MICHAEL I. NIMAN MAY 11, 06

The real reason for our oil war

HYPERINFLATION is a nasty thing. I was in Nicaragua in the 1980s when that country experienced an inflation rate of 14,000 percent. Prices would regularly triple overnight, wiping out a family's savings within a week. A trip to a grocery store would involve hauling a shopping bag of currency – money that the government printed on a daily basis, often adding new zeros every week. Coins disappeared, since, with one U.S. penny buying, in theory, a wheelbarrow full of Nicaraguan nickels, scrappers quickly melted down the nation's change. Lower denomination notes would end up in piles next to toilets, since they cost less then a sheet of bathroom tissue.

The problem in Nicaragua was that there was nothing to back the money up. A U.S. economic embargo coupled with the expenses associated with defending the country against the U.S. sponsored Contra War, bankrupted Nicaragua. They had no gold reserves and few commodities to sell on the international market. Their money was backed up by air, and hence, was worthless on the global currency exchange.

So-called "hard currencies" are backed up by something tangible. Back when Nicaragua experienced hyperinflation, I used to joke with my friend Joe, that we could introduce our own currency in Nicaragua. Issued by the "Banco de Joe and Mike," the bills would sport a picture of our two decade-old cars. The cars had a tangible value and would back up the paper currency. By accepting the bills as legal tender, people, in essence, would be buying shares in two old Volkswagens. Had we done this, and limited the number of bills to an amount equaling the value of our cars, we would have theoretically introduced a more stable currency, albeit in limited numbers, to Nicaragua.

This is the idea behind a gold standard – pegging the value of paper currency to gold or silver, and making the currency technically redeemable for gold or silver. The U.S. abandoned the gold standard during Richard Nixon's presidency – replacing faith in gold with faith in the almighty American economy. While this sounds arrogant, it worked. The dollar was more than numbers printed on paper. It was America, and America was invincible.

The dollar remains the dominant currency and the standard measure for international transactions. American paper currency circulates around the world, replacing the gold standard with the dollar standard, as folks in the Third World horde U.S. greenbacks as a hedge against the collapse of their own paper currencies. Even America's ideological enemies adopted the dollar standard. Castro's Cuba, for example, all but abandoned its own worthless pj3

esos in the 1990s, switching over to U.S. dollars for internal and external transactions. This global demand places American dollars into circulation in wallets on every continent, artificially inflating their value.

The dollar isn't backed by gold, or even by my old car, but by the sheer belief in the supremacy of the U.S. economy. In essence, it's backed by fiscal smoke and mirrors – with more of an emphasis on the smoke part of the equation.

MTV dollars

In the post-Vietnam War era, with the world drinking Coca Cola, tuning in to MTV and lining up for Big Macs, we were flying high. During the 34 years prior to Nixon's trashing of the gold standard, the number of dollars in circulation had only doubled. In the 34-year period following Nixon's move, by contrast, the number of dollars in circulation increased 13-fold. As economies around the world dollarized and grew, the U.S. treasury printed more greenbacks – with nothing to back them up. Since those new bills left the country, theoretically never to return, with nations around the globe using them as a standard to trade with each other, our paper money maintained an artificially high value.

Fast forward to George W. Bush's America. Our national debt, financed mostly by foreign governments and banks, is at eight and a half trillion dollars – that's spelled with 12 zeros. Our foreign trade imbalance sits at $800 billion per year. This means we buy $800 billion dollars-worth more of stuff every year than we sell on the international market – paying for it all with worthless dollars which then circulate between other countries – with China holding the biggest pot of them.

In short, our high-rolling debt-based hedonistic consumerist economy is financed by the good graces of the rest of the world – a planet we arrogantly tell to go to hell on an almost daily basis these days.

Our Petro-Euro Doomsday

Here's the doomsday scenario. What happens if nations around the world decided to follow the path of many large American investors and corporations, and cash their dollar reserves in for foreign assets and currencies? What if they started hording Euros under their beds instead of dollars? What if they pegged their "soft" currencies against the Euro or the Yen or the Pound, instead of against U.S. dollars? The answer is simple – all those soiled old bills that were in circulation for decades around the world would start coming home, with their value collapsing as foreigners flooded the global currency market with dollars.

The collapsing dollar would plunge us deeper into debt as the cost of imports would increase exponentially. In order to protect the dollar, we'd need to consume less at home and export more. The problem with this plan is that our lust for cheap imported sweatshop goods led us, over the last 20 years, to destroy almost all of our manufacturing capabilities – tearing our factories down and selling the metal for scrap. We started buying Chinese goods because they were cheap. In the future, when they're not so cheap, we'll buy them because we won't have the capacity to make anything ourselves.

Saddam had at least one WMD

There are, however, a few mechanisms around the world that prevent a total run on the dollar. Foremost among them is a 1970s decision by the oil cartel, OPEC, to price the world's oil exchanges in dollars. Hence, in order to buy oil, nations need dollars. China, for example, hoards dollars so that they can buy OPEC oil. This keeps the demand for dollars artificially high. If oil markets convert to a harder currency, such as the Euro, the reign of the dollar, and along with it, the solvency of the U.S. economy, would be over.

This was Saddam Hussein's plan. After a decade of devastating sanctions and regular American bombing raids against his country, Saddam developed his real Weapon of Mass Destruction – breaking with OPEC and introducing Euro-based oil trading. We don't know if this would have caught on, since the U.S. invaded that nation before Iraq could make the petro-Euro a reality.

Now it's Iran's turn. Starting in 2004, the Iranians began making noise about no longer floating the currency of a government that labeled them as being part of an "Axis of Evil." Later this year, the Iranians plan to not only convert their oil sales to Euros, which makes sense since European countries are the largest consumers of Middle East oil, but to introduce a Euro-based market for international oil sales, breaking the dollar's stranglehold on oil trading. Let's empathize for a moment so we can understand their motivation. Why should the Iranians prop up our soft dollar when all we do is talk about withdrawing from the human race and dropping nuclear bombs on them?

The cluster bomb dollar

Now let's look at the Bush junta's rationale for unleashing the forces of hell on the Iranian population through an aerial bombing campaign, using the most sophisticated Weapons of Mass Destruction ever made – including nuclear bombs. Our excuse for nuking Iran is that they might be making a nuclear bomb. Yet our own intelligence agencies argue that Iran does not posses the technology to build one, and that they are at least a decade away from being able to make one. In short, there is no immediate nuclear threat from Iran that mandates our turning that country into a radioactive wasteland and reinforcing our position as a rogue state and a global pariah. But there is an immediate economic threat – the real WMD – a Euro-based oil market. Bombing Iran would put a stop to that, and serve as a warning to Venezuela, Bolivia or any other energy-exporting nation contemplating converting their energy markets to the more stable Euro.

In short, the U.S. dollar isn't backed up by gold or silver any more. It's backed up by cluster bombs, cruise missiles, landmines, depleted uranium and nuclear bombs. What a dollar!

Dr. Michael I. Niman is a Buffalo State College journalism professor and Vice President of Niagara Independent Media (AM 1270).