

# Will the *Real* War Begin Now?

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*The way in which our troops have steamrolled their way through the remnants of an Iraqi army that proved even bigger underachievers than that of Gulf War Part I seems to have removed a lot of the uncertainty of war that has had everyone preoccupied now for months.*

However, new developments are creeping into the whole Middle Eastern and broader geopolitical equation that could eventually prove more devastating to world markets – especially America's – and the whole balance of power than the more obvious risks of armed combat.

*I speak of the looming battle not only over control of Iraq's oil supply but, more to the point, over who will control it and in what currency Iraq's future oil production will be*

*paid.* Most have forgotten that, in late 2000, former Iraqi ruler Saddam Hussein insisted that the United Nations' "food for oil" deal pay his regime in Euros, rather than in U.S. dollars. At the time, this was regarded as a slap, albeit a relatively impotent one, at what Saddam termed the aggressive "American and Zionist" saber-rattling against his regime. All during this time, though,

been kept to something less than crisis proportions due to the fact that there has been a "home" for all the new greenbacks the Fed has had to crank out to soften the deflationary forces at work in the economy. One key area has been oil; and if this most important of international commodities is suddenly removed, at least in part, as a repository for all the new dollars still coming out,

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other OPEC nations have been willing to stick with the roughly three decade-long regimen of trading their oil for dollars.

New rumblings among Arab nations, though, are coming to the fore. The April 15 edition of the *Wall Street Journal* contained a story detailing the increased efforts of some Muslims to create a "boycott" of dollars, in favor of the European currency. Not able to match American military might, these folks believe that they can strike a blow against us by not sustaining a market for the increasing supply of dollars that the Federal Reserve is having to create to keep things in a relative state of equilibrium.

As Nobel prize-winning economist Robert Mundell stated that same afternoon in a CNBC interview, any move to have international oil transactions based on either a basket of major currencies or on the euro itself would have devastating effects on both the dollar's value and, by extension, U.S. interest rates and financial markets. Keep in mind that, in recent months, the dollar's slide has

that can only translate into a much weaker dollar, inflation, rising interest rates for U.S. government debt, falling stock prices and a new recession.

*While the Muslim world itself might not be able to pull off such an "attack" successfully on our nation's currency and economy, a major battle is brewing between the U.S. on the one hand, and the UN, Europe and Russia on the other. Make no mistake: one reason why we decided to unilaterally invade Iraq is so that the United States would have the upper hand in controlling Iraq's resources. This includes, of course, making sure that Iraqi oil would be paid for with U.S. dollars, rather than Euros. The United Nations wants none of this, and is already insisting that it still has the authority over Iraq's oil exports, and that it will determine how and when the oil starts flowing again. Those good old UN sanctions against Iraq only allow for oil exports under the international body's auspices. In order to change the existing regimen, a new Security Council measure would have to*

be enacted; and you can bet that the still-angry French and German permanent members of the Security Council won't have any part of supporting an action that does not have the United Nations in charge.

Predictably, the Bush administration has asked the UN to end the sanctions against Iraq, under which the oil for food program exists. Further, the Federal Reserve is reportedly flying in a plane load of U.S. currency to Iraq, with which to pay “civil servants” and start the process of “reconstruction.” The clear goal is to get Iraq moving once again with a dollar-based economy immediately, so as to bolster the case for future oil shipments to also be exchanged for dollars. It will be interesting to see what our “allies” think of all this in the days and weeks ahead.

*In my view, this means that the most dangerous phase of our excursion into Iraq, where the national economy and financial markets' health is concerned, might still lie ahead of us. Our war against Iraq was akin to a battle between Tysons, as a friend of mine might have said: Mike Tyson taking on Cicely Tyson. Now, however, we are entering an arguably far more critical “battle” of heavyweights over the financial control of the world and its oil – and, over whose currency will exercise a form of financial hegemony over others. Most nations in recent years have been happy to have a strong, widely accepted dollar; after all, this allows other countries with weaker currencies to export more to us than we do to them. But things are changing; and it's conceivable that angry nations elsewhere, whatever the ramifications for*

the global economy, have had enough of our having used our military muscle to force-feed others into using dollars.

Perhaps President Bush will be successful in conquering the Middle East and its oil reserves and, by hook, crook or military action, ensuring a continuing home for all the dollars sloshing around the world. If, however, the atmosphere remains poisoned – and becomes increasingly so – between the U.S. and the UN/Europe/Russia, serious ramifications could lie ahead for the dollar and our markets. At this point, it may not matter to the Europeans in particular if, in their desire to get even with or rein in our actions, they join angry Muslims and, in effect, gang up against the dollar. It wouldn't be the first time that financial battles between major nations knocked the world economy for a loop. 

