CURRENCY WARS: OIL, IRAQ, AND THE FUTURE OF US HEGEMONY

Tyler Shipley

As the United States marched into war with Iraq, opposition and protest mounted at home and abroad. In the largest global protest the world had ever seen, thousands of concerned citizens filled the streets of major cities from San Francisco to Sao Paulo on 15 February 2003 to stand in opposition to Bush’s “pre-emptive” campaign. The slogan for many of the rallies was “no blood for oil” and it symbolized the main cause of outrage among the gathered masses. Though many of the protesters likely did not understand the complexities of George W. Bush’s true motivations for this war, there was a general feeling that it was not about weapons of mass destruction or Saddam Hussein’s human rights record. Indeed, a vast number of observers have concluded that the Iraq campaign was all about oil and, despite being branded a vague cliché by Bush supporters, there is a great deal of truth in this admittedly simplistic and overworked catch phrase.

The war in Iraq and the more generalized war on terrorism are, indeed, all about oil — but not in the way that most observers suggest. This essay shows that, notwithstanding the smokescreen rhetoric of weapons of mass destruction, terrorism, and the threat posed by Saddam, the Bush administration’s primary goal in invading Iraq was to ensure the maintenance of the US dollar as the world’s reserve currency, and thereby maintain US global hegemony. There is more to this than simply guaranteeing an open flow of oil or American access to it, or even curbing its price, though these concerns are real and do affect US decisionmaking. This does not preclude other strategic considerations including the prospect, noted by David Harvey and others, of creating a free trade zone in Iraq to provide an outlet for accumulated capital and to boost the profitability of US companies poised to supersize Iraq’s oil-producing capabilities. Nonetheless, the crux of the
oil factor and, as such, the primary motivating factor for this invasion was the manner in which oil is sold: who gets it, when they get it, how much they get, how much they pay, and, most importantly, how they pay for it.

Currently, the US dollar is the currency of choice for oil transactions, but as the euro has emerged as a competitive currency its popularity has increased and the spectre of euro-denominated oil sales has added a new urgency to the ever-present battle for control over oil-exporting regions. With the Bush administration running ever-higher deficits to fund tax cuts and military spending for the war in Iraq, the value of the dollar has sunk as low as $1.30 to the euro — the lowest ever against the new currency — prompting oil producers to consider more seriously the prospect of converting to euro-denominated sales. This move holds within it the seeds of a sea change in international trade, since dollar-denominated oil sales are an important pillar of the US dollar’s position as reserve currency. Recently, prominent figures on the Left have dismissed the idea of a speculative run on the dollar, and some have suggested that the dollar retains the complete confidence of international financiers and central bankers. This essay takes the position that while a move to euro-denominated sales is not a foregone conclusion, there is an increasing challenge to the dominance of the US dollar as reserve currency. Further, even while many critical observers do not take this threat seriously, it appears that the Bush administration takes it very seriously and is willing to go to great lengths, including the invasion of Iraq, to protect this crucial element of its hegemony in the global political economy.

This argument complements an excellent piece by Karl Beitel, recently published in *Historical Materialism*, which presents a theoretical analysis of the emergence of two new poles of capital accumulation in Europe and East Asia. Beitel argues convincingly that the EU zone has followed the neoliberal model in cracking down on labour, encouraging corporate “flexibility,” and gradually privatizing the welfare state in order to boost profits and increase European competitiveness on the global market. An East Asian zone, centred on China and Japan, is following a similar pattern and, according to Beitel, the result is that a new global order is emerging — one with three rival imperialist zones competing with one another for dwindling
natural resources and profitable outlets for capital. This scenario is very similar to that which Lenin described in 1917, and Beitel suggests that the war in Iraq may be best understood as a precursor to a new era of inter-imperialist rivalry.

Accepting Beitel’s characterization of an American hegemony shaken by the emergence of new competitors, this article focuses on the immediate threat posed by the euro to US dollar hegemony and the seigniorage benefits it accrues for the United States, and the important role of oil trading in shaping this threat. Oil has become an essential element of the global economic hegemony of the US dollar and its financial sector, and this hegemony is crucial to maintaining economic strength and stability for a critical and demanding American public. This program of economic hegemony is painstakingly analyzed in Peter Gowan’s *The Global Gamble*, a critique of the US bid for world domination under the guise of globalization. According to Gowan, the shift to economic hegemony took shape in the early 1970s with the Nixon administration’s decision to abandon the gold standard. By “liberating” the international market from the gold standard, Nixon made certain that, while the United States would still remain the economic superpower, it would do so without the rules and constraints placed on it by the Bretton Woods system. With currencies floating on the global market, the United States had to do only one thing: ensure that no other currency could take its place as the global reserve.

Enter the oil shocks of the 1970s — commonly assumed to be the result of angry Arab nations lashing out at the United States in an effort to make windfall profits and a political statement. Though this may be the accepted version of the story in contemporary mainstream discourse, it is rather misleading. Indeed, there was nothing shocking about the oil shocks: the United States was prepared for the OPEC crisis and even encouraged it up to two full years before the first price hikes occurred in 1973. Despite the subsequent use of the OPEC oil shocks as rhetorical fodder for containing and controlling “rogue states” in the Middle East, the United States advised OPEC to take these steps as a way to make sure that the US dollar could protect its hegemony against the growing strength of the currencies of Western Europe and Japan. In fact, in a 1976 article in *Foreign*
Policy, V.H. Oppenheim determines that “the principal consideration behind the indulgent US government attitude toward higher oil prices was the belief that higher prices would produce economic benefits for the United States vis-à-vis its industrial competitors, Western Europe and Japan.” Former Secretary of State Henry Kissinger later confirmed Oppenheim’s suspicions in the second volume of his memoirs, admitting that “the rise in the price of energy would affect primarily Europe and Japan and probably improve America’s competitive position.”

