

## **THE FEDERAL RESERVE SYSTEM AND THE MILITARIZATION OF THE AMERICAN FOREIGN POLITICS (WAR ON IRAQ)**

**FANIT Izzeddine**  
Abu Bakr Belkaid University  
Tlemcen, ALGERIA

**SENOUCI Faiza**  
Abu Bakr Belkaid University  
Tlemcen, ALGERIA

### **ABSTRACT**

The presence of different rationales behind the conquest of Iraq varying from political, like Saddam and Al-Qaida link allegations, to economic, like Iraq's oil reserves, and from official, pronounced by the American government, to non-official, claimed by different analysts, made the one impotent to answer a simple question like why Iraq was invaded. The Aftermaths of the invasion, on Iraq and on the region in general, are beyond measure when seeing the series of incidents that have been taking place not only inside Iraq but also inside the Arab world. In addition to the rise of many extreme Islamic organizations like the Islamic State of Iraq and Levant (ISIL or ISIS if Levant is replaced by the Arabic synonym Sham) made this research a requisite to better understand the American militarized foreign politics in Mesopotamia. To this regard, it is crucially important to unravel the rationale behind the invasion of a country that was sanctioned for more than a decade starting in 1990, and was globally considered inept to pose any menace, neither to its neighbors nor to the region of the Middle East. This paper discusses the correlation between the Federal Reserve's dollar hegemony and the militarization of the American foreign politics by examining the genuineness of four alleged rationales to invade Iraq using an exploratory approach that depends on the method of reviewing the available literature. The research examined the statements of Weapons of Mass Destruction (WMD), Saddam and Al-Qaida links, Iraq oil reserves and the statement of the dollar hegemony. The outcome of this research shows the validity of the hypothesis that we advanced in the sense that it confirms the tight links between the Federal Reserve's dollar hegemony and the invasion of Iraq.

**Keywords:** The Federal Reserve System, Dollar Hegemony, War on Iraq, the Militarization of American Foreign Politics.

### **INTRODUCTION**

The war on Iraq was one of the most enigmatic military interventions that the United States waged on a foreign nation and which still attracts noteworthy debates struggling to clear away its obscurities. Controversies over the real rationale behind the war sparked worldwide rifting the arguments into pros and cons. The American alleged objective behind the invasion of Iraq was to protect the American homeland security after 9/11 by rescinding the Iraqi nuclear/biological power plants and by toppling the authoritarian regime of Saddam Hussein. However, some analysts, like Antonia Juhasz, believed that the invasion of Iraq had a strong connection with maintaining the American central bank's dollar hegemony in the oil's international market. In 2000, Saddam Hussein challenged the dollar hegemony and decided to price the Iraqi oil with the euro currency. This was a challenging act to the dollar hegemony and even a threat to the American economy (Sohan Sharma, 2004).

This paper sets out to investigate the different official and non-official claims regarding the invasion of Iraq. The official claims of WMD and Saddam to Al-Qaida links in addition to the non-official hypotheses of oil reserves and the Federal Reserve's dollar hegemony will be all examined separately in an attempt to discover links between these alleged reasons and the invasion of the country. The paper's essential objective is then to answer the question of why Iraq was invaded with a focus on the Federal Reserve's dollar hegemony as the true rationale behind the militarization of the American foreign politics in Iraq.

## LITERATURE REVIEW

Scholars' conceptions vis-a-vis the war on Iraq varied depending on their academic affiliation. Experts of different fields did not agree on the same rationale behind the war. A trend adopted a moral view asserting that the war on Iraq was an attempt to oust Saddam Hussein who represented a menace not only to the security of the U.S but also to the security of the Middle East. This trend justified the American military intervention in Iraq by arguing that Iraq was developing nuclear capabilities and bridging links to Al-Qaida, which would threaten the safety of the American interests in the region. Another trend, however, viewed the war from another different angle. Advocates of this trend believed that the war was an attempt by Washington D.C to put their hands on the second oil reserves in the world during 2003. Another trend was more precise and analyzed the war by macroeconomic and geostrategic dimensions. Proponents of this trend tried to relate the Federal Reserve System and its policies, regarding the dollar hegemony, to oil reserves in Iraq.

