Cost, Abuse and Danger of the Dollar

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Those who use dollars outside the US continuously pay a contribution to the US. It comes in the form of an inflation of 1.25 million dollars per minute. This is the result of the fast increase of the US foreign debt. Half of all US' imports are simply added to the foreign debt and paid for by the foreign dollar holders through inflation.

Moreover these dollar holders do not seem to realize, that the dollar rate they are looking at, is nothing more than a dangerous façade. If they don't understand what is still keeping it upright, the façade may hit them by surprise.

Meanwhile, well camouflaged, the dollar is at the center of several US' conflicts.

1. World wide demand for dollars

Up to 1971, each US dollar represented a fixed amount of gold. The US disposed of enormous gold reserves, which covered the total value of all issued dollars. When foreign banks had more dollars than they wanted, they could exchange it into gold. That was the main reason why the dollar was accepted world wide.

In 1971 the gold guarantee for the dollar was lifted. In fact, this was an emergency move of president Nixon: the Vietnam war had cost more than the US could afford and more dollars had been printed than the gold reserves allowed. Since then, the value of the dollar is established by the law of offer and demand on the exchange markets.

In the early seventies the US still produced enough oil for its own consumption. To protect its own oil enterprises against foreign competition, oil imports were limited. In exchange for the lift of limitations, the OPEC countries promised they would only accept dollars for their oil. The dollar was the most used currency in the world trade. So nothing special?

Since 1971 everyone who wants to import oil, has to buy dollars first. [1] That is where the fun starts for the US. Almost everybody needs oil, so everybody wants dollars.

Oil buyers from all over the world hand over their yens, crowns, francs and other currencies. They receive greenbacks in return. With those dollars they go and buy oil in the OPEC-countries. The OPEC-countries will spend the money again. Of course, they can do that in the US, but also in all other countries in the world. Everybody wants dollars, for everybody will need oil again.

2. Free shopping

In this oil trade a huge amount of dollars is needed. Many dollars will stay in the permanent money cycle outside the US, that is to say between the OPEC-countries and other countries. The US consumes 25 percent of the world oil production. In 2004 it produced about half of its needs itself. (Tendency quickly deterioating: in 2006 it needed to import 60 percent.)

At the start there were not enough dollars for this. They had to be printed. [2] It cost the US paper and ink. But then the enormous benefit arrives: there is only one way to get those nice new greenbacks out of the country: the US goes shopping abroad. And as these greenbacks remain abroad permanently, the US never delivers something in return. So, these shoppings are for free!

This free shopping did not only occur at the start. As soon as more dollars are needed in the oil trade, by increase in price or volume, that means free shopping for the US.

The same thing happens when the number of dollars in the rest of world trade increases. Globalization, free world trade, world wide privatisations of public services, like gas, water and electricity supply, phone and transportation companies, swallow enormous amounts of dollars. Each minute more dollars disappear in every little corner of the globe. And, in the first place, each time this means free shopping for the US!

Debt

Of course those free shoppings create a debt for the US. For, some day, the foreign countries could use those dollars to purchase things in the US. Then, finally, the US has to deliver “something” in return.

Trade balance

So, to avoid problems, the US should take care, that their purchases and sales stay balanced. After 1971, when more dollars were put into circulation, only in 1973 the US sold more then it bought. Afterwards the situation declined, and each year the US bought more foreign goods they never paid for. [3]

In the year 2004 alone, the shortage on the trade balance was $ 650 billion! [4] On a population of 300 million people this means, that on average, each US-citizen purchased for $ 2,167dollars of foreign goods they did not pay for!

In the same period, there were no improvements on the balance of payments. So the foreign debt of the US raised with $ 650.929.500.000 in one year. This is one and a quarter million dollar per minute!

US’ trade deficits are the biggest with China ($162 billion), Japan ($ 76 billion), Canada ($ 66 billion), Germany ($ 46 billion), Mexico ($ 45 billion), Venezuela ($ 20 billion), South-Korea ($ 20 billion), Ireland ($ 19 billion), Italy ($ 17 billion) and Malaysia ($ 17 billion) [5].

The exchange rate of the dollar

Each country which purchases more than it sells, will see the value of its money diminish. If you can not do a lot with a currency, demand decreases and its exchange value goes down.

