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Destroying Iran's Economy. Fighting dollarization

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In-depth Report: IRAN: THE NEXT WAR?

*The West's attempts to destroy the Iranian economy through heightened sanctions—including most imports, oil exports and use of banks for trade operations—is having its affect. According to Johns Hopkins University Professor Steve Hanke, Iran is facing hyperinflation, with a monthly inflation rate of nearly 70% per month and its national currency, the rial, plummeting in value against western currencies. Iran is the latest casualty to be placed on his Hanke-Krus Hyperinflation Index, which includes France (1795), Germany (1922), Chile (1973), Nicaragua (1986), Argentina (1990), Russia (1992), Ecuador (1999) and Zimbabwe (2007), countries which experienced price-level increases of at least 50% per month.*Hanke, relishing his role as the world's expert on this nightmarish phenomenon, has "played a significant role in stopping more hyperinflations than any living economist, including 10 of the 57 episodes" on his Index. He writes that Iran has three options: spontaneous dollarization (people unloading rials on the blackmarket for dollars, as happened in Zimbabwe), official dollarization (the government withdrawing the currency in favor of dollars, as in Ecuador), or a currency board issuing a new domestic currency backed 100% by—you guessed it—dollars. Hanke insists that the foreign currency doesn't have to be US dollars. Pitcairn Island, for instance, uses New Zealand dollars.

The inflation doctor admits vaguely that there are "foreign factors", without a hint of criticism of not only the sanctions, but the active subversion of Iran through everything from support of Iranian terrorists, assassinations of leading scientists, right up to war (the US encouraged Iraq to invade Iran in 1980). He emphasizes "Iran's complex system of subsidies, capital controls, and multiple exchange rates", but most of all "massive overprinting of money", though he complains that "the Central Bank of The Islamic Republic of Iran has not reported any such statistics for some time". As if a country living through a state of emergency is likely to divulge such sensitive information.

He coolly dismisses consumers' expectations influencing prices, since "fear surrounding military tensions is nothing new for Iranians". Indeed, the US has been targeting Iran for destruction ever since it threw off its colonial chains in 1979—a dangerous example for other, especially Muslim countries. It is miraculous that Iran has done so well economically since the revolution, given the unremitting victimization it has experienced. One can only marvel at the stubborn courage it has shown to build an Islamic society in the teeth of opposition by the world empire and even by other Muslim nations allied to the empire.

We indeed may ask why Iran's inflation rate has jumped so dramatically precisely in recent times. Of course, it is because of the sanctions. And why the sanctions? Is it really fears that Iran will develop a nuclear bomb, despite professions to the contrary and membership in the IAEA? No. Besides Iran's role in inspiring the current 'Islamic Reawakening' in the Middle East, there is another very important reason, one which flies in the face of Hanke's 'three options' for Iran.

Those ‘options’ all amount to one: accept US-dollar dictatorship. Iran has been trying to trade oil in non-US dollar currencies since 2008, when it opened its Oil Bourse. Iraq did this in 2000, and the US reaction was invasion—dollarization at gunpoint. The point of the sanctions today is a last-ditch attempt by the US to force Iran to comply with the US world order, as epitomized by continued acceptance of the US dollar as the world’s reserve currency.

Hanke insists it is not necessary for Iran to use US dollars as its substitute currency, which in any case would be ridiculous under the circumstances. However, the alternative of using, say, New Zealand dollars finesses the reality that all currencies are tied to the US dollar, as the de facto international reserve currency. This has been the case in reality since the 1930s, when the world abandoned the gold standard. Acknolwedging this fact, over 20 countries call their legal tender ‘dollars’.

Whether the government moves quickly to raise the white flag, as in Ecuador, or belatedly, as in Zimbabwe, or insists on printing pretty new paper scrip tied 100% to the US dollar through an exchange board, as did Argentina, merely confirms the obvious. In past cases, such as Chile, Nicaragua and Zimbabwe, the message was: your socialist policies are unacceptable. In Iran’s case, the message is: take dollars for your oil.

Hanke’s monetarist credo—printing money causes inflation—ignores the underlying causes of inflation. As he admits, Iranians have faced war fears for over three decades. The exchange controls and subsidies, “government monopolies, price controls, and Soviet-style economic planning”, which Hanke calls “wrong-headed”, are not the cause of inflation, but a way for the government to keep it under control. However, at a certain point, the “foreign factors” become so egregious that even such measures fail. That is what has happened now, as sanctions have created extreme pain for the average Iranian. Bare shelves and panic in the face of invasion threats means that the currency will devalue, however many rials the government prints.

This is what happened in Germany in 1922, when it was forced to export everything to buy the gold to pay the extortionate reparations. It ended by resorting to Hanke’s currency board and marks issued against gold, but the underlying cause—the extortion practiced by Britain and France—only ended when Hitler took power and canceled the reparations. The devastation cause by “foreign factors” led in that instance to the rise of fascism.

University of Missouri Professor Michael Hudson maintains that “every hyperinflation in history stems from the foreign exchange markets. It stems from governments trying to throw enough of their currency on the market to pay their foreign debts.” Canadian commentator Stephen Gowans calls it “warfare by other means”. Devaluing the enemy’s currency was used as a war tactic by Napoleon against the Russians and by the British against the American colonists.

A consideration of all the countries on Hanke’s Hyperinflation Index can trace similar real causes and real ways to end the underlying problem that led to hyperinflation in each case. Ecuador finally took control of its economy and reduced its foreign debt in defiance of the IMF under President Rafael Correa, and is today the most popular political leader in all of the Americas. That is what created political stability and ended the ever-present threat of inflation there. The same goes for Argentina under President Nestor Kirschner and Russia under President Vladimir Putin.

Hanke is like the doctor telling the patient who was shot that he must have his leg amputated immediately. He refuses to condemn the sanctions as a violation of human rights, targeting the Iranian people without cause. He wants to cut off the patient's leg to save him, which he can do in a matter of hours. The Iranian government is trying to remove the bullet and use a strict regime of rehabilitation, something that requires patience and grit. There is no magic cure to solve inflation under these circumstances.

The possibility looms that the US will undertake yet another criminal invasion of a Muslim country, recapitulating its war crimes in Afghanistan and Iraq. The real analogy for Iran is wartime. During war, all countries ration scarce goods, and people unite and accept sacrifice in the face of the enemy. This is the only solution for Iran today unless it agrees to join the US-dollar denominated empire as a junior member. Hanke's patient could well die under the 'anesthesia' of US-Israeli bombs, but the Iranian people are proud and will fight for their dignity till their dying breath. The worries about hyperinflation will then pale in comparison to the real "foreign factors", and the US will face the revenge of history for its criminal actions.

Most countries are too afraid of the US wolf to stand up to it. There are exceptions. China, Russia, India and South Korea have not abandoned 'the patient'. Egypt is establishing diplomatic and economic relations with Iran in defiance of the US. Hopefully other 'Arab Spring' countries will join Iran in pursuing a policy of justice for the Middle East, working together to undo the horrendous legacy of US imperialism in the region. Someday, 'dollarization' will be a shibboleth, consigned to the 'ash heap of history'.

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