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Dollar Crash: The Real Challenge For OPEC

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At its recent summit in Riyadh, the Organization of Petroleum Exporting Countries faced an unprecedented crisis: the price of oil was edging up towards the $100 per barrel mark, as the dollar itself was continuing its inexorable slide on all financial markets.

Although the Saudi hosts were eager to keep the dollar's agony out of the debate, Venezuelan President Hugo Chavez forced it onto the agenda, triumphantly announcing that the dollar decline signalled the end of the American empire. Iranian President Mahmoud Ahmadinejad quipped that the oil producers were delivering their vital goods, and in return, were getting only "a worthless piece of paper." The idea emerged, that OPEC should study the matter, perhaps seeking an alternative currency or currencies, in which to trade oil.

The word "dollar" was not referenced in the final document, mainly because of (justified) fears voiced by the Saudi hosts, that any such mention might precipitate a further crash of the greenback. B ut the summit did decide to set up a committee, of their oil and finance ministers, to study the matter and come up with recommendations before their next meeting, scheduled for December 5.

Chavez and Ahmadinejad were those pressing most energetically for open debate on the fate of the dollar. "Don't you see how the dollar has been in a free-fall without a parachute?" Chavez asked. In his address to the conference, the Iranian president stated, "Due to the devaluation of the U.S. dollar, oil transactions should be conducted through a combination of other major hard currencies, and oil bourses should be requested to replace the U.S. dollar with other currencies," as reported by Mehr News Agency. He also voiced agreement with an idea Chavez had floated, of setting up an "OPEC bank" which would protect the hard currencies of the oil producing states.

Ahmadinejad told reporters following the summit that the leaders were "unhappy with the fall in the value [of the dollar]," adding that "even the American people have lost out." He reported that "All participating leaders showed an interest in changing their hard currency reserves to a credible hard currency," and that "some" favored an alternative to the dollar. These "some" emphatically did not include Saudi Arabia, which issued a statement later, that the Kingdom had absolutely no intention of abandoning the dollar.

Nonetheless, the issue was hot enough to make its way, albeit indirectly, into the summit's final statement. The "Riyadh Declaration" [www.opec.org/] after stressing OPEC's commitment to maintain stability of the petroleum market, providing "adequate, timely, efficient, economic and reliable petroleum supplies to world markets," made brief reference to the currency issue. It said the OPEC members resolved to "Instruct our Petroleum/Energy and Finance Ministers to study ways and means of enhancing financial cooperation among OPEC Member Countries, including proposals by some of the Heads of State and

Government in their statements to the Summit." Iranian Oil Minister Gholam Hussein Nozari explained that this committee had been decided on, "to study the impact of the dollar on oil prices," while his Iraqi counterpart Hussein al-Shahristani said the committee would "submit to OPEC its recommendation on a basket of currencies that OPEC members will deal with."

The question is: what can such a committee achieve? That depends on how it formulates the problem. If the ministers focus on simply replacing the dollar with another currency, or basket of currencies, they will solve nothing. Although Chavez celebrated the fall of the dollar as the "fall of the American empire," and looked to the day when Latin America and the world would be freed of the U.S. currency, he was blithely ignoring a simple reality: the dollar is not just the currency of the U.S., still the world's biggest economy; it is the basis of the world financial system. The dollar is the leading currency in international trade, and dominates world financial transactions. It is still the major reserve currency for central banks, even though their percentage of dollar holdings has dropped from 71% in 1999 to 64.8% today. True, central banks have been moving out of the dollar and into other currencies, especially the euro and yen. In August, for the first time in ages, there was a net outflow of dollars and U.S. investments, to the tune of $150 billion, reversing a trend that used to see hundreds of billions flowing into America, to finance its multiple deficits. Those pulling dollars out of the U.S. included China; the assistant governor of the Bnak of China Yi Gang did say on November 15 that the dollar would remain the leader among its $1.4 trillion (!) reserves, however he added that China would "diversify." Cheng Siwei, vice chairman of the Standing Committee of the National Peoples Congress, was quoted by the Peoples Daily on November 8, saying "We [China] favor stronger currencies over weaker ones, and will readjust accordingly," i.e. continue to diversify. Russia has diversified, as have many Persian Gulf countries, including Iran.

