David Gibbs: The Coming Energy Shock - Similar to 1973 Oil Crisis?

David N. Gibbs is professor of history at the University of Arizona. Prof. Gibbs discusses the historical parallels between the coming crisis and the 1973 oil crisis. Follow Prof. Glenn Diesen: Substack: https://glenndiesen.substack.com/ X/Twitter: https://x.com/Glenn_Diesen Patreon: https://www.patreon.com/glenndiesen Support the research by Prof. Glenn Diesen: PayPal: https://www.paypal.com/paypalme/glenndiesen Buy me a Coffee: buymeacoffee.com/gdieseng Go Fund Me: https://gofund.me/09ea012f Books by Prof. Glenn Diesen: https://www.amazon.com/stores/author/B09FPQ4MDL

#Glenn

Welcome back. We're joined today by David Gibbs, professor of history at the University of Arizona. Thank you for coming back on the program.

#David Gibbs

Thanks for having me, Ben.

#Glenn

You focus a lot on the geopolitics and the economics of it, and I was hoping you could shed some light on how this compares to where we are now. Have we seen anything similar in the past? The scale of this energy crisis is deeply disturbing and, to some extent, unprecedented. Yet we had a crisis back in 1973, of course, with the oil shock. I was wondering if that gives us some context for the possible socioeconomic and political consequences of what we're seeing today.

#David Gibbs

Yes, that's right. There's a very close parallel, actually, between what's happening now and what happened over half a century ago, beginning in 1973—an oil crisis, an energy crisis, emanating from the Persian Gulf. Iran was deeply involved in both, in the current one as well as the past one. And, you know, before I go into the details, I'll note that the energy crisis that began in '73 was the main trigger for a major recession—the worst economic downturn, up to that point, since the 1930s.

It also resulted in a decades-long economic malaise—basically flat rates of productivity growth in the United States and, you know, greatly reduced performance in most of the rest of the world. And so, in some respects, actually, even if you look at long-term rates of GDP growth, you know, it was quite high up until 1973. In 1973, you see a big drop, and rates of economic performance have never fully recovered from that early period. So this is something of a historic breakpoint. And, you know, it's very unsettling when you think about the fact that something very similar is happening right now before our eyes. Before I go on with the details, do you want to ask any more questions before I launch into the historical background? Sure.

#Glenn

No, the historical background would be fascinating, because I keep thinking we haven't seen anything like this. That is, first—yeah—Russia was taken off the grid to some extent with all these economic sanctions. Well, but not completely. In Europe, for example, we still buy the gas, just through an Indian mediator, for instance.

#David Gibbs

At a higher price.

#Glenn

Yeah, at a high price. Yeah, of course, they want their markup. And, yeah, sorry—the oil as well. But now, with this shutdown in the Middle East, and given that it's not even as temporary as it seemed, it looks to be more prolonged. I'm not sure how long it would take to fix these things, but even a political settlement after this war doesn't seem likely. It doesn't look like Iran is prepared to go back to the way things were; they're aiming for a massive disruption of the former status quo. And indeed, in the wider context of what we're seeing in the world, the unipolar world has ended. Now you have a multipolar world, which, yes, you could say will be more balanced—but it also seems less organized, with more actors involved. So, no, again, the historical background would be great.

#David Gibbs

Well, let me say that what I've just given you here is based on research I've done on this topic in the National Archives, and also for a book I published last year on the subject. What you had was a two-phase oil crisis. The first phase began with the October 1973 Arab-Israeli war. Again, Israel is front and center in both events—the current one as well as the last one. In 1973, Israel went to war, or was invaded first, in a winter conflict with Syria and Egypt. As a result of that war, the Arab world—basically much of it—imposed an oil embargo, using the OPEC oil cartel as an instrument to embargo the United States for its very close ties to Israel and its military support for Israel. The first phase was led by Saudi Arabia, which, on religious grounds, objected to the idea of a Jewish state in the Middle East and to the idea of Zionism.

And it was ideological in character. Then there was a second phase, though. After a few months, the so-called moderate Muslim countries—led by Iran, a close U.S. ally—realized they could make a lot of money from oil price increases. Iran didn’t have any real interest in the Arab-Israeli dispute; they had business-like relations with Israel. They were a major supplier of oil to Israel, but they wanted to increase their revenues. The Shah had ambitious plans to build up a vast military apparatus, which he was rapidly doing, and to pay for it through oil revenues. So this was a very attractive idea to him.

And so, in the second phase, you had continued oil price increases—about 400%. Oil prices rose 400% for the United States. The U.S. still had a lot of internal oil production, but Europe and Japan were hit even harder, outside of the Soviet sphere. It was a global event. What I want to emphasize is that what has come out more recently from the archives—if it wasn’t known before—is that the U. S. government, led by Richard Nixon and Henry Kissinger, actually encouraged this price increase. They didn’t oppose it; they encouraged it. They privately told the Shah of Iran, “You can raise oil prices as much as you like. The United States will not object.”

