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The Libyan War, American Power and the Decline of the Petrodollar System

by Prof. Peter Dale Scott
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The present NATO campaign against Gaddafi in Libya has given rise to great confusion, both among those waging this ineffective campaign, and among those observing it. Many whose opinions I normally respect see this as a necessary war against a villain – though some choose to see Gaddafi as the villain, and others point to Obama.

My own take on this war, on the other hand, is that it is both ill-conceived and dangerous -- a threat to the interests of Libyans, Americans, the Middle East and conceivably the entire world. Beneath the professed concern about the safety of Libyan civilians lies a deeper concern that is barely acknowledged: the West's defense of the present global petrodollar economy, now in decline..

The confusion in Washington, matched by the absence of discussion of an overriding strategic motive for American involvement, is symptomatic of the fact that the American century is ending, and ending in a way that is both predictable in the long run, and simultaneously erratic and out of control in its details.

Confusion in Washington and in NATO

With respect to Libya's upheaval itself, opinions in Washington range from that of John McCain, who has allegedly called on NATO to provide "every apparent means of assistance, minus

ground troops,” in overthrowing Gaddafi,¹ to Republican Congressman Mike Rogers, who has expressed deep concern about even passing out arms to a group of fighters we do not know well.²

We have seen the same confusion throughout the Middle East. In Egypt a coalition of non-governmental elements helped prepare for the nonviolent revolution in that country, while former US Ambassador Frank Wisner, Jr., flew to Egypt to persuade Mubarak to cling to power. Meanwhile in countries that used to be of major interest to the US, like Jordan and Yemen, it is hard to discern any coherent American policy at all.

In NATO too there is confusion that occasionally threatens to break into open discord. Of the 28 NATO members, only 14 are involved at all in the Libyan campaign, and only six are involved in the air war. Of these only three countries –the U.S., Britain, and France, are offering tactical air support to the rebels on the ground. When many NATO countries froze the bank accounts of Gaddafi and his immediate supporters, the US, in an unpublicized and dubious move, froze the entire \$30 billion of Libyan government funds to which it has access. (Of this, more later.) Germany, the most powerful NATO nation after America, abstained on the UN Security Council resolution; and its foreign minister, Guido Westerwelle, has since said, “We will not see a military solution, but a political solution.”³

Such chaos would have been unthinkable in the high period of US dominance. Obama appears paralyzed by the gap between his declared objective – the removal of Gaddafi from power – and the means available to him, given the nation’s costly involvement in two wars, and his domestic priorities.

To understand America’s and NATO’s confusion over Libya, one must look at other phenomena:

- Standard & Poor’s warning of an imminent downgrade of the U.S. credit rating
- the unprecedented rise in the price of gold to over \$1500 an ounce
- the gridlock in American politics over federal and state deficits and what to do about them



In the midst of the Libyan challenge to what remains of American hegemony, and in part as a direct consequence of America's confused strategy in Libya, the price of oil has hit \$112 a barrel. This price increase threatens to slow or even reverse America's faltering economic recovery, and demonstrates one of the many ways in which the Libyan war is not serving American national interests.

Confusion about Libya has been evident in Washington from the outset, particularly since Secretary of State Clinton advocated a no-fly policy, President Obama said he wanted it as an option, and Secretary of Defense Gates warned against it.⁴ The result has been a series of interim measures, during which Obama has justified a limited U.S. response by pointing to America's demanding commitments in Iraq and Afghanistan.

Yet with a stalemate prevailing in Libya itself, a series of further gradual escalations are being contemplated, from the provision of arms, funds, and advisers to the rebels, to the introduction of mercenaries or even foreign troops. The American scenario begins to look more and more like Vietnam, where the war also began modestly with the introduction of covert operators followed by military advisers.

I have to confess that on March 17 I myself was of two minds about UN Security Council 1973, which ostensibly established a no-fly zone in Libya for the protection of civilians. But since then it has become apparent that the threat to rebels from Gaddafi's troops and rhetoric was in fact far less than was perceived at the time. To quote Prof. Alan J. Kuperman,