The subsequent surge in the price of oil had the desired effect. Japan and Western Europe suffered economic downturns, while the United States managed largely to avert the crisis, passing on most of its losses to American consumers, all the while blaming the rising prices on the unpredictability of OPEC. This placed the United States in the dominant position that it desired and paved the way for the entrenchment of what Gowan calls the “Dollar-Wall Street Regime (DWSR).” With no gold standard, the only logical way for states to protect themselves against the ups and downs of the US-dominated international markets was to hold large portions of their assets in US dollars. With so much money held in dollars, the most effective place to trade was Wall Street — and the more money that could be made on Wall Street, the more likely foreign governments would be to buy dollars. Thus, the system reinforced itself and gave the United States control over the emerging “globalized” economy; since the dollar was shielded from the harmful effects of US balance-of-payments problems by its unique position as reserve currency, the US economy continued to grow throughout the 1980s and 1990s.

The increase in the price of oil by OPEC nations at the urging of Washington in the early 1970s was crucial to the construction of the DWSR, and its power remains dependent on US control over oil. Despite the complexity of the currency struggle and the creation of US dominance, what remains essential to this argument is that the world is powered by oil and, in the current context, there is no realistic alternative. As long as oil remains the world’s chief source of energy, every country that does not have its own oil will be forced to buy it. Thus, controlling the flow of oil can be compared to a modern version of controlling strategic shipping lanes.
The Ottoman Turks gained strategic advantage in the fifteenth century by seizing and subsequently controlling the straits at Constantinople because they had the power to decide whose ships could pass through and what they could take; for many states, there was no alternative to passing through Constantinople. Similarly, there is no alternative to buying oil; controlling who buys it, how much they buy, and how they buy it has become the most important strategic consideration in global politics today.

That strategic consideration came to a critical challenge in the recent showdown with Iraq. The history of the relationship between the United States and Iraq is not pleasant bedtime reading. In the past quarter-century alone, the United States supported and armed a brutal dictator, Saddam Hussein, while he used chemical weapons in his wars against Iran and his own people. Then during the first Gulf War, the United States bombed the country into the pre-industrial age, but chose not to oust Hussein while he ruthlessly cut down the rebels whom George Bush Sr. encouraged to rise up against him. Following that, the United States enforced economic sanctions that strengthened Saddam's hold on power, but led to the deaths of millions of Iraqi civilians.

Then in October 2000, something occurred that would effect a sharp shift in the United States' position on Iraq and Saddam Hussein. In an unprecedented move designed to strike back at the enemy that had imposed sanctions and missile attacks on his country, Saddam Hussein detached himself from the US dollar. Despite the longstanding practice in OPEC of selling oil for US dollars, Iraq began selling its oil, under the United Nations Oil-for-Food program, for the new currency of the European Union. The switch to euros netted windfall gains for Iraq, spurred on by rapid growth in the value of the euro against the dollar, and its success as both a symbolic and economic gesture encouraged other OPEC nations to consider the switch. The severity of a sweeping OPEC abandonment of the dollar must not be underestimated.

Currently, all OPEC countries (with a few notable exceptions) sell their oil for US dollars only, which impels oil-importing countries to hold huge sums of dollars in reserve. The United States prints money, and any other state that wants to buy oil must first buy these US dollars and then use
them to purchase their oil. It goes without saying that no state can operate without sufficient quantities of oil and, under this system, if a state wants oil it must buy US dollars. In this way, the dollar becomes a much sought-after commodity and the government makes a killing by producing these green pieces of paper at low cost and then selling them at high value, since every nation needs to access energy for industrial development and for military and public consumption.\(^{23}\)

As Henry Lui explains in *Asia Times*, “this phenomenon is known as dollar hegemony, which is created by the geopolitically constructed peculiarity that critical commodities, most notably oil, are denominated in dollars … everyone accepts dollars because dollars can buy oil.”\(^{24}\) This is, however, a dangerous gamble because the United States’ economy is being propped up artificially and many years of trade deficits are catching up. The effects of an OPEC switch to another currency would be devastating: “oil-consuming nations would have to flush dollars out of their (central bank) reserve funds and replace these with euros … the dollar would crash anywhere from 20% to 40% in value.”\(^{25}\) Arguably, this loss of seigniorage would create a major economic crisis and significantly weaken the DWSR, which has been fundamental to US hegemony since the mid-1970s.

Nonetheless, White House officials refused to admit any link to oil politics in the plan for Saddam. Instead, they clung to rhetorical statements about the threat posed by Hussein’s regime and the moral duty to “punch the bully in the face.”\(^{26}\) These denials, however, flew in the face of the empirical evidence presented by no less than *The Wall Street Journal* — not exactly a bastion of Leftist political cynicism. On 16 January 2003, the *Journal* noted that senior government officials held informal meetings with high-ranking executives from major US oil companies to plan the postwar expansion of oil production from Iraq, despite the fact that no war had yet been launched.\(^{27}\)

Just a few weeks later, under heavy fire from unsatisfied journalists, White House Press Secretary Ari Fleischer denied that the United States had already made plans to divide up Iraqi oilfields, saying that “if this had anything to do with oil, the position of the United States would be to lift
sanctions so the oil could flow ... this is about saving lives by protecting
the American people.” This statement is clever but, when carefully
examined, easily refuted: if the United States had lifted the sanctions and
let the oil flow, it would have been sold for euros — a currency that had
already risen significantly against the US dollar. Letting the oil flow would
have been completely counteractive to US interests so long as Saddam
Hussein refused to sell his oil for US dollars.

The United States faces an economic crisis in the twenty-first century
if it cannot maintain control of the world’s oil suppliers. The current admin-
istration has chosen a military solution to economic problems and Iraq is
only one of its targets. Iraqi oil is crucial to world supply. Though estimates
differ from source to source, most analysts seem to agree that Hussein
controlled between 20 and 25 percent of the world’s most important energy
resource. For George W. Bush, it was vital that sanctions be lifted so that
this oil could get on the market, but first it had to be established that the
United States would be able to control where it would go and how it would
be sold. The only weapons of mass destruction up Saddam Hussein’s sleeve
were his vast oil reserves and his unwillingness to comply with Washington’s
economic demands.