And I'll get into the reasons why in a moment. But again, this is really very surprising because the oil shock devastated the U.S. economy. As I said, there was extreme damage to the U.S. economy, and the U.S. was deeply complicit in it. You might say it was, aptly, self-destruction by the Nixon administration. The question, of course, is why. But before I go into that, let me just note that after a few months there was a factional dispute within the Saudi elite. And there was, shall we say, another faction of the Saudi elites that seemed to come to the fore and wanted to repair the damage they had done to the United States, offering privately to work with the U.S. to lower oil prices.

Amazingly, the United States refused to do this. They did not want to lower oil prices. They rebuffed the Saudis, to the astonishment of the Saudis. And, you know, we have letters from Ahmed Zaki Yamani, who was the Saudi Minister of Petroleum, expressing astonishment that the United States was not interested in his offer. It underscores the fact that the United States was committed to raising oil prices and damaging its own economy—which is exactly what they did. And now the question is, why? Again, I don't want to keep going on and on. Do you want to interject anything at this point? Are you asking any questions?

#Glenn

No, the “why” is quite interesting. Well, there are a number of reasons.

#David Gibbs

I think one reason was that the United States had been building up the Shah in Iran as the guardian of American and Western interests in the Gulf. The British had pulled out of the Gulf after 1967—1968, I believe—and the United States was not able to insert military forces there because of the Vietnam debacle. So we relied on the Shah to do it for us. Building up his military was functional from that standpoint. In addition, Nixon was very eager to increase American military sales to benefit U.S. arms exporters, who had been hurt badly by the Vietnam War, which had tainted American weapon sales. We had just lost credibility, so nobody wanted to buy our weapons—but the Shah wanted to buy them, and that was a good thing.

Furthermore, the Shah had been carefully building up support in the U.S. political and economic elite for decades. The Iranian embassy in Washington had gone around giving expensive gifts to hundreds of top-tier journalists in the United States as a kind of way of, if you will, buying them off—which produced fawning coverage of the Shah. You know, the Shah even employed the wife of a top senator on the Foreign Relations Committee as a publicist. In addition to that, American companies benefited considerably. The major oil companies—five of which were American-owned, the so-called Seven Sisters—profited from the increase in oil prices. The very powerful Rockefeller family was historically very friendly, socially, with the Pahlavi dynasty as well.

And, you know, there was a whole series of business interests that benefited considerably from the economic boom going on in Iran, thanks to high oil prices. So I think these considerations—both the strategic ones and the, you might say, more grubby economic ones—were what swayed Nixon and Kissinger. Kissinger, by the way, was very close to the Shah personally. He was also a bit of an acolyte of the Rockefellers historically. So I think all of these kinds of connections were what drove U. S. policy, even though by any reasonable standard, this was a self-destructive policy the U.S. was following. But whatever the cause of the policy, what we now know is that the United States encouraged this oil price increase, and the results were quite devastating.

#Glenn

But if we draw a parallel to today, there's no real "why" anymore. There's no reason for the United States to drive prices up. In fact, if prices rise, the main countries benefiting would be Iran and Russia—both adversaries of the United States. If this conflict continues, it could, you know, wipe out some of these Gulf nations which are, to some extent, if not assets, at least close allies of the United States—partners the U.S. benefits from. So from that perspective, it's not really comparable, since there's no such interest today, I assume.

#David Gibbs

Yes, the motive is very different. There's no evidence the United States encouraged the oil price increase—quite the contrary. And you're quite right, of course, it goes against America's interests at every level, including interests Trump himself would see as obvious, since it undermines America's global influence as well as its living standards. I think one of the lessons people are drawing, or should draw, from this war is that aligning with the United States does not enhance their security. It weakens them, clearly. Just look at all the Gulf states: they aligned with the United States, they allowed them to have bases, and now they're being attacked by Iran.

That wouldn't have happened if they hadn't aligned with the United States. You know, the European countries have to ask themselves if they were being smart. Is it really wise to align with the United

States when it's cutting off all our sources of energy—first from Russia and now from the Persian Gulf? This American alliance has been a disaster for Europe, whether they realize it or not. We're seeing a real irrationality on the part of the European elite, particularly in the Scandinavian countries. That's absolutely astounding. But nevertheless, looked at from a rational standpoint, what we're seeing here is that there's no benefit whatsoever for the U.S. or its allies from what's happening in the Gulf.

This is a benefit for two of its occurrences—well, for two at least—in the sense that it wasn't expected, at least not by Donald Trump. I know he expected to win the war. He expected a short, easy, and glorious victory that would make him a great president, like Abraham Lincoln, I suppose. We'd put him on Mount Rushmore. And that hasn't happened. He miscalculated very badly here. But the causes of the oil price rise are somewhat different from the 1970s. The effects could be quite similar, in that this could be very devastating—on the same scale as the '70s, or possibly worse. And the reason I say that is that in the '70s, the financial system was much more regulated than it is today.

