

AILING DOLLAR STRIKES AT EURO IN IRAQ WAR

23rd March, 2003 17:00 GMT

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An Economic Perspective On The War It's Not About Oil Or Iraq. It's About The US And Europe Going Head-To-Head On World Economic Dominance.



By Geoffrey Heard, Australia

Summary: Why is George Bush so hell bent on war with Iraq? Why does his administration reject every positive Iraqi move? It all makes sense when you consider the economic implications for the USA of not going to war with Iraq. The war in Iraq is actually the US and Europe going head to head on economic leadership of the world.

America's Bush administration has been caught in outright lies, gross exaggerations and incredible inaccuracies as it trotted out its litany of paper thin excuses for making war on Iraq. Along with its two supporters, Britain and Australia, it has shifted its ground and reversed its position with a barefaced contempt for its audience. It has manipulated information, deceived by commission and omission and frantically "bought" UN votes with billion dollar bribes.

Faced with the failure of gaining UN Security Council support for invading Iraq, the USA has threatened to invade without authorisation. It would act in breach of the UN's very constitution to allegedly enforced UN resolutions.

It is plain bizarre. Where does this desperation for war come from?

There are many things driving President Bush and his administration to invade Iraq, unseat Saddam Hussein and take over the country. But the biggest one is hidden and very, very simple. It is about the currency used to trade oil and consequently, who will dominate the world economically, in the foreseeable future -- the USA or the European Union.

Iraq is a European Union beachhead in that confrontation. America had a monopoly on the oil trade, with the US dollar being the fiat currency, but Iraq broke ranks in 1999, started to trade oil in the EU's euros, and profited. If America invades Iraq and takes over, it will hurl the EU and its euro back into the sea and make America's position as the dominant economic power in the world all but impregnable.

It is the biggest grab for world power in modern times.

America's allies in the invasion, Britain and Australia, are betting America will win and that they will get some trickle-down benefits for jumping on to the US bandwagon.

France and Germany are the spearhead of the European force -- Russia would like to go European but possibly can still be bought off.

Presumably, China would like to see the Europeans build a share of international trade currency ownership at this point while it continues to grow its international trading presence to the point where it, too, can share the leadership rewards.

DEBATE BUILDING ON THE INTERNET

Oddly, little or nothing is appearing in the general media about this issue, although key people are becoming aware of it -- note the recent slide in the value of the US dollar. Are traders afraid of war? They are more likely to be afraid there will not be war.

But despite the silence in the general media, a major world discussion is developing around this issue, particularly on the internet. Among the many articles: Henry Liu, in the 'Asia Times' last June, it has been a hot topic on the Feasta forum, an Irish-based group exploring sustainable economics, and W. Clark's "The Real Reasons for the Upcoming War with Iraq: A Macroeconomic and Geostrategic Analysis of the Unspoken Truth" has been published by the 'Sierra Times', 'Indymedia.org', and 'ratical.org'.

This debate is not about whether America would suffer from losing the US dollar monopoly on oil trading -- that is a given -- rather it is about exactly how hard the USA would be hit. The smart money seems to be saying the impact would be in the range from severe to catastrophic. The USA could collapse economically.

OIL DOLLARS

The key to it all is the fiat currency for trading oil.

Under an OPEC agreement, all oil has been traded in US dollars since 1971 (after the dropping of the gold standard) which makes the US dollar the de facto major international trading currency. If other nations have to hoard dollars to buy oil, then they want to use that hoard for other trading too. This fact gives America a huge trading advantage and helps make it the dominant economy in the world.

As an economic bloc, the European Union is the only challenger to the USA's economic position, and it created the euro to challenge the dollar in international markets. However, the EU is not yet united behind the euro -- there is a lot of jingoistic national politics involved, not least in Britain -- and in any case, so long as nations throughout the world must hoard dollars to buy oil, the euro can make only very limited inroads into the dollar's dominance.

In 1999, Iraq, with the world's second largest oil reserves, switched to trading its oil in euros. American analysts fell about laughing; Iraq had just made a mistake that was going to beggar the nation. But two years on, alarm bells were sounding; the euro was rising against the dollar, Iraq had given itself a huge economic free kick by switching.

Iran started thinking about switching too; Venezuela, the 4th largest oil producer, began looking at it and has been cutting out the dollar by bartering oil with several nations including America's bete noir, Cuba. Russia is seeking to ramp up oil production with Europe (trading in euros) an obvious market.

The greenback's grip on oil trading and consequently on world trade in general, was under serious threat. If America did not stamp on this immediately, this economic brushfire could rapidly be fanned into a wildfire capable of consuming the US's economy and its dominance of world trade.

HOW DOES THE US GET ITS DOLLAR ADVANTAGE?