Despite the focus on Iraq, the US campaign in 2003 was not limited to
Saddam; it was also intended to send a message to his neighbours. In the
aftermath of the attacks of 11 September 2001, Iran was labelled part of
the “axis of evil,” a trio of nations that, at one point, seemed sure to feel
the full wrath of the US war on terrorism. Most Americans assume that
the reason Iran has suddenly become such a serious issue again is that its
Islamic regime spawns, harbours, and sponsors terrorist groups while contin-
uing to build up its nuclear arsenal. This is certainly the story coming out
of Washington but, as in Iraq, there is more to this story than meets the
eye. In August 2002, Payvand Iran Financial News reported that “more
than half of the country’s assets” had been converted into euros. Indeed,
it seems Iran had been eyeing the euro switch for months and is gradually
beginning to implement it, spurred on, no doubt, by the economic success
it brought to Saddam Hussein. As the US dollar continues to decline,
Iranian economists are pushing Iran towards the euro, which had, around
the time of the invasion of Iraq, “strengthened by around 14% against the dollar in the past six months.”

So far, the only OPEC nation to have abandoned the dollar completely has been Iraq, but the fear in Washington was that this trend would continue in Iran and spread to other oil-rich nations, such as Saudi Arabia. It was clear to the Bush team that the United States had to deliver a message to Saddam and his neighbours that this would not be allowed to happen. While the march to Baghdad became inevitable, talk of a march on Tehran was not exaggerated, and many still believe that it is imminent. During the same month that Iran’s gradual shift to the euro became public knowledge, Newsweek reported that the Bush camp was “eyeing Iran and even Saudi Arabia” and quoted President Bush promising support to Iran’s people as they “move forward to a future defined by greater freedom.”

A military confrontation with Saudi Arabia is unlikely; it is the largest and most powerful US client state in the Middle East and, like the smaller monarchies along the Persian Gulf, sells its oil for dollars only. Many of those dollars are reinvested into Wall Street while others pay for the repression of the country’s people and the maintenance of the regime. Between 1955 and 1979, the Saudi crown spent more than 30 billion petrodollars buying US arms to consolidate its rule. Although it is difficult to find accurate statistics, it is clear that the United States has sold many more billions of dollars worth of arms to Saudi Arabia in the last decade, in an effort to maintain an economic partnership that is beneficial for the United States and for a small and select group of Saudi elites. Some observers have suggested that this US policy cultivated the emergence of Osama Bin Laden and other influential Saudi terrorists and, as such, served to encourage acts of international terrorism, including the attacks of 11 September 2001. Nonetheless, the United States has secured, through its partnership with the Saudis, that OPEC will continue to denominate its oil sales in US dollars. This has been the case until recently, when some members of OPEC began asking why they were helping to prop up the economy of their imperialist enemies.

This questioning started in Venezuela, where US meddling has been a fixture of political life for more than a century. The 1998 election of populist Hugo Chavez marked a victory for the people of this country, of whom
more than 60 percent were still living below the poverty line in 2002.\textsuperscript{37} From the outset of his administration, it was clear that Chavez would be a thorn in the United States’ side, refusing to toe the US line and taking steps to try to spread wealth more evenly throughout Venezuelan society. He has unbendingly refused to alter the production quotas of Petroleos de Venezuela, the state-owned oil company, and in 2001, the Chavez government took direct control over the company to ensure that the quotas would be met but not exceeded.\textsuperscript{38} Frustration in the United States was tangible, especially given that Venezuela accounts for approximately 13 percent of its annual petroleum imports — some 1.5 million barrels of oil every day.\textsuperscript{39}

Clearly, the United States has a strategic interest in ensuring the security of the flow of oil from Venezuela, since it represents such a large proportion of US oil imports. But again it is crucial to bear in mind that there is more to US oil politics than simply making sure the United States can access the oil. What is just as important to the United States is who else gets it and how — this is where the real trouble lies for Hugo Chavez. In August 2000, Chavez became the first elected leader to visit Saddam Hussein since the 1991 Gulf War, and all reports indicated that their talks were fruitful. After the meeting, Chavez told reporters that he and Hussein “spoke at length about how to boost the role of OPEC”; just a few months later, Saddam Hussein made the fateful switch from the US dollar to the euro. Evidence that Chavez specifically encouraged Hussein to abandon the dollar is, as yet, circumstantial, but it may help to explain why Chavez has so few friends in Washington.

Whether he specifically encouraged Hussein’s actions or not, Chavez is deeply implicated in efforts to undermine US hegemony and it has earned him a nasty reputation in US political circles. Alongside his propagation of an alternative to US dollar hegemony, Chavez has radically increased and improved programs for health, education, and equality while consistently standing up to US pressure, fighting for Latin American unity, and maintaining a firm opposition to the FTAA.\textsuperscript{41} Indeed, Chavez’s influence may eventually be the catalyst for his seemingly inevitable confrontation with the United States. His anti-imperial example likely played some role in encouraging Saddam Hussein to switch to the euro and he was able to
convince the other OPEC nations to send their heads of state to attend a
summit in Caracas in September 2000 — only the second such meeting in
OPEC's history — where the cartel agreed to reduce production in order
to see prices rise.  

If Chavez were able to unite the OPEC nations around a common switch
to the euro, the results, as described above, would be devastating for the
United States. Indeed, one of Chavez's ambassadors “floated the idea of
switching to the euro as their oil currency standard” in early 2001. Furthermore, Chavez took the lead in snubbing the dollar when, in the
late 1990s, he began making barter deals with other Latin American nations,
including Cuba. Chavez found that one way to avoid holding so much US
currency in reserve would be to avoid US dollar transactions entirely by
trading oil directly for other commodities, such as medical supplies. That
is exactly what Chavez did, not only with Cuba but with 12 other poor
countries in Latin America. If this bartering were to proliferate, it could
potentially “(cut) the US dollar out of the vital oil transaction currency
cycle,” bringing much needed materials to Venezuela at an affordable rate
while bypassing the US dollar. Meanwhile, the electoral trend in Latin
America towards Left-wing leaders like Bolivia’s Evo Morales and Uruguay’s
Tabaré Vázquez serves only to improve the likelihood of these sorts of
deals being struck in the future.

