



Recently we've been seeing arguments that the real reason for the second Iraqi war was Hussein's shift to the Euro, and the over-arching need to preserve the Dollar's dominant position as a reserve currency, enabling the US to continue running deficits by sending Dollars abroad. While Iraq's switch was one more factor in the situation, I strongly doubt such a "smoking gun" explanation for the war. Indeed, if anything, so far the second Gulf War has served to *increase* the Euro's value and weaken the Dollar. Furthermore, this weakness could become more permanent, unless we alter our "in your face" attitude which is keeping our traditional allies from helping with the policing and rebuilding costs for Afghanistan and Iraq.

The official structuring of the Euro was apparently designed to be at par with the US Dollar, at launching in January 1999. However in the last part of 1998, some European currencies, such as the German Mark, rose substantially in speculative foreign exchange trading so that the Euro was launched at about \$1.18. From that level it had nowhere to go but down. It dropped for 21 months, causing most financial operators to proclaim it dead on arrival.

Our view at the American Monetary Institute was decidedly different: that until the Euro came on the scene, there was only one "world class" currency — the US Dollar. Now there would be two. That represented progress. For quite apart from the ideologies motivating the present Euro monetary managers, it was now *structurally possible* for the Europeans to get out from under Alan Greenspan's "Dollar Hammer." In our view an Asian area currency would also be a good addition to the international monetary order and could have avoided the currency crisis there in the late 90's — i.e. three "world class" currencies would be better than two.

We had for some time concluded that Greenspan's Fed was engaging in a deflationary monetary policy, under cover of vast substitute money forms being generated in the "Dot Com" and other market bubbles, where stocks were being used as money — to pay workers for example, or when AOL used its stock to buy Time Warner.

The Euro thus gave the Europeans the ability to take substantial non-deflationary monetary action independently of the Fed. If there was ever anything to fight about over the Euro, it was that fact. Thus I wrote last year, in *The Lost Science of Money*: "Conflict with Europe? Hard as it is to imagine, there is now a potential for monetary (even military?) warfare between the US and Europe."

As the dollar value of the Euro plunged down to about 1.07, we predicted that it would continue falling down to 82 cents, from where it would rise to about 1.09, fall back under 1 and then oscillate “par” (where \$1 = €1). The reasoning was that the Euro managers had probably done their job well, and “par” was the “correct” value. Well, the Euro declined exactly as we predicted, reaching 82 cents in October 2000. Iraq is reported to have shifted \$ reserves into Euro around then. The Euro rose to 96, fell back to 83 in July 2001, and has since risen to about 116. The point is that the rise from 82 is not so easily attributable to Iraq’s action. It was also predictable from market mechanics.

In addition, there is no hesitancy for foreign countries to continue accepting US Dollars in payment for their goods and services. Most countries are cash starved and require dollars to pay interest and principal on dollar loans. They eagerly seek dollars. Even in Iraq, we found lots of dollars being hoarded in banks and even by Sadaam Hussein himself.

Consider further that the very existence of two world class currencies implies that world reserves will to varying degrees be held in both of them. Thus any “threat” to the dollar would have originated long before Iraq’s decision, in the European community’s plans for its own currency, which are decades old. And yet we find no serious attempts to block the Euro, from any of four US Administrations. On the contrary they were encouraged, according to the present Euro Community President in a recent Charlie Rose Interview. He remarked (in January/February 2003) that we could have stopped their Euro plans, with just a word. Yet America did not lift a finger to stop the Euro. So much for the argument that the “monetary sky is falling” because of the Euro.

As to what happens next to foreign exchange markets, gold prices and inflation/deflation, welcome to the casino! When the rule of law is attacked in such fundamental ways as has needlessly been done, especially by the US — the country which should be at the forefront of *advancing* international law — it tends to generate an element of panic, which spills over into markets as well. With large amounts of speculative cash sloshing around (and that’s about the only place you’ll find so much liquidity) markets and prices can become violent.

At present, foreseeing the future becomes quite difficult. You see there is no longer a countervailing media power to keep watch over what various gangs are doing. Bad ideas (e.g. the move to cut taxes for the super-rich, which could cause a form of currency debasement combined with economic contraction) do not get reported as poor public policy, but instead get presented as valid questions for economists to argue (*continued on page 24*)

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over. The Ministry of Propaganda, euphemistically referred to as “talk radio”, represents the interests of only one tiny element in the nation — the owners of the networks — all super-rich. At present there is no democratic (small d or big D) opposition. The way that elections and communications are financed has demolished both, except for the rare PBS presentations of Hedrick Smith, or Bill Moyers.

As to what the real cause of the war was, I'll close with this observation. Watching Hedrick Smith's recent PBS *Frontline* documentary on the Worldcom and other financial scandals, the thought struck me that if we were not being distracted by war reporting, museum lootings and library burnings, then these scandals, would have been center stage for many months. Smith's condemning evidence reached all the way up to Allan Greenspan; it went beyond personalities, to indict “free market ideology” as well. That is long overdue!

So that “distracting process” could have been a major war motive. Throw in the oil-grab factor; throw in the Neo-Conservatives Middle East objectives and Israel's interests; throw in the Arab League's now forgotten peace initiative toward Israel last year; etc, etc, etc. Mix all these factors into an environment of panic over the World Trade Center disaster, and Voila: Gulf war II.

Foreign policy should not worry about the Euro, but focus on rebuilding respect for international law and co-operation toward justice. That strengthens the US Dollar. The President needs to separate himself from elements in his administration that are against that — the empire promoters. And he must hold fast to formulating and enforcing a viable “roadmap” for peace between Israel and Palestine. Success there would help erase the recent blemishes on America's worldwide standing. Domestic policy should now focus on rebuilding respect for privacy, dissent, and due process matters; so that we can get to the crucial issues of monetary (and land) reform. **GJ**

Stephen Zarlenga's new book, *The Lost Science of Money*, is now available from the American Monetary Institute. (You can order it online at www.monetary.org) The book devotes a good deal of space to “exposing the incompatibility of the Austrians' primitive monetary ideas with Henry George's well developed monetary views.” In this vein, he intends to respond, in our next issue, to the points raised herein by Fred Foldvary. — L.D.