. . . President Barack Obama grossly exaggerated the humanitarian threat to justify military action in Libya. The president claimed that intervention was necessary to prevent a "bloodbath" in Benghazi, Libya's second-largest city and last rebel stronghold. But Human Rights Watch has released data on Misurata, the next-biggest city in Libya and scene of protracted fighting, revealing that Moammar Khadafy is not deliberately massacring civilians but rather narrowly targeting the armed rebels who fight against his government. Misurata's population is roughly 400,000. In nearly two months of war, only 257 people — including combatants — have died

there. Of the 949 wounded, only 22 — less than 3 percent — are women.... Nor did Khadafy ever threaten civilian massacre in Benghazi, as Obama alleged. The “no mercy” warning, of March 17, targeted rebels only, as reported by The New York Times, which noted that Libya’s leader promised amnesty for those “who throw their weapons away.” Khadafy even offered the rebels an escape route and open border to Egypt, to avoid a fight “to the bitter end.”⁵

The record of ongoing US military interventions in Iraq and Afghanistan suggests that we should expect a heavy human toll if the current stalemate in Libya either continues or escalates further.

The Role in this War of Oil and Financial Interests

In *American War Machine*, I wrote how

By a seemingly inevitable dialectic,... prosperity in some major states fostered expansion, and expansion in dominant states created increasing income disparity.⁶ In this process the dominant state itself was changed, as its public services were progressively impoverished, in order to strengthen security arrangements benefiting a few while oppressing many.⁷

Thus, for many years the foreign affairs of England in Asia came to be conducted in large part by the East India Company.... Similarly, the American company Aramco, representing a consortium of the oil majors Esso, Mobil, Socal, and Texaco, conducted its own foreign policy in Arabia, with private connections to the CIA and FBI.⁸...

In this way Britain and America inherited policies that, when adopted by the metropolitan states, became inimical to public order and safety.⁹

In the final stages of hegemonic power, one sees more and more naked intervention for narrow interests, abandoning earlier efforts towards creating stable international institutions. Consider the role of the conspiratorial Jameson Raid into the South African Boer Republic in late 1895, a raid, devised to further the economic interests of Cecil Rhodes, which helped to induce Britain’s Second Boer War.¹⁰ Or consider the Anglo-French conspiracy with Israel in 1956, in an absurd vain attempt to retain control of the Suez Canal.

Then consider the lobbying efforts of the oil majors as factors in the U.S. war in Vietnam (1961), Afghanistan (2001), and Iraq (2003).¹¹ Although the role of oil companies in America’s Libyan involvement remains obscure, it is a virtual certainty that Cheney’s Energy Task Force Meetings discussed not just Iraq’s but Libya’s under-explored oil reserves, estimated to be around 41 billion barrels, or about a third of Iraq’s.¹²

Afterwards some in Washington expected a swift victory in Iraq would be followed by similar US attacks on Libya and Iran. General Wesley Clark told Amy Goodman on Democracy Now four years ago that soon after 9/11 a general in the Pentagon informed him that several countries would be attacked by the U.S. military. The list included Iraq, Syria, Lebanon, Libya, Somalia, Sudan, and Iran.¹³ In May of 2003 John Gibson, chief executive of Halliburton’s Energy Service Group, told *International Oil Daily* in an interview, ““We hope Iraq will be the first domino and

that Libya and Iran will follow. We don't like being kept out of markets because it gives our competitors an unfair advantage,"¹⁴

It is also a matter of public record that the UN no-fly resolution 1973 of March 17 followed shortly on Gaddafi's public threat of March 2 to throw western oil companies out of Libya, and his invitation on March 14 to Chinese, Russian, and Indian firms to produce Libyan oil in their place.¹⁵ Significantly China, Russia, and India (joined by their BRICS ally Brazil), all abstained on UN Resolution 1973.

The issue of oil is closely intertwined with that of the dollar, because the dollar's status as the world's reserve currency depends largely on OPEC's decision to denominate the dollar as the currency for OPEC oil purchases. Today's petrodollar economy dates back to two secret agreements with the Saudis in the 1970s for the recycling of petrodollars back into the US economy. The first of these deals assured a special and on-going Saudi stake in the health of the US dollar; the second secured continuing Saudi support for the pricing of all OPEC oil in dollars. These two deals assured that the US economy would not be impoverished by OPEC oil price hikes. Since then the heaviest burden has been borne instead by the economies of less developed countries, who need to purchase dollars for their oil supplies.¹⁶

As Ellen Brown has pointed out, first Iraq and then Libya decided to challenge the petrodollar system and stop selling all their oil for dollars, shortly before each country was attacked.

Kenneth Schortgen Jr., writing on Examiner.com, noted that "[s]ix months before the US moved into Iraq to take down Saddam Hussein, the oil nation had made the move to accept Euros instead of dollars for oil, and this became a threat to the global dominance of the dollar as the reserve currency, and its dominion as the petrodollar.."

