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Why War with Iraq? Follow the Money

by Richard M. Ebeling

Financial Times columnist Martin Wolf recently argued that America's coming war with Iraq would provide a "public good" for the world. The world economy runs on oil. Any disruption in oil supplies or unstable swings in oil prices threaten the economic well-being of every oil user around the globe.

Regimes such as the one currently in Iraq represent the potential source of such disruption and instability. If America wins a short war and brings the Iraqi oil fields fully back into operation, it will serve as a forceful counterweight to the political and economic troublemakers in OPEC. Thus, the argument goes, America is doing good for the world by doing well for itself and pursuing regime change in Iraq.

There is an old adage in political and economic analysis. If you want to understand why people do many of the things they do, then you should "follow the money." That is, who benefits from a particular policy often tells you a lot about who is advocating it and why.

For all of the post-World War II period the U.S. dollar has served as the reserve currency for international trade. It is estimated that about \$3 trillion is in circulation around the world. Almost all oil transactions and numerous other globally traded commodities are bought and sold with dollars. In some cases, dollars are hoarded by the citizens of other countries because of a lack of confidence or trust in their own governments. In Russia, for example, as much as \$30 billion is held as cash money by thousands of people instead of rubles.

The world demand for dollars and the worldwide use of the dollar have served as an important cushion to maintain the value of the dollar on foreign-exchange markets, which has enabled the U.S. government to print money and run trade deficits that might otherwise have put downward pressure on the international exchange rate of the greenback.

The demand for dollars has also enabled Washington to fund the federal budget deficits of the past because foreigners have used the dollars they own to purchase U.S. Treasury securities. With so many dollars in use for so many international transactions, parking some of those dollars

back in the United States in the form of U.S. government securities for a period of time has usually seemed the safest, easiest, and most logical way of putting one's cash to work.

But a number of European newspapers including the London *Observer*, have pointed out that the world has been slowly shifting into an alternative currency to use for international transactions: the euro. Not long ago, the Iraqi government made it official policy that Iraqi oil, two-thirds of which is purchased by American oil companies, had to be paid for in euros.

Last year, a senior Iranian oil representative suggested in a speech in Europe that European oil purchases might be increasingly traded in euros in the future. China and Russia have hinted that they may begin to hold more of their foreign currency reserve assets in euros in place of dollars.

If the euro were to increasingly become the alternative international currency of choice in competition with the dollar, the global demand for greenbacks would fall, the value of the dollar would decline, and the U.S. government would find it far more difficult both to export inflation and to finance its budget deficits. The financial clout and muscle of the American government would be dramatically undermined over time with the dollar increasingly no longer the only global reserve currency in town.

With the American military serving as the keeper of the oil fields in an occupied Iraq, the first policy change undoubtedly would be that all Iraqi oil sales will be once again exclusively in dollars. This would give the U.S. government the chance to try to stem the tide toward international use of the euro in place of the dollar and to put pressure on the Saudi government to maintain its long-established policy of dealing only in dollars on the oil market. And at the same time Iranian enthusiasm for euro dealings might be tempered if the American liberators are just next door.

It is hard to imagine that in the policy recesses of the State and Treasury Departments this benefit from a successful war in Iraq has not been thoroughly discussed in the briefs circulated among those deciding on war or peace. How else can the U.S. government, with federal budget deficits looming for years on the horizon, go on playing its sleight of hand in which it deludes the American public into thinking that government deficit spending is a continual "free lunch" that others around the world can be made to pay for? How else can the American government continue to play dollar diplomacy in managing its global empire?

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