The best example to illustrate the first trend is the work of James Turner Johnson, *The War to Oust Saddam Hussein*, in which he explains the threat that Saddam Hussein posed to America. Johnson's investigation relates the military intervention in Iraq to the war between the West in general and radical Islam (Islamic terrorism). "*The attacks on America of September 11, 2001, forced Americans to confront the contemporary phenomenon of terrorism as never before and also to face with some urgency an uncomfortable question: Is America, and more broadly the Western culture as a whole, involved in a clash of civilizations with the world of Islam?*"(3). Johnson examined the principles of Jihadist (Al-Qaida) and provided a detailed moral investigation of the debates in the run-up to the war on Iraq. Another work that illustrates the same trend is the one presented by two American leading foreign policy thinkers in 2003 entitled *The War Over Iraq: Saddam's Tyranny and America's Mission*. In this labor, Lawrence F. Kaplan and William Kristol examined the rationale for the invasion of Iraq by linking it to the genocides against some Iraqi minorities. Moreover, they thoroughly explained the Bush's strategy to topple the regime of Saddam Hussein and eliminate the danger he posed to America. Unlike Johnson's work, Kaplan and Kristol went beyond the issue of WMD and outlined the role that the U.S should play in the world affairs after a decade of indifference towards the threat posed by Saddam. The authors laid out a comprehensive account for the strategy of "preemptive strike" to direct Bush in his military intervention.

An article on the Guardian best illustrates the second trend of literature pertinent to the invasion of Iraq. Nafeez Ahmed stressed that *the War on Iraq was only partly, however, about big oil conglomerates (2014)*. Nafeez, the executive director of the Institute for Policy Research and Development, believed that the Americans sought to turn, after invading the country, the Iraqi oil production to the private sector allowing the foreign oil companies to takeover. The author depended on a wide range of reliable sources like officials' speeches and reports, series of news reports and many other academic papers. His final assumption was

that the military strike against Iraq had the ultimate aim “to mobilize Iraqi oil production to sustain global oil flows and moderate global oil prices” (2014). The second example that outfits this trend of literature is Greg Muttitt’s *Fuel ON Fire: Oil and Politics in Occupied Iraq*. The author’s contribution was a groundbreaking investigation of the theory that placed oil interests at the very heart of the war against Iraq. The author managed to put his hands on hundreds of classified government documents and succeeded to have interviews with chief officials from Iraq, America and Britain. Accordingly, Greg was able to infer the plans and strategies that were laid out to shape the inclusive policies that went to the favor of the energy interests of America.

The last trend of literature is close in argumentation to the previous one but with more innovative method of examination. Believers of this propensity tried to set forth a connection between the invasion of Iraq and the dollar currency that is issued by the Federal Reserve System of the U.S. Their approach is based on the argument that Saddam Hussein was planning to sell his oil in euro currency instead of U.S dollar, which would eventually devalue tremendously the American greenbacks. The best work to exemplify this trend is the outstanding research done by William Clark. His *Petrodollar Warfare, Oil, Iraq and the Future of the Dollar* explained thoroughly the relationship between the invasion of the country, oil, dollar and euro. Clark asserted that the war on Iraq was the first currency war and was far from the alleged WMD. He argued that the invasion of the Middle Eastern country was hastened by two incentives: the imminent rise in global oil production and the introduction of euro currency as a new world exchange currency. Another protuberant work published by Hazel Henderson on the *Globalist* magazine in 2003 in which she outlined the possible repercussions on the dollar currency if Iraq were to price its oil in euro. Henderson concluded that private investors were to pull out of America and other countries would shift to buying euro instead of the devaluating dollar. Moreover, and more dangerously, the Organization of the Petroleum Exporting Countries (OPEC) [would] *decide to officially redenominate their oil in euros (since most of the organization's customers are in Europe anyway)* (2003).

## METHODOLOGY

The present paper has opted for an exploratory research methodology. The latter is deemed useful to investigate the rationale behind the invasion of Iraq because the subject had been widely explored but not well defined. With the existence of a wide array of literature around the issue, the exploratory method becomes very helpful especially when it comes to making connections between two variables, namely; The Federal Reserve System and the invasion of Iraq.

With this objective in view, we have undertaken a process of reviewing the literature that is relevant to the four alleged rationales behind the war on Iraq. We then analyzed the military action by relying on a variety of primary studies and sources; like governmental announcements, briefings, interviews, news reports and articles and on secondary studies, which were conducted by experts in the fields of politics and economics such as books and scientific articles. Finally, we investigated the genuineness of the four alleged rationales by evaluating their potential correlation with the invasion of Iraq to comprehend if they comply with and/or contradict facts on the ground, or official documents and speeches.

## RESULTS

The investigation of the available literature found that the official justification claimed by Bush and his cabinet after 9/11 attacks to topple the regime of Saddam Hussein was inconsistent to many officials' announcements that were articulated before 9/11 attacks and after the invasion of Iraq. Additionally, the study established that the non-official statement of oil as a potential rationale behind the war was inharmonious to some facts reported by some researches. However, this research instituted that the other non-official justification that relates the dollar hegemony to the invasion of Iraq, was more convincing as a rationale to explain the invasion of Iraq due to its correlation with facts on the ground. The research relied on a set of varied primary resources like officials' speeches, interviews, briefings and transcripts from one side and on secondary resources like media coverage, books, and articles from the other side. This section will display the results regarding the different official and non-official alleged rationales of the war separately and following their line of articulation chronologically.