According to a Russian article titled "Bombing of Lybia - Punishment for Qaddafi for His Attempt to Refuse US Dollar," Qaddafi made a similarly bold move: he initiated a movement to refuse the dollar and the euro, and called on Arab and African nations to use a new currency instead, the gold dinar. Qaddafi suggested establishing a united African continent, with its 200 million people using this single currency. ... The initiative was viewed negatively by the USA and the European Union, with French president Nicolas Sarkozy calling Libya a threat to the financial security of mankind; but Qaddafi continued his push for the creation of a united Africa.

And that brings us back to the puzzle of the Libyan central bank. In an article posted on the Market Oracle, Eric Encina observed:

One seldom mentioned fact by western politicians and media pundits: the Central Bank of Libya is 100% State Owned.... Currently, the Libyan government creates its own money, the Libyan Dinar, through the facilities of its own central bank. Few can argue that Libya is a sovereign nation with its own great resources, able to sustain its own economic destiny. One major problem for globalist banking cartels is that in order to do business with Libya, they must go through the Libyan Central Bank and its national currency, a place where they have absolutely zero dominion or power-broking ability. Hence, taking down the Central Bank of Libya (CBL) may not appear in the speeches of Obama, Cameron and Sarkozy but this is

certainly at the top of the globalist agenda for absorbing Libya into its hive of compliant nations.¹⁷

Libya not only has oil. According to the IMF, its central bank has nearly 144 tons of gold in its vaults. With that sort of asset base, who needs the BIS [Bank of International Settlements], the IMF and their rules.¹⁸

Gaddafi's recent proposal to introduce a gold dinar for Africa revives the notion of an Islamic gold dinar floated in 2003 by Malaysian Prime Minister Mahathir Mohamad, as well as by some Islamist movements.¹⁹ The notion, which contravenes IMF rules and is designed to bypass them, has had trouble getting started. But today the countries stocking more and more gold rather than dollars include not just Libya and Iran, but also China, Russia, and India.²⁰

The Stake of France in Terminating Gaddafi's African Initiatives

The initiative for the air attacks appears to have come initially from France, with early support from Britain. If Qaddafi were to succeed in creating an African Union backed by Libya's currency and gold reserves, France, still the predominant economic power in most of its former Central African colonies, would be the chief loser. Indeed, a report from Dennis Kucinich in America has corroborated the claim of Franco Bechis in Italy, transmitted by VoltaireNet in France, that "plans to spark the Benghazi rebellion were initiated by French intelligence services in November 2010."²¹

If the idea to attack Libya originated with France, Obama moved swiftly to support French plans to frustrate Gaddafi's African initiative with his unilateral declaration of a national emergency in order to freeze all of the Bank of Libya's \$30 billion of funds to which America had access. (This was misleadingly reported in the U.S. press as a freeze of the funds of "Colonel Qaddafi, his children and family, and senior members of the Libyan government."²² But in fact the second section of Obama's decree explicitly targeted "All property and interests... of the Government of Libya, its agencies, instrumentalities, and controlled entities, and the Central Bank of Libya."²³) While the U.S. has actively used financial weapons in recent years, the \$30-billion seizure, "the largest amount ever to be frozen by a U.S. sanctions order," had one precedent, the arguably illegal and certainly conspiratorial seizure of Iranian assets in 1979 on behalf of the threatened Chase Manhattan Bank.²⁴

The consequences of the \$30-billion freeze for Africa, as well as for Libya, have been spelled out by an African observer:

The US\$30 billion frozen by Mr Obama belong to the Libyan Central Bank and had been earmarked as the Libyan contribution to three key projects which would add the finishing touches to the African federation – the African Investment Bank in Syrte, Libya, the establishment in 2011 of the African Monetary Fund to be based in Yaounde with a US\$42 billion capital fund and the Abuja-based African Central Bank in Nigeria which when it starts printing African money will ring the death knell for the CFA franc through which Paris has been able to maintain its hold on some African countries for the last fifty years. It is easy to understand the French wrath against Gaddafi.²⁵

This same observer spells out her reasons for believing that Gaddafi's plans for Africa have been more benign than the West's:

It began in 1992, when 45 African nations established RASCOM (Regional African Satellite Communication Organization) so that Africa would have its own satellite and slash communication costs in the continent. This was a time when phone calls to and from Africa were the most expensive in the world because of the annual US\$500 million fee pocketed by Europe for the use of its satellites like Intelsat for phone conversations, including those within the same country.