But what is true for all other currencies, is not true for the US dollar. As long as the whole world needs dollars to purchase oil, there will always be demand.

US consumes ¼ of world oil production. When the dollar rate climbs, only the price for the other ¾ of oil consumers will get higher. For the US the price stays the same.

When the oil-price climbs, more dollars are needed in the cycle. If oil consumption remains the same, those extra dollars can be printed and added to the cycle without decline of the exchange rate. Since the US imports 1/8 of world oil consumption, 7/8 of the extra dollars are needed outside the US. This means that at each increase of the oil-price, the US finances the increase with new greenbacks and sells 7 times as many new dollars abroad. Free shopping and making debts!

The US disposes of a wide range of tricks to influence the exchange rate. Put more dollars in circulation when the rate goes higher than wanted. Buy back dollars themselves when demand decreases, for instance by issuing bonds.

However, this solution costs money: the interest. All those interests together have reached such high levels, that new loans have to be contracted each time to pay for them. US debts increase faster each time!

3. Bankrupt and still continuing

On www.babylontoday.com/national_debt_clock.htm you can see the current debt and you can see how much it grows each second… 45 % of it is to be paid back to foreign borrowers. The foreign debt is that high, that the US cannot pay back her debt anymore. The US is bankrupt.

Nevertheless dollars are still traded normally. For the purchase of oil and gas they are still needed. And, misled by an apparently healthy exchange rate, the world trade continues to do its transactions in dollars. Business as usual?

According to the usual logic of economics, a lower rate of the dollar should lead to more exports from the US and less imports by the US, as foreign importers can buy cheaper in the US then. However, as long as foreigners are mad enough to accept dollars, the US doesn't find it a problem to issue some more of these green debt bills.

Pay a bit more for Chinese socks and electronics from Japan? No problem. The US just increases the imports and foreign debt a bit harder. Paying more dollars for a product means inflation. And one percent of inflation means that at the same time the value of the tremendous foreign debt decreases with one percent. So the US has no interest at all in putting a break on its imports!

In the oil trade, generally, a lowering dollar rate does have a logical consequence. Oil exporters will not accept a lower return. When the dollar falls with 10 percent, they will raise the oil price 10 percent, so the value remains the same.

If US-dollars are no longer necessary to purchase oil, there is no advantage for the rest of the world trade to use the dollar – only disadvantages. The dollar does not represent any weight in gold anymore and the enormous debt will lead to the logical disastrous consequences. The dollar would collapse.

And when foreigners don’t accept dollars anymore, the US cannot print dollars to shop on the expense of the rest of the world. US could not pay its expensive army. It would loose its influence.

Vanishing of the debt

The collapse of the dollar will have a miraculous side effect for the US. When dollars are worth nothing, the foreign debt will have disappeared too. This debt is composed by dollars abroad. In the extreme case they will become as worthy as old paper. Unfortunately, the collapse will also be accompanied by the collapse of banks, enterprises and international organizations, which have coupled their destiny to the dollar.

4. Dollar reserves Japan and China

An important group of dollar purchasers is formed by the central bankers in various countries. Central banks keep strategic reserves. These are reserves with which they can buy back their own currency, if large quantities of it are offered on the exchange markets. This way, they prevent that the rate of their own currency would drop.

These reserves are preferably held in the best accepted currency in the world, so up to now in dollars. However, in China and Japan, but also in Taiwan, South-Korea and other countries, these dollar reserves have grown way above the necessary strategic quantity. [6]

This is not because central banks like to hoard US-dollars that much. On the contrary. Those countries export a lot and that is why dollars flow in massively. They have to be exchanged into local money to pay the workers and raw materials. The strong demand for local money would normally raise its rate, and then the products would become more expensive for foreigners. So, in order not to endanger the country’s export position, the local central banks try to keep the rate of their money stable. They do so by buying the inflowing dollars.

For these countries this is a big problem, because for all these hoarded dollars the central banks issue local money. So, in fact, the workers receive inflation of local money as payment for their exported products. [7]

Over time they have exported many months of work and material for nothing. At the central banks these dollars do not make much profit. They can be exchanged into obligations and US-bonds and offer a bit of interest. But even this interest cannot really be called an earning. The US simply pays the interest out of an spiralling increase of the foreign debt, so, from the inflation of the dollar.