To anyone familiar with US history, it should come as no surprise that
the United States will not typically permit popular leaders — even those
who are democratically elected — in small Latin American nations to wreak
havoc with its economic system. This includes Chavez, who won nearly
60 percent of the vote for his first term in 1998. In April 2002, military
and business elites in Caracas led an attempted, but ultimately unsuccessful
coup against Chavez. Immediately following the coup, the Bush team
rushed to recognize and support the new rulers, with The New York Times
exclaiming on 6 April 2002 that “Bush Officials Met with Venezuelans
Who Ousted Leader,” leading many to believe that the United States had
some hand in the affair. The United States denied any involvement,
especially when popular revolts brought Chavez back to power just two
days later, but Chavez himself was not fooled, telling CNN that “two active
American military officials were involved in the coup.\textsuperscript{47} Despite the continued denials, it is clear that the United States played a significant role in the attempted overthrow; not only have recent CIA documents proven that the Bush administration was aware of the plot weeks in advance, but between 2001 and 2003 some 20 million dollars were funnelled into opposition groups in Venezuela to help finance the coup.\textsuperscript{48}

With OPEC, led by “rogues” like Hugo Chavez and Saddam Hussein, poised to strike a deadly blow to US economic dominance, the Bush administration is fighting back, struggling to regain control over the flow of oil and the circumstances under which it is sold. The human cost of US economic hegemony and its tight relationship with the control of the world’s oil supply is incalculable. There is no doubt that the OPEC switch would be devastating to the US economy. However, the preservation of US dollar dominance has and will come at the cost of countless lives, not just in Iraq or Venezuela, but all over the world and even in the United States, which is currently sacrificing its own young men and women in the Persian Gulf. These soldiers, many of whom are recruited from the poorest sectors of American society, are told that they are defending freedom, democracy, and human rights and protecting their fellow Americans from the threat of evil and dangerous terrorists. In fact, they are being used by the government they trust as tools in a global bid to consolidate the hegemonic strength of the US dollar.

Any doubt that the dollar’s status is under siege is dealt a harsh blow by recent numbers from the IMF Annual Report for 2005, as reproduced in Figures 1 and 2. Showing time-series data from 1995–2004, the report indicates that, since its creation in 1999, the euro has risen from representing approximately 18 percent of total global foreign reserves to almost 25 percent.\textsuperscript{49} Significantly, much of this increase has come at the expense of the dollar, which dropped from 71 percent in 1999 to less than 66 percent in 2004. This trend is even more acute in the foreign reserves of developing countries, where the 10 percent drop in the overall proportion of dollar holdings corresponds directly with a 10 percent increase in the proportion of euro holdings, suggesting that dollars are being replaced by euros in foreign reserves.\textsuperscript{50} A close examination of the currency composi-
tion of foreign holdings from 1996–2004, provided in Figure 2, shows that while the dollar’s expansion slowed during the latter part of the 1990s, it actually went into decline in 2002, where the numbers show that the euro made its biggest gains.\(^5\) This spike, which came right before the invasion of Iraq, might have been ignored by the press, but it seems foolish to suggest that it could possibly have been ignored by the chief economic advisors in Washington: the stakes are simply too high.

The benefits of seigniorage have been thoroughly analyzed by scholars well versed in global finance, who often note that perpetual balance-of-payments deficits in the United States are offset by the dollar’s predominant position.\(^5\) Guglielmo Carchedi, for one, takes up the issue in his essay “Imperialism, Dollarization and the Euro,” published in the 2002 Socialist Register. Since the United States can produce one-dollar bills for around three cents and trade them for goods and services worth one dollar, and since foreign countries often hold onto those bills (rather than trading them back to the United States for its goods), the United States achieves nearly cost-free imports and thus, argues Carchedi, “the US can avoid doing what it preaches to other countries, i.e., [redressing] its trade deficit.”\(^5\) Significantly, this is dependent on the seigniorage of the US dollar; if foreign countries stopped holding US dollars in reserve, the enormous trade deficits, which have spiralled to record levels under the current Bush administration, could suddenly become a problem of critical importance, especially if coupled by a simultaneous move away from dollar-denominated assets, such as treasury bills.\(^5\)

This potential crisis does not appear to be lost on policymakers in Washington. While their rhetorical smokescreen was successful in keeping the public unaware of the key role that the question of seigniorage and Saddam’s euro switch\(^5\) in October 2000 played in prompting the US occupation of Iraq, the smoke is finally lifting, albeit too late for the tens of thousands of people who have already been killed or wounded in this conflict. In February 2004, a former member of the US air force who had been appointed to a political/military desk for the Department of Defence that dealt with Iraq resigned from her post, retired from the military, and began speaking out against what she saw while she was there. Karen Kwiatkowski, a card-carrying Republican, was no stranger to immoral,
Figure 1. Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, end of year, in percent

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<td>19.9</td>
<td>20.6</td>
<td>21.8</td>
<td>26.1</td>
<td>28.9</td>
<td>29.2</td>
</tr>
<tr>
<td>Deutsche Mark</td>
<td>14.4</td>
<td>13.0</td>
<td>12.5</td>
<td>14.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>French Franc</td>
<td>2.4</td>
<td>2.0</td>
<td>2.1</td>
<td>2.1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>Ne. Guilder</td>
<td>0.5</td>
<td>0.3</td>
<td>0.5</td>
<td>0.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>ECUs</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>2.6</td>
<td>3.9</td>
<td>3.0</td>
<td>2.7</td>
<td>1.7</td>
<td>1.3</td>
<td>0.9</td>
<td>1.2</td>
<td>1.9</td>
<td>1.6</td>
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</table>
Figure 2. Currency Composition of Official Holdings of Foreign Exchange, end of year, in millions of SDRs