First, the rationale regarding WMD before 9/11 attacks found the following official announcements. In a press conference in Egypt six months before 9/11 attacks, Colin Powel, the secretary of state of the Bush's administration, affirmed that “[Saddam] has not developed any significant capability with respect to weapons of mass destruction. He is unable to project conventional power against his neighbors. So in effect, our policies have strengthened the security of the neighbors of Iraq” (White, 2010, p. 67). Colin Powel was not the only official to confirm that Iraq did not develop any plans for WMD, Condoleezza Rice, The National Security Advisor (2001-05) and Secretary of State (2005-09), said in a television interview in July 2001: “We are able to keep his arms from him. His military forces have not been rebuilt.” (Pilger, 2003).

Second, the rationale regarding WMD after the conquest of the country found the following official results. When the U.S entered Iraq and smashed the Iraqi army, many voices inside the U.S, and worldwide started asking Washington about its theory of WMD. The questions remained unanswered until the Senate Select Committee on Intelligence (2004 and 2006), the 9/11 Commission, and the multinational Iraq Survey Group, “[...]concluded that Saddam Hussein had terminated Iraq's nuclear program in 1991 and made little effort to restart it” (Reading-Smith, 2008).

Third, concerning the official alleged rationale regarding Saddam and Al-Qaida link allegations, the research found the following results. George Tenet, a U.S former CIA director, said that the administration of Bush “could never verify that there was any Iraqi authority, direction and control, complicity with al-Qaida for 9/11 or any operational act against America...” (Cole, 2007). On a radio interview with Tony Snow, the White House press secretary in 2007, and in a response to Tenet's charges of the Bush's administration, the press secretary asserted that Bush “[...]made it clear before the State of the Union in 2002 that there was no link between Saddam Hussein and September 11” (Grieve, 2007).

After reviewing the literature about oil as the foremost motive to invade Iraq, the research found facts on the ground that contradict this claim. After the invasion of Iraq, the American oil companies did not feature as the top winners in the first post-invasion oil concessions in 2009. In a valuable study conducted by Muhammad Idrees Ahmad entitled *The Road to Iraq:*

*The Making of a Neoconservative War*, in which he tried to answer the question why did the U.S invade Iraq, Ahmed asserted that Iraq was not invaded for oil (Postel, 2015). He put forward that the big winners of the first oil concession in Iraq after the invasion were Norway, France, China and Russia and out of 11 contracts, only one went to the American Exxon Mobil oil company (Postel, 2015). Ahmed continued to argue that the Middle East energy resources have always been vigorous to the U.S interests but on “*no other occasion has the US had to occupy a country to secure them*” (Postel, 2015).

Finally yet importantly, the research found convincing strong results about dollar hegemony as a rationale to take military action against Iraq. The Federal Reserve System shipped billions of dollars in physical cash to Iraq at the early beginning of the war; a shipment that was described by CNBC as “*the largest airborne transfer of currency in the history of the world*” (Javers, 2011). CNBC reported in October 2001 that the trail of documents mysteriously lost trace of the money transfer (Javers, 2011). Details of the money shipped to Baghdad have surfaced in a communication prepared for the meeting of the House committee on budget oversight, which was studying the reconstruction process of Iraq. The chairperson of the committee, Henry Waxman, said that “*The numbers [of physical money] are so large that it doesn't seem possible that they're true. Who in their right mind would send 363 tonnes of cash into a war zone?*” (Pallister, 2007).

## DISCUSSION

The results obtained from the present research divulges the true rationale behind the American military action against Iraq. The review of the available literature made it evident that the use of Saddam Hussein and Al-Qaida link allegations, which were pronounced by American officials claiming the existing of a clandestine rapport between Saddam Hussein and the radical Muslim organization installed in Afghanistan, to justify the war is preposterous. Moreover, it is now beyond dispute that Iraq did not possess any kind of Nuclear/ Biological weapons and it becomes clear that all the allegations about WMD, which were revealed by Bush and other highly ranked officials in the run-up to the war against Iraq, were untrue.