Meanwhile the value of the hoarded dollars is subject to the variations in the dollar rate. On top of that, the risk of a dollar collapse is never far away. The Asian central banks are trapped between the necessity to lower their dollar reserves, the need to buy dollars to keep their local currency stable and eventually to buy dollars when its rate is in danger to fall on the global currency markets.

Meanwhile the US lets its foreign debt increase faster and faster. How long can this go on?

At the same time experts of the Asian Development Bank think, that the rate of the dollar should decrease by 30 to 40 percent! [8] With such a decrease there is a big risk, that banks and enterprises want to get rid of their dollars as quick as possible and central banks will no longer be willing, or able, to avoid the total collapse. Who sells his dollars first is lucky, who waits has just bad luck.

5. Camouflaged conflicts

To keep the permanent demand for dollars going, oil sales must remain in dollars. That is why the US tries to keep as much influence as possible, as well on the US owned IPE and NYMEX world oil markets, as with the people in power in oil exporting countries. By doing so the US secures its oil supply at the same time. Beyond that, lucrative contracts can be obtained from the local governments, and with these contracts a maximum of benefits can be seized from the oil production.

Fear always wins over reason

But when the local governments do not want to sell their oil in dollars anymore, the US has a problem. Then, the US-president will not explain how dependent the US is on the dollar demand. The conflict is always camouflaged. And to do so, always an emotional theme is chosen. In times gone by this was the danger of communists, today it is the danger of terrorists, fundamentalists and other popular bogies, like "the enemy has weapons of mass destruction" or "the enemy tries to make nukes."

The fact that there is, rationally, not a single proof for such allegations, does not matter. The emotions always win. Even the fact, that these accusations could be turned around and then can be proved, is noticed by hardly anyone. There was no proof Iraq had weapons of mass destruction, but the US, the accuser, has weapons of mass destruction and has used them. There is no proof Iran has intentions for nukes, but the US, the accuser, has nukes and has used them, and, afterwards, repeatedly threatened to use them again.

But once again, at the moment accusations are loaded with emotions, humans switch off their intelligence. Then, reason is no argument for peace anymore. The theatre is only about the launched accusations. And because, as a result, only specialists of weapons of mass destruction or nukes are called upon to give their opinion, nearly nobody finds out what the conflict is really about.

Venezuela

In Venezuela, since many years, the US tries to pull down president Chavez, pretexting he is a dangerous communist. Chavez has nationalized the oil industry and has set up Barter-deals to export Venezuelan oil in exchange for medical care from Cuba and others. In Barter deals there is no necessity for dollars and the US has no profit from the oil trade.

Iraq

Until 1990 the US maintained lucrative commercial contacts with Saddam Hussein. He was a good ally. For instance, in 1980 he had tried to free the hostages at the US-embassy in Teheran.

But in 1989 Saddam accused Kuwait of flooding the oil market and making the oil price go down. The following year Saddam tried to annex Kuwait. It led to an immediate turn around of the attitude of the US. With the annexation Saddam would dispose of 20 percent of world oil reserves. The Iraqis were chased out of Kuwait by the US, with an alliance of 134 countries, and condemned to water and bread by a UN-embargo that lasted ten years.

Although the US sought a way to re-establish its influence in Iraq, Saddam's switch to the Euro on November 6, 2000 [9], would lead to the US invasion. The dollar sank away and in July 2002 the situation got that serious, that the IMF warned that the dollar might collapse. [10] A few days later the plans for an attack were discussed at Downing Street. [11] One month later Cheney proclaimed it was sure now, that Iraq had weapons of mass destruction. [12] With this pretext the US invaded Iraq on March 19, 2003. The US switched back the oil trade into dollars on June 5, 2003. [13]

There is a huge difference between trading Iraqi oil in euros and trading it in dollars. This will be explained below. (See: "How do you steal oil reserves?")

Iran

The US is in conflict with Iran, since it was thrown out of the country in 1979. According to the US, Iran is a dangerous country of fundamentalists.

The geographical position of Iran, between the Caspian Sea and the Indian Ocean, complicates US ambitions to control the rich reserves of oil and gas on the East side of the Caspian Sea. To transport this oil and gas to world markets without crossing neither Russia, nor Iran, pipelines had to be built through Afghanistan. Plans were made in the early nineties, but the pipelines are still not there.