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>US Dollar</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in Holdings</td>
<td>117,987</td>
<td>85,753</td>
<td>16,854</td>
<td>80,421</td>
<td>90,643</td>
<td>51,512</td>
<td>-8,787</td>
<td>95,901</td>
<td>128,324</td>
</tr>
<tr>
<td>Quantity Change</td>
<td>102,739</td>
<td>49,035</td>
<td>43,129</td>
<td>64,551</td>
<td>51,209</td>
<td>21,931</td>
<td>58,270</td>
<td>176,862</td>
<td>176,149</td>
</tr>
<tr>
<td>Year-End Value</td>
<td>528,578</td>
<td>614,331</td>
<td>631,185</td>
<td>711,606</td>
<td>802,248</td>
<td>853,761</td>
<td>844,975</td>
<td>940,876</td>
<td>1,069,200</td>
</tr>
<tr>
<td><strong>Euro</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in Holdings</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>44,303</td>
<td>34,025</td>
<td>25,754</td>
<td><strong>67,512</strong></td>
<td>54,780</td>
<td>42,091</td>
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<tr>
<td>Quantity Change</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>64,817</td>
<td>37,797</td>
<td>29,478</td>
<td>41,409</td>
<td>21,894</td>
<td>29,314</td>
</tr>
<tr>
<td>Price Change</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-20,514</td>
<td>-3,772</td>
<td>-3,723</td>
<td>26,103</td>
<td>32,887</td>
<td>12,777</td>
</tr>
<tr>
<td>Year-End Value</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>179,924</td>
<td>213,949</td>
<td>239,703</td>
<td>307,215</td>
<td>361,995</td>
<td>404,086</td>
</tr>
</tbody>
</table>
dishonest, and sometimes illegal activities in the military, but reached her breaking point when she became part of an elaborate scheme to misinform the public about Iraq’s threat to the United States.\textsuperscript{58}

When asked what she believed to be the neoconservatives’ real interest in Iraq, she replied first that the feeling was that the international community would soon lift the economic sanctions on Iraq, letting the oil flow freely again and, second, that the United States needed a new base of operations in the Middle East what with the growing dissatisfaction with the Saudi relationship. She then added that “the last reason [was] the conversion, the switch Saddam Hussein made in the Food for Oil program, from the dollar to the euro.”\textsuperscript{59} In conjunction with the anticipated lifting of the sanctions, “the sales from the country with the second largest oil reserves on the planet would have been moving to the euro …. [This] could cause massive, almost glacial, shifts in confidence in trading on the dollar.”\textsuperscript{60} It remains to be seen if other US officials will slowly leak the same information, but Ms. Kwiatkowski’s comments certainly seem to verify what some people have suggested from the outset — that the United States had more in mind than just snapping up Iraqi oil to power its raging SUVs. Whether or not these comments constitute the quintessential smoking gun, they certainly indicate that policymakers were not ignorant of the significance of euro pricing and the potential threat that redenomination of oil sales could pose in the context of emerging threats to the seigniorage of the US dollar.

If the US war was driven by its need to protect US economic hegemony and maintain the position of the US dollar as the world’s reserve currency, it is unclear whether its efforts have been a success. Undoubtedly, the initial objective of redenominating Iraqi oil in dollars has been achieved; in June 2003, the \textit{Financial Times} reported that Iraqi oil was going back on the market and noted, casually, that “the tender … switches the transaction back to dollars — the international currency for oil sales — despite the greenback’s recent fall in value.”\textsuperscript{61} But the continuing guerrilla war in Iraq and seemingly endless cycle of violence and repression between Iraqi insurgents, Iraqi police, and the US military does not bode well for the United States. Not only is it bogged down in the conflict, suffering losses that its government, military, and public did not anticipate and seeing no clear
victory in sight, but one of its chief aims — the implied threat to any of Saddam’s neighbours who may have considered falling in line with the axis of opportunists switching to the euro — has failed miserably. Sure, the US military is all over the Middle East, but in the current state of chaos in Iraq, what possible threat can it pose to Iran?

This is precisely the question that Iranians have been asking themselves since the conflict began. Even before the invasion of Iraq, it was clear that Iran was in US sights; that is not to say that a march on Tehran was a foregone conclusion, but its membership in the so-called axis of evil was a clear message that the United States would tolerate Iranian “provocation” for only so long. Having considered the euro switch before the war, Iran got very quiet when Baghdad was falling to shock-and-awe therapy. However, as it has become apparent that the United States is not getting out of Iraq anytime soon, Iran has become emboldened and is seizing what it must see as a golden opportunity to defy the United States’ will. By the summer of 2003, Iran had already denominated its oil sales to Europe in euros and estimated that 60 percent of its foreign reserves were held in euros. The Hindu Business Line reported that summer that “the switch to the euro …, as done during the last few months, had helped the country negate the effects of a depreciating dollar and falling international oil prices.” Furthermore, and of much concern to the United States, Iran was encouraging its allies in the Asian Clearing Union (ACU) to denominate their reserves in euros by offering the ACU countries preferential terms of trade in oil and gas, provided they use euros to make their purchases.

Of even greater concern to the United States, Asia Times reported in November 2004 that Iran had struck a series of deals with China collectively worth $200 billion. The agreements, which guarantee oil and gas sales over a 25-year period, mark a tremendous boost to the legitimacy and strength of the Iranian Islamic government. Though such a move could have never happened three or four years ago when it seemed the United States was set to steamroll Iraq and move into Iran, the extent of the United States’ failure in Iraq has been crystallized by Iran’s bold move to insulate itself from a US attack. Now that China has such a stake in Iranian oil, it is unlikely, though not impossible, that the United States will be able to
manufacture consent for a campaign against Tehran without significantly upsetting the Chinese.

The importance of this deal is not yet absolutely clear; it is too soon to suggest that the Chinese are in a rush to switch their assets to euros and, similarly, there is no reason to think that the Iranians would immediately insist on such a redenomination by the Chinese. However, reports as recent as January 2006 have suggested that perhaps the Chinese are, in fact, considering reducing their exposure to the dollar.\(^67\) The Washington Post reported on 9 January 2006 that China was considering moving more of its $800 billion in foreign reserves into alternate currencies, prompting speculation that the dollar may begin to fall in value again after what looked like the beginning of its slow recovery in 2005.\(^68\) These reports, which have been hinted at since the middle of 2005, indicate that Iran may soon have a powerful partner in its campaign to undermine the dollar. Meanwhile, the de facto protection China has now arguably provided for Iran means that Iran’s other dealings in the euro cannot be overturned by US marines the way Saddam’s were. It further suggests that the United States cannot use its control of Iraqi oil to manipulate and contain the growth of the Chinese economy, which may present a serious threat to US economic hegemony in the twenty-first century.

