The Business History Review*, Vol. 58, No. 3 (Autumn, 1984), pp. 359-383
15. Mendershausen, H. (1955), Dollar Shortage and Oil Surplus, Records of the Agency for International Development, pg. 6.
16. Mendershausen, pg. 9.
17. Mendershausen, pg. 10.
18. To his credit, Hoffman dogged the oil companies for their scandalous over-pricing of oil products. Independent studies at the time showed that US oil companies systematically over-priced oil purchased with Marshall Plan funds. Despite Hoffman's efforts, the companies, to this author's knowledge, were never punished for this.
19. Painter, "Oil and the Marshall Plan", pg.374
20. Painter, "Oil and Marshall Plan", p. 373.
21. Petroleum Study Hearings, US Congress, p.88.
22. Painter, "Oil and the Marshall Plan", p. 375.
23. Effects of Oil Imports on Domestic Producers (1949), vols. I, II, III, Hearings before the Select Committee on Small Business, United States House of Representatives, 81st Congress, 1st Session., p. 523.
24. This term comes from the title of a book by R.B. Woods discussing Anglo-American relations between 1941 and 1946.

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