Meanwhile the US tries to frustrate all competing projects of other countries.

Of course, this led to multiple conflicts of interest with Iran. George W. Bush would pretext the presence of Osama bin Laden to start a war against Afghanistan. [14]

In 1999 Iran publicly stated it wanted to accept euros for its oil as well. Iran sells 30 % of its oil production to Europe, the rest mainly to India an China and not a drip to the US, as a result of an embargo established by the US itself. In spite of Bush' threatening tale, mentioning the country in his famous "axis of evil", Iran started to sell its oil in euros from spring 2003.

After that, Iran wanted to establish its own oil-bourse, independent from the IPE and NYMEX. It would start on 20 March 2006. Considering the very weak health of the dollar at that time, a success of this bourse could have led to a catastrophe for the dollar and thus for he US. That is why tensions were very high at the beginning of 2006. [15]

Finally the opening of the oil-bourse was postponed. After that Putin established an oil bourse in Russia as quickly as possible, which took away the interest of the Iranian oil bourse. [16] [17] [18]

The US accuses Iran of wanting to make nukes. Because the US has not sufficient influence to switch back the oil trade into dollars, it probably hopes that the Iranian nuclear sites will be bombed once again [19], so Iran would have to consume its oil instead of selling it in euros.

Moreover, a masterly plan has been conceived to take possession of the world market for nuclear fuel, in concert with a few other countries and using Iran as the pretext and the test case. With this plan the demand for dollars would be secured for a long time, even after the oil age. [20]

Russia

Since 8 June 2006 Russia too has turned its back to the dollar. [18] By selling the dollar surpluses to central banks, Putin took care that it had no influence on the dollar rate. However, the basis for the world wide dollar demand has decreased a lot. The US needs Russia for its plans to take possession of the world market for nuclear fuel, so a revenge by the US is unlikely.

6. How do you steal oil reserves?

There is still another aspect to the abuse of the dollar. During the demonstrations against the US-invasion of Iraq, a lot of demonstrators understood it was not about weapons of mass destruction. Iraq has world's second largest oil reserves. Some demonstrators thought, the US was after the oil. And that is also true. But how can you steal oil reserves, which are in the ground and so huge you cannot take them with you?

You do it with currencies. By imposing, that this oil can only be traded in dollars, in one move the US becomes owner of this oil. The US is the only country, which has the right to print dollars and thus can dispose of the oil any time. Other countries that want to buy this oil, have to buy dollars first. In fact they pay their oil to the US at that moment. The dollars they receive are rights to collect a quantity of oil. (Just like when you go to Ikea to buy furniture, you pay first and you receive a note, with which you can collect your furniture at the shop's back door.) So, basically, dollars are rights to collect oil. And because everybody needs oil, everybody wants these green notes.

So, Saddam's switch to the Euro at the start of November 2000 was not just an attack on the rate of the dollar. The switch implied at the same time the US could not dispose freely of the oil anymore. The US would have to buy euros to dispose of it.

Since switching back the dollar on 5 June 2003 [21], the US has, financially, free disposal of the Iraqi oil again. Now it is a matter of installing a strawman-government and to prevent the Iraqi oil trade from switching away from the dollar once again. That is easy to say, but turns out to be more difficult than expected.

Dollar economy

The dollar economy is not limited to the US. Oil reserves traded in dollars belong to it too. Also enterprises, banks and investments, anywhere in the world, belong to it when paid with dollars. They are like small islands of the dollar economy. Benefits and dividends are flowing back to the owners. The value of the investments is influenced by the rate of the dollar. Oil sellers, receiving their proceeds in dollars, are actors in the dollar-economy and usually behave like perfect representatives of the US' interests. They consider this as their own interest.

7. Euro versus dollar

Since January 1993 the Euro is quoted. In July 2005 the rate is identical to what it was at its introduction: $ 1.22. The new currency has experienced quite some fluctuations during its short life. From the end of 1998 the Euro slides away, until the moment Saddam Hussein switches to the Euro in November 2000. Although the US switched the oil trade back into dollars in June 2003, the Euro continued its rise. Since spring 2003 Iran had started to sell oil in euros.

The Euro has become a small world currency. Between July 2004 and July 2005 the part of the dollar in world trade went down from 70 percent to 64 percent. A bit less then half of these 64 percent is related to US foreign trade. If the Euro wants to become as mighty as the dollar, it has still a long way to go.