The possibility of a collapse of the financial system was reduced because of the high level of regulation, at least in the United States. That's not true anymore. The financial system is now substantially deregulated. Also, the level of debt is much higher—particularly household debt, personal debt by individual Americans. It's much higher. That means a higher level of vulnerability, and that doesn't bode well for the economic future in terms of the secondary effects of this oil price increase. So I'm very worried, and everyone else should be very worried about what's going to happen next.

#Glenn

Well, the European irrationality—it's not just losing access to Russian and Middle Eastern energy; it's also deliberately reducing tech cooperation with China. I mean, no one's suggesting they should only trade or have technological cooperation with the Americans, but if there were more than one partner, they'd be in a more beneficial position. Also, regarding the relationship with the Russians, a large reason why we're in this conflict to begin with, it seems, was the decision to expand NATO—essentially to go back to bloc politics.

I think this was a price many were willing to pay—alienating Russia, restarting the logic of the Cold War—because NATO, at least, cemented America in Europe. And it's good to have Americans in Europe, in terms of having the pacifier, of course, having the most powerful military as a close ally. These are all good things. But now that the U.S. is pulling away more and more, one has to ask: if we had a cool-headed, non-emotional Kissinger type in Europe, he would say, "Well, the situation has changed now. Perhaps we don't need to do bloc politics anymore. We can find a way to end the dividing lines in Europe and cooperate more with the Russians."

Indeed, Americans wouldn't object to it either if it meant Russia wasn't leaning so heavily toward China. We don't have the Kissinger type. We have very angry, emotional politicians who, as you suggested, don't sound very rational at all. But one thing that's different from '73, though, would be the alternatives in the energy markets. We have U.S. shale production, we have diversification—for example, not just of suppliers but also of energy sources, like renewables, where China is leading the way. Do you see this impacting things—either reducing the blow or pushing countries to shift faster into renewables?

#David Gibbs

Well, you know, Paul Krugman has made this point, and he's no doubt right. The degree to which we're energy-dependent, or as dependent on fossil fuels today, is less than it was in the '70s, due to precisely all the things I've mentioned—renewables as well as increased efficiency of use, that kind of thing. All of this has reduced our energy dependence. However, we're still highly dependent on fossil fuels—um, not as much as in the '70s—but given our lower level of dependence, we could say that the blow will be softer in that respect. But another aspect is that we're much more vulnerable financially, because of financial deregulation and household debt. So the latter, I fear, as a secondary effect of the energy crisis, could make the overall crisis much more severe.

The economy became financialized in the United States and in Britain. Germany may be a separate case—they retained their industry, though that may change now. But the United States and Britain became financialized to a considerable degree, and the United States shifted. This is something I can discuss historically: with the role of the U.S. dollar, the United States moved from being an industrial superpower—what it was, say, in World War II. Charles de Gaulle referred to the extraordinary productive capacity of the United States.

By the beginning of the '70s, the U.S. emerged as a financial superpower, as it is today. The downside of that is, domestically, we're so dependent on finance that it could become a house of cards. If you get a real shock—like an energy shock—it could produce a financial crisis as well. So it's hard to say whether we're more or less vulnerable than we were in the '70s. My guess is probably more so, given the financial situation—the financial fragility we're in today. I guess, in terms of how it will play out, we'll see. It's going to be bad no matter what. The question is how bad.

#Glenn

I often think, you know, when Trump uses the slogan "Make America Great Again," it would actually mean putting America back to 1973. That's when, after the oil shock, things started to go a bit wrong. You can see what some refer to as the "great decoupling," when companies kept making more profits but salaries stayed stagnant. Debt levels started getting out of control—all these economic consequences. Really, a lot of this began after the oil crisis of '73.

#David Gibbs

That's right. That's absolutely right. You know, if you look at some of the happy decades, the French refer to them as the "thirty glorious years." It was actually twenty-three glorious years, from 1950 to ’73, if you look at the data. But that ended—the thirty glorious years ended in 1973 for the United States and Europe. And it was an era of, first of all, lower economic performance—permanently lower economic performance—but also much more concentration of wealth. The United States was seeing an extraordinary concentration of wealth and a stagnation of wages and living standards. Most Americans today live paycheck to paycheck. They have no reserves. It’s going to be interesting to see what happens if their income goes down because of inflation.

That's going to be an interesting result. One more thing, of course, is that the historical response to inflation in the ’70s was austerity—raising unemployment as a way to control inflation and reduce living standards, basically as a means of controlling prices. That happened in the United States, particularly toward the end of the decade, with devastating consequences. It produced an even deeper recession in the 1970s, and much of that came from the oil prices. So we could be in for a massive bout of inflation. We're already seeing it—you fill up your gas tank in the United States, and gas prices have already gone up by about a third. I suspect that's just the beginning.