If that were not enough, a major event in 2006 was set to complicate matters even further. An important aspect of the structural apparatus that facilitates the oil-dollar nexus is the fact that there are only two significant trading bourses for oil in the world. The NYMEX in New York and the IPE in London are where the world goes to buy oil, and both are American owned and operated. They are also, notably, denominated in US dollars, facilitating the conventional use of dollars in oil transactions. But Iran was scheduled to open its own bourse in the spring of 2006, with the Iranian Oil Bourse (IOB) to be denominated in euros.\(^69\) Much of Iran’s trade in oil is with Europe and is already denominated in euros, but the opening of the IOB would undoubtedly make it much easier for OPEC countries to reject the US dollar if they so choose. There are still many political pressures that would inhibit oil producers from undermining US hegemony, but there is no reason to assume that consent for American dominance will persist indef-
initely. The cost of keeping the Unites States in command is increasing, especially given the incredible amount of money borrowed to finance the occupation of Iraq, and the presence of the IOB would make the potential shift easier.

The euro switch is getting due consideration everywhere that oil is produced. Despite being the United States' strongest Arab ally in the Middle East and having an estimated $7 trillion in petrodollar investments on Wall Street, even Saudi Arabia, the world's largest oil exporter, seems to have considered the euro switch. If true, this is a remarkable development; no one oil-exporting state would have as profound an effect on the US dollar if it switched its holdings and sales to euros as Saudi Arabia, and few members of OPEC would have as great an effect on the rest of the oil cartel. The United States recognizes Saudi Arabia's importance in this regard, as demonstrated in this paper and by recent remarks by the US ambassador to the Kingdom, who told a US congressional committee that "one of the major things the Saudis have historically done … is to insist that oil continues to be priced in dollars. Therefore, the US treasury can print money and buy oil, which is an advantage that no other country has." It seems that US officials are not as ignorant of the currency issue as Ari Fleischer would have us believe.

Keeping in mind this frank admission of US reliance on Saudi Arabia to denominate sales in dollars and pressure the rest of OPEC to do the same, one can only imagine the deep concerns US officials must have felt when, between April and June 2003, the Saudis began amassing an estimated 30 billion euros in foreign reserves. The cold sweat probably subsided in a sigh of relief a year later when the Saudis officially abandoned these movements towards the euro, stating that "the euro has not yet gained a competitive status against the dollar as a major reserve currency." It is worth noting the use of "yet" in the Saudi statement: is the door still open for a switch in the future?

It would seem that the answer is a resounding "maybe." The perceived Saudi moves towards a switch in 2003 may have been a realistic attempt to make better profits during a period of dollar devaluation or it may have been political jockeying with the United States. There is no doubt that the
Saudis and Americans depend on one another, but that does not preclude them from political games; in August 2002, *The Washington Post* reported that Pentagon officials considered Saudi Arabia an enemy, and a supporter of terrorism. Two weeks later, the *Financial Times* reported that the Saudis had withdrawn millions, perhaps even billions, of dollars from Wall Street in response to the allegations in the *Washington Post* article. Quickly and quietly, the whole issue was hushed up. There have been no further reports on this incident in the mainstream media, the United States denied any validity to the Pentagon report, and the Saudis denied pulling their money. Certainly there was political manoeuvring at work, but it all rests critically on the importance of the currency issue. In fact, it was suggested at the time that the Saudi pullout may have hastened the dollar’s slide in value. These political games are taken seriously because neither side is ignorant of the enormously high stakes.

With OPEC openly considering the switch and Hugo Chavez still pushing forward his program of reform despite US opposition, the momentum of the euro switch is growing. In 2004, Chavez opponents tried to defeat him in a recall vote, but Chavez again won nearly 60 percent of the vote, despite facing almost universal criticism in the Venezuelan media. In 2005, many observers have suggested that Chavez might employ the euro switch for PDVSA, the Venezuelan state oil company. Ali Rodriguez, PDVSA’s president, recently suggested that there was no immediate plan to denominate its oil sales in euros, but would not rule out using euros for certain exchanges. Still, it seems that the tension between Chavez and the United States will increase; with his eyes on US funding of Colombian paramilitaries, Chavez has threatened to end all oil sales to the United States if the American government meddles any further in Venezuelan politics. Meanwhile, he has publicly embarrassed the US government by providing cheap energy for consumers in Massachusetts and offering aid during the bungled relief efforts after Hurricane Katrina. With deepening links to Iran, China, and Russia, it may be only a matter of time before Venezuela makes the switch.

Meanwhile, Fidel Castro announced in November 2004 that Cuba would no longer allow US dollars to be traded on the island. Despite some
American suggestions that this was simply a political move to centralize power around Castro himself, it is easy to see how this switch fits into the global move away from dollar dependency. With Castro’s close links to Chavez and his improving relationship with China, a move away from the dollar could prove profitable in the long term. It is critical to recall that similar comments were made when Iraq made the switch in 2000. Nonetheless, it proved to be economically beneficial for Saddam, at least until Iraq was bombed and occupied.

Another sphere of euro infatuation has been East Asia, where the logic of holding depreciating US dollars is receiving some tough reevaluation. In Malaysia, Prime Minister Mahathir Mohamad has suggested that it is time for Petronas, the Malaysian state oil company, to “review the quotation of oil prices in US dollars.” His motivations, no doubt, are both political and economic; the United States orchestrated the devastation of Malaysia’s economy in the late 1990s and Mahathir Mohamad was himself condemned by Al Gore for trying to abate the crisis by throwing up capital controls to stop US companies from snapping up devalued Malaysian businesses. Even if such political factors did not exist, the fact remains that the dollar has taken a nosedive in value, and *Asia Times* reported in November 2004 that “Malaysia’s largest trading company, Petronas, is estimated to have lost about $159 million in profit because of depreciated dollars.” A switch to the euro could mean economic salvation if the dollar continues to fall in value. Mahathir’s enthusiasm for the switch has spilled over into Indonesia, where there has been talk of Petramina, Indonesia’s state oil company, making the switch to euros. In mid-2003, the Indonesian finance minister told *Asia Times* that “if the US dollar continues to weaken compared with other foreign currencies including the euro, users of the greenback may seek more stable currencies.”