Moreover, the exploration of the existing literature corroborates those previously achieved by other experts on the connection between the Federal Reserve System and the invasion of Iraq like the work done by W. Clarck in his book: *The Petrodollar Warfare: Oil, Iraq and the Future of the Dollar*. The nature of the American Federal Reserve System as a financial private institution, issuing money at interests, justifies its link to the militarization of the foreign politics towards Iraq. Knowing that Central banks of these times are financial institutions that run the monetary policies of their respective countries through maintaining their value internally and externally, makes it clear why the American Federal Reserve (the American Central bank) was interested in toppling the regime of Saddam Hussein.

To better understand the correlation between the petrodollar system and the invasion of Iraq, we need to understand the Bretton Woods System. The Bretton Woods System emerged at the end of the Second World War as a result to the Bretton Woods international conference on establishing the rules of international commercial transactions. The system instituted the American dollar as the world reserve currency and made it redeemable for gold at a consistent rate of \$35 for ounce if other countries pegged their national currencies to the dollar

(Ghizoni, Establishment of the Bretton Woods System, 2013). This System allowed the U.S to collect 80% of world reserves of gold (Sohan Sharma, 2004) which meant that the Federal Reserve System got the greenlight to increasingly print dollars as long as the demand for it is increasing. At the late of the 1960's and the beginning of 1970's, when nations like France and Germany began demanding gold in exchange for their dollars, Nixon's administration started seriously reconsidering to replace the dollar-backed gold standard by a stronger mechanism in order to keep the increasing demand for the dollar (Robinson, 2012). According to John Perkins the author of *Confessions of an Economic Hit Man: The Shocking Story of How America Really Took Over the World*, the strategy that was advanced by the Nixon's administration was the so-called the petrodollar system.

Both the U.S president Richard Nixon and his Secretary of State, Henry Kissinger, understood that the demolition of the global gold standard under the Bretton Woods arrangement would lead to a deterioration in the global demand of the U.S. dollar. Accordingly, President Nixon ended the convertibility of the U.S dollar into gold in order to save the gold reserves left in the Federal Reserve's vaults (Ghizoni, Nixon Ends Convertibility of US Dollars to Gold and Announces Wage/Price Controls, 2013). Nixon succeeded to reach an agreement with the Saudis in which America accepted to offer them military aid and protection, in return the Kingdom of Saudi Arabia accepted to price its oil sales in U.S dollar only. By 1975, the U.S succeeded to convince all OPEC members to follow the steps of Saudi Arabia and price their oil sales in U.S dollar only. Nixon and Kissinger successfully paved a sounder way for the U.S dollar to move from a gold-backed currency to an oil-backed currency and made it the lingua franca of the international oil markets.

As we know now, Oil can only be purchased from OPEC by dollars. Thus, non-producing oil countries must sell their goods in dollars in order to be able to purchase oil. If these countries are not able to provide dollars, they must borrow dollars from World Bank or International Monetary Fund which to be paid back at interests. This economic fact makes the dollar at a great demand in world trade, which allows the U.S. to act as the world's central bank, printing currency acceptable everywhere. Any measure that will shake the current dollar-hegemony de-facto will certainly lead to atrocious consequences on the American economy. If euro were to replace dollar in the trade of oil in the international markets, foreign nations would switch their currency reserves to euro in order to be able to purchase oil from OPEC. Therefore, the Federal Reserve System would never be able to print money and lend it at interests.

After November 2000, Iraq became the first country in the world to sell its oil for euros, in challenging of the post-World War II standard, which set U.S dollar as the currency of international trade. After Iraq, OPEC was considering the proposal of Javad Yarjani, head market analyst for the organization, to using the euro currency as an alternative to dollar in trading its oil (Clark, 2003). Simultaneously, The European Union was seeking to control the international markets by discarding greenbacks from circulation and making the euro as the world reserve currency. On this basis, "*Attacking Iraq and installing a client regime in Baghdad may have a preventative effect. It will certainly ensure that Iraq returns to using dollars and provide a violent example to any other nation in the region contemplating a migration to the euro*" (Butler, 2003).

## CONCLUSION

With the existence of an overwhelming literature about the true rationale behind the invasion of Iraq, this paper comes to find out the most plausible one. This research paper is essential to understand the role of the Federal Reserve's petrodollar hegemony as a mechanism that outlines the American militarized foreign politics when intervention in Iraq took place. Neither the Saddam and Al-Qaida link allegations nor the theory of WMD, which were the Washington D.C's claims to topple the Regime of Saddam Hussein, have been proven right. Moreover, the present study, lays a sound ground to investigate deeply the petrodollar system and its benefits to the American Economy. Future researches should consider the relationship between the warfare and the dollarization of the American foreign politics with an insightful rapport with the American military bases that are built worldwide. As long as oil is still priced in American dollars, the latter's hegemony will keep functioning and will make the U.S a stronger empire.

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