Energy and food prices go up because agriculture is very energy dependent. And so the next phase could be calls for austerity—to have the central bank, the Federal Reserve, increase interest rates, increase unemployment, and lower living standards as a means of controlling inflation. That should get very exciting. People hate it when living standards are lowered, and for good reason. Overall, I think what we're seeing is how foreign policy is fraying the social fabric in the United States and also in Europe. You know, you've had the cutoff of energy in Europe, or a partial cutoff of energy from Russia—a dilemma of their own making, you might say—but it’s lowered living standards for sure.

And to a limited extent in the United States as well. Now we're seeing a secondary cutoff in Europe, and also calls, of course, to increase military spending—sometimes dramatically. This is really going to fray the social fabric of the North. One of the prices European leadership will have to pay is increased social turmoil and social problems in Europe, and the rise of the far right—parties like the AfD in Germany, you know, the Reform Party in Britain. These are rising rapidly, and that’s a consequence of decisions made by the European elites, learning nothing from past mistakes.

#Glenn

Yeah, an argument I remember—I think it was made in the Financial Times, but then repeated among political elites in Europe in different forms—was that because of the war against Russia in Ukraine, Europe would have to abandon its welfare state in order to build a warfare state. So, you know, as another would say, just shift money to the military. But that money now seems to be disappearing. So whatever economic problem there was a month ago, this is going to get much, much worse. And as I said, as all of these things are going wrong, they're also going to militarize. So it's not just the economic aspect, but how this will impact society.

Because suddenly we won't have the welfare state. Essentially, the way societies have been organized since the Second World War will have to come to an end. We're going to see more militaristic language from leaders and politicians. How does this play into, I guess, the change in society? I was going to ask you if our economies are more resilient today, but you kind of answered that already. Again, with the U.S. $39 trillion in the hole and Europe also doing extremely poorly, it doesn't seem like we're prepared. But again, if we move away from the economic issue, how do the economics of it impact the societal component?

#David Gibbs

They tear societies apart, predictably. You know, one of the most unhealthy things you can have is stress—especially financial stress. It's not good for you physically or mentally. And you're going to see a lot more of that in the United States and Europe, with very negative results. The United States is an interesting country in a way. It's very wealthy, it has unmatched military power—everyone knows that. But if you walk around American cities, it's a country that's broken down and doesn't function very well. You see immense social problems, massive homeless camps, including right in front of my house in Tucson, Arizona.

Infrastructure that's totally broken down and doesn't work. You know, if you fly from Europe to the United States, you might very well land at Kennedy International Airport in New York. That's one of the most beat-up airports I've ever seen in my life—completely dysfunctional. And most American airports are like that. Train stations, subway stations, the roads—they don't work. This is a country that simply doesn't work anymore. And there are a lot of reasons for that, but one of them is overspending on the military. We've been favoring guns over butter for decades, and it's catching up with us. Europe is a much nicer place to live.

My son relocated permanently to the Netherlands, partly for that reason. I visited there, and I'm very impressed by the fact that the quality of life is visibly much higher. I haven't been to Japan, but I understand that Japan is even better organized than Europe. And I guess I'm expressing astonishment that Europe somehow imagines it would like to become more like the United States. Well, good luck with that. Good luck with that. You know, if you want to become more like the United States, European leaders should go and walk around American cities and see what they look like these days. They want to become more like that? Well, you need to see a psychiatrist, I think.

#Glenn

I saw Hegseth—he made a comment a day or two ago—that the problem with Iran was that they keep spending their money on weaponry instead of on their people. And I thought, you know, what a wonderful thing to say, because that is part of the problem there. But I think you're absolutely right, because in Europe this is something Europeans often point out and berate Americans about: why spend so much on the military instead of on your society? But now it's essentially going the other way. The Europeans are starting to emulate the American model, taking money away from social spending.

Otherwise, I agree with you very much. I did one of my PhDs in the Netherlands. Yeah, great community, though. I don’t know—I’m a big fan, at least. But one thing we saw in 1973 was that all these oil-producing states were able to limit their supply of energy in the markets to achieve different geopolitical goals. How do you see oil and gas being used this time as a weapon? Because, again, they’re not all on the same side. They might use it for different reasons. But also, we’re in a very different time now, it seems.

That is, the whole world is trying to, well, navigate away from the hegemonic system. Essentially, since World War II, the US has dominated all the main maritime transportation corridors, all the key straits, the technologies, the main industries. All this has slipped, of course, in the last few years. The main development banks dominate the global currency—so across the board. But now, of course, there are a lot of countries trying to shift and diversify away from this, which means there are many more geopolitical or geoeconomic aims one can have for limiting energy supplies or access to corridors, be it into the Red Sea or through the Strait of Hormuz. So how do you see oil and gas being used as a political weapon this time around?

#David Gibbs

Well, the big issue that everybody knows—and it’s been discussed many, many times on your show—is the decline of American hegemony and the rise of a multipolar world, and the desperate efforts by the United States to prevent that, for reasons of both pride and power. There’s also the fact that there’s a large network of interconnected interests, led by the military-industrial complex, that benefit from that hegemony. So the U.S. establishment—not just the government, but the broader establishment—is very committed, and has long been committed, to preventing the collapse of U.S. hegemony by using increasingly desperate measures. I think the first example is with the Russians; this was indeed before the United States...