An African satellite only cost a onetime payment of US\$400 million and the continent no longer had to pay a US\$500 million annual lease. Which banker wouldn't finance such a project? But the problem remained – how can slaves, seeking to free themselves from their master's exploitation ask the master's help to achieve that freedom? Not surprisingly, the World Bank, the International Monetary Fund, the USA, Europe only made vague promises for 14 years. Gaddafi put an end to these futile pleas to the western 'benefactors' with their exorbitant interest rates. The Libyan guide put US\$300 million on the table; the African Development Bank added US\$50 million more and the West African Development Bank a further US\$27 million – and that's how Africa got its first communications satellite on 26 December 2007.²⁶

I am not in a position to corroborate all of her claims. But, for these and other reasons, I am persuaded that western actions in Libya have been designed to frustrate Gaddafi's plans for an authentically post-colonial Africa, not just his threatened actions against the rebels in Benghazi.

Conclusion

I conclude from all this confusion and misrepresentation that America is losing its ability to enforce and maintain peace, either by itself or with its nominal allies. I would submit that, if only to stabilize and reduce oil prices, it is in America's best interest now to join with Ban Ki-Moon and the Pope in pressing for an immediate cease-fire in Libya. Negotiating a cease-fire will certainly present problems, but the probable alternative to ending this conflict is the nightmare of watching it inexorably escalate. America has been there before with tragic consequences. We do not want to see similar casualties incurred for the sake of an unjust petrodollar system whose days may be numbered anyway.

At stake is not just America's relation to Libya, but to China. The whole of Africa is an area where the west and the BRIC countries will both be investing. A resource-hungry China alone is expected to invest on a scale of \$50 billion a year by 2015, a figure (funded by America's trade deficit with China) which the West cannot match.²⁷ Whether east and west can coexist peacefully in Africa in the future will depend on the west's learning to accept a gradual diminution of its influence there, without resorting to deceitful stratagems (reminiscent of the Anglo-French Suez stratagem of 1956) in order to maintain it.

Previous transitions of global dominance have been marked by wars, by revolutions, or by both together. The final emergence through two World Wars of American hegemony over British hegemony was a transition between two powers that were essentially allied, and culturally close.

The whole world has an immense stake in ensuring that the difficult transition to a post-US hegemonic order will be achieved as peacefully as possible.

Notes

¹ “McCain calls for stronger NATO campaign,” [monstersandcritics.com](#), April 22, 2011, [link](#).

² [Ed Hornick](#), “Arming Libyan Rebels: Should U.S. Do It?” CNN, March 31, 2011.

³ “Countries Agree to Try to Transfer Some of Qaddafi’s Assets to Libyan Rebels,” *New York Times*, April 13, 2011, [link](#).

⁴ “President Obama Wants Options as Pentagon Issues Warnings About Libyan No-Fly Zone,” ABC News, March 3, 2011, [link](#). Earlier, on February 25, Gates warned that the U.S. should avoid future land wars like those it has fought in Iraq and Afghanistan, but should not forget the difficult lessons it has learned from those conflicts.

"In my opinion, any future Defense secretary who advises the president to again send a big American land army into Asia or into the Middle East or Africa should 'have his head examined,' as General MacArthur so delicately put it," Gates said in a speech to cadets at West Point” (*Los Angeles Times*, February 25, 2011, [link](#)).

⁵ [Alan J. Kuperman](#), “False Pretense for War in Libya?” *Boston Globe*, April 14, 2011.

⁶ America’s income disparity, as measured by its Gini coefficient, is now among the highest in the world, along with Brazil, Mexico, and China. See Phillips, *Wealth and Democracy*, 38, 103; Greg Palast, *Armed Madhouse* (New York: Dutton, 2006), 159.

⁷ This is the subject of my book *The Road to 9/11*, 4–9.

⁸ Anthony Cave Brown, *Oil, God, and Gold* (Boston: Houghton Mifflin, 1999), 213.

⁹ Peter Dale Scott, *American War Machine: Deep Politics, the CIA Global Drug Connection, and the Road to Afghanistan* (Berkeley: University of California Press, 2010), 32. One could cite also the experience of the French Third Republic and the Banque de l’Indochine or the Netherlands and the Dutch East India Company.

¹⁰ Elizabeth Longford, *Jameson’s Raid: The Prelude to the Boer War* (London: Weidenfeld and Nicolson, 1982); *The Jameson Raid: a centennial retrospective* (Houghton, South Africa: Brenthurst Press, 1996).