In principle, the Euro contains the same risks as the dollar. As long as there would be a motor for a permanent demand for euros like, for instance, oil sales in euros, the Euro zone could make debts and let it increase indefinitely.

To avoid such debts, the Euro zone would have to export the equivalent of all euros needed outside its borders and keep the same amount in foreign currencies in their central bank. Why would they? The credit trick worked fine for the US during more than 30 years!

When oil producing countries would sell oil in two or three different currencies, like it has been considered in the past, this simply means that the three involved countries can do the same trick as the US does now. In the long run it would multiply the problem by three.

The only solution for this problem would be that oil selling countries accept all currencies on the market. Tehran has already taken into consideration to accept more than one currency and not just the Euro. Step by step.

8. Green cancer cells

Because the US let its “foreign debt” increase indefinitely and even uses military power to keep the related advantages going, we cannot speak of a normal foreign debt, like we know it in trade relations among other countries of the world. What the US does is robbery. You can also call it swindle or an imperial tax imposed on the users of dollars. But there is more.

Each dollar bill is an IOU of the US, a promise to give something in return. Due to the gigantic quantities the US has put into circulation, the country is not able to redeem these debts. It is bankrupt. Only the rate of the dollar keeps up the appearance, that nothing is afoot. The obligation to pay gas and oil in dollars keeps a permanent demand going.

However, the rate is held in shape artificially, like by the hoarding of the central banks in China, Japan, Taiwan and other countries. Because these hoardings mean an impoverishment of these countries and because the US speeds up the debt building indefinitely, there will be a moment that these central banks have to stop hoarding dollars. So the question is not IF the dollar collapses, but WHEN.

Because traders are misled by the apparently healthy dollar rate, many still accept these IOU’s, which nestle like green cancer cells in all economies of the world. The result is ineluctable. All infected banks, enterprises and economies will be dragged along the day the demand for dollars sags and the US-imperium collapses.

Notes

[1] Except oil imports from Iraq between November 6th 2000 and June 5th 2003, from Iran

since spring 2003 and from Russia since June 8, 2006

[2] “Printing dollars” is a way of speaking. Most dollars only exist as numbers on bank accounts.

[3] Trade balances 1960- 2002 http://www.census.gov/foreign-trade/statistics/historical/gands.txt

[4] Trade deficit 2004: http://www.census.gov/compendia/statab/tables/07s1283.xls

[5] Countries 2004: http://www.census.gov/foreign-trade/Press-Release/2004pr/final_revisions/04final.pdf

NOTE: huge differences between US’ and Chinese data for US’ imports! http://www.bis.org/publ/work217.pdf (page 9)

[6] Washington Post: http://www.washingtonpost.com/wpdyn/content/article/2005/11/18/AR2005111802635.html

[7] Epoch Times: http://en.epochtimes.com/news/6-11-7/47852.html

[8] Int. Herald Tribune: http://www.iht.com/articles/2006/12/07/business/adb.php

[9] Iraqi oil in euros: http://www.un.org/Depts/oip/background/oilexports.html

[10] IMF warning over dollar collapse: http://news.bbc.co.uk/1/hi/business/2097064.stm

[11] Downing Street Memo: http://www.timesonline.co.uk/tol/news/uk/article387374.ece

[12] Cheney: http://english.aljazeera.net/News/archive/archive?ArchiveId=2480

[13] How can the dollar collapse in Iran? http://www.moneyfiles.org/deruiter01.html (See Iraq)

[14] Pipelines to 9/11: http://www.courtfool.info/fr_Pipelines vers le 11 septembre.htm

[15] How can the dollar collapse in Iran? http://www.moneyfiles.org/deruiter01.html

[16] RTS announcement: http://en.rian.ru/russia/20060510/47915635.html

[17] RTS speeding up: http://www.themoscowtimes.com/stories/2006/05/16/041.html

[18] RTS opening: http://en.rian.ru/russia/20060522/48434383.html

[19] ElBaradei: http://www.tv5.org/TV5Site/info/afp_article.php?rub=une&idArticle=070220142845.f39qywzj.xml

[20] Raid on Nuclear Fuel Market: http://www.courtfool.info/en_Raid on Nuclear Fuel Market.htm

[21] Financial Times, 5 June 2003

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