

Petrodollars or Not, World Currency Reform Issues Must be Sorted Out Peacefully

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While there are several controversial aspects of world currency issues, the most important thing to remember is that whatever may be the troubled legacy of the past with respect to world currency, the various contentious issues must be resolved peacefully without leading to any conflict or war directly, or to the kind of sudden financial disruption which can become the cause of war somewhat later.

In the ongoing debates on this issue, it is common to see how various big powers or other countries may gain or lose from various development or moves, but the most important need for resolving and managing contentious issues peacefully is the more important but neglected aspect of the debate.

Often financial, political and military issues are discussed separately but in the real world these are increasingly more integrated with each other. Some people have argued that the decision to target **Saddam Hussein** of Iraq was taken because of certain decisions he was believed to be taking regarding moving away oil trade from US dollars.

What will be the impact of the recent ending of the special petrodollars agreement involving Saudi Arabia and the USA under which the former had agreed to denominate oil trade in US dollars and, less explicitly, to use surplus petrodollars to buy US treasury bonds in return for us military assistance and security for Saudi Arabia and its rulers. It is unlikely that such a decision to end a 50 year agreement was taken without the USA having prior indication of this.

This had been preceded by Saudi Arabia getting closer to China and BRICS in some important contexts, Saudi Arabia and China moving their massive and increasing trade into local currencies and China trying to improve relations of Saudi Arabia and Iran.

On the other hand the USA has been trying to improve relations of Saudi Arabia and Israel so that this friendship of these two important countries can become a base for its strong hold on the important Middle-East region. Will these efforts be affected by the Saudis moving away from petrodollars? Is the increasing new emphasis on finding Saudi involvement in 9/11 attacks also meant to be used as a means of increasing pressure on Saudi rulers?

So what we see is that political, military and financial issues can be related to each other. **Nevertheless the basic aim should not be forgotten that world currency reform should be achieved without war and violence.** It cannot be denied that some element of artificial imposition was involved in the world dominance of dollar but instead of trying to improve the situation with responsible behavior, the USA worsened the situation with irresponsible use of its privileged position, above all by the reckless use of sanctions against countries it regarded to be hostile.

This situation can be made clearer with a brief history of the world currency scene. After Britain emerged as the leading colonial power, the British pound gained increasing acceptance as international currency and its dominance continued up to World War-I. During the two decades 1920-1940 the USA dollar emerged as a serious competitor and shared almost equal honors with the British pound in terms of acceptance as international currency. During World War-II Britain suffered heavy economic loss and its foreign debt mounted. Hence the British pound lost its dominance to the USA dollar. This reality was formalized in Bretton Woods Agreement. Since then the USA dollar has remained the dominant international currency, with nearly two-thirds of the foreign exchange resources of the world being held in the US dollar for the greater part of this period.

However, there have always been some reservations about this acceptance. The opposition to the dominance of the dollar as international currency in 1945 was not confined to just the Soviet Union and its allies. One view has been that in the increasingly complex world the currency of any one nation should not be the dominant international currency and some other alternative should be evolved by the international monetary and financial institutions.

However as long as the USA retained its economic and political dominance of the world (and this was accepted by some of the richest countries with big economies), the acceptance of the US dollar as the international currency did not see any major hurdles. It was assumed, or at least hoped, that the USA will use this special privilege in a responsible way. Valery Giscard d'Estang, Finance Minister of France said in 1965 that the US dollar's prominence in global finance is an "exorbitant privilege".

A few years later, in 1971, US **President Richard Nixon** made a unilateral declaration that the USA is not obliged any more to provide gold in exchange of dollar. This one-sided de-linking from gold, without due international consultation, led a scholar Susan Strange to observe, that now it is a situation of 'super exorbitant privilege'.

In an interview Nobel Laureate USA economist Paul Samuelson told People's Daily online on December 26 2005 (interview with Yong Tang), a time when the US dollar was regaining strength,

"In the short run the dollar appreciates relative to the Euro and Yen. That can last for as long as these countries recycle eagerly their trade surpluses with the US into holding

dollar assets (such as low-yielding American treasury bonds). Be not misled. So strong and irreversible are American balance of payment deficits, we must accept that at some future date there will be a run against dollar. Probably the kind of disorderly run that precipitates a global financial crisis.”

Samuelson also said that the situation is being worsened by a less than responsible use by the USA of its privileged position. He told the interviewer, “President Bush is a reckless economist leading a reckless crew of subordinates. Spending on a hopeless imperialist caper in Iraq plus Bush giving away to the rich much of America’ tax base, will eventually depreciate the American dollar. Those now abroad who hold dollar assets will then reap the capital losses that they are not now expecting.”

In 2008 Jonathan Kirshner, of Cornell University, USA, wrote in a paper titled ‘Dollar Primacy and American Power: What’s at Stake?’

“There are good reasons to anticipate fundamental changes in the international role of the dollar, and concerns about the future of dollar are heard with increasing frequency. Such a change would not only have considerable economic implications; it could shake up foundations of international power politics.”

He added that US trade deficits have been shattering record after record. He commented wryly,

“Most other countries would find their back to the economic wall under such circumstances.”

Since then the situation has deteriorated further as the share of the USA in world economy has been declining as well. Add to this the irresponsible use of its privileged position to impose sanctions against Iran, Russia, China and several other countries which are widely considered to be unjust and you realize why there have been several voices in recent times suggesting that the USA has not been using its ‘exorbitant privilege’ in a just and fair way, with the consequence that this can harm the interests of others and lead to increasing financial instability. There has been much concern regarding unjust decisions to seize the assets of other countries or to use these in arbitrary ways.

Our approach should be to resolve the difficult issue before it is too late, i.e. before it results in a very serious crisis, perhaps of the kind Prof. Samuelson warned about in his 2005 interview, perhaps even worse. If there is further irresponsible and arbitrary behavior, then the issue can get out of hand. So we really need to resolve this well in time and in peaceful ways.

A new balance can emerge in which the US dollar shares wide acceptability with some other leading currencies while at the same time some guidelines of responsible behavior of countries who have this privileged position are ensured. Or there are other solutions of truly international currency which can be negotiated to create a just and fair situation. But the world must have the ability to reach these solutions in condition of peace and stability.

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