That is exactly what users of the greenback are doing. In Russia, Vladimir Putin has been quietly stashing euros to the point where more than 25 percent of Russia’s foreign reserves were held in euros by 2003. This led to an increase in private Russian holdings of euros, and Russia, one of the world’s largest oil exporting countries, has begun denominating sales to Europe in euros. Putin has not ruled out a wholesale shift, suggesting that
it “would be interesting for our European partners.” In the meantime, Norway and Great Britain are caught between the US and EU; both countries’ domestic politics may soon dictate that they join with the EU. In such an event, what guarantee would there be that companies like Shell and TotalFinaElf won’t redenominate their sales in euros? As Faisal Islam notes, “over the past year, both companies have seen profits gobbled up by the dollar slump,” and it can’t be long before the bottom line takes priority over old political allegiances.

Anti-American political rallies are not an uncommon sight these days. Still, there was something unique about an uprising in Nigeria last year; along with the usual sloganeering there was a repeated cry from the crowd that went, “euro yes, dollar no!” In the space of only half a decade, a wholesale shift from dollar denomination of oil sales to a reconfiguration based on the euro has gone from an anti-American pipe dream to a plausible reality. Even the popular online encyclopaedia Wikipedia has an entry about the dollar-euro struggle in its database, stating that “the deficit structure of the US economy relies heavily on the dollar’s hegemonic reserve status as a means of securing US debts and deficits.” What Wikipedia’s anonymous contributor recognizes, it seems, is a sentiment shared by Loyola de Palacio, the top European energy official, who openly advocated the switch as recently as June 2003, saying that “in the future the euro is going to be taking a place in the international markets in general as the money of exchange ... in the oil market and in any market.”

Since 2002, the US dollar has lost nearly 40 percent of its value against the euro. To put this in perspective, when Saddam Hussein initially started denominating his oil sales in euros back in October 2000, the euro was valued at around 80 cents. In December 2004, the dollar hit its lowest point ever during the euro’s existence, trading at $1.33 to the euro, and by May 2005, its recovery had amounted to only a five cent increase. Despite the stream of rhetoric from the United States suggesting that it is comfortable with the slide because it helps US exports, if the United States is actually in a position to curb the dollar’s fall and is choosing not to, then it is playing a dangerous game with the future of the US economy. As the dollar continues to drop, oil consumers worldwide watch the value of their foreign reserves
go into freefall while oil prices continue to rise, and they face a difficult
dilemma. One option would be to buy more dollars to try to stop the dollar’s
depreciation and thereby maintain the value of their savings. This, however,
could backfire with disastrous results; if buying more dollars does not stop
the greenback’s slide in value, they will be left with even more devalued
dollars and will be inextricably tied to the dollar, coming crashing down
with it. The alternative is to get out now. To begin switching dollar reserves
into a stronger currency like the euro now will obviously mean immediate
losses, but it could protect oil consumers from a devastating loss if the dollar
continues to drop. Faced with this reality, it seems unlikely that oil-trading
countries will allow themselves to be tied to the plunging dollar forever.

This crisis was most clearly highlighted in January 2005: the front page
of the Financial Times reported that a survey of about 65 central banks
(controlling some $1,700 billion in assets) revealed that as many as 70
percent of these banks had increased their exposure to the euro between
2003 and 2005. As the dollar continues to drop in value, one can only
imagine that this trend will continue since, as the Financial Times article
says, the vast majority of central banks polled “thought euro zone money and
debt markets were as attractive a destination for investment as the US.”
What may well have begun as a symbolic political gesture five years ago
has grown into a situation where “enthusiasm for the dollar seems to be
cooling off” as a result of its plummeting value and the increasing risk of
negative returns on dollar investments.

The contested election of George W. Bush and the neoconservatives in
2000 may prove to be one of the most important turning points in US
history, and his reelection in 2004 may be viewed someday as the nail in the
coffin for US global hegemony. The neoconservative vision saw the might
of the US military as the best way to ensure its national interests abroad, and
those national interests, without a doubt, included the preservation of the
dollar as the world’s reserve currency. If, as David Harvey suggests, the chief
US aim was to seize control of Iraqi oil fields (and probably Iranian oil fields
as well) in order to put itself in the position of determining how much oil
should be sold to its competitors, then the success of that mission has come
to the detriment of the dollar’s preeminent position in the world. If, as this
The essay suggests, the chief goal was to reestablish the dollar as the currency for oil trade in Iraq and send a message to the rest of OPEC that there would be no tolerance of such a switch anywhere else, then the success of this mission has been pyrrhic; that is, the costs of putting Iraqi oil back on the market, denominated in dollars, may have been more painful than the original crisis.

The United States has failed to install a compliant local regime in Iraq. Instead, it is mired in a deadly guerrilla war that looks more like Vietnam every day and has emboldened the enemies it meant to threaten. Reflecting the shocking deficits that the Bush administration has run up, especially since the beginning of the war, the US dollar has gone into freefall, the likes of which has not been seen for decades. Given the current state of the world, it is only a matter of time before oil producers begin to consider redenomination, not as a political move as it was in Iraq and Venezuela, but as a pragmatic economic move to avoid the devastation of their own economies. While this work focuses on the threat posed by the euro, there is reason to believe that regional currencies may begin to dominate the global sphere; with the emergence of China as an economic power around the corner, the yuan and the yen could both represent realistic alternatives to the dollar in East Asia. The challenge for the United States may no longer be how to maintain its hegemonic position, but how to prepare for life after the end of the “American century.” Perhaps it is time for the United States to consider stockpiling its euros.

Notes
I would like to extend my sincerest gratitude to Dr. John Loxley and Dr. Fletcher Baragar of the Department of Economics at the University of Manitoba for their insight and assistance on matters of global finance. I also wish to thank Dr. Henry Heller and, above all, Dr. Mark Gabbert, both of the Department of History at the University of Manitoba, whose guidance and enthusiasm over the course of this research has been invaluable.