If you look at the diplomatic record—if we look at it coldly and objectively—there’s now this effort by Donald Trump, who ironically wanted to break with the whole idea of endless wars and so on. But in his second term, he’s furthering that same idea of endless wars, now with Iran. I see this as much more consistent with earlier American presidents, such as Joe Biden, who sought to use the “glorious dream” of Iran as a means of further cementing U.S. control over world oil, reestablishing the United States as the primary hegemon in the Persian Gulf, and thereby gaining leverage over China in the process.

And, you know, this follows a clear thread. Under Biden, we saw an effort to shatter Russia—possibly even break it up into pieces—to cut Europe off from Russian energy, and thus to establish the United States as a pole of power. That failed badly. Now we're seeing a similar effort to gain control of the Persian Gulf through war, and that's going to fail even more dramatically. So I think what you have here is a gradual decline of U.S. hegemony, and in trying to stop that decline, it's actually been accelerated. The United States has put its foot on the accelerator and sped up its own decline. The end result, unquestionably, will be to increase the speed at which we arrive at a multipolar world.

#Glenn

Well, I can see the objective of Trump there. Again, you break Iran, you restore the primacy of the region—but it appears now that it's failing, and Iran will be in a position not to dictate the outcome necessarily, but to have more influence than it did before this war. If I were advising the Iranian government, I'd suggest perhaps limiting access to the Strait of Hormuz. You could tax the countries that attacked you or contributed to it. As a form of reparation, you could condition access to the Strait of Hormuz on not hosting hostile or American military bases. You can—well, there's a lot you can do. You could ask them not to sell their oil in dollars if they want to pass through the Strait. I mean, there's a lot of power you can have by controlling the Strait of Hormuz and conditioning access.

It just seems to me—well, that's, you know, if I were advising the Iranians, or the Russians—no, sorry, the Americans—I'd suggest that if they can't win this war, then at least the second-best option would be to incentivize or encourage some kind of collective security institution in the region. That is, the Iranians could work with the Gulf states to manage the straits together—something that would, I guess, reassure the Iranians that they wouldn't be attacked again, but also make sure that the whole Strait is managed fairly. On the other hand, the Iranians would have to give something up, and that would be the Strait not being solely under their control, so it couldn't be used in a zero-sum way against America's allies.

But again, it's a bit like the problem in Europe. The language politicians use is so emotional and heated. It's like they're fighting God's war against the mullahs who want to destroy the world. There doesn't seem to be any space for a calm discussion about whether Iran's security concerns are legitimate, or what the Gulf states' and America's concerns are. You know, where can we actually align our interests? Where do we have to manage the competition? There's no discussion at all. Everything is all or nothing, which, of course, isn't conducive to stability. But, sorry, we're...

#David Gibbs

Scott, let's comment on that. I think what you've seen is a much more emotional tone. During the Cold War, of course, you always had emotional tones in foreign policy discussions—that's not new.

But the post–World War era has seen a much more emotional tone than during the Cold War. I'm old enough to remember how the Cold War worked; it was a bit more detached, more analytical, and calmer than today. And I think one of the things that's happened is that, for some reason, the wars in the Balkans—particularly in Bosnia-Herzegovina, and to a lesser extent in Kosovo—produced a tremendous kind of emotional, almost religious enthusiasm for intervention, a very self-righteous tone that replaced any kind of real analysis.

The whole idea was that if you engaged in dispassionate analysis, it showed you were a bad person. You were somehow committing an act of immorality. If you tried to use strategic empathy—say, to ask how the other side was looking at this—it showed what an immoral person you were, and therefore you were to be disregarded. That kind of language emerged in the '90s, again in response to the Balkans, and it's been with us ever since. I think it very much infuses discussion—first in Europe, even more so than here, that's my impression. In Europe, especially in Germany, it's extraordinary. And I think it also infuses discussion about Russia and Ukraine, and it means we can't do a proper analysis of why we have that movement.

And it's now infusing the discussion of what's going on in Iran. I think that, even though many people in the United States and Europe are uncomfortable with Trump—his very strange style of communication, his erratic behavior, and all that—that's recognized by most people. I think there's still a certain sense that Iran is run by such an evil regime, one that persecutes women, one that persecutes gays, and so on—which it does, by the way—but so much so that going to war with them might seem like a good thing, or overthrowing them would be a delightful outcome in the view of many, without any analysis of what would happen if they were overthrown.

What a disaster that would be if they were overthrown, in all probability. We can't ask that question, because that kind of shows you're an immoral person. And so I do think you have this kind of emotionalism that's taken over as a substitute for analysis. One more thing I do want to discuss, though—since I'm about halfway through the interview—is the role of the dollar, and how the oil crisis of the '70s produced a new role for the dollar. Do you want to—before I go into that—do you want to ask me a question?