¹¹ Wikileaks documents from October and November 2002 reveal that Washington was making deals with oil companies prior to the Iraq invasion, and that the British government lobbied on behalf of BP’s being included in the deals ([Paul Bignell](#), “Secret memos expose link between oil firms and invasion of Iraq,” *Independent* (London), April 19, 2011).

¹² [Reuters](#), March 23, 2011.

¹³ [Saman Mohammadi](#), "The Humanitarian Empire May Strike Syria Next, Followed By Lebanon And Iran," OpEdNews.com, March 31, 2011.

¹⁴ "Halliburton Eager for Work Across the Mideast," *International Oil Daily*, May 7, 2003.

¹⁵ "Gaddafi offers Libyan oil production to India, Russia, China," Agence France-Presse, March 14, 2011, [link](#).

¹⁶ [Peter Dale Scott](#), "Bush's Deep Reasons for War on Iraq: Oil, Petrodollars, and the OPEC Euro Question"; Peter Dale Scott, *Drugs, Oil, and War* (Lanham, MD: Rowman & Littlefield, 2003), 41-42: "From these developments emerged the twin phenomena, underlying 9/11, of triumphalist US unilateralism on the one hand, and global third-world indebtedness on the other. The secret deals increased US-Saudi interdependence at the expense of the international comity which had been the base for US prosperity since World War II." Cf. Peter Dale Scott, *The Road to 9/11* (Berkeley: University of California Press, 2007), 37.

¹⁷ "Globalists Target 100% State Owned Central Bank of Libya." [Link](#).

¹⁸ [Ellen Brown](#), "Libya: All About Oil, or All About Banking," Reader Supported News, April 15, 2011.

¹⁹ [Peter Dale Scott](#), "Bush's Deep Reasons for War on Iraq: Oil, Petrodollars, and the OPEC Euro Question"; citing "Islamic Gold Dinar Will Minimize Dependency on US Dollar," *Malaysian Times*, April 19, 2003.

²⁰ "Gold key to financing Gaddafi struggle," *Financial Times*, March 21, 2011, [link](#).

²¹ [Franco Bechis](#), "French plans to topple Gaddafi on track since last November," VoltaireNet, March 25, 2011. Cf. Rep. Dennis J. Kucinich, "November 2010 War Games: 'Southern Mistral' Air Attack against Dictatorship in a Fictitious Country called 'Southland,'" Global Research, April 15, 2011, [link](#); *Frankfurter Allgemeine Zeitung*, March 19, 2011.

²² *New York Times*, February 27, 2011.

²³ Executive Order of February 25, 2011, citing International Emergency Economic Powers Act (50 U.S.C. 1701 *et seq.*) (IEEPA), the National Emergencies Act (50 U.S.C. 1701 *et seq.*) (NEA), and section 301 of title 3, United States Code, seizes all Libyan Govt assets, February 25, 2011, [link](#). The authority granted to the President by the International Emergency Economic Powers Act "may only be exercised to deal with an unusual and extraordinary threat with respect to which a national emergency has been declared for purposes of this chapter and may not be exercised for any other purpose" (50 U.S.C. 1701).

²⁴ “Billions Of Libyan Assets Frozen,” Tropic Post, March 8, 2011, [link](#) (“largest amount”); Peter Dale Scott, *The Road to 9/11: Wealth, Empire, and the Future of America* (Berkeley and Los Angeles: University of California Press, 2007), 80-89 (Iranian assets).

²⁵ “Letter from an African Woman, Not Libyan, On Qaddafi Contribution to Continent-wide African Progress , Oggetto: ASSOCIAZIONE CASA AFRICA LA LIBIA DI GHEDDAFI HA OFFERTO A TUTTA L'AFRICA LA PRIMA RIVOLUZIONE DEI TEMPI MODERNI,” Vermont Commons, April 21, 2011, [link](#). Cf. Manlio Dinucci, “Financial Heist of the Century: Confiscating Libya's Sovereign Wealth Funds (SWF),” Global Research, April 24, 2011, [link](#).

²⁶ Ibid. Cf. “The Inauguration of the African Satellite Control Center,” *Libya Times*, September 28, 2009, [link](#); [Jean-Paul Pougala](#), “The lies behind the West's war on Libya,” Pambazuka.org, April 14, 2011.

²⁷ Leslie Hook, “China’s future in Africa, after Libya,” [blogs.ft.com](#), March 4, 2011 (\$50 billion). The U.S trade deficit with China in 2010 was \$273 billion.