1. This is not meant to slander those protestors; the amount of disinformation that was propagated by the Bush administration and its subservient national media was unprecedented, even by US standards. In fact, Defense Secretary Rumsfeld actually created a new department, the Office of Strategic Influence, to willfully create a smokescreen of confusing and inaccurate reporting with the purported aim of destabilizing the terrorist enemies. T. Carver, “Pentagon Plans Propaganda War,” BBC News Online (20 February 2002), <http://news.bbc.co.uk/1/hi/world/americas/1830500.stm> (accessed 25 April 2004).
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5. This argument is based on structural and historical analysis and, as such, contains no “smoking gun” to confirm its validity. Quite the contrary, this article shares Peter Gowan's belief that such dramatic evidence is extremely rare and difficult to find because the nature of policy-making in western core-capitalist states is opaque and shrouded in manipulation and disinformation. As a result, I engage in what Gowan calls “backward mapping,” drawing conclusions about policy goals by tracing their outcomes and effects in light of the structural and historical context in which they appear. Gowan describes this in more detail in the preface to *The Global Gamble*. P. Gowan, *The Global Gamble: Washington's Faustian Bid for World Dominance* (New York: Verso, 1999), pp. x–xi.


7. Ibid., p. 173.


11. Ibid., p. 20.

12. Ibid., p. 30.

13. Ibid., p. 21.


18. Ibid.


20. This is how Gowan describes it in *The Global Gamble*. He further notes the targeting of life-support systems (irrigation, energy, sewage) causing mass starvation and epidemics, the deliberate targeting of civilians, and the use of weapons of mass destruction against conscripted Iraqi troops in Kuwait to prosecute a “war of annihilation against forces that scarcely returned fire.” Gowan, *The Global Gamble*, pp. 155–156.


22. Ibid. This longstanding practice of selling oil for dollars was based on an informal agreement between the United States and the Saudi monarchy, set during the 1974 talks, led by Henry Kissinger. This agreement led to the US–Saudi Arabian Joint Commission on Economic Cooperation. Though nothing technically prohibited OPEC members from using another currency, the strong example set by the Saudis, combined with the lack of any other competitive currency, encouraged the adherence to this practice and, prior to the Algeria Summit in 1975, OPEC stated more specifically its desire to maintain pricing in US dollars only. This is also detailed in R. Hienburg, “The Endangered US Dollar,” *Museletter* 149/August (2004).


25. Clark, “The Real Reasons for the Upcoming War with Iraq.”


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35. This view is widely held in critical circles and is well articulated by the always incisive Noam Chomsky in this online interview held shortly after the attacks in New York and Washington. S. Vukovic and S. Lukic, “Interviewing Chomsky,” Zmag, <http://www.zmag.org/chomb92.htm> (accessed 5 January 2006).


43. Clark, “The Real Reasons for the Upcoming War with Iraq.”

44. Ibid.

45. Ibid.

46. There is no scholarly consensus as to what direction the new crop of Left wingers in Latin America will take their respective countries in. It is outside the scope of this essay to distinguish their different backgrounds and policies, but on the face of things it would appear that most of these leaders will resist US imperialism to a greater or lesser extent. While it should be noted that some have begun to negotiate bilateral free trade agreements with the United States, these are not the compradors of the 1980s and 1990s, and they represent a marked shift in US–Latin American relations.


50. Ibid.
51. Ibid., p. 111.
52. Ibid., p. 109.
53. Ibid., p. 111.
56. Ibid., p. 161.
57. This switch prompted Iraq’s neighbour and trading partner, Jordan, to coordinate the switch as well.
58. With particular reference to the abuse of media talking points to ensure that mainstream outlets would be reporting and presenting the information and misinformation that the Pentagon needed in order to push the campaign for war on the American public. M. Cooper, “Soldier for the Truth: Exposing Bush’s Talking-Points War,” *LA Weekly* (20–26 February 2004).
59. Ibid.
60. Ibid.
62. In December 2004, the United States authorized a decision to increase its ground forces to 150,000 soldiers, which was as high as or higher than its total ground forces had been at any point in the occupation, including the initial invasion in March 2002. J. Miklaszewski, “US to Boost Iraq Troop Strength,” *MSNBC News* (29 November 2004), <http://www.msnbc.msn.com/id/6613194/> (accessed 4 December 2004).
64. Ibid.
65. Ibid. Euros would be the denomination, though sales would still be invoiced in US dollars, presumably to avoid confusion over volumes and revenues, which are traditionally represented by their value in US dollars.
67. The implications of this suggestion, as reported in the major western newspapers on 9 January 2006, are taken up in this article by M. Whitney, “China and the Dollar,” *ZNet* (9 January 2006), <http://www.zmag.org/content/showarticle.cfm?SectionID=10&ItemID=9494> (accessed 10 January 2006).
69. The IOB has been on the table since 2000, but has received almost no attention from the western media until recently. Even now with the new bourse, most western news outlets are reluctant to take on the story. As such, the best reports have come from Al-Jazeera, including an excellent article by Emilie Rutledge at the Gulf Research Center. E. Rutledge, “Iran – A Threat to the Petrodollar?” *Al-Jazeera* (3 November 2005), <http://www.english.aljazeera.net/ NR/exeres/C1C0C9B3-DD4A-42E2-AE9C-B7CDB0A086E9.htm> (accessed 7 January 2006). For those who still question the reliability of Al-Jazeera, the story has been picked up by *The Guardian*, <http://business.guardian.co.uk/story/0,3604,1239644,00.html> and *Asia Times*, <http://www.atimes.com/atimes/Global_Economy/GH26Dj01.html>, along with a few others.
73. Ibid.
74. The United States needs Saudi Arabia’s continued support for its hegemonic position in its
denomination of oil sales in dollars and its investment of those petrodollars in the United States.
The Saudi monarchy needs the United States’ support in maintaining its repressive regime
in the Kingdom and keeping a lid on the increasingly militant opposition groups, including
the infamous Al-Qaeda, which is facilitated by the vast quantities of arms that the Saudis
buy from the United States each year.
75. *International Workers Association*, “Iraq, Oil and US World Hegemony.”
77. Javad Yarjani made this statement at an OPEC speech in Spain in April 2002. See
78. The Venezuelan media is intimately connected to US capital. Not only did the plotters of the
2002 coup make many of their plans in the homes and offices of corporate media executives,
but many of the anti-Chavez posters that dotted Caracas in 2004 were sponsored by AOL,
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A Journal of Marxist Thought and Analysis
Edited by David Laibman

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