Imagine this: you are deep in debt but every day you write cheques for millions of dollars you don't have -- another luxury car, a holiday home at the beach, the world trip of a lifetime.

Your cheques should be worthless but they keep buying stuff because those cheques you write never reach the bank! You have an agreement with the owners of one thing everyone wants, call it petrol/gas, that they will accept only your cheques as payment. This means everyone must hoard your cheques so they can buy petrol/gas. Since they have to keep a stock of your cheques, they use them to buy other stuff too. You write a cheque to buy a TV, the TV shop owner swaps your cheque for petrol/gas, that seller buys some vegetables at the fruit shop, the fruiterer passes it on to buy bread, the baker buys some flour with it, and on it goes, round and round -- but never back to the bank.

You have a debt on your books, but so long as your cheque never reaches the bank, you don't have to pay. In effect, you have received your TV free.

This is the position the USA has enjoyed for 30 years -- it has been getting a free world trade ride for all that time. It has been receiving a huge subsidy from everyone else in the world. As its debt has been growing, it has printed more money (written more cheques) to keep trading. No wonder it is an economic powerhouse!

Then one day, one petrol seller says he is going to accept another person's cheques, a couple of others think that might be a good idea. If this spreads, people are going to stop hoarding your cheques and they will come flying home to the bank. Since you don't have enough in the bank to cover all the cheques, very nasty stuff is going to hit the fan!

But you are big, tough and very aggressive. You don't scare the other guy who can write cheques, he's pretty big too, but given a 'legitimate' excuse, you can beat the tripe out of the lone gas seller and scare him and his mates into submission.

And that, in a nutshell, is what the USA is doing right now with Iraq.

AMERICA'S PRECARIOUS ECONOMIC POSITION

America is so eager to attack Iraq now because of the speed with which the euro fire could spread. If Iran, Venezuela and Russia join Iraq and sell large quantities of oil for euros, the euro would have the leverage it needs to become a powerful force in general international trade. Other nations would have to start swapping some of their dollars for euros.

The dollars the USA has printed, the 'cheques' it has written, would start to fly home, stripping away the illusion of value behind them. The USA's real economic condition is about as bad as it could be; it is the most debt-ridden nation on earth, owing about US\$12,000 for every single one of its 280 million men, women and children. It is worse than the position of Indonesia when it imploded economically a few years ago, or more recently, that of Argentina.

Even if OPEC did not switch to euros wholesale (and that would make a very nice non-oil profit for the OPEC countries, including minimising the various contrived debts America has forced on some of them), the US's difficulties would build. Even if only a small part of the oil trade went euro, that would do two things immediately:

- * Increase the attractiveness to EU members of joining the 'eurozone', which in turn would make the euro stronger and make it more attractive to oil nations as a trading currency and to other nations as a general trading currency.

- * Start the US dollars flying home demanding value when there isn't enough in the bank to cover them.

- * The markets would over-react as usual and in no time, the US dollar's value would be spiralling down.

THE US SOLUTION

America's response to the euro threat was predictable. It has come out fighting.

It aims to achieve four primary things by going to war with Iraq:

- * Safeguard the American economy by returning Iraq to trading oil in US dollars, so the greenback is once again the exclusive oil currency.

- * Send a very clear message to any other oil producers just what will happen to them if they do not stay in the dollar circle. Iran has already received one message -- remember how puzzled you were that in the midst of moderation and secularization, Iran was named as a member of the axis of evil?

- * Place the second largest reserves of oil in the world under direct American control.

- * Provide a secular, subject state where the US can maintain a huge force (perhaps with nominal elements from allies such as Britain and Australia) to dominate the Middle East and its vital oil. This would enable the US to avoid using what it sees as the unreliable Turkey, the politically impossible Israel and surely the next state in its sights, Saudi Arabia, the birthplace of al Qaeda and a hotbed of anti-American sentiment.

- * Severe setback the European Union and its euro, the only trading bloc and currency strong enough to attack the USA's dominance of world trade through the dollar.

- * Provide cover for the US to run a covert operation to overturn the democratically elected government of Venezuela and replace it with an America-friendly military supported junta -- and put Venezuela's oil into American hands.

Locking the world back into dollar oil trading would consolidate America's current position and make it all but impregnable as the dominant world power -- economically and militarily. A splintered Europe (the US is working hard to split Europe; Britain was easy, but other Europeans have offered support in terms of UN votes) and its euro would suffer a serious setback and might take decades to recover.

It is the boldest grab for absolute power the world has seen in modern times. America is hardly likely to allow the possible slaughter of a few hundred thousand Iraqis stand between it and world domination.

President Bush did promise to protect the American way of life. This is what he meant.

JUSTIFYING WAR

Obviously, the US could not simply invade Iraq, so it began casting around for a 'legitimate' reason to attack. That search has been one of increasing desperation as each rationalization has crumbled. First Iraq was a threat because of alleged links to al Qaeda; then it was proposed

Iraq might supply al Qaeda with weapons; then Iraq's military threat to its neighbours was raised; then the need to deliver Iraqis from Saddam Hussein's horrendously inhumane rule; finally there is the question of compliance with UN weapons inspection.

The USA's justifications for invading Iraq are looking less impressive by the day. The US's statements that it would invade Iraq unilaterally without UN support and in defiance of the UN make a total nonsense of any American claim that it is concerned about the world body's strength and standing.

The UN weapons inspectors have come up with minimal infringements of the UN weapons limitations -- the final one being low tech rockets which exceed the range allowed by about 20 percent. But there is no sign of the so-called weapons of mass destruction (WMD) the US has so confidently asserted are to be found. Colin Powell named a certain north Iraqi village as a threat. It was not. He later admitted it was the wrong village.

'Newsweek' (24/2) has reported that while Bush officials have been trumpeting the fact that key Iraqi defector, Lt. Gen. Hussein Kamel, told the US in 1995 that Iraq had manufactured tonnes of nerve gas and anthrax (Colin Powell's 5 February presentation to the UN was just one example) they neglected to mention that Kamel had also told the US that these weapons had been destroyed.

Parts of the US and particularly the British secret 'evidence' have been shown to come from a student's masters thesis.

America's expressed concern about the Iraqi people's human rights and the country's lack of democracy are simply not supported by the USA's history of intervention in other states nor by its current actions. Think Guatemala, the Congo, Chile and Nicaragua as examples of a much larger pool of US actions to tear down legitimate, democratically elected governments and replace them with war, disruption, starvation, poverty, corruption, dictatorships, torture, rape and murder for its own economic ends. The most recent, Afghanistan, is not looking good; in fact that reinstalled a murderous group of warlords which America had earlier installed, then deposed, in favour of the now hated Taliban.

Saddam Hussein was just as repressive, corrupt and murderous 15 years ago when he used chemical weapons, supplied by the US, against the Kurds. The current US Secretary for Defence, Donald Rumsfeld, so vehement against Iraq now, was on hand personally to turn aside condemnation of Iraq and blame Iran. At that time, of course, the US thought Saddam Hussein was their man -- they were using him against the perceived threat of Iran's Islamic fundamentalism.

Right now, as 'The Independent' writer, Robert Fisk, has noted, the US's efforts to buy Algeria's UN vote includes promises of re-arming the military which has a decade long history of repression, torture, rape and murder Saddam Hussein himself would envy. It is estimated 200,000 people have died, and countless others been left maimed by the activities of these monsters. What price the US's humanitarian concerns for Iraqis? (Of course, the French are also wooing Algeria, their former north African territory, for all they are worth, but at least they are not pretending to be driven by humanitarian concerns.)

Indonesia is another nation with a vote and influence as the largest Muslim nation in the world. Its repressive, murderous military is regaining strength on the back of the US's so-called anti-terror campaign and is receiving promises of open and covert support -- including intelligence sharing.

AND VENEZUELA

While the world's attention is focused on Iraq, America is both openly and covertly supporting the "coup of the rich" in Venezuela, which grabbed power briefly in April last year before being intimidated by massive public displays of support by the poor for democratically-elected President Chavez Frias. The coup leaders continue to use their control of the private media, much of industry and the ear of the American Government and its oily intimates to cause disruption and disturbance.

Venezuela's state-owned oil resources would make rich pickings for American oil companies and provide the US with an important oil source in its own backyard.

Many writers have noted the contradiction between America's alleged desire to establish democracy in Iraq while at the same time, actively undermining the democratically-elected government in Venezuela. Above the line, America rushed to recognise the coup last April; more recently, President Bush has called for "early elections", ignoring the fact that President Chavez Frias has won three elections and two referendums and, in any case, early elections would be unconstitutional.

One element of the USA's covert action against Venezuela is the behaviour of American transnational businesses, which have locked out employees in support of "national strike" action. Imagine them doing that in the USA! There is no question that a covert operation is in process to overturn the legitimate Venezuelan government. Uruguayan congressman, Jose Nayardi, made it public when he revealed that the Bush administration had asked for Uruguay's support for Venezuelan white collar executives and trade union activists "to break down levels of intransigence within the Chavez Frias administration". The process, he noted, was a shocking reminder of the CIA's 1973 intervention in Chile which saw General Pinochet lead his military coup to take over President Allende's democratically elected government in a bloodbath.

President Chavez Frias is desperately clinging to government, but with the might of the USA aligned with his opponents, how long can he last?

THE COST OF WAR

Some have claimed that an American invasion of Iraq would cost so many billions of dollars that oil returns would never justify such an action.

But when the invasion is placed in the context of the protection of the entire US economy for now and into the future, the balance of the argument changes.

Further, there are three other vital factors:

First, America will be asking others to help pay for the war because it is protecting their interests. Japan and Saudi Arabia made serious contributions to the cost of the 1991 Gulf war.

Second -- in reality, war will cost the USA very little -- or at least, very little over and above normal expenditure. This war is already paid for! All the munitions and equipment have been bought and paid for. The USA would have to spend hardly a cent on new hardware to prosecute this war -- the expenditure will come later when munitions and equipment have to be replaced after the war. But amunitions, hardware and so on are being replaced all the time -- contracts are out. Some contracts will simply be brought forward and some others will be ramped up a bit, but spread over a few years, the cost will not be great. And what is the real extra cost of an army at war compared with maintaining the standing army around the world, running exercises and so on? It is there, but it is a relatively small sum.

Third -- lots of the extra costs involved in the war are dollars spent outside America, not least in the purchase of fuel. Guess how America will pay for these? By printing dollars it is going to war to protect. The same happens when production begins to replace hardware components, minerals, etc. are bought in with dollars that go overseas and exploit America's trading advantage.

The cost of war is not nearly as big as it is made out to be. The cost of not going to war would be horrendous for the USA -- unless there were another way of protecting the greenback's world trade dominance.

AMERICA'S TWO ACTIVE ALLIES

Why are Australia and Britain supporting America in its transparent Iraqi war ploy?

Australia, of course, has significant US dollar reserves and trades widely in dollars and extensively with America. A fall in the US dollar would reduce Australia's debt, perhaps, but would do nothing for the Australian dollar's value against other currencies. John Howard, the Prime Minister, has long cherished the dream of a free trade agreement with the USA in the hope that Australia can jump on the back of the free ride America gets in trade through the dollar's position as the major trading medium. That would look much less attractive if the euro took over a significant part of the oil trade.

Britain has yet to adopt the euro. If the US takes over Iraq and blocks the euro's incursion into oil trading, Tony Blair will have given his French and German counterparts a bloody nose, and gained more room to manoeuvre on the issue -- perhaps years more room.

Britain would be in a position to demand a better deal from its EU partners for entering the "eurozone" if the new currency could not make the huge value gains guaranteed by a significant role in world oil trading. It might even be in a position to withdraw from Europe and link with America against continental Europe.

On the other hand, if the US cannot maintain the oil trade dollar monopoly, the euro will rapidly go from strength to strength, and Britain could be left begging to be allowed into the club.

THE OPPOSITION

Some of the reasons for opposition to the American plan are obvious -- America is already the strongest nation on earth and dominates world trade through its dollar. If it had control of the Iraqi oil and a base for its forces in the Middle East, it would not add to, but would multiply its power.

The oil-producing nations, particularly the Arab ones, can see the writing on the wall and are quaking in their boots.

France and Germany are the EU leaders with the vision of a resurgent, united Europe taking its rightful place in the world and using its euro currency as a world trading reserve currency and thus gaining some of the free ride the United States enjoys now. They are the ones who initiated the euro oil trade with Iraq.

Russia is in deep economic trouble and knows it will get worse the day America starts exploiting its take-over of Afghanistan by running a pipeline southwards via Afghanistan from the giant southern Caspian oil fields. Currently, that oil is piped northwards -- where Russia has control.

Russia is in the process of ramping up oil production with the possibility of trading some of it for euros and selling some to the US itself. Russia already has enough problems with the fact that oil is traded in US dollars; if the US has control of Iraqi oil, it could distort the market to Russia's enormous disadvantage. In addition, Russia has interests in Iraqi oil; an American take over could see them lost. Already on its knees, Russia could be beggared before a mile of the Afghanistan pipeline is laid.

ANOTHER SOLUTION?

The scenario clarifies the seriousness of America's position and explains its frantic drive for war. It also suggests that solutions other than war are possible.

Could America agree to share the trading goodies by allowing Europe to have a negotiated part of it? Not very likely, but it is just possible Europe can stare down the USA and force such an outcome. Time will tell. What about Europe taking the statesmanlike, humanitarian and long view, and withdrawing, leaving the oil to the US, with appropriate safeguards for ordinary Iraqis and democracy in Venezuela?

Europe might then be forced to adopt a smarter approach -- perhaps accelerating the development of alternative energy technologies which would reduce the EU's reliance on oil for energy and produce goods it could trade for euros -- shifting the world trade balance.

Now that would be a very positive outcome for everyone.

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