But this, in itself, will solve nothing. The crisis of the dollar is the crisis of the dollar-denominated system. Unless that reality is addressed, no bandaid measures can provide relief. Just imagine what would happen, were China to pull out of the dollar completely. That would further plunge the dollar into negative territory, but with the result that China's earnings from its trade with the U.S., would plummet.

Any serious approach to address the dollar crisis, must address the underlying problem: the system is bankrupt and must be radically reformed, in order to prevent the collapse of the dollar system from precipitating a breakdown of the world economy–the production and trade of real goods and services, upon which the well-being of nations and populations depend. Ahmadinejad laid the blame for the dollar collapse on the Bush Administration–all well and good, so far as it goes. But the insane financial, monetary and economic policies which have reached a peak under George W. and his henchmen Alan Greenspan and Ben Bernanke, have been merely the continuation of a defective policy orientation going back to the early 1960s. It was after the assassination of John F. Kennedy that U.S. (and British) economic policy radically shifted away from emphasis on investment in the production of real goods and services, and vital infrastructure, into pure speculation. Richard Nixon's decoupling of the dollar from gold in August 1971, created the basis for the floating exchange system, whereby national currencies could and did become the prey of voracious speculators. From then on, the system generated one after another of wild speculative instruments, leading into today's explosive $750 billion derivatives market, collateral debt obligations, mortgage-backed securities, and the like. Now, a reverse-leveraging process has set in, whereby the croupier is calling in the debts. And the players' pockets are empty. The biggest banks in the U.S., led by Merrill Lynch and Citigroup, have reported tens of billions of dollars in losses, while their stocks plunge on the markets. No amount of pump-priming and repeated injections of hundreds of billions of dollars into the banking system can save it. Ben “helicoptor” Bernanke may think he can fly over America in a plane and flood the country with liquidity, but he is going to run out of gas very soon.

Given this reality, what can a committee of oil and finance ministers of the OPEC countries, as constituted at the last summit, do? Since they do not control monetary policy worldwide, they could not work wonders. But they could make a crucial contribution, by laying bare the true parameters of the crisis, identifying the implications of the dollar crisis for the international systen as a whole. They could go a step further, and propose an immediate international conference of leading nations–emphatically including the leading culprit, the U.S., as well as Russia and China–to map out a program for the reform of the system, which would begin by reviving the best aspects of the Bretton Woods system of 1944. This means reestablishing fixed exchange rates among leading currencies, as the precondition for orderly international trade and an antidote against currency speculation. This would also require a shift in economic policy orientation, away from the liberal, free market spe culative madness, back to sound investments in infrastructure, manufacturing, mining, agriculture, and so forth. Once a new international monetary system were in place, it would be essentially irrelevant, what currency oil producers (or others) would use in their trade.

Were such an OPEC committee to address the issue from this global standpoint, it could go further, and really take the bull by the horns, so to speak. The OPEC summit leaders demonstrated their responsibility to the world economy, by pledging secure supplies. But it is undeniable that each of the leaders who met in Riyadh for the third OPEC summit, knows that, no matter how vast the world’s oil reserves may be, they are ultimately limited. (The same could be said of gas.) This poses the question: what next?

A sane economic policy approach would say: let us look beyond the era of an oil-based economy, to the era of a nuclear-energy based world economy. From an economic standpoint, it is clear that only massive use of nuclear technology can provide the energy required to maintain a growing world economy. The industrialization of Africa, for example, requires this level of energy input. The political insecurity created over recent years by Dick Cheney’s wars against Iraq, and now, threatened, against Iran, has added impetus to the need for securing alternative energy resources. The recent statements by the Gulf Cooperation Council, regarding that group’s desire to develop nuclear energy technology for peaceful purposes, can only be applauded. Egypt, Algeria, and other Arab coutnries have demonstrated similar interest. Iran, whose nuclear program is being exploited as a pretext to launch war, has offered to share its proven technological expertise with other countries. Recent discus sions about the possibility of establishing uranium enrichment facilities jointly in “neutral” countries (eg. Switzerland) have been seriously taken up by Iran, among others. In the perspective of massive development of nuclear energy for peaceful purposes, the giant oil producers in OPEC, could think of directing their precious resources as the raw materials for petrochemical and other processes.

If the new committee envisioned by the OPEC summit takes up these issues, a new, potentially powerful flank may be opened up in international economic and political relations. These countries control resources on which most of the world depends: why should they not use their clout to redefine the international agenda?

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