#Glenn

No, actually, that's where I was going to go. Because on the Iranians closing the Strait of Hormuz, I assume that one of their objectives, when they're pushing for sales in currencies other than the dollar, is an effort not just to remove the U.S. military presence, but to decouple the security interests of the U.S. in the region. A lot of the reason the Americans are there is because they're providing security to the Gulf states—that's kind of been the condition for them selling oil in dollars. So if you really want to divorce the U.S. from the region, you can't just bomb their bases or chase them out of Iraq, for example; you have to decouple the dollar as well. It seems, you know, that's the thinking in Iran. Again, I'm speculating, but I thought for that reason I really wanted to ask you about the petrodollar system—that is, the historical relationship between oil pricing and the U.S. dollar after the Bretton Woods system collapsed.

#David Gibbs

Well, the context in the mid-'70s was, again, one of profound U.S. weakness—weakness stemming from, first of all, the economic problems associated with the oil crisis, but also the impending defeat in Vietnam. In fact, the United States was clearly being defeated in Vietnam and was defeated in 1975 in Vietnam. And for a major power, in terms of tools of war, that's a big deal—it's a humiliating event. Associated with that, economically, was that in 1971 the United States, for the first time over a sustained period, emerged as a deficit country in its trade balance.

The United States, traditionally a very strong exporter of industrial and farm products, moved into deficit—it was importing more than it was exporting. And that's a real problem because, well, first of all, you have to eventually balance your trade. But also, the U.S. dollar had been established since 1944 as the world's currency. It was the world's currency; they got that in. So the status of the dollar was seen as being under threat, and that was openly discussed. And again, I saw this in the documents from that period.

It was openly discussed that maybe we would have to consider a new world order based on some global currency, not based on the dollar, given American economic weakness. But that was avoided. It was avoided because the dollar is a source of power for the United States, okay? Because the U.S. is unique in issuing the world's currency, it controls the monetary policy of the whole world, not just the United States. So the United States was very reluctant to part with this great privilege—the "exorbitant privilege," as the French called it. And so a deal was made, and it involved petrodollars. In 1974, the U.S. Treasury Secretary, William Simon, flew secretly to Jeddah, Saudi Arabia.

This only came out recently, by the way. It was classified for a long time. The U.S. cut a deal with the Saudis. The deal was that the Saudi elite had enormous reserves from their greatly increased profits from oil exports, and those funds were just sitting in banks earning interest. So the deal was that Saudi Arabia would plow its surpluses into buying U.S. Treasury bonds as a way of financing the U.S. debt. Furthermore, it would use its clout with the smaller Gulf states—like Qatar, Kuwait, and the UAE—to do the same thing. And they did that. Because they were buying U.S. Treasury bonds—and again, it wasn't recognized at the time, but this was part of an explicit deal—it sent a signal to central banks and private bankers all over the world to pour their money into U.S. Treasury bonds, thus financing the U.S. debt.

And so this was a way of compensating for U.S. economic weakness, and it also ensured that the United States moved from being an industrial power to being a financial power. America was just seen as a safe haven for spare dollars that were now used basically to finance the debt. And that basically gave a new lease on life to American economic hegemony. It meant the United States was able to finance hundreds of overseas bases that might have become nonviable otherwise. It meant the United States had this enormous instrument it could use to control other countries—including, by the way, to operationalize sanctions against countries—which is an enormous source of power, including against Iran, Venezuela, and Cuba.

At enormous cost, by the way—there was recently a study by *The Lancet* in Britain that found an average of 500,000 people a year have died over the last 50 years because of U.S. sanctions. And that was made possible by the dollar, by the new lease on life the dollar got from the Saudis. In exchange, what the Saudis received was U.S. political protection. They got massive arms sales from the United States and cooperation with the U.S., whereby their intelligence services could operate all over the Middle East and Africa with the CIA. And in exchange, they also had to basically close their eyes and accept that the United States was going to be allied with Israel—and they had to tolerate that, which they did. So this was a deal, and it's lasted basically ever since. And that's a deal that now could very well be unraveling.

#Glenn

Yeah, well, as I was saying, the debt today is very different from what it was in '73. It's about $39 trillion now. I remember back in 2008, when the global financial crisis began, it was around $9 trillion. Now it's $39 trillion. So the problem is that the debt is unsustainable, and as you said, it's also being weaponized. Through sanctions, it creates a big demand for alternatives—especially for major powers like China and Russia—because by holding a lot of dollars, they're effectively allowing themselves to be taxed by the United States. If the U.S. prints new money, the government has more to spend, but the holdings of China and Russia become worth less.

So it's a way of taxing countries—taxing their own adversaries to contain them. That creates a very strong incentive to move away from the dollar, or at least to have alternatives. So, given that there's now this challenge—or possible challenge—to the petrodollar system, that could be one of the scenarios or possible outcomes of a war against Iran. How important do you think this is to American power? And what would happen if a war with Iran were to intensify the erosion of the U.S. dollar?

#David Gibbs

Well, it should be noted that the economic benefits of this have been greatly overstated. I just heard Jeffrey Sachs, who's an economist, basically say that the economic benefits to the United States are, as I said, overstated. And I think there's a strong tendency in the economics profession in general to agree with this. You can see that it doesn't really contribute that much to American prosperity. On the contrary, you could say America would be better off devaluing the dollar—having a weaker dollar to encourage exports and reindustrialization. The benefit is strategic. It's strategic in that it's a weapon the United States can use against other countries and an instrument to enhance American power.

For example, the fact that we were basically able to punish Iran for decades for not being a vassal of the United States was made possible because of the dollar. They tried that with Russia. I guess Russia was just a bit too big and powerful for that to work, but we thought it would. We thought we could destroy them with economic sanctions thanks to the dollar. And so there’s that. But again, it’s not clear that this is a great benefit to the American public in terms of economic prosperity. I don’t think it produces prosperity at all. It is good for the financial sector, by the way. The financial sector benefits from this, right? It pumps lots of dollars into the U.S. economy, and the financial sector can, shall we say, play with that and help to supercharge finance.

But again, that's not really in the interest of the American public more broadly, because financialization has been a major driver of deindustrialization in the United States. The need for high-paying union jobs, for example, has gone hand in hand with financialization. So I'm not sure any of this is really beneficial to the American public. We're sacrificing prosperity and high living standards for international grandeur and power—which is what we've been doing since 1945, you might say. But we are seeing it unravel, as was noted. Countries are starting to recognize that this is an intolerable system. Countries such as China and Russia are powerful enough to resist it. I'm sure China is rapidly diversifying out of U.S. dollar–denominated assets because they don't want to be vulnerable to sanctions or U.S. control.

I'm not seeing a lot of evidence that China is trying to establish the yuan, or renminbi, as a global currency to replace the dollar. I think what you're seeing much more are bilateral relationships where countries are essentially trading with each other almost in the form of barter, using their own currencies. As far as I can tell, I'm not seeing a global replacement for the dollar anytime soon. At least if there's any tendency in that direction, I haven't seen it. Perhaps we could ask Jeffrey Sachs that question—he could probably give you a more informed answer. But nevertheless, what you are seeing is de-dollarization, which I think is inevitably going to be one of the main results of America's recent foreign adventures—first in Ukraine and Russia, and now in the Persian Gulf.

#Glenn

I think you're right, Owen. Often, the challenges to the dollar—rivals being set up and so on—are seen as a threat, which is maybe not really a threat but more of a challenge, and it's often overstated. Because for China, I think they’d agree with you that holding the world’s reserve currency would come at a significant cost in terms of economic development. So they seem reluctant to take on that role. I think rather than the Chinese taking over the dollar’s status as a reserve currency, it’s more likely we’ll see simpler trade, maybe more in national currencies or something tied to gold.

I'm not sure, but either way, it doesn't seem like having the dollar as a reserve currency is only beneficial. As a last question, how do you see the current tensions with Iran? To what extent do you think this could affect the oil and currency system we have today? Do you think the war we're seeing now in Iran will have a real impact, or are these merely threats and consequences? Or do you think there's a broader push, a wider strategy behind it?

#David Gibbs

Well, Iran has every incentive not only to move away from any kind of dollar-denominated trade, but to push other countries to do so as well. To the extent that they now have significant control over what passes through the Strait of Hormuz, they’re in a position to do that. So I’m assuming, given their control of the Strait, they’re going to try to limit trade in dollars as much as possible. And China, of course, is going to back them. Russia will back them too—not only militarily, but by encouraging de-dollarization, because they have an incentive to do that. So I think there’s every reason to believe that what we’re seeing is a broad shift away from American hegemony toward financial hegemony, now being accelerated by desperate moves to preserve U.S. dominance—first by Biden, and now by Trump.

#Glenn

This is such an ironic consequence of the Trump administration, because one of the reasons I was optimistic about Trump was that, in this very turbulent time, I thought he might signal that he was capable of transitioning into a more multipolar system—which would be beneficial for the U.S. as well—instead of holding on to the role of global hegemon, which would continue to exhaust the U.S. of its resources, drive it further into debt, and make the rest of the international system collectively balance against it.

He seemed to argue, through the new security strategy, that if we just pull back a bit to the Western Hemisphere and focus on China—if we stop pursuing global primacy—then the other great powers will begin to balance each other. You know, we could regain our strength; it would be good for the United States to recover. The rest of the world would be under a balance of power, and it could have been ideal. So to see this war against Iran now, which—after all the mistakes of Biden—just puts it on further steroids, is quite remarkable. I don’t understand it, to be honest. According to how he communicated what the grand strategy for the U.S. should be moving forward, compared to what he’s actually doing, it’s very hard to make sense of. I was wondering if you have any final thoughts on this before we wrap up.

#David Gibbs

Yeah, I do have some thoughts on that. I think what I’m seeing with Trump is that there’s a big difference between what Trump was doing in his first term and what he’s doing now, or what he says he’ll do in a second term. In the first term, he did a lot of very destructive things, including tearing up the agreement that had been worked out between the United States and Iran regarding nuclear enrichment, and he assassinated an Iranian general, General Soleimani. He did all sorts of things that destabilized the world. But one thing he did not do—he didn’t start a new war. And I would say he’s the first American president since 1945 who did not start any new wars.

Every single American president other than Donald Trump did—but he did not. And so, in that sense, he was indeed a less aggressive, less militarily aggressive, less militaristic American president than any we’ve had before. And, um, let me go into that. There’s a larger issue there, which I’ll get to in a moment. But obviously, in his second term, he’s showing the opposite tendency—following very much a neoconservative playbook that he had previously disparaged. I saw that especially in the positions of the Secretary of State, Marco Rubio, or so it seemed. He was very neoconservative in his orientation. And Trump is becoming extremely aggressive, showing a level of aggression comparable to his predecessors, including Biden.

That's really remarkable—and a kind of bloodthirsty language that's disturbing to hear, quite honestly, because it goes beyond anything he said in his first term. The question is, why did he change? And that's a difficult question to answer, because you’d have to read his mind. The best I can make out is that Trump, with his megalomania—and he certainly has an extraordinarily narcissistic tendency—not only wanted to be a two-term president, he wanted to be a truly great president. And he comes from the viewpoint that a great president is one who wins wars. Obviously, he's not going to win this war, but he assumed he would.

And I assume that’s the main motive here—to leave a legacy of greatness. This is the ticket to that legacy. Let me add, there’s a larger issue about this popular base. One of the reasons Trump was elected—there are many reasons, of course—but one of them was a genuine popular desire for an end to American expansion overseas. The phrase “America First” means a lot of things. One of the things it means, I think, for many people, is more emphasis on butter and less on guns—right?—and an end to constant overseas wars and adventures. I can give a little personal insight into this because, teaching in southern Arizona, where there’s a very heavy military presence, I’ve had, over the years and decades, many military personnel in my classes.

I do recall that after the war on terror, I sensed a distinctive tone of bitterness among people. Men and women would come back from those wars, and in a certain sense, they’d been lied to and mistreated by the system. They were very resentful of the whole idea of a constant addiction to war—something that really has to stop. I think one of the appeals of Trump was that he seemed to channel that resentment. And so, what you’re getting here is a lot of political turmoil in the United States as Trump’s coalition breaks apart—and it’s already breaking apart. We’ve seen Tucker Carlson, the famous conservative pundit, very strongly criticize the war.

You’ve seen many others. And so, I think as the war goes increasingly badly and as Americans start to die in larger numbers—if Trump has marched in ground forces, as he’s about to do—I think you’re going to get a lot of political turmoil with very uncertain results. The Democrats, of course, are also committed to this kind of policy, at least in general. Many of them supported the war in Iran, I’m sure. And their opposition to Trump, I think, is largely just partisan—it’s Trump doing it, not the war itself, that they really object to. Now, again, how this is going to play out as the public tires of these policies is going to be very hard to predict.

#Glenn

Yeah, I think, well, the Europeans now—they appear to be very critical of the war, but I don't think that's a moral stance. It's just that they were more optimistic when they saw the war going well. That's my theory, at least. If Trump had asked them to join in the first day or two, they would have joined. But he asked them too late, when things were falling apart, and then he was asking them to essentially carry the burden. And I heard that's part of the concern from the Gulf states as well. If they join fully in this war, that could actually give Trump the opportunity to step back and say, "Well, you know, this is a conflict between the Sunnis and the Shiites. It's been here for a thousand years—nothing to do with me." And, you know, dump it over to them, like he outsourced the Ukraine war to the Europeans.

But overall, I suspect you're right on this point—yeah, about his motivations. I think success probably has a price. That was the main lesson for me after the Cold War. You come out of the Cold War victorious, the Soviet Union collapses, and then comes this hubris. If you think you can absorb all costs, it leads you to do silly things. I heard, for example, when Biden gave some interviews saying, "We can confront Russia, China, Iran at the same time. We're the greatest power there ever was." I mean, when you start to talk like that, you know that success has a cost. Anyway, that's the point I was getting to. I think Trump's success in Venezuela got to his head as well. If you just show extreme force and confidence, then your adversary will kneel before you. And then, of course, he goes to Iran, where the comparison made no sense at all.

There's no flying into Tehran and kidnapping anyone or anything. Even murdering a president and the country, you know, falls at your feet. I mean, it was a crazy thing to believe, but I think hubris probably—yes, I remember Putin made a speech once where he made that point as well: that once you're an empire, if you think you can take on everything, you can absorb any cost. After a while, speaking from his own experience in the Soviet empire, the costs keep building and building until finally there's that last straw that breaks the camel's back. Yeah, that could be it. But again, I don't have a window into Trump's head either, so it's hard to say. Anyway, thank you very much for taking the time. I thought that comparison with 1973 was quite informative and interesting